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The Effect of IFRS Adoption on Financial Analysis Practice: Evidence From Private Commercial Banks in Ethiopia

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Abstract

This study aimed at examine the effect IFRS adoption on financial analysis practices of private commercial banks in Ethiopia using quantitative research approach based on financial information's and figures collected from 16 private commercial banks annual audited reports. The data were collected and summarized in excels, test and analyzed in SPSS. Figures and ratios were tested and analyzed through descriptive statistics, test of equality of means, median and variances. The descriptive statistics result indicates most of the range of values is larger in IFRS compared to that in GAAP. IFRS adoption does not change significantly, at the aggregate level. Some financial statement figures decreased and others increase after the transition. The study suggests that various adjustments affect the differences between financial statement figures and ratios in IFRS and GAAP. It may be sensible to rely on cash flows to avoid the subjectivity inherent to accounting adjustments. Since IFRS adoption is new to Ethiopia, the impact of IFRS on financial statement figures and financial analysis needs further studies by taking more trend data in the future.

Keywords: IFRS • Private banks • Financial analysis • Adoption

Introduction

Background of the study

Accounting is generally known as the "language of business" since it assumes the medium in which the performance and position of corporate entities are communicated to the outside world. Business enterprises all over the world cannot continue speaking in different languages to each other while exchanging financial numbers from their international business activities. Thus, a single set of worldwide accounting standards simplify accounting procedures by allowing the use of a common reporting language across the globe [1].

Accounting standard is a rule or set of rules, which prescribes the methods by which financial records should be prepared and presented. Accordingly, International Financial Reporting Standards (IFRS) are a set of international accounting standards stating and reporting rules that define how business transactions should be recorded and reported and what information a company should disclose in its financial statements. IFRS is developed by the International Accounting Standard Board (IASB) as a global accounting standard for preparing financial reports of companies and firms [2]. IASB is an independent international organization working to improve and standardize the preparation and release of important international financial information. Unlike the US General Accounting and Auditing Principles (GAAP) which rely on rule based and historical cost, IFRS as a new standard focuses on principle based and fair value. The proponents of IFRS argue that this standard provides more value relevance than the old one [3].

There are many accounting standards in the world, with each country using a version of their own Generally Accepted Accounting Principles, also known as GAAP. These allow firms to report their financial statements in accordance to the GAAP that applies to them. The complication lies within when the firm does business in multiple countries. Under such circumstances, various questions arise, like, how can investors deal with multiple standards, which ones are accurate, and how can corporations be compared based upon their financials, and the like. Answers to these questions lie within the adoption of the International Financial Reporting Standards (IFRS), developed and supported by the International Accounting Standards Board (IASB) [4].

Financial statements are prepared and presented for external users by many entities across the world and have been using a range of different accounting standards derived from various accounting models for decades [5]. Although such financial statements may seem similar from country to country, there are differences which have probably been caused by a variety of social, economic and legal

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circumstances and by different countries having in mind the needs of different users of financial statements when setting national requirements [6]. These different circumstances have led to the use of a variety of definitions of the elements of financial statements like assets, liabilities, equity, income and expenses [7]. They have also resulted in the use of different criteria for the recognition of items in the financial statements and in a preference for different bases of measurement [8]. Following the effects of globalization, the World Bank and IMF joint study of the Ethiopian accounting system, now Ethiopia has already embarked on adopting IFRS formally in her accounting system by issuing proclamation No.847/2014 for financial reporting and regulation No. 332/2014 "for the establishment and determination of the procedure of the accounting and auditing board of Ethiopia". As per the World Bank report, significant gaps were indicated in the Ethiopian accounting system and financial reporting infrastructures and legal frameworks. Strong financial infrastructures and legal frameworks in a given jurisdiction could be prerequisites or preconditions that would be required for the effectiveness of IFRS adoption and implementation [9].

According to World Bank on the Report on the Observance of Standards and Codes (ROSC), there is no specific set of accounting regulations in Ethiopia and therefore accounting practices vary across institutions [10]. Ethiopia as being no exclusion to the impact of economic globalization has now taken the initiative to develop and adopt the International Financial Reporting Standards to hold the benefits of having uniform International standards of financial reporting [11]. When the international adoption of the standards accelerates, the amounts of changes to the standards are quickening. Thus, in this study the researcher tried to examine the effect of IFRS adoption on financial analysis practice of private commercial banks in Ethiopia.

Statements of the problem

In the globalization period where the world becomes smaller and smaller to the extent of a village, speaking of common language in reporting of financial activities becomes necessary and beneficial to ease communication worldwide [12]. The globalization of business required international companies to prepare financial reports in compliance with the accounting standards of each country in which they were active. The requirement for preparing multiple financial reports was costly and difficult for companies. The objective of every financial statement is to provide information about the financial position, performance, and changes in the financial position of an organization that should be useful to a wide range of users making economic decisions. Due to globalization and international trade that exists between countries, financial information must be prepared and presented in a way that can be understood by all users both locally and internationally. This has to lead to the introduction of IFRS to help financial reports to be comparable among firms [13]. IFRS are attracting significant scholarly attention especially in markets where decision making on its adoption is approaching [14].

A transition to IFRS will influence the final financial results particularly in the transition year; the benefits to profitability and market comparability will quickly be priced into market valuations [15]. In the longer-term, a transition to IFRS has the potential to enable companies to make improvements to the internal financial reporting processes and information flow [16]. Accordingly, companies can consider the establishment of a truly integrated finance function that supports operations on a global basis. Next to that, companies should examine the differences between policies and controls in its various locations and consider global standardization for policies related to recognition, measurement, presentation and disclosures. Standardization will increase the flexibility of resources and the sharing of deep technical expertise allowing individuals or work to cross borders. In addition, as IFRS continues its global progression, a truly global market for accounting skills will emerge. By accepting IFRS, companies will reduce the variety of skills required in the accounting function [17].

The rapid growth of international business and the globalization of capital markets make it necessary to measure the truth and accuracy of financial statements and performance of FRQ in different countries, not just across financial firms". Many countries have made reforms in the past few decades with the introduction of IFRS to their business and accounting communities. It is not clear if these reforms have improved the financial reporting quality in countries, with different accounting standards and enforcement, investor protection and legislation. Banks are the cornerstone of a national financial system, and the biggest model moves to new IFRSs. The national bank Ethiopia demanded the application of IFRS for banks and other financial institutions since 2008 [18]. This adoption of IFRS in the banking sector is in line with the argument that sector-specific regulatory agencies strengthen financial reporting quality [19]. Banks represent one of the supports of economic development. The financial statements of banks are dependent upon by a large number of stakeholders. The quality of such financial statements is of dominant importance, especially in the beginning of globalization IFRSs were developed to ensure not only uniform standard but good quality of financial reporting [20]. Various survey studies have been conducted to assess the adoption of International Financial Reporting Standards (IFRS) in different countries of the world. Ironkwe and Oglekwu carried out research on the effect of International Financial Reporting Standards (IFRSs) on corporate performance. Muhammad examined the effect of International Financial Reporting Standards (IFRS) adoption on the performance of firms in Nigeria. Eneje, Obidike and Chukwujekwu examined the effect of IFRS adoption on the mechanics of loan loss provisioning for Nigerian Banks. Ugbede, Mohd and Ahmad have investigated the International Financial Reporting Standards and the quality of banks' financial statement information: evidence from an emerging market-Nigeria. Akiwi's study aims at understanding the development of accounting in Ghana and how accounting has evolved over the years. Okoye and Ezejio for assess the impact of International Financial Reporting Standards on stock market movement and the extent at which it can improve the position of corporate organizations in the Nigerian capital market. International Financial Reporting Standards (IFRS) and corporate performance in emerging economies have become a major concern receiving critical attention in academic research due to the interests of shareholders investment into such companies.

A set of studies have been also conducted in Ethiopia in relation to the importance [21]. The challenges of adopting IFRS [22]. Most of these studies focus on importance and challenges of IFRS adoption. To fill the existing gap the researcher tried to examine the effect of IFRS adoption on financial analysis practice of private commercial banks in Ethiopia.

Objective of the study

General objective: The general objective of this study is to examine the effect of adoption of International Financial Reporting Standards (IFRS) on financial analysis practices of private commercial banks in Ethiopia.

