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**FINANCIAL REPORTING BASED ON  
INTERNATIONAL FINANCIAL RE-  
PORTING STANDARDS: Challenges and  
Opportunities (UT Bank Ghana Ltd)**

Business Economics and Tourism

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I appreciate you all.

Vaasa, March 19<sup>th</sup>, 2012

Benjamin Adjei.

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## **ABSTRACT**

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The aim of this study was the analyzing of the challenges and opportunities in preparing financial statements based on International Financial Reporting Standards (IFRS). Also, another aim of the thesis was to find out the extent to which financial accounting harmonization is important for accounting practices.

The study also focused on related theory and articles about IFRS and accounting practices.

In the study, quantitative research data was gathered by through structured questionnaires. A total of thirty (30) questionnaires were sent to employees of UT Bank Ghana Limited while 20 fully answered questionnaires were received.

The results revealed that respondents expect to have opportunities from the bank implementing the IFRS into its annual financial reporting.

The author therefore recommends that for IFRS to work effectively in the first time implementation and also continuous usage, the Institute of Chartered Accountants, Ghana and the Chartered Institute of Bankers must work together with the banks to provide intensive training and support for banking officials through seminars and other such events.

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**Keywords:** International Financial Reporting Standards, Harmonization  
Accounting Practices

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## TIIVISTELMÄ

Tekijä	Benjamin Adjei
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Tämän tutkimuksen tavoitteena oli analysoida haasteita ja mahdollisuuksia Tilinpäätöksen laatiminen perustuu International Financial Reporting Standards (IFRS). Myös toinen Opinnäytetyön tavoitteena oli selvittää, missä määrin tilinpäätöksiin yhdenmukaistaminen on tärkeää kirjanpito ympäri maailmaa.

Tutkimuksessa keskityttiin liittyvää teoriaa ja artikkeleita IFRS ja kirjanpito.

Tutkimuksessa kvantitatiivinen Tutkimusaineisto kerättiin lähettämällä kyselylomakkeet. Yhteensä kolmekymmentä (30) Kyselylomakkeet lähetettiin työntekijöille UT Bank Ghana Limited ja 20 täysin vastannut kyselylomakkeeseen.

Kyselyjen tulokset osoitti, että vastaajat odottavat on valtavat mahdollisuudet pankkijärjestelmästä toteuttamisesta IFRS osaksi vuotuista taloudellista raportointia. Enemmän vastauksia kaikista vastaajista ilmoitti tiettyjä etuja, joihin he ovat nähneet tähän mennessä ja vielä odottavat valmistelusta tileille IFRS pohjalta.

Kirjoittaja Siksi suosittelemme, että IFRS työskennellä tehokkaasti ensimmäistä kertaa täytäntöönpanoon ja myös jatkuva käyttö, Institute of Chartered Accountants, Ghanasta ja Chartered Institute of Bankers on yhdessä pankkien tarjoamaan intensiivistä koulutusta ja tukea pankki virkamiesten seminaareja jne.

**Avainsanat:** International Financial Reporting Standards, yhdenmukaistaminen, kirjanpito

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### **APPENDICE 1**

Questionnaires drafted for bank officials of UT Bank Ghana Limited

## 1 INTRODUCTION

The thesis is based on the topic Financial Reporting Based on International Financial Reporting Standards (IFRS) Challenges and Opportunities, A case study of UT Bank Ghana Ltd.

Taking into consideration, a situation where a reputable company from Finland wants to invest hugely into the Ghanaian economy. With all things been equal, accounting practices cannot be isolated into having a successful investment. Investment experts will therefore be interested in knowing how financial statements are prepared and on what basis they are presented.

In the business world of today, accountant focus on the ultimate needs of decision makers who use accounting information, but the world is also advocating for the harmonization of accounting information reporting. There are a majority of foreign and indigenous firms in Ghana which are listed on the Ghana stock exchange and their dealings are based on best accounting practices that is required by all stakeholders and important worldwide agencies like World Bank, International Monetary Fund etc. It is, therefore, necessary to have a look into whether financial reporting in Ghana is really based on these IFRS that is being used and adopted by most firms in other parts of the world.

In Ghana, most public and private entities since 2008 have accepted to preparing financial statements using the International Financial reporting standards as a base after the government adopted the standards in January 2007. It has become mandatory for all firms listed on the Ghana Stock Exchange to prepare their accounts using IFRS. This is seen to be good news which will help harmonize the accounting practices in Ghana with that of the rest of the world. The question to ask is, have these adoptions been easy or not? This is the reason why the researcher is taking the opportunity to make a study into the possible challenges and opportunities after firms have adopted and prepare annual accounts using IFRS as a basis in Ghana.

According to a World Bank report in 2011, about 15 countries in Africa have currently converged to or have fully adopted the International financial reporting standards as a basis for preparing annual reports (World Bank, 2011)

With comparability and transparency as one of the main focus of the IASB for introducing IFRS, it is always important and necessary to present annual reports in compliance with certain standards which are worldwide accepted and used by various firms. To emphasize on this, Showerman and Tomaszewski (2010) revealed that, by the end of 2012, it is expected that about 12000 public and private firms would be adopting and implementing IFRS in over 100 countries worldwide (Showerman & Tomaszewski, 2010).

Accounting standards according to Jill and Roger are an important aspect of the accounting profession, since it is known to be a profession that is based on rules, concepts, principles and regulations. Accounting standards apply to financial statements that are intended to give a true and fair view. Because of the complex structure and activities of large companies, all accounting standards are important for them (Jill & Roger, 2006).

Business activities and hence accounting practices are not an end in itself but known to be a means to an end. For the accountant, when presenting his annual accounts, the focus is always on stakeholders and also on all those people who use the accounting information for various decisions making. Therefore, there is the need to conform to what the law requires of the accounting practice. This calls for the need to focus on practices that will help the accounts presented to be acceptable to all stake holders.

Accounting must therefore be considered as a link between business activities and decision makers. First, accounting measures business activities by recording data about business transactions for future use. The data gathered is then stored to be processed to become useful information which is then finally communicated, through reports, to decision makers who especially have direct interest in business

activities. But the concerns here is, is this information presented to users reported based certain adopted standards or reported in the traditional way of reporting accounting. And if reporting accounting information is not based on conformity to standards what are the main reasons for this problem?

The focus of this thesis is to look at the challenges and opportunities that are to be encountered by preparing accounts based on IFRS. The researcher believes there are challenges and also expected benefits if the necessary efforts are put in place to help incorporate accounting standards into annual financial reporting. The argument here is to look at if there are any real possible challenges and opportunities in adopting IFRS by banks in Ghana. It must be noted that, users of financial statements of banks require relevant, reliable and comparable information which will help them to make their investment decisions and also assess the performance of the bank in the banking industry. It must, therefore, be noted that, disclosures in the financial statements have to contain sufficient information that will meet the needs of the users. As global accounting practices keep on moving to harmonize, it is therefore necessary for the banks in Ghana to also consider the needs of stakeholders and therefore adopt important standards to help provide adequate information to its users.

The challenges as a first time adoption of a particular standard comes with enormous challenges especially in developing nations like Ghana and also an indigenous bank which is in its development stage to become a top class banking firm. Contrast to this, as already noted, there are some benefits that are to be expected if these standards are applied to financial reporting. The thesis will therefore discuss later this focus in detail together with other relevant issues which will help to understand the overall importance of harmonizing accounting practices in Ghana and across the world.

### **1.1 Research problem and objective**

The main research problem is to describe and analyze the opportunities and challenges in preparing annual reports based on International Financial Reporting Standards in Ghana.

In addition, the following research questions are set:

What is the importance of international Accounting harmonization?

What factors cause the adoption of International Financial Reporting Standards by companies?

By solving the research problem, it will be revealed how the introduction of International Financial Reporting Standards (IFRS) has affected business activities since its adoption and implementation by firms in Ghana.

### **1.2 Review of Related Literature**

To be able to write the theoretical framework of this thesis, I will take time here to describe certain theoretical material which will help me in the thesis process.

The study will focus on using printed books that have dealt with the topic. Also, I will consider some academic articles which have writings on accounting standards. In addition, certain information available on the internet will be examined.

Theoretical books to be considered will include:

Comparative International Accounting, by Christopher N. & Robert P. in 2006. The authors have incorporated in the book various accounting standards which exist and their adoption by various countries across the world. The book gives a

broad overview of supported information on real countries and companies, and it also offers an examination of the requirements of International Financial Reporting Standards.

Business Accounting – an introduction to Financial and management accounting (Jill C & Roger H. 2007) is a comprehensive detailed book that talks about what managers in business enterprises need to know about the accounting world and changes that are been introduced especially in the area of accounting standards. In addition, some key important areas of accounting standard requirements are discussed.

Other books and literature found interesting and useful for the thesis are variety of accounting books which talk about accounting and standards providing vital information for the purpose of the study and also some key areas in that talk about International Financial Reporting Standards (IFRS).

Also several articles in ABI/inform are useful for the thesis work. The relevant articles found on the topic include: a Sylwia Gornik-Tomaszewski & Steve Showerman's article called IFRS in the United States: Challenges and Opportunities. The article talks about the possible adoption of IFRS and also challenges and opportunities in the US. Other useful articles found will be used in writing the thesis.

Certain web pages on the internet, including the homepage of International Accounting Standards Board (IASB), Price Water House Coopers etc., are useful and will be accessed for accurate information to help with the thesis work.

### **1.3 Research Methods**

Research is a systematic way of investigating into a problem to find answers to the studied problem. Two major approaches of research are both qualitative and quantitative research.

In this thesis, the research methodology that will be used will be quantitative research. Quantitative research is based on people's experiences, hence gathering information through questionnaires from the experiences of banking officials is employed in this study. The questionnaires will include open and closed - ended questions which will be distributed to the sample population.

The sample in this case will be managers, accountants and financial managers. This will be prepared mainly focusing on banking officials and other relevant people who work in UT Bank Ghana Limited and who have ideas about reporting based on International financial reporting standards.

#### **1.4 Limitations of the Study**

The study is intended to come out with results that will be relevant for accounting practices in Ghana. In spite of this, the researcher encountered certain problems in the process of conducting the study as described below:

In the study, due to the constraints of time and money, the researcher was not able to send the quantitative research questionnaires to the respondents himself. In the beginning, there were certain resistances from the respondents to comply and answer the questions. The questionnaires were not answered fully as expected since most of the respondents wanted to see the researcher himself delivering the questionnaires but rather not through email. This accounted for a lower response rate as compared to the expectations of the researcher.

The research targeted UT Bank only at getting the necessary data for the analysis. This is because it is the only institution the researcher could get this information from. The opinion of the respondents does not entirely represent the whole of the banking industry in Ghana or other accountants who prepare their accounts based on IFRS. Yet, these opinions are valid for the study.

## **1.5 Structure of the study**

The whole thesis is divided into five parts which include introduction, theoretical framework, research methodology, empirical studies and findings and finally conclusions and recommendations.

The introduction of the thesis describes what the whole studies is about, taking into consideration a background to what will be the main focus, review of literature, objectives of the studies and its limitations.

The focus is then on looking at various publications that have already been discussed about international financial standards. The discussions mainly focuses on the background of IFRS, its challenges and opportunities, the importance of harmonizing accounting practices and finally the study considers certain requirements of the IFRS when presenting financial statements and practices.

The third part of the thesis focuses on the main methods used in gathering data for the study. It also discusses the sample and research population used by the researcher. The validity and reliability of gathering and obtaining the data is also discussed.