Specific objectives of the study: To examine the effect of IFRS adoption on debt ratio, asset turnover ratio, Return On Assets (ROA), comprehensive-ROA, net profit margin, and the operating cash flow ratio to identify the major adjustments observed during the transition period.

Research hypothesis

The following research hypotheses were developed and tested.

H_1: There is a significance difference between IFRS and GAAP on debt ratio, Return on Assets (ROA), comprehensive-ROA, net profit margin, asset turnover, and the operating cash flow ratio.

H_2: The adoption of IFRS does not have any significant effect on debt ratio, Return on Assets (ROA), comprehensive-ROA, net profit margin, asset turnover, and the operating cash flow ratio.

Scope of the study: This study focuses on the effect of IFRS adoption on financial analysis practice of private commercial banks in Ethiopia. The study focused on 16 private Commercial Banks of Ethiopia only. The study was conducted based on audited financial statement issued by each commercial bank for the year ended July, 2018 for comparison of financial ratios under both GAAP and IFRS for the comparative year prior to IFRS adoption and the restated figures after IFRS adoption.

Literature Review

Theoretical literatures

Overview of International Financial Reporting Standards (IFRS): International Financial Reporting Standards (IFRS) set common rules so that financial statements can be consistent, transparent, and comparable around the world. IFRS are issued by the International Accounting Standards Board (IASB) formerly known as International Accounting Standards Committee (IASC). IFRS specify how companies must maintain and report their accounts, defining types of transactions, and other events with financial impact. IFRS were established to create a common accounting language so that businesses and their financial statements can be consistent and reliable from company to company and country to country. IFRS are sometimes confused with International Accounting Standards (IAS), which are the older standards that IFRS replaced [23].

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.

More than 144 countries around the world have adopted IFRS, which aims to establish a common global language for company accounting affairs. But all countries are not adopting IFRS and use the old one GAAP (general accepted accounting principle). A major difference between GAAP and IFRS is that GAAP is rule-based, whereas IFRS is principle-based. This disconnects manifests itself in specific details and interpretations. Basically, IFRS guidelines provide much less overall detail than GAAP. Consequently, the theoretical framework and principles of the IFRS leave more room for interpretation and may often require lengthy disclosures on financial statements. On the other hand, the consistent and intuitive principles of Ethiopia has made developments to become one of Africa's fastest-growing economies and continues to record impressive economic growth. Thus, implementing high-quality International Financial Reporting Standards is critical to meeting and sustaining Ethiopia's economic growth potential. IFRS provides international investors with a brand of trust in the quality of financial reporting. That trust in financial reporting is essential if investors are to be encouraged to step in to promote continued economic growth [24].

Organizations like banks, insurance companies, and public enterprises will begin using International Financial Reporting Standards IFRS starting the 2018 fiscal year. The institutions had three years to transition to IFRS from GAAP. The system is considered to be the latest financial language enabling local companies to easily communicate with each other globally. Asset revaluation was a critical step in the first stage. Some banks brought consultants and experts from overseas to undertake the process. In the second stage, banks will start using the software before reaching to the reporting stage. Confirm in 2014, the Financial Reporting Proclamation gave five years to the entire business to enter the new system. Companies considered to have a high public interest will report during the 2019 year. The second category which consists of international charity organizations, associations, and other related organizations are also expected to report using the new system in the 2019 fiscal year [25].

The concept of International Financial Reporting Standards (IFRS): According to Abel, financial accounting information are statutorily required to be prepared in line with universally accepted assumptions, principles and conventions of accounting which aid intra-firm, inter-firm and industry comparisons overtime. Harmonization of accounting standards can eliminate these issues by increasing the compatibility of accounting practices by setting bounds to their degree of variation.

The international accounting harmonization started to take place in 1970's [26]. The increase of international business activities and the greater participation in the global financial market demands greater comparability and transparency in financial reporting [27]. For a firm using accounting policies that are consistent with international standards increases its quality of report in terms of transparency and comparability with other firms using international standards. The emergence of economic globalization and the need of huge capital markets to finance governmental privatization policies are the major reasons for developing and adopting international standards for accounting. So, these standards help us to make comparisons

between company's financial performance across countries and it enhances the efficient allocation of resources [28].

Aghator and Adeyemi stated that with the beginning of globalization and increasing demand for transparent, comparable financial information in the markets, the IASC was restructured in the year 2001 by creating the International Accounting Standards Board (IASB), among other changes. The IASB is responsible for developing, in the public interest, a single set of high quality, comprehensive and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions [29]. In the undertaking of its objectives, the IASB cooperates with national accounting standards setters to achieve convergence in accounting standards in the world. IFRS are developed through an international due process that involves accountants, financial analysts and other users of financial statements., the business community, stock exchanges, regulatory and legal authorities, academia and other interested individuals and organizations from around the world [30].

IFRS stands for International Financial Reporting Standards, which are standards for reporting financial results, which are applicable to general purpose financial statements and other financial reporting of all profit oriented entities [31]. The term IFRS includes IFRS developed by IASB; IAS delivered by IASC; and interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB [32]. Aghator and Adeyemi described the International Financial Reporting Standards (IFRS) as a series of accounting pronouncements published by the International Accounting Standards Board to help preparers of financial statements, throughout the world, produce and present high quality, transparent and comparable financial information. IFRS foundation states that IFRS Standards prescribe the items that should be recognized as assets, liabilities, income and expenses, how to measure those items and how to present them in a set of financial statements; and related disclosures about those items.

IFRS begin acknowledgement, measurement, presentation and disclosure requirements dealing with transactions and other events and conditions that are important in general purpose financial statements [33]. IFRS may also start such requirements for transactions, events and conditions that arise mainly in specific industries. These requirements based on the framework, which addresses the concepts underlying the information obtained 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 [34].

According to Teferi and Pasricha, IFRS standards are also compulsory assertions and comprising:

- International Financial Reporting Standards (IFRSs),
- International Accounting Standards (IASs),
- International Financial Reporting Interpretation Committee (IFRICs),
- Standing Interpretation Committee (SIC),
- IFRSs are developed by the International Accounting Standards Board (IASB), which operates under the oversight of the IFRS Foundation.

Positive Accounting Theory (PAT): Positive Accounting Theory is concerned with predicting actions such as the choices of accounting policies by firm managers and how managers will respond to proposed new accounting standards. The term "positive" refers to a theory that attempts to make good predictions of real-world events. Positive accounting theory is an attempt to provide some explanation of accounting practice rooted in the purposes of managers. Simply stated, these purposes of managers, as initially described by Watts and Zimmerman, et al., are reducible to economic self-interest. That is when choosing accounting procedures managers consider only the effect of the procedures on their wealth; choices are wealth-maximizing given the constraints imposed by other wealth-maximizing agents (e.g., shareholders, bondholders). Further, it is presumed that managers maximize their wealth if they choose those accounting procedures that maximize the value of the firm and/or maximize manager compensation *via* compensation agreements tied to accounting members. The list of wealth affecting costs is familiar, e.g., political costs, bookkeeping costs, taxes, contracting costs.

PAT explains "why accounting is, what it is, and why accountants do what they do", and what the effects of this phenomenon on the human and resource users. PAT's concern lies in the prediction of the behavior of managers in selecting accounting policies and how managers will respond to the application of new accounting standards. Although PAT cannot certainty predict the real events, at least PAT helps in understanding the key factors underlying the behavioral tendencies manager. According to Januarti, although PAT cannot predict with certainty the real events, at least PAT helps in understanding the key factors underlying the behavioral manager tendencies.

PAT view that companies organize themselves most efficiently. The most efficient form of organization for a particular company depends on some factors, such as law and institutional environment, technology and the level of competition in the industry, where these factors determine a set of investment opportunities available to the company and its prospects. For example, how accounting harmonization or IFRS adoption can determine investment opportunities to the company. PAT emphasizes the need for an empirical investigation to determine its accounting policies, how it varies from one company to another depending on the form of the organization and factors that determine opportunities and prospects to the company. The objective of PAT is to understand and predict the choice of accounting policy between different companies.