To arrive at the main focus of the study, the data received from respondents is analyzed by the researcher in the empirical and analysis part. Furthermore, the data gathered is analyzed with the help of SPSS and presented in the right way to help reach the purposes and objectives of the study.

Finally, a conclusion is made based on the made analysis. The conclusion and also certain recommendations are made which will aid accounting practices to become successful in Ghana and also assist in future studies and research.



## **2 THEORETICAL FRAMEWORK**

Financial reporting determines to some extent the performance of every business organizations. The world today is coming together with conformity in financial reporting where all private and public institutions across the world are trying to adopt such practices, thus the introduction of the International Financial Reporting Standards (IFRS).

This chapter will mainly talk about some theoretical aspects which have already dealt with international financial reporting standards and also try to write about certain important presentations in annual reports. There will be a writing about

IFRS, challenges and opportunities in adopting them and also consideration on how harmonizing accounting practices is looked at from different writers' perspectives.

## **2.1 Accounting Information**

Accounting information covers all available information that financial controllers use to prepare annual reports that are relevant for decision making in business and also accounting information shows the real position of the business. Stakeholders in business therefore require such information to make decisions about its management and also other factors they seem best to affect the business organization and their respective investment life.

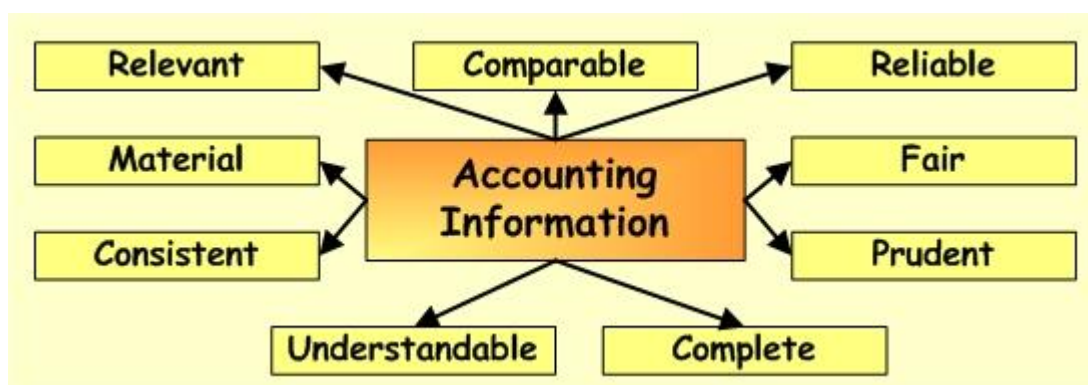
Accounting information is about the presentations that financial controllers make available to users or stakeholders at the end of every fiscal year. All business activities become an input and after being processed to come out as information which helps in one way or the other to make business decisions.

An essential purpose of accounting information, according to Collis and Hussey (2007), is to communicate how best the business is doing to its shareholders. It is clear that, shareholders raise capital for the business to survive and hence, must be noted of how their investment does at the end of every fiscal period. (Collis & Hussey, 2007:5).

Presenting or reporting accounting information today has many other important factors that need to be taken care of. Reporting to satisfy all stakeholders and, most importantly, reporting to follow certain laid down standards. By so doing, the accounting information becomes acceptable and hence conforms to judgments' across the world.

### 2.1.1 Qualities of Accounting Information

For every accounting information to be acceptable, certain qualities must be found in the information presented. The qualities of accounting information and also requirements of preparing annual reports based on IFRS are of no exception from the main qualities of accounting information. The figure below gives comprehensive qualities of accounting information in the organizational and corporate context.



Source: Accounting learning resources, 2011

Figure 1: Qualities of accounting information

Based on the figure above, it is clearly known that accounting information has to fulfill the following qualities as explained below:

- **Fair** - Accounting information must be prepared on a free and fair means to avoid bias towards any stakeholder in the firm. This is an important quality which the accounting profession requires to make it relevant for decisions to be taken.
- **Consistent** – Consistency tells how best an accountant is managing his way of presenting information year after year. This means that, the accountant's way of presenting his information, must be the same from year to year. If there is the need to make changes, footnotes explaining the change must be provided.

- **Prudent** – The prudence concept in accounting states that, an accountant must provide for expected losses than focusing on expected profits. Prudence shows that, the accountant's sense of judgement is always based on optimism.
- **Relevant** – There will not be any need for presenting accounting information if any useful decisions could be made out of them. Every accounting information must have effect on decisions and also must serve the need of stakeholders and users reliable - free from material mistakes and errors

A summary of these qualities show that, accounting is a principled based profession which seek to see to the welfare and interests of various people who have interests in the affairs of the firms operations.

(<http://www.bookkeeping-financial-accounting-resources.com/accounting-information.html>)

### 2.1.2 Users of Accounting Information

As already noted, the information in annual reports speaks to various stakeholders who have diverse interests in every business and its activities. The type of organizations determines who its users of accounting information are, as in financial information presentation. Investors make investments to expect returns, employees need to know about accounting information to ensure job security, suppliers need to know sales to purchases ratio to determine when they will be paid etc. All these individual stakeholders expect the organization to perform its task to ensure that what they also expect is materialized.

Whether financial information is readily available depends upon the type of business and, to some extent, its size. Since sole proprietorships and general partnerships are not required to make public disclosure of financial information the main user of their financial statement is management. On the other hand, limited liability entities have a statutory obligation to publish annual financial statements by

sending a copy to shareholders and filing them at the company house (Collis et al, 2007: 21)

It, therefore, mean that every business activity that is undertaken by an entity automatically need to be done in accordance with certain principles, since accountants will at the end be tasked with providing their stewardship role to their owners and other interested groups.

“The list below summarizes the main users of financial statements published by companies:

- Investors: They need accounting information for assessing investment risk and returns. Investors as important stakeholders want to know how best their investment are doing in the hands of stewards (management)
- Employees: The also need accounting information to assess job security, job opportunities and for bargaining.
- Lenders: for assessing and monitoring lending risks, to know if the firm will be able to pay on time. Lenders need to know the solvency situation of the firm anytime it presents its annual reports.
- Suppliers: and other trade creditors for assessing and monitoring credit risk. A supplier uses the information to know how sales are made and how quick the firm’s debtors settle their debt. By studying ratio analysis, suppliers would know to take decisions whether or not to continue selling to its clients (firm).
- The public which is the outside world who might have interest in the firms activities need accounting information for evaluating such things as the impact of the entity’s activities on the local economy, community and environment”. (Collis et al, 2007: 21)

### **2.1.3 Content of Financial Statement**

All business entities, at the end of the fiscal year, as noted already must present to its stakeholders annual reports. The main contents that are not so different from a bank's annual reports include the following:

- The income statement or Profit and loss account.
- The Balance sheet
- The cash flow statement.

Apart from the above named important contents, many government agencies also prepare other accounts such as Income and expenditure account in addition.

The balance sheet presents an enumeration of a firm's resources (assets) along with its liabilities (debts) and owner's equity on a given date or at a point in time. Thus, the balance sheet is like a "snapshot" of the firm. Income statement measures the net results of the firm's operations over a specified time interval such as monthly, quarterly or yearly. (Bowlin, Martin & Scott, 1990:14-18)

Helfert (2010) also state that, the balance sheet presents a clear picture of the state of the business and how it is been managed. This means that, the balance sheet tells how strong a firm is been managed, taking into account its assets, liabilities and capital as at a particular period of time (Helfert, 1997:20).

## **2.2 Introducing Accounting Standards**

Accounting standards are the watch dog for which financial managers prepare their annual accounts by abiding by certain laid down rules. In Ghana, the Institute of Chartered Accountants (ICAG), make sure all standards are adhered to or complied by firms. Standards help to get transparent and fair annual statements which become relevant for the demands of the various udders of the information. Though international standards which are used in as a basis for financial reporting exist,

respective countries also have had their own national standards which have been the guiding tool for reporting financial statements.

Accounting standards are the guidance for which certain transactions should be treated and also gives the authority of certain disclosures in financial statements. It is always necessary to comply with accounting to help give a true and fair view of financial statements been sent to all stakeholders in the business (Collis et al, 2007:34).

In Ghana, before the adoption of IFRS in 2007, all public and private firms presented their annual statements based on the Ghana National Accounting Standards, which has been in place since 1993 from the Institute of chartered accountants, Ghana.

As companies have become larger and increasingly global in the ownership and activities, there has been growing pressure for international accounting standards. Developing and using own country Generally Accepted Accounting Principles (GAAP) leads to firm's finding it difficult to do business outside their own count, since financial reports and accounting information need to be presented in two forms so as to conform with the country of origin's principles and also the home country's principles.

Companies in different countries may prepare their financial statements according to different accounting standards. There are different accounting standards that exist in the world. Country specific accounting principles are usually presented in generally accepted accounting principles.

To harmonize the reporting of accounting information across the world, the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) came out.

Focus now will be on various accounting standards that have come into force and are in force and been used worldwide today by financial controllers and in business.

### **2.3 The International Financial Reporting Standards (IFRS)**

The integration of International Financial Reporting Standards into accounting practices across the world is necessary for international accounting comparisons as easy as possible. As firms increase in operations, and business activities across the world becomes complex, it is necessary to have a set of standards which states rules as to how financial statements should be reported

According to Sylwia and Steve (2010), International Financial Reporting Standards (IFRS) follow principles and rules, rather than following one's own judgements when dealing with it. Accountants by nature need to know experience and make judgements. This is the reason why IFRS exist as a principle based standard to guide financial accountants. (Sylwia & Steve, 2010).

IFRS has now become a very popular setoff standards being used as a basis for presenting financial statements to help maximize stakeholder's interests in business activities. International Financial Reporting standards are adopted in over 120 countries and still continuing. It is claimed that, by 2014, there would be about 200 countries which have migrated to the adopting the International Financial Reporting Standards into financial statement preparation. (Solomon, G. Z, 2011). Many countries around the world, which Ghana is of no exception, have migrated from country own Generally Accepted Accounting Principles (GAAP) converging and adopting IFRS. This has made it to emerging as the widely used and accepted global accounting standards since it replaces the International Accounting Standards (IAS) which was also issued by the International Accounting



Standards Board from 1973 to 2000. The headquarters of IASB is in London, where it is headed by a 15 member committee. It is expected that, this committee will be increased to 16 by end of 2012 (James M. L, 2011:117).

### **2.3.1 International Accounting Standards (IAS)**

There is the need to have a little idea about the previous set of standards which existed before the IFRS became a more popular standard been used now. The International Accounting Standards (IAS), also describes how transactions should be treated in fair means in annual reports. These standards were in force from 1973 until 2000 when most of the standards in IAS where replaced by the IFRS.

<http://www.iasplus.com/standard/standard.htm>

### **2.3.2 International Accounting Standards Committee Foundation**

This committee is been headed by an independent oversight organization, the International Accounting Standards Committee Foundation (IASC Foundation). Governance of the IASC Foundation rests with 19 trustees, who are responsible for appointing the members of:

- The International Accounting Standards Board (IASB), who are tasked with the issuing of the IFRS.
- The International Financial Reporting Interpretations Committee (IFRIC). The IFRIC is in charge of interpreting IFRS.
- The Standards Advisory Council (SAC), which advises the IASB on agenda decisions and priorities, and puts forward the organization and individuals on SAC. (Collis et al: 36)

### **2.3.3 International Accounting Standards Board**

It is known that, the International Accounting Standards Board (IASB) works and co- ordinate with other bodies and stakeholders in the accounting profession to come out with International Financial Reporting Standards (IFRS) which becomes the basis for financial reporting in business organizations. It has a 15memeber committee which performs independent activities devoid of bias towards any country. The International Accounting Standards Board (IASB) work together with various accounting bodies and all partners across the world, to ensure a successful set of standards in the accounting profession.