Ball and Brown suggested that PAT includes both capital market-based accounting research and research in accounting choices. PAT has been one of the most influential accounting researches. It generated a great deal of empirical research on the association between accounting numbers, stock prices, returns and determinant of accounting choice, thus representing a major shift in accounting standard. Hassan argues that positive accounting theory helps to explain how a conflict of interest between managers, shareholders and debt holders influences the corporation's accounting practices. According to the politico-contractual theory, highly leveraged firms adopt accounting methods that increase their profits. In the same line of ideas argue that firms that undertake specific expenditures putting

out their commitment in social responsibilities have a primary objective of change in accounting period results and clauses in their contract debt.

Normative Accounting Theory (NAT): Normative accounting theory is an accounting theory that plays an important role in the accounting systems used today by finance managers and investors. Normative accounting theory most commonly found in a company's business or marketing plan takes a subjective approach. The practice of this theory is a form of value judgment that can introduce subjective morality into accounting. For example, if a company that increased dividend payments could use some of those funds to improve corporate sustainability measures, a normative accounting statement would indicate how much money should be invested in those measures to sustain corporate growth.

As noted in Bernard, normative theories of accounting are not necessarily based on observation and therefore cannot be evaluated on whether they reflect actual accounting practice or not. The conceptual framework of accounting is an example of a normative theory of accounting which relies on various assumptions about the types or attributes of information useful for decision making. Normative accounting is radically different and much more theoretical. This theory advises policymakers on what should be carried out using a theoretical principle as a basis. it can be said that normative accounting represents more of a logical, deductive process compared to positive accounting as it begins with the accounting theory, deducing down to specific policies, unlike positive theory which commences with precise policies before opening up its scope, generalizing to higher level principals. Most of the researchers that conducted a study on the determinants of financial reporting quality relied upon agency theory.

Agency theory: Agency theory refers a set of propositions in governing a modern corporation that is typically characterized by a large number of shareholders or owners who allow separate individuals to control and direct the use of their collective capital for future gains These individuals may not always own shares but may possess relevant professional skills in managing the corporation.

Corporate governance literature views shareholders as the principal and manager as their agent and describes the relationship as a principal agent relationship. "An agency relationship is defined as one in which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent". Shareholders (principals) delegate tasks to be performed by management (agents) on their behalf to meet their objectives.

In agency theory, shareholders expect the agents to act and make decisions in the principal's interest while on the contrary; the agent may not necessarily make decisions in the best interests of the principals. It focuses on reciprocity (self-interest), and its primary objective is to minimize agency costs. It is an individualistic model with opportunistic behavior [35].

Under this agency relationship, both the agents and the principals are assumed to be motivated solely by self-interest. As a result, when principal delegates some decision making responsibility to the agents, agents often use this power to promote their well-being by choosing such actions which may or may not be in the best interests of principals [36].

The most important basis of agency theory is that the managers are usually motivated by their gains and work to exploit their interests rather than considering shareholders' interests and maximizing shareholder value whereas stakeholders act in a relational way to maximize their utility [37].

The agency relationship leads to the information asymmetry problem because managers can access information more than shareholders. This will allow the pursuit of self-interest which increases costs to the firm, which could include the costs of the formation of contracts, loss due to decisions being taken by the agents and the costs of observing and controlling the actions of the agents. Leuz, Nanda, and Wysocki assert that the effects of such behavior are ultimately reflected in the company earnings. Consequently, management has an incentive to manage the company's reported earnings to meet or beat earnings targets and, thus, to receive any bonuses that may be tied to the company's earnings (performance related pay). This creates an information asymmetry in that managers can exercise the discretion they have on accruals, which in turn reduces the relevance and reliability of reported earnings, and the whole financial statements. The principal and agent both try to maximize their welfare; the existence of such differences in interests is supported by the asymmetric conditions of information sharing between owners and management. Management has access to more information than the owners of the company and this encourages management to manipulate financial statements or engage in earnings management to maximize their interests.

Stakeholder theory: Stakeholders are defined as individuals or groups with legitimate interests in procedural and substantive aspects of the activity of the organization. This shows that the stakeholder theory objective viewpoints are to satisfy the interests of each group (the principal and the agent) and not as a means to achieve another goal. This legitimacy is established through the existence of an exchange relationship. Stakeholders include stockholders, creditors, managers, employees, customers, suppliers, local communities and the general public.

Stakeholder's theory is a theory of organizational management and business ethics that addresses morals and values in managing the organization. It was originally detailed by Ian Mitroff in his book "Stakeholders of the Organizational Mind", published in 1983 in San Francisco. And similarly, stakeholder theory was described by F. Edward Freeman, a professor at the University of Virginia, in his landmark book, "strategic management: a stakeholder approach." The stakeholder ecosystem, this theory says, involves anyone invested and involves in or affected by the company: employees, environmentalists near the company's plants, vendors, governmental agencies, and more. Freeman's theory suggests that the company's real success lies in satisfying all its stakeholders, not just those who might profit from its stock.

Stakeholder's theory suggests that the purpose of a business is to create as much value as possible for stakeholders. To succeed and be sustainable over time, executives must keep the interests of customers, suppliers, employees, communities, and shareholders aligned and going in the same direction. Innovation to keep these interests aligned is more important than the easy strategy of trading off the interests of stakeholders against each other. Hence, by managing for stakeholders, executives will also create as much value as possible for shareholders and other financiers.

Stakeholder's theory looks at the relationship between an organization and others in its internal and external environments. It also looks at how these connections influence how the business conducts its activities. Think of a stakeholder as a person or group that can affect or be affected by an organization. Stakeholders can come from inside or outside of the business. Examples include customers, employees, stockholders, suppliers, non-profit groups, government, and the local community, among many others. In business, the stakeholder is known as the principal and the officers of the company or directors are known as the agent. The core idea of stakeholder theory is that organizations that manage their stakeholder relationships effectively will survive longer and perform better than organizations that don't.

Stewardship theory: Stewardship theory is a theory that left managers and indeed to act as responsible stewards of the assets they control. The opportunistic pursuit by the management of their self-interest at the expense of the shareholders who can diversify their portfolio in the activities of companies should make it with fair judgment. This reflects the influence of agency theory as part of the growing organizational economic movement. Therefore, such views have been challenged by where the supporters have labeled stewardship theory as a framework which presumes the managers are seeking to maximize organizational performance [38].

The adoption of stewardship theory on the financial reporting quality was supported. Robb asserted that the need for stewardship theory is assumed to be met within the objective of financial reporting quality, hence investors decision relies on the entities' financial reporting quality where managers entrusted to prepare accordingly. the objective of quality financial reports is to provide information for decision-useful to current and potential providers of finance.

Conservative Method Theory (CMT): The principle of conservatism is a pervasive concept in modern accounting theory and is probably a carryover from the days when banks were the primary users of firms' financial statements. Conservatism reflects the idea that, given two equally likely outcomes, a firm should use the accounting method that results in smaller reported income or smaller reported net assets. The accounting concept of conservatism has crossed into the financial analysis arena. Donnelly, et al. as quoted in Revsine, et al., implies in his Wall street journal that conservative accounting is necessary when he states that "low quality means the bottom line is padded with paper gains such as the profit fattening effect of inflation on a company's reported inventory values, or gains produced by under depreciation,' when the company does not write off plant and equipment as fast as their real value is falling." Bernstein, and Subramanyam state that " the quality of conservatively determined earnings is perceived higher because they are less likely to overstate current and future performance expectations compared with those determined aggressively". Comiskey concluded his research regarding the effects of changing depreciation policies by stating that "The particular set of accounting alternatives can be thought of as adding a unique 'quality dimension' to the earnings. Dhaliwal, et al. suggests that a switch to straight-line depreciation will lead to materially larger amounts of earnings and equity (*i.e.,* book value) in future years. Their theoretical framework includes the assumption that company managers are concerned with the amount and timing of compensation.

IFRS are more logically sound and may possibly better represent the economics of business transactions.

Approaches to IFRS implementations: Adoption of IFRS is more than just an accounting exercise. This is because accounting and reporting represent only a small part of the conversion efforts. A country can change its existing accounting system to a globally recognized accounting standard called IFRS either by totaling replacing or customizing it with IFRS over time. The first approach is known as adoption or 'big bang' approach while the latter is called a convergence approach. '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. Under this approach, once IFRS are adopted, all IFRS standards should be complied while preparing financial statements and the existing accounting standard should be replaced with IFRS; while in Convergence approach, gradual movement is made towards IFRS through customizing with the existing accounting standards and IFRS are applied gradually. Converging a few local standards to IFRSs each year can allow local preparers and auditors to learn a few topics at a time rather than immersing themselves in the full set of IFRSs and convergence approach can also allow time for necessary changes in local legal frameworks.