(<http://www.ifrs.org/The+organisation/IASCF+and+IASB.htm>)

The IASB performs a vast majority of activities to help companies in the accounting and financial professions, with the objective of ensuring an emphasizing on harmonization of financial reporting a promoting worldwide of its set standards.

The main objectives of the organization includes following:

- The publishing of standards which will be accepted worldwide and used in presenting financial statements on a principles basis.
- The organization also works hard to steer the harmonization of accounting practices. It does so by making sure, regulations binding accounting practices are harmonized to avoid bias. (Alexander, Britton & Jorissen, 2009:51).

### **2.3.4 The IFRS Interpretations Committee**

The International Financial Reporting Standards Interpretations Committee is the new membership committee which was instituted to replace the IFRIC. This committee now serves as the interpretations committee of the International Accounting Standards Board (IASB). It is made up of 14 members who are

regularly appointed by the trustees of the IASB. Each member has a higher professional experience and come from all parts of the world. The main task of the committee is to monitor accounting practices across the world to help review and examine issues that concerns the application of IFRS.

(<http://www.ifrs.org/The+organisation/IASCF+and+IASB.htm>).

## **2.4 Challenges and Opportunities in IFRS**

When new ways of doing things are introduced, especially in developing nations, there are always bound to be major challenges from first time implementation. Eventually, there will be major benefits which will come out as a result of carefully putting measures to accommodate the new way of practice. It is recalled that, in Ghana, when IFRS were adopted in 2007, not all companies were able to present their year - end financial statements based on IFRS at the end of the year 2007 but rather began presenting annual reports in 2008 on the basis of IFRS. This could have been particular problems which exist within developing economies and firms in them to migrate from old standards to the new one being implemented.

As developing economies tend to adopt new standards in accounting practices, there is no doubt it will automatically come with challenges and certain important advantages which eventually help the accounting industry in Ghana. The expected benefits and challenges are discussed based on related literature by various authors.

### **2.4.1 Challenges in Adopting International Financial Reporting Standards**

A company which intends to migrate to preparing accounts based on IFRS for the first time will definitely encounter certain difficulties which by time will be overcome. Both advanced firms in advanced countries and those in developing econ-

omies, all encounter difficulties in first time adoption of certain policies or practices in their activities. Various problems which have been found out are discussed below:

According to James, M.L. (2011), he raised certain important and relevant problems when IFRS are adopted, especially in developing countries where accounting infrastructure is always poor. Such challenges from his study, revealed the following:

- The necessity to change all current accounting software's and information systems to a new one which will have to satisfy preparing accounts based on International Financial Reporting Standards (IFRS).
- There is also much time and costly to have staff training for current staff. This will help to foster the continuous growth of the entity. In most cases, proper staff training is not given and become a major problem when IFRS is implemented.
- Investors need to be educated for a very long time before they can accept the new standards introduced.. (James M.L, 2011:127)

International Financial Reporting standards adoption in a developing economy also has a major obstacle when it comes to the procedures for a company to go through to implementing the standards fully into its daily practices. It is believed that implementing IFRS becomes a costly procedure for firms in the following ways:

- **Training:** When new systems of practices are implemented, every firm has to take a time to train its employees so as to be able to use the new system effectively. In a study conducted by Ballas, Skoutela and Tzovas on the Relevance of IFRS on an emerging economy with Greece in question, it was evidence that most of the employees interviewed claimed to lack the necessary training to help kick start the implementation of IFRS in their respective firms. The result might be that, firms in such emerging econo-

mies find the cost in training to be costly and hence ignore them on the expense of effective implementation of the standards.

- **Computer Software Alterations:** One major problem that can also be seen when adopting IFRS in emerging economies is the migration of computer software's onto the new standard adopted. The problem might be the unavailability of experts to help make alterations to the existing software to welcome the new one or difficulty in getting the right accounting software's to fit into reporting on the basis of IFRS requirements.

Finally, from the studies conducted, the authors believed that, adopting IFRS in developing economies suffered from better actuarial studies by firms. (Ballas, Skoutela, Tzovas, 2010).

The above assertions by the authors in their article are a perfect description of certain problems to be encountered by a firm which adopts the IFRS for the first time in its financial reporting. Developing countries have always lacked developed accounting infrastructure, which in many cases tend to be a hindrance to major economic development.

In the studies, one major focus has been to analyze the various challenges firms face when they implement the IFRS into their annual financial reporting. UT Bank Ghana Ltd, on one hand is no exception from such problems in implementing IFRS for the first time. The process of migrating accounting software into new ones to suit new standards adopted seem to be a particular hindrance for a proper implementation on a first time basis. Also, the lack of adequate training seems to be a particular hindrance to a complete implementation in the newly adopted standards.

These can be argued to be true for both medium and larger firms in the banking industry in Ghana. This can be noted from the World Bank report (2011) on IFRS adoption in Ghana, which stated that, not all companies in Ghana were able to present their annual reports using IFRS as the basis in 2007 when the country mi-

grated from the Ghana National Accounting Standards (GNAS) to the IFRS. Contrary, a full implementation by firms began in 2008, which UT Bank Ghana Limited was no exception.

#### **2.4.2 Advantages in Adopting International Financial Reporting Standards (IFRS)**

Adopting IFRS into financial reporting comes with enormous benefits and also contributions for the corporate institution and the economy at large. Foreign investment is surely going to be available for firms when investors are assured of quality in accounts and also fairness in presentation is assured. The company benefits when capital is been seek for, since investors always would have assurance in the financial statements presented by the management. IFRS when adopted, come with a greater international recognition since it has been adopted in over 120 countries worldwide as to today and also, it allows easy comparability of financial comparability of financial data between two or more firms from different countries.

From the web pages of Price Water House Coopers (PWC), the firm has enumerated certain benefits that firms who adopt the IFRS would gain out of it. The benefits include:

- Quality in financial reporting information. This is as a result of reducing cost of comparing alternative investment and improving the quality of financial reporting.
- Also when financial reporting is based on IFRS, companies in turn benefit, as investors become more willing to provide financing.
- Lastly, in the case of multinational firms, adopting international financial reporting standards help to make financial reporting simple, since only one framework of reporting is used for the whole group. (Price Water House Coopers, 2011)

It must also be noted that, standard adoption and preparing accounts based on them are carefully thought issues by economies and firms altogether before they are implemented. Listed firms and economists try to deliberate upon several benefits and possible disadvantages. Gabriele G. (2010) in his article IFRS adoption in the EU stress that, adopting IFRS in the EU countries a decade ago was with the motive of enhancing competitiveness in European capital markets by establishing a set of homogeneous and investor oriented capital markets. It further stress that, adoption of IFRS in Europe with capital markets in mind is to make financial markets work better, lowering cost of capital and help increasing access to financing for companies.

There is the believe that, preparing financial statements in the basis of IFRS and accounting harmonization is to provide financial markets with a very high quality information improving their efficiency, covering their cost of capital and finally increase their accessibility to capital.

A further discussion can also be made based on Tomaszewski and Showerman in an article written on the challenges and opportunities in ‘adopting financial reporting standards’, the authors presented results of a survey that was made by Deloitte in 2008 on the benefits of adopting IFRS. They came out with a very important result after interviewing 200 respondents as follows: Simplifies financial reporting – 37%, improved financial reporting and transparency – 37%, easier access to capital – 5%, Cost savings – 4% and Other – 17%. (Tomaszewski et al, 2010). There is no doubt from this survey that, respondents who are in touch with presenting accounts based on IFRS believe in enormous advantages, as clearly stated above based on the results achieved.

To serve the purpose of stewardship in accounting practices, it is important that the information presented by management should have a clear picture of the firm to all stakeholders who have both direct and indirect interest in the firm’s activities.

There is also the possibility of firms and investors having enhanced access to global financial markets. In this case, every firm which presents its annual accounts using IFRS will have the opportunity to speak one particular accounting language across all financial markets. This will help bridge the barrier in raising capital for the firm. Investors wanting to purchase shares will have easier access to the accounting information of their targeted company.

Furthermore, adopting IFRS helps to bring down financial reporting costs for companies with subsidiaries across borders that prepare similar accounts. There will not be any difficulty in understanding the financial reports of both parent and subsidiary firms. A subsidiary in a different country prepares same accounts as with its parent company when they all adopt same method and ways of reporting. This eventually makes easy understandability of information provided.

Globally transferable knowledge for accounting professionals from one economy to the other becomes easier and smooth. It is easier to transfer expatriates who have knowledge in same standards applied in one economy to the other to work in such economies (Guggiola, G., 2010).

Similarly, other writers agree to the fact that preparing final accounts based on IFRS come with benefits which stretch from company internal and external. These are the benefits believed to push the firm forward in its dealings if it is able to adopt the standards for its stakeholders and partners to see.

It is believed that, IFRS ensure transparency and comparability in financial statements with other businesses and also those in the same industry. This help to fulfill the accounting quality of understandability and relevance for all users of accounting information. In their studies, Ballas, Skoutela and Tzovas believe that, Since the adoption of IFRS in Greece, users of accounting information seem believe that IFRS information are more reliable than those prepared based on local GAAP.



Furthermore, a benefit firms are likely to gain as a result of preparing accounts based on IFRS is their easy access to international markets and also easy resort of external financing. For external investors to make a commitment into the economy of developing nations, they become cautious on whether or not there will be positive returns, and for that matter on what basis are accounts prepared upon? This will help determine investors trust to push money into less endowed economies. (Ballas, Skoutela & Tzovas, 2010).

## **2.5 Harmonization of International Accounting**

The world of business today is coming into one place which requires that, business executives and financial controllers worldwide need to acquaint themselves and also open themselves to harmonizing financial reporting with country's own Accepted standards and also what the world has accepted to make reporting conform. This has called for harmonization in all financial reporting. In establishing the IFRS, the International Accounting Standards Board was with the aim of making international comparison as easy as possible. Though this was seen to be a difficult task at that moment, since each country had its own GAAP, the need for harmonization been given a better attention in the accounting industry over the years.

According to Walton, Haller & Raffournier (2003), Harmonizing accounting practices across the world involves reducing of differences in reporting between countries and bringing accounting under similar language. (Walton, Haller & Raffournier, 2003).

Accounting diversity in a broader context tends to hinder the users of accounting information and also create problems for multinational companies. Considering a situation where a reputable company from Finland wants to invest hugely into the Ghanaian economy. There are certain important aspects that cannot be ignored before such investments are committed into the economy. With all things been equal, accounting practices cannot be isolated into having a successful investment.

Investment experts will therefore be interested in knowing how financial statements are prepared and on what basis.

The pressure for international accounting harmonization comes from those who regulate, prepare and use financial statements. Also, other important institutions across the world have done their best to help in converging financial reporting across the world. The most significant institutions according to Walton, Haller & Raffournier, 2003 state that, the International Accounting Standards Board, European Union, Organization for Economic Cooperation and Development (OECD) have all made numerous efforts in forging consensus around the world for accounting harmonization.

### **2.5.1 Arguments for harmonization**

According to Walton et al., 2003, harmonization of accounting practices becomes a process where differences in practices are removed to help deal with all obstacles to obtain international comparability in reports.

The discussions below explain the major arguments in favour of harmonizing accounting practices across the world.

Firstly, according to Haller et al, 2003, it is necessary to have accounting harmonization to help ensure efficiency in cross border transactions. Different accounting practices in countries in the same economic union tend to be a distraction in business activities. This can be explained to mean that, in various economic unions, there exist a free movement of capital, goods, services and people, which means business activities in such countries don't need to be obstructed with differences in accounting practices.