Challenges of adopting IFRS: The problem of differences in accounting standards will continue to exist for some time. From a regulatory perspective, convergence to IFRS would require amendments to the companies act and the income tax act, to mention the major ones. Currently industries such as banking and insurance companies are also regulated by specific acts that prescribe accounting norms. IFRS does not provide industry specific standards so there would be additional transition challenges as and when progress is made. IFRS requires valuations and future forecasts, which will involve use of estimates, assumptions and management's judgments.

The various problems for the adoption and convergence of IFRS identified include funding for IASB, tax implications, preparedness for the transition to IFRS, compliance issues and enforcement mechanisms, and cultural and structural barriers.

The various problems for the adoption and convergence of IFRS identified include.

Funding for IASB: Funding of the IASB is one of the biggest obstacles to the adoption of IFRS.

Tax implications: The adoption of IFRS would require companies to track a significantly larger number of book tax differences, particularly if the state and federal tax laws in use are not amended to reflect IFRS. Additionally, the adoption would force some companies to pay higher taxes because it prohibits the use of the LIFO method of valuing inventories.

Preparedness for the transition to IFRS: Different businesses and countries have varying levels of readiness for IFRS transition. For instance, large and international companies may have experts or IFRS training programs to help in the transition. Others have sufficient financial resources to hire IFRS experts on a permanent basis or as part time consultants during the transition process. On the contrary, many medium and small companies do not have enough resources to support the transition process.

Compliance issues and enforcement mechanisms: Many companies, their accountants, and auditors are yet to fully comply with IFRS, even in countries that are listed as having fully adopted the new accounting standards. Additionally, many countries, particularly those with weak institutions, lack sufficient enforcement mechanisms of IFRS. Ideological differences between different countries are yet another challenge facing the adoption of the standards.

Cultural and structural barriers: The adoption and convergence of IFRS are also faced with many cultural and structural differences. The cultural barriers include religious and language barriers.

Benefits of IFRS adoption

Various studies have been conducted in different countries to identify benefit realized and challenges faced in adopting IFRS for the first time. IFRS might provide the following benefits:

- Organization problem between management and shareholders can be substantially reduced through implementation of IFRS as increased transparency.
- By increasing the growth of its international business.
- By encouraging the international investors to invest, it leads to more foreign capital flows to the country.
- Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting standards.
- A consistent financial reporting basis would allow a multinational company to apply common accounting standards with its subsidiaries worldwide, which would improve internal communications, quality of reporting and group decision-making.
- The industry is able to raise capital from foreign markets at a lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards.
- It offers accounting professionals more opportunities in any part of the world where the same accounting practices.

Factors affecting the implementation of IFRS: The factors chosen are education level, the availability of a national set of financial accounting standards for SMEs, familiarity with IFRS, the legal system, foreign aid, the quality of national financial accounting standards and the relationship between accounting standards and tax rules, economic growth education level, economic openness, culture and the relative capital market size.

The relationship of IFRS and GAAP: The similarities and differences that exist under United States GAAP and IFRS are quite distinctive. In addition, when comparing United States GAAP to IFRS one is rules based and the other one is principles based. Moreover, as it relates to the accounting treatment transition under IFRS, the principle based provides less information and by far is less detail oriented than rules based. Furthermore, United States GAAP is supported by three aspects and these are:

- Legal,
- Economic,
- A social accounting system.

IFRS is a principle based accounting standard and as such meets the social economic needs of a country. As a result, the main differences and objectives that exist between United States GAAP and IFRS are found under the economic, legal, political and social aspect. For example, when Germany decided to adopt IFRS, the central bank suggested that IFRS was a great accounting standard to follow. Another example that can be illustrated is the Netherlands because the Netherlands had to clearly identify the equity outside their financial system by following the predicated guidance under IFRS. The technical differences that are established between United States GAAP and IFRS are indicated as follows:

- The way financial statements are presented under each accounting standard,
- Evaluation of the financial position of the balance sheet, and
- Recording of the accounting differences in the accounting books.

Therefore, IFRS offers more latitude judgment than United States GAAP and as well provides an extensive reporting disclosure requirement.

Financial performance indicator: The number and exact type of financial indicators used to assess the creditworthiness of the firm differs from one bank to another, but a representative set of indicators includes:

Gross profit margin: Gross profit margin is a profitability ratio that measures what percentage of revenue is left after subtracting the cost of goods sold. The cost of goods sold refers to the direct cost of production and does not include operating expenses, interest, or taxes. In other words, gross profit margin is a measure of profitability, specifically for a product or item line, without accounting for overheads. Gross profit margin=(Revenue-cost of sales)/revenue × 100

Net profit margin: Net profit margin is a profitability ratio that measures what percentage of revenue and other income is left after subtracting all costs for the business, including costs of goods sold, operating expenses, interest, and taxes. Net profit margin differs from gross profit margin as a measure of profitability for the business in general, taking into account not only the cost of goods sold, but all other related expenses. Net profit margin=Net profit/revenue × 100.

Working capital: Working capital is a measure of the business's available operating liquidity, which can be used to fund day to day operations. Working capital=Current assets-current liabilities.

Current ratio: Current ratio is a liquidity ratio that helps you understand whether the business can pay its short term obligations that is, obligations due within one year-with its current assets and liabilities. Current ratio=Current assets/current liabilities.

Quick ratio: The quick ratio, also known as an acid test ratio, is another type of liquidity ratio that measures a business's ability to handle short-term obligations. The quick ratio uses only highly liquid current assets, such as cash, marketable securities, and accounts receivables, in its numerator. The assumption is that certain current assets, like inventory, are not necessarily easy to turn into cash. Quick ratio=(current assets-inventory)/current liabilities.

Leverage: Financial leverage, also known as the equity multiplier, refers to the use of debt to buy assets. If all the assets are financed by equity, the multiplier is one. As debt increases, the multiplier

increases from one, demonstrating the leverage impact of the debt and, ultimately, increasing the risk of the business. Leverage=total assets/total equity.

Debt to equity ratio: The debt-to-equity ratio is a solvency ratio that measures how much a company finances itself using equity versus debt. This ratio provides insight into the solvency of the business by reflecting the ability of shareholder equity to cover all debt in the event of a business downturn. Debt to equity ratio=total debt/total equity.

Inventory turnover: Inventory turnover is an efficiency ratio that measures how many times per accounting period the company sold its entire inventory. It gives insight into whether a company has excessive inventory relative to its sales levels. Inventory turnover=cost of sales/(Beginning inventory+ending inventory/2).

Adoption of IFRS in Ethiopia: Ethiopia has made developments to become one of Africa's fastest growing economies and continues to record impressive economic growth. Thus, implementing high quality international financial reporting standards is critical to meeting and sustaining Ethiopia's economic growth potential. IFRS provides international investors with a brand of trust in the quality of financial reporting. That trust in financial reporting is essential if investors are to be encouraged to step in to promote continued economic growth.

Organizations like banks, insurance companies, and public enterprises will begin using International Financial Reporting Standards IFRS starting the 2018 fiscal year. The institutions had three years to transition to IFRS from GAAP. The system is considered to be the latest financial language enabling local companies to easily communicate with each other globally. Asset revaluation was a critical step in the first stage. Some banks brought consultants and experts from overseas to undertake the process. In the second stage, banks will start using the software before reaching to the reporting stage. Confirm in 2014, the financial reporting proclamation gave five years to the entire business to enter the new system. Companies considered to have a high public interest will report during the 2019 year. The second category which consists of international charity organizations, associations, and other related organizations are also expected to report using the new system in the 2019 fiscal year.

The Accounting and Auditing Board of Ethiopia (AABE) was established under financial reporting proclamation no 847/2006 to implement feasible and understandable financial reporting standards and to provide awareness creation training for governmental and non- governmental organizations through designing implementation roadmap. AABE requires all financial institutions and public enterprises in Ethiopian countries to adopt IFRS from July 1, 2017. So, all the Ethiopian financial institutions must adopt IFRS and prepare their consolidated financial statements under the new standards. Since the adoption of IFRS directly influences accounting quality, it is necessary to understand whether the adoption of IFRS improved the quality of financial reports in a financial institution (commercial banks).

NBE has a relatively higher discretionary power on setting and enforcing rules and regulations governing the operation of banks. It issued a directive on the finical reporting approach and also checks the quality of independent auditors. However, it couldn't manage to enforce banks to standardize accounting methods, nor get assisted by the independent auditors. The role of NBE on financial reporting quality is, hence, limited to the fact both banks and auditors are found against the standards. It is, therefore, suggested to enhance law enforcement mechanism, revisiting accounting educational and training systems to streamline the process of standardizing financial reporting practice in the banking and another sector in Ethiopia.

According to and as stated by Abiy, et al. the importance of uniform professional standards and/or financial reporting regulation are paramount to enhance the quality of accounting information for the fact it makes comparison across companies and overtime feasible. Nevertheless, Ethiopia and most developing countries are less benefited from the accounting and reporting system because either they don't have local standards. As Ethiopia has does not have local accounting and reporting standards, the adoption of IFRS could be a sustainable option to enhance the local accounting and reporting framework and to integrate it with international practice.

To attract foreign investors to the country, implementing IFRS is beneficial. Since business today has turned global, Ethiopia should create a conducive atmosphere for investors, who want to invest in the country for a mutual benefit. Otherwise, the investor prefers to go somewhere else, where IFRS is practiced. This is because if an investor's form another country wants to invest in Ethiopia, investors do not need to go through the financial rules and regulations of the country; since IFRS governs all (actually this has not yet achieved). Having a global set of high-quality financial reporting system which is in line with the required IFRS will help developing countries like Ethiopia to attract funding agencies in the country's development activity.

There is not wide literature available on the adoption of IFRS and financial reporting quality generally in Ethiopia. In this regard, this section reviews only one paper dealing related to this subject. Melese conducted a study to examine adoption, challenge, and perception of IFRS on the quality of financial reporting of financial institutions in Addis Ababa, Ethiopia. The study examined the challenges and recognizing the benefits of adopting IFRS in financial institutions. Quality of financial reporting has a significant correlation with transparency, accountability, and economic efficiency. The study recommends among others that the National Bank of Ethiopia has to give clear direction through its directives about the implementation of IFRS; the curriculum of accounting should be amended in light of IFRS the board should conduct a study to identify the gaps in systems and processes, develop IFRS accounting manual modifying charts of accounts and provide detailed instructions by taking IFRS requirements into accounts.

Empirical literature review: Several papers attempted to determine the level of compliance between various accounting practices and the impact of adopting international standards on accounting harmonization. Intensified research of the relationship between the national accounting standards and IFRS was carried out, specifically since 2002, when the European Union's directive of the mandatory adoption of IFRS was disclosed to its member- states.

Ironkwe and Oglekwu carried out a study on International Financial Reporting Standards (IFRSs) and Corporate Performance of Listed Companies in Nigeria. The study adopted personal interview and questionnaire methods as the major techniques for primary data collection. Data collected were analyzed using both descriptive

methods such as tables, frequencies and percentages and inferential statistics of Chi-square and ANOVA respectively. The study concluded that there is a strong positive relationship between the adoption of IFRS and the financial performance due to cost reduction of an organization. IFRS adoption improves business efficiency and productivity for effective business performance. The adoption of IFRS saves multinational corporations the expense of preparing more than one set of accounts for different national jurisdictions. Hung and Subramanyam, using a sample of German companies, researched the impact of the adoption of IFRS during 1998 through 2002. They concluded that the value of total assets, value of equity and variability of net earnings are significantly higher under IFRS compared to the German Accounting Standards. However, they could not support a respective change on financial ratios, which were examined.

Agca and Aktas examined the adoption impacts on financial ratios of 147 listed firms in Istanbul stock exchange during 2004-2005, considering one year as pre-adoption, and the other as post-adoption periods. They observed the results with F-Test tool, and found out that CR and net asset turnover are significantly affected. The authors based this variation to the fixed assets adjustments.

Lantto and Sahlstrom conducted a survey using a sample of 125 companies seated in Finland by analyzing years 2004 as pre-adoption year, and 2005 as after adoption year. They concluded that the adoption of IFRS changed the magnitude of the basic financial ratios because of the change in book value and because of the imposition of more stringent requirements on some issues. The study indicated that the adoption of IFRS changes the magnitudes of the key accounting ratios by considerably increasing the profitability ratios and gearing ratio moderately, and considerably decreasing the P/E ratio and equity and quick ratios slightly.

Shehu researched on adoption of international financial reporting standards and earnings quality in listed deposit money banks in Nigeria. He inves-tigates firm's attributes from the perspective of structure, monitoring, performance elements and the quality of earnings of listed deposit money banks in Nigeria. The study adopted correlational research design with balanced panel data of 14 banks as sample of the study, using multiple regression as a tool of analysis. The result reveals that firm's attributes (leverage, profitability, liquidity, bank size and bank growth) have a significant influence on earnings quality of listed deposit money banks in Nigeria after the adoption of IFRS, while the pre-period shows that the selected firm's attributes have no significant impact on earnings quality. It is therefore concluded that the adoption of IFRS is right and timely.

Blanchette, Racicot and Girard in their research examined the impact of the adoption of IFRS on liquidity, leverage, coverage and profitability ratios in a sample of companies seated in Canada. Survey results showed differences in means, medians and volatility in most financial ratios of companies, but these differences were not statistically significant in most of the cases. Also, by specifically analyzing their results by groups of companies who adopted IFRS at different dates, they found no significant variation on their results.

A more comprehensive research was pursued by Terzi, Otkem and Sen with sample size of 140 listed firms during the period 2003-2005 categorized into 7 industrial sectors. They calculated various ratios and examined them through tools such as Wilcoxon's signed ranks test, Mann-Whitney U test and logistic regression analysis. They also examined the differences between local GAAP and IFRS in terms of book to market ratio. They observed an increase in liquidity and profitability, but no significant changes in stock turnover, current assets, and current liabilities.

Muhammad examined the effect of International Financial Reporting Standards (IFRS) adoption on the performance of firms in Nigeria. The study utilizes secondary data to tests the effects of the adoption of IFRS on the performance of the selected firms in Nigeria. Logit regression and t-test were used in the analysis. The study finds that variability of earnings has decreased from an average of 32624.4 to 14432.2, which suggests that there was low variability in earnings in the post adoption period. Timely loss recognition is the measure for prevalence of large negative earnings, where large negative results suggest that the loss recognition is not timely in the post-adoption period. He found LNEG to be positive, which signifies that IFRS firms recognize losses more frequently in the post-adoption period than they do in the pre-adoption period. The study therefore concludes that accounting quality improves after the adoption of IFRS. Furthermore, under IFRS firms tend to exhibit higher values on a number of profitability measures, such as Earnings Per Share (EPS).

IFRS Adoption and Implementation in Ethiopia: There were some studies made in regard to the benefits and challenges of IFRS adoption faced by many countries but the case of Ethiopia is very different from those studies so fare made because Ethiopia is one of few countries who have not have its own accounting standards or who has not adopted other courtiers standards as some countries did adopt USA or UK GAAPs, in fact few studies were made with regard to IFRS adoption in Ethiopia to site Fikru Fantahun, et al. studied the need, benefits and challenges of IFRS adoption. The researcher was presented their study area and finding as follow.

According to the study conducted by Fikru entitled the benefits and challenges IFRS adoption in the Ethiopia case identified the most important factors that could influence the adoption of IFRS. The findings of the study identified that the need for the requirement of

capacity building program for both government regulatory bodies and training making institutions in order to provide the required man power to facilitate the adoption IFRS in Ethiopia. His research was mainly focused specifically on the voluntary adoption of IFRS in Ethiopia specifically on the financial institutions and ECX member organizations that were required by proclamation to adopt IFRS.

The other study conducted on IFRS adoption progress in Ethiopia was made by Teferi and Passich (Professor). Their study was mainly focused to assess the IFRS adoption progress in Ethiopia and identified determinant factors that motivate adoption of IFRS and stated advantages and challenges of IFRS adoption in Ethiopia. The authors were provided an input for stakeholders and serve as stepping stone for future researches on the issue of IFRS adoption in Ethiopia. Similarly, Teferi and J.S Pasricha indicated that on their research that commercial bank of Ethiopia, construction and development bank and Ethiopian instance corporation were used the term IFRS in their annual report for the first time. However, the authors were not investigated whether those reports were done in compliance with the requirement of IFRS 1 the first time and whether they were fully disclose the adoption of IFRS as required by IASB.