Secondly, the argument extends persuasively to the capital market. A multinational company wanting to invest in the Ghanaian economy will be much interested in how accounting practices are looked at by the firms operating there. There is the need to evaluate the historical performance of the Ghanaian economy,

and also the performance of the firm into which the investment is made. To be able to do this, the external investment would be interested in understanding the accounting practices used in Ghana. This has accounted for a reason why the Ghana stock exchange has made it mandatory for all firms listed to present their annual reports based on the IFRS.

In every business, managers are just stewards who are assigned to maximize shareholders interest by making profit from the business activities. Investors need to understand the financial reports provided to be able to take decisions on their investment portfolios, whether they are gaining or loosing. “Investors and financial analysts need to be able to understand the financial statements of foreign companies whose shares they might want to buy. They would like to be sure that statements from different countries are reliable and comparable, or at least to be clear about the nature and magnitude of the differences. They also need confidence in the soundness of the auditing. (Nobes et al: 76). This is the reason why private limited liability companies that want to issue shares need to harmonize themselves with the way they present their financial information. Likewise, public limited liability in order to attract foreign support in its operations; need to harmonize its reporting with accepted standards that the world recognizes as uniform everywhere. Multinational companies would also find it so easy in transferring accounting staff from one country to the other.

### **2.5.2 Arguments against Harmonization**

Since most countries around the world have their own GAAP's that are mainly guiding them in financial reporting, advocating for accounting harmonization and hence preparing accounts to base on same standards might come with their own problems. Harmonization, though a very important aspect of accounting practice, doesn't come so easily in the accounting industry. There exist various differences in accounting practices form one country to the other, especially among Franco-phone and Anglophone nations. According to Walton, Haller and Raffournier,

2003, the following summarized factors account for international accounting problems.

Harmonizing accounting practices is a costly process, especially for small and medium sized companies. As a result of economies of scale, harmonization might be at the advantage of larger companies than that of small firms. When moving from one process to the other, it is necessary for such companies to put structures in place to train staff for the new software, change accounting software systems etc. All these tend to be costly when the company isn't a larger company.

As a result of different accounting practices among nations, it eventually leads to a major difference in presentation, recognition and measurement in the first instance. Different accounting practices also leads to differences in perception and interpretation of accounting information among accountants in various nations. (Walton et al, 2003)

Accounting harmonization according to Guggiola, G., in his article, 'IFRS adoption in EU', believes that international accounting harmonization come with certain obstacles. He believes that, different accounting traditions of countries have influenced the convergence process to IFRS. This is as a result in differences in country main GAAP and IFRS rules. The article further stress on High cost of transition from local accounting practices towards IFRS.

In the African context, firms moving away from Local GAAP to the IFRS can take a long time to complete the convergence process, because of under - developed technology and data keeping problems. Even after 2007 since IFRS were adopted in Ghana, most firms are yet to fully converge to it.

It is also believed that country-specific social, economic and cultural environment contribute to a major reason for differences in accounting practices. As a result of this, there comes the possibility of both different objectives in financial reporting and different accounting practices existing.

Other obstacles in other writer's opinions also include the following:

First obstacle considered is the lack of an international regulatory agency. The European Union is such an agency for one part of the world; and the International Organization of Securities Commission (IOSCO) has influence for listed companies.

A further problem is nationalism. Countries may feel not look down upon their own set of standards in use to adopt the IFRS. For example, in the United States of America, there have been long term deliberations whether or not to accept the IFRS by moving away from the US GAAP. Nobes, in his book, further state that, another difficulty in accounting harmonization is the effect of economic and financial outcomes on accounting standards. To the extent that economic consequences of standards vary by country and to the extent that they are taken into account by those who set standards, this could be a force for de-harmonization. (Nobes et al: 78).

## **2.6 Requirements of International Reporting Standards**

The standardization of financial reporting across the world has been the motive of the IASB and the IASC by setting the International Financial Reporting Standards for use in business entities and in financial reporting situations. It is therefore important for financial controllers to know what the IFRS require of them while preparing their annual reports to stakeholders. Abiding by these requirements will help to know the true reflection of business activities in the reports presented.

The framework assumes that the main purpose of financial statements is to give useful information to various users (typically investors) in order to improve their financial decisions. In order to achieve a fair presentation, it is important that the information presented is relevant and reliable. (Nobes et al, 2006:118).

When complying with IFRS according to the International Accounting Standards Board (IASB), a complete set of financial statements including a summary of the major accounting policies in use in the firm should include the following:

- Statement of financial statements
- Comprehensive Income
- Changes in equity for the period and
- Cash flow statement

It could be seen that presenting accounting information need to conform to certain laid down principles and all financial controllers need to bear it in mind. When IFRS are adopted into financial reporting, the accountant must present such information on the specific requirements of the IFRS. It is therefore recommended that, presenting accounting information based on IFRS require the following:

- **Relevance:** For accounting information to be useful, it must be relevant for the purpose for which it is meant for. IFRS therefore stress on the relevance of financial statements as a major advantage of it if firms implement it in their annual financial reporting. Mainly, accounting information must be presented without any bias or with any personal interest but rather on the basis of fairness.

Fairness in presentation is based on the following factors:

- **Comparability, including consistency.** This means that, the information presented should be able to be compared with previous information and also cross border analysis. Consistency is very important here and therefore any changes in disclosure must be disclosed.