Yitayew was also studied entitled IFRS adoption in Ethiopia with a view to explain how different factors such as government regulatory bodies and other national actors and international forces interact in establishing the Ethiopian regulatory landscape as antecedent to IFRS adoption and subsequent implementation. Moreover, Melese studied about adoption, challenges and perception s of IFRS on the quality of financial reporting of financial institution s in Addis Ababa, this research was focused on voluntary adoption and tried to explain the use of IFRS by financial institution in Ethiopia since 2002/2003 voluntarily.

Based on the theoretical analysis since Ethiopia was not adopt IFRS during those studies, this research is intended to identify the gap in the studies made previously in international bases and locally by focusing on the study of actual implementation issues during the transition period as set out by the regulatory body AABE for the 78 which encompass 41 government owned public entities which includes (industries, transport sectors, construction industries, tourism, agricultural sectors, retail business etc.), 19 banks and 18 Insurance company which adopt IFRS for the first time mandatorily in Ethiopia and this study intended to contribute body of knowledge to remaining entities which will adopt IFRS in the country and for countries that will be adopting IFRS in the future periods.

In addition to the papers written in Ethiopia had reviewed recent literatures which related to my research paper such as Alemgena and Eyob research carried out in Heineken brewery factory and Commercial Bank of Ethiopia respectively.

Research design

This study followed a descriptive research design in order to examine effect of IFRS adoption on financial analysis in case of private commercial banks in Ethiopia. To identify the effects of IFRS adoption on financial analysis, accounting figures are computed under IFRS and are compared, with accounting figures computed under the GAAP at the same date or period. Since an entity that adopts and applies IFRS for the first time are required to include at least one year comparative information restated to IFRS, the comparison of accounting figures in IFRS and GAAP for the year prior to the transition to IFRS is allowed. As a result, the comparison between IFRS and GAAP can be done using the 2017/18 financial statements in GAAP and the 2017/18 statements retrospectively adjusted to IFRS which are presented as part of financial statements published in 2018 (in cases when the shift to IFRS occurred in 2018). To see the effect of IFRS adoption on financial analysis of private commercial banks in Ethiopia quantitative method was designed.

Type and source of data

For this study purpose the researcher was use secondary data and those data were obtained from secondary sources. The secondary data were collected from commercial banks annual audited report prepared in IFRS and GAAP. The statement of financial position, statement of profit or loss and other comprehensive income, statement of cash flows and other relevant information from their annual financial statement reports were reviewed. In order to understand the impact of the new IFRS reporting annual reports from commercial banks for pre and post-IFRS implementation were analyzed.

Population

During the transition period there were 18 commercial banks that are registered and operated under National Bank of Ethiopia. Of which sixteen private commercial banks were selected as a samples for the study purposively.

Method of data collection

During data collection, IFRS figures which correspond to comparative figures presented for the year prior to the shift were collected from IFRS financial statements (*i.e.* Statement of financial position, income statement, statement of comprehensive income/ loss, and statement of cash flows) and GAAP figures were collected from initial GAAP statements (published in the year prior to the shift) for the same date and period. Then, the reconciliations and explanations provided in the transition notes to IFRS statements were used to further detail differences observed in the values collected.

Method of data analysis

The data has collected from the banks' annual audited report and summarized in to excel, test and analyzed through SPSS software. To test the hypotheses, the financial statement figures and ratios are tested and analyzed through descriptive statistics, test of equality of means, median and variances. In order to examine the effect of IFRS adoption on financial analysis practice of commercial banks six financial ratios were selected and investigated. The ratios includes, Capital adequacy liquidity ratio, debt ratio, Return on Asset (ROA), Comprehensive Return on Asset, Net Profit Margin (NPM), Asset Turnover and Operating Cash Flow for both reports prepared under IFRS and GAAP.

Data Analysis

This study attempted to examine the effect of IFRS adoptions on financial analysis of private commercial banks in Ethiopia. This study also provides evidence on differences in accounting numbers after the switch from GAAP to IFRS. This study is conducted on private commercial banks in Ethiopia to generate information about the impact of International Financial Reporting Standards (IFRS) adoption on financial ratios to those banks. The data has collected from the bank's annual audited report and summarized in to excel, test and analyzed in SPSS. To test the hypotheses, the financial statement figures and ratios are tested and analyzed through descriptive statistics, test of equality of means, median and variances.

Descriptive statistics

The size of financial statement figures under IFRS and GAAP for the banks in the sample varies considerably: total assets range from ETB 2.06 billion to ETB 40 billion in IFRS (ETB 2.06 billion to ETB 41.9 billion in GAAP) while net operating income range from ETB 171.56 million to ETB 2.72 billion in IFRS and ETB 67.7 million to ETB 1.35 billion in GAAP. Total liabilities range from ETB 1.68 billion to ETB 34.6 billion in IFRS (ETB 1.63 billion to 37.16 billion in GAAP) whereas the level of shareholders equity extends from ETB 385.42 million to ETB 5.42 billion in IFRS (ETB 422.96 million to ETB 4.81 billion in GAAP).

Other commercial banks characteristics likewise present considerable range in values. Net profit/loss for the year varies from negative ETB 30.17 million ETB 951.22 million in IFRS (ETB 50.84 million to ETB 1.002 billion in GAAP) while the figures for comprehensive income/loss extend from negative ETB 7.01 billion to positive ETB 951.22 million in IFRS (ETB 38.13 million to 1.002 billion in GAAP). Finally, net operating cash flow ranges from negative ETB 3.33 billion to ETB 2.58 billion in IFRS (ETB 225.56 million to ETB 2.56 billion in GAAP). Overall, most of the range of values is larger in IFRS compared to that in GAAP (Table 1).

Descrictive statistics for fiaures of financial statements and financial ratios under IFRS and GAAP

Financial statement figures under IFRS									
	N	Minimum	Maximum	Sum	Mean	Median	Std.Deviation	Skewness	Kurtosis
Total assets	16	2065703000	40026791000.00	260068508000.00	1654281750.00	13254287000.00	11026871685.37	0.835	0.165
Total liabilities	16	1680280000	34602754000	225072485000.00	14067030312.50	12080047500	9587816186.72	0.771	0.042
Shareholders eqity	16	385423000.00	5424037000.00	35026021000.00	2189126312.50	1549111500.00	1495390212.44	1.164	0.641
Sales	16	179773000.00	2841341000.00	18246944000.00	1140434000.00	1036230000.00	750111410.69	0.904	0.493
Profit for the year	16	30173000	951586000.00	5793780000.00	362111250.00	307391500.00	250209720.74	1.096	1.038
Comprehensive income	16	-7018000.00	951220000.00	5293349000.00	330834312.50	291013500.00	264473295.33	1.09	1.046
Net operting cash flows	16	-3330862000.00	2579131000.00	15525139000.00	970321187.50	1118637000.00	1338422943.38	-2.318	7.283
Valid N {listwise)	16								
Financial ratios under IFRS									
	N	Minimum	Maximum	Sum	Mean	Median	Std.Deviation	Skewness	Kurtosis
Debt ratio	16	0.78	0.92	13.68	0.8553	0.8606	0.0341	-0.365	0.507
Return on assets	16	0.01	0.03	0.36	0.0225	0.0228	0.00403	0.009	-0.084
Comprehensive ROA	16	0	0.03	0.33	0.0205	0.022	0.00701	-1.722	4.773
Net profit margin	16	0.17	0.39	4.99	0.3117	0.3205	0.05199	-1.34	2.906
Asset turnover	16	0.06	0.09	1.16	0.0724	0.0708	0.00781	0.775	-0.447
Operating Cash flows ratio	16	-0.17	0.17	1.38	0.0866	0.1129	0.08677	-1.981	4.545
Valid N {listwise)	16								
Financial ratios under IFRS									
	N	Minimum	Maximum	Sum	Mean	Median	Std.Deviation	Skewness	Kurtosis
Total assets	16	2062905410.00	41974865174.00	259717091990.00	16232318249.38	13634417865.00	11137137714.27	0.92	0.535

Total liabilities	16	1639944435.00	37165526890.00	226582707250 .00	14161419203.13	12077146659.00	9955451909.10	0.921	0.534
Shareholders eqity	16	422960975.00	4809338284.00	33134384800.00	2070899050.00	1591354367.50	1233962062.92	0.856	0.033
Sales	16	240952709.00	3415093660	20644002632.00	1290250164.50	1270388619	878639870.18	1.123	1.251
Profit for the year	16	50839955	1002939134	5728998676.00	358062417.25	279330680	257783300	1.186	1.286
Comprehensive income	16	38129966	1002939134.00	4697299579.00	293581223.69	239015254.50	239829845.85	1.831	4.419
Net operting cash flows	16	225565264.00	2561573107	18789822016	1174363876	1058948494	737423254.51	0.565	-0.803
Valid N {listwise)	16								
Financial statement fiaures under GAAP									
	N	Minimum	Maximum	Sum	Mean	Median	Std.Deviation	Skewness	Kurtosis
Debt ratio	16	0.78	0.91	13.7	0.8561	0.863	0.03834	-0.632	-0.323
Return on assets	16	0.01	0.03	0.36	0.0226	0.023	0.00484	-0.136	1.149
Comprehensive ROA	16	0.01	0.03	0.29	0.0178	0.0175	0.00458	0.4	0.408
Net profit margin	16	0.14	0.39	4.49	0.2804	0.3005	0.07199	-0.39	-0.641
Asset turnover	16	0.06	0.12	1.34	0.0834	0.0765	0.01841	0.623	-1.007
Operating cash flows ratio	16	0.01	0.31	1.85	0.1157	0.1255	0.07058	0.974	2.894
Valid N {listwise)	16								

Table 1. Descriptive statistics for figures of financial statements and ratios.

Financial ratios likewise show a wide range of values. The debt ratio ranges from 0.78 to 0.92 in IFRS (with a mean of 0.856 and a median of 0.860), and from 0.78 to 0.91 in GAAP (with a mean of 0.856 and a median of 0.863). ROA in IFRS ranges from positive 4.03% to 9% (with a mean of 2.25% and a median of 2.28%) while ROA in GAAP ranges from negative 13.6% to positive 4.84%(with a mean of 0.226 and a median of 0.230). The operating cash flow ratio ranges from negative 0.17 to positive 0.17 in IFRS with a mean of 0.0866 and a median of 0.1129; this is compared to a range of positive 0.01 to 0.31 in GAAP, with a mean of 0.1157 and a median of 0.1255. Finally, the net profit margin in IFRS ranging from positive 0.17 to 0.39 with a mean of 0.3117 and median of 0.3205 respectively. On the other hand the net profit margin in GAAP ranges from positive 0.14 to 0.39 with a mean of 0.2805 and median 0f 0.3005 respectively. The net profit margin range both for IFRS and GAAP are almost the same. It is however clear that the mean of net profit margin is not reliable for testing as a small denominator effect amplifies the statistics (for example, losses under the numerator divided by low sales under the denominator biases the ratio downward).

It should be noted that most of the data does not follow a normal distribution; there are differences between means and medians; minimum and maximum values also differ noticeably in some cases; skewness and kurtosis are high. Therefore, minimum and maximum values of data as well as their variance in addition to parametrical and non-parametrical tests on means and medians are analyzed to account for the apparent non-normality.

Comparison of means, medians and variances at the aggregate level tests of equality: Overall, no significant differences are found between financial statement figures and ratios prepared under IFRS and GAAP when the analysis is based on the comparison of means and medians. As presented in above Table 2, the equality of means and the equality of medians are not statistically rejected for all figures and ratios, except one asset turnover its p-value is 0.036 which is less than 0.05 or (5%) significance level for the year; as such, hypotheses 1 and 2 are not rejected. This suggests that IFRS adoption does not change significantly, at the aggregate level, the central values (means and medians) that describe the financial position of commercial banks in Ethiopia as is reported in their financial statements (Table 2).

Test of equality means for financial statement figures and financial ratios						
Financial statement figures						
	N	**IFRS**	**GAAP**	**Difference**	**% change**	**(P-Value)**
Total assets	16	16254281750.00	16232318249.38	21963500.63	0.14%	0.996
Total liabilities	16	14067030312.50	14161419203.13	-94388890.63	-0.67%	0.978
Shareholders equity	16	2189126312.50	2070899050.00	118227262.50	5.71%	0.809
Sales	16	1140434000.00	1290250164.50	-149816164.50	-11.61%	0.608
Profit for the year	16	362111250.00	358062417.25	4048832.75	1.13%	0.964
Comprehensive income	16	330834312.50	293581223.69	37253088.81	12.69%	0.679
Net operating cash flows	16	970321187.50	1174363876.00	-204042688.50	-17.37%	0.597
Valid N (list wise)	16					
Financial ratios						
	N	**IFRS**	**GAAP**	**Difference**	**% change**	**Equality of means (P-Value)**
Debt ratio	16	0.86	0.86	0	-0.10%	0.951
Return on assets	16	0.02	0.03	-0.01	-31.23%	0.914
Comprehensive ROA	16	0.02	0.05	-0.03	-56.05%	0.213
Net profit margin	16	0.31	0.28	0.03	11.12%	0.169
Asset turnover	16	0.07	0.13	-0.05	-42.25%	0.036
Operating cash flows ratio	16	0.09	0.57	-0.48	-84.77%	0.306
Valid N (list wise)	16					

Table 2. Test of equality of means for financial statement figures and ratios based on SPSS output and excel.

Based on the independent t-test of SPSS output in the above table, the means of IFRS items do not differ significantly from those in GAAP, the volatility of several figures and ratios does not reflect a significant difference and most of the p-values are greater than 0.05 or 5% except asset turn over in the financial ratio part and its p-value is 0.036 and less than 0.05. The equality of means of IFRS and GAAP ratio is statistically rejected for the asset turn over items from the financial ratio for which the variance in GAAP is higher than in IFRS (Table 3).

Test of equality of medians for financial statement figures and financial ratios						
Financial statement figures						
	N	**IFRS**	**GAAP**	**Difference**	**% change**	**Equality of medians (P-Value)**
Total assets	16	13599287000.00	13634417865.00	-35130865.00	-0.26%	0.077
Total liabilities	16	12080047500.00	12077146659.00	2900841.00	0.02%	0.004
Shareholders equity	16	1549111500.00	1591354367.50	-42242867.50	-2.65%	0.454
Sales	16	1036230000.00	1270388619.00	-234158619.00	-18.43%	0.021
Profit for the year	16	307391500.00	279330680.00	28060820.00	10.05%	0.804
Comprehensive income	16	291013500.00	239015254.50	51998245.50	21.76%	0.21

Net operating cash flows	16	1118637000.00	1058948494.00	59688506.00	5.64%	1
Valid N (listwise)	16					
Financial ratios						
	N	**IFRS**	**GAAP**	**Difference**	**% change**	**Equality of medians (P-Value)**
Debt Ratio	16	0.8606	0.863	0	-0.28%	0.21
Return on assets	16	0.0228	0.023	0	-0.78%	1
Comprehensive ROA	16	0.022	0.0175	0	25.43%	0.077
Net profit margin	16	0.3205	0.3005	0.02	6.65%	1
Asset turnover	16	0.0708	0.0765	-0.01	-7.43%	0.454
Operating cash flows ratio	16	0.1129	0.1255	-0.01	-10.08%	1
Valid N (list wise)	16					

Table 3. Test of equality of medians for financial statement figures and ratios based on SPSS output excel.

The above table presents the median values of the financial statement figures and financial ratios prepared under GAAP and IFRS, and the median values of the differences between them and the percentage change. The results from above table calculated under median values are more reliable compared to differences and percentage changes calculated under total amount shown in the table. The results from the table are also consistent with Lantto and Sahltström's study, which on the other hand, was based on code law country (Finland). They stated that in general, after switching to IFRS all income statement items reported a positive change (increase in income statement profits) and balance sheet items a negative change (*i.e.* increase in debt and decrease in equity), however the change of debt ratio is negligible in this case.

As it can be exhibited from the above table, the percentage change of revenue (sales) after the transition to IFRS is -18.43%, which means that the median value of revenue is smaller under IFRS. However, this difference is not significant. So, this outcome states that usually there is no difference in revenue between GAAP and IFRS, and more importantly, that revenue does not have any impact on differences between ratios.

There is a variation in revenue change when it migrates from GAAP to IFRS with in the sample. Out of the sample of 16 commercial banks, revenue decreases from -0.07% to -28.77% and increases from 2.62% to 7.11%, and also 56% of commercial banks revenue show increment, whereas 44% of banks revenue decreases when it converts from GAAP to IFRS. The median difference between IFRS and GAAP for total assets and total liabilities is -0.26% and 0.02% respectively. The statistical test confirms this result, reporting that there is no statistically significant difference between GAAP-based and IFR based total assets and liabilities.

Results

The results from the above table also show that, the difference in comprehensive income under GAAP and IFRS is very high (21.76%) comparing to other financial statements figures mentioned earlier; however the difference is statistically insignificant at the 5% level. The reason for this substantial difference may be caused by favorable IFRS standards, like for instance, IAS 19 employee benefits, or IAS 16 property, plant and equipment. One financial ratio affected by comprehensive income is net profit margin. So, as the difference in revenue under GAAP and IFRS is fairly low, but more importantly it is not statistically significant, at 5% significance level. Thus, the 21.76% increase in comprehensive income caused 6.65% increases in the net profit margin. Again, this finding is consistent with Lantto and Sahltström's results. Furthermore, shareholder equity value decreased by 2.65% under IFRS.

Based on level of significance, the medians of IFRS items also do not significantly differ from GAAP except liability and sales figures in the financial statement whose P-value is 0.004 and 0.021 respectively and lower than the P-value 0.05 or 5%.The equality of medians of IFRS and GAAP figures is statistically rejected for the two items from the balance sheet total liabilities and sales for which the variance in IFRS is greater than GAAP for total liabilities and the variance of GAAP is greater than IFRS for sales figure (Table 4).

Test of equality of variances for financial statement figures and financial ratios					
Financial statement figures					
	IFRS	**GAAP**	**Difference**	**Difference (W)**	**Equality of Variances (P-Value)**

Total Assets	11026871685	11137137714.27	-110266029		-0.01%		0.997
Total Liabilities	9587816187	9955451909.10	-367635722		-0.14%		0.941
Shareholders	1495390212	1233962062.92					0.516
Equity			261428149.5		-3.70%		
Sales	750111410.7	878639870	-128528459		-2.51%		0.69
Profit for the year	250209720.7	257783300	-7573579.32		-0.09%		0.866
Comprehensive	264473295.3	239829846					0.705
income			24643449.47		-0.96%		
Net operating cash	1338422943	737423255					0.402
flows			600999688.9		-36.60%		
Financial ratios under							
	IFRS	**GAAP**	**Difference**	**Difference (W)**		**Equality of variances (P-Value)**	
Debt Ratio	0.034097046	0.0383414	0	0		0.48	
Return on Assets	0.004031527	0.0048425		0		0.595	
Comprehensive	0.00701279	0.0045785	0	0		0.3	
Net profit margin	0.051993453	0.0719851	-0.02	0		0.1	
Asset turnover	0.007807287	0.01841	-0.01	0		0	
Operating Cash	0.086769204	0.070583		0		0.537	
flows ratio			0.02				

Table 4. Test of equality of variances for financial statement figures and ratios based on SPSS output excel.

Discussion

The variance of all other figures from financial statements is higher in GAAP than IFRS and the P-values are greater than 0.05 or 5%.There is heterogeneity for the variances of financial ratios. The IFRS and GAAP variance is the same for debt ratio and return on assets. On the other hand the variance of GAAP is higher than IFRS for net profit margin and asset turn over and also the variance of IFRS greater than GAAP for operating cash flows. This is consistent (though less pronounced) with the results of a previous study that examined early adopters of IFRS in Canada and showed higher volatility of financial ratios in IFRS compared to those in GAAP.

Financial ratios also show some volatility as discussed above. The equality of variances of IFRS and GAAP metrics is statistically rejected for asset turnover ratio. While the variance of most financial ratios its variance in IFRS is greater than GAAP or closer to GAAP, but for some ratios the variance is significantly lower in IFRS.

When we see the ratio of variance for operating cash flow the p-value 0.537 is greater than 0.05 or 5% and it is significantly higher value and not rejected.

In Blanchette, Racicot and Girar, the operating cash flow ratio was one of the few ratios for which the equality of variances computed under IFRS and GAAP was not rejected significantly. This is consistent with the fact that cash flows are generally not affected by accounting methods. Given that the variance of several IFRS figures is significantly higher than the variance of GAAP figures (as discussed above), Variance of IFRS values is equal to variance of GAAP values is rejected, at least partially, with a note that mixed effects are observed on ratios (Table 5).

Percentage change in financial statement figures				
Financial statement items	**Total under GAAP**	**Total under IFRS**	**Difference**	**% change**
Total Assets	2,59,71,70,91,990.00	2,60,06,85,08,000.00	35,14,16,010.00	0.14%
Total Liabilities	2,26,58,27,07,250.00	2,25,07,24,85,000.00	-1,51,02,22,250.00	-0.67%
Shareholders' Equity	33,13,43,84,800.00	35,02,60,21,000.00	1,89,16,36,200.00	5.71%
Sales	20,64,40,02,632.00	18,24,69,44,000.00	-2,39,70,58,632.00	-11.61%
Profit for the year	5,72,89,98,676.00	5,79,37,80,000.00	6,47,81,324.00	1.13%

Comprehensive income	4,69,72,99,579.00	5,29,33,49,000.00	59,60,49,421.00	12.69%
Net operating cash flows	18,78,98,22,016.00	15,52,51,39,000.00	-3,26,46,83,016.00	-17.37%

Table 5. Percentage Change in Financial statement figures based on excels calculation.

The above table shown that, a sum and percentage change of selected financial statement items under GAAP and IFRS. All those items were necessary to calculate the ratios presented in the above Tables. As it can be exhibited from the table, on one hand, sales, total liabilities, and net operating cash flows decreased after the transition from GAAP to IFRS. But on the other hand, total assets, shareholders equity, profit for the year and comprehensive income increased after the conversion. Especially, we should take a closer look into comprehensive income as the increase 12.69% and it is significant. Profit for the year also increase to 1.13% but it is insignificant.

Conclusion

The following conclusions are drawn based on the results obtaine:

- At the aggregate level, means and medians of financial statement figures and ratios are not statistically different under the two accounting regimes. These results are potentially reassuring as they imply that databases built from aggregated accounting information are generally consistent in IFRS and GAAP. However, the distribution of data around the central values of means and medians is important in several cases. For instance, the equality of variances in IFRS and GAAP for all financial statement figures in the balance sheet also statistically not rejected. This result reflects low volatility of financial statement figures in IFRS compared to GAAP.
- The analysis of the range and magnitude of differences between values computed under IFRS and GAAP found that assets tend to be higher in IFRS than in GAAP; however, the liabilities are lower in IFRS than GAAP. Sales and operating cash flow decreases from transition of GAAP to IFRS on aggregate level by 11.61% and 17.37% respectively. However, the values of shareholders equity, profit for the year and comprehensive income is higher in IFRS than in GAAP.
- At the individual bank level, there is no significant difference and variations in every part of financial statements and ratios, and in several categories of accounting adjustments. In the balance sheet, central values (means and medians) of total assets, total liabilities and shareholders‟ equity are not significantly different in IFRS and GAAP, but individual differences can be considerable.

Recommendations

The following recommendations are forwarded based on the conclusions drawn:

- It should understand that, at the aggregate level, the analysis of medians and means of IFRS values is generally reliable when compared to the analysis of GAAP values and the volatility of accounting figures in IFRS is generally higher than in GAAP, under ceteris paribus conditions.
- It is better to understand the main categories of adjustments that affect the differences between financial statement figures and ratios derived in IFRS and GAAP such as, Consolidation and strategic investments, Fair value, accounting for investment property, Pension and other employee benefits and other adjustments such as capitalization and impairment
- Financial analysts should consider that International Financial Reporting Standard (IFRS) adoption and implementation is new to Ethiopia, the impact of IFRS on financial statement figures, ratios, and earnings may not be observed and understood at this time. In future it will be more observed and understood.
- In addition to this, trend analysis should be conducted to understand and analyze the impact of International Financial Reporting Standards (IFRS) on financial ratios, financial statement figures and earnings in a better way for banks.

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