Financial information is unlikely to be relevant unless it can be relevant is seen to be economic decision making. (Nobes et al, 2006:119)

- **Timeliness:** Relevance is increased if information is up to date. (Nobes et al, 2006:119). Timeliness requires financial controllers to present information to be presented when it is needed at the right time.
- **Understandability:** Who will be able to read and understand information when it is made up of ambiguous information? Though it is assumed that users are educated and can understand whatever they read, IFRS's require that accounting information should be understood by all who read to be able to be relevant.
- **Reliability:** For accounting information to be reliable, users must be able to depend on it to make decisions. For information to be reliable, the following concepts are expected to be fulfilled:
- **Fair presentation:** This is the hallmark of every accountant and the contents of accounting information therefore must not mislead readers. For example, a balance sheet should not show an item under liabilities unless it meets the definition of a liability.
- **Economic Substance:** It is sometimes expressed showing the economic substance of transactions rather than their legal form. (Nobes et al, 2006:120).
- **Neutrality:** To be reliable, information needs to be free from bias; otherwise the prediction of the future will be warped. (Nobes et al, 2006:120).
- **Completeness:** Information needs to be as possible within the constraints of materiality. Any important omissions would cause the financial statements to be misleading. (Nobes et al, 2006:120).

Every accounting information need to fulfill certain qualities which every accounting profession has in mind. The above clearly shows that, the International Financial Reporting Standards is of no exception. For a better accounting practice,

every standard must clearly state certain requirements which must conform to the main qualities of accounting information. It must therefore be stressed that, a very important qualitative aim of IFRS is to achieve comparability in financial statements

To be able to complete the thesis, the researcher has to conduct a survey based on the research objectives and the theory. The method of research used and ways of obtaining the data is the focus in the next chapter.

### **3 RESEARCH METHODOLOGY**

In the previous chapter, relevant theoretical writings on the topic were discussed in detail by the researcher. In this chapter, the focus of the thesis will be on the research methodology that have used for the study. More specifically, it will open up with the introduction of research methods used, sample selection and data analysis and data collection. In the end, the validity and reliability of the research will be discussed.

#### **3.1 Research Methods used in the Study**

In this study, it is important to decide which method of research will be employed to be able to conduct the research. The purpose of this thesis is to find out the extent to which International reporting standards are applied in financial statement



reporting, considering the challenges and opportunities in the banking industry of Ghana, specifically UT Bank Ghana Limited.

The main research methods adopted will be quantitative, where questionnaires are distributed to be answered by banking officials who have adequate knowledge in IFRS in the case company. This is because; the researcher wants to inquire to have deeper knowledge into company finances and their willingness to make financial reporting uniform with international acceptability. The author therefore aims at analyzing the theoretical part in the empirical context of the study.

There are three main way to obtain quantitative data in marketing research: surveys, observations and experiments. (Kent, 2007:182). In this research, the survey technique has been adopted, which will be in the form of structured questionnaires. Quantitative research is the type of research where questionnaires are structured with the idea of getting some information from the respondents. In this type of research, the researcher prepares the questionnaire with the expected answers in mind. Normally the researcher should be well informed about the topic at hand. With this particular method it can also be used to explain the measurement of a market size, brand names, purchase frequencies, awareness level of brands etc. The data should be accurate so that the intended aim can be achieved. In most cases, there must be a sample which reflects the situation in the general population or market. Quantitative research method, unlike qualitative method, provides the researcher with solid and concrete information with facts and figures to support it. (Hague et al, 2004).

Quantitative research and for that matter in this thesis will focus on questionnaires which the researcher has designed to seek information from respondents. The questionnaires therefore is designed to seek for information from respondents who work in organizations that comply with IFRS in Ghana and also will focus on those who are yet to adopt them if possible.

### **3.2 Sample Selection and Data Analysis**

When selecting a sample to conduct a research on, it is imperative that the case is relevant for the purpose of the study, and to make sure that the respondent is highly knowledgeable in the subject of the study (Holme and Solvang, 1991). Because of this, the researcher has chosen UT Bank Ghana Limited as my case company. A total of thirty (30) questionnaires are sent to the respondents with the hope of getting all back after they have been answered.

The sample of this study is to focus on accounting officials who work in UT Bank Ghana Limited. A random sample is made where respondents will be from the various branches of the bank in Ghana. In this case, a few respondents will be selected from some branches to participate in the survey. In the research, the focus was to get the required information from all accounting staffs that had relevant knowledge about the questionnaires sent.

To be able to conduct a perfect research with the purpose in mind, structured questionnaires were sent to the case companies, seeking their opinions on the various questions stated in the questionnaires given.

The data analysis tools for this study will mainly be the Statistical Package for Social Sciences (SPSS). After getting the statistical data, the researcher will give comments to the results obtained which connect with the theoretical part. After this is done, together with the qualitative data, conclusions are drawn and give suggestions for future studies.

### **3.3 Data Collection**

In this research, there are two main types of data collection. These are both which are primary data and secondary data. The information contained in the data will determine whether it is a primary data or secondary data.

A Primary source of data can be gotten from various means. A primary source includes why the study is been undertaken, its participants or subjects, materials or apparatus, procedure, results and references (Bordens K. S& Abbot B.B, 2011:69)

Primary data in this study is the questionnaires that will be obtained from the respondents after they have been answered. The questionnaires drafted by the researcher represent the primary source of data for this study. It is been done with the intension of gathering the required information from the targeted respondents. This means that, such data don't exist and require that the researcher looks for the information by investigating and later keep records of it. The data will be collected by giving out questionnaires to respondents to give opinions at the comfort of their offices based on the knowledge they have in the area of the study.

In contrast to primary data is Secondary data. Secondary sources of data are obtained from already made information which comes already processed to be used. They are always analyzed from certain primary sources. For example, an annually report of a company is describes as a secondary source of data, since the accountant has already gathered the primary source, through transactions and eventually come out with the annual report. They can also be obtained from WebPages, journals, articles, newspapers etc. (Bordens et al, 2011:69).

The main secondary data to help in the empirical study are obtained from the banks web page and also certain relevant sources that have adequate information about UT Bank and the banking industry in Ghana. The focus here will be to look for relevant information about the bank which will help in the empirical study.

### **3.4 Validity and Reliability**

The validity of a measure is the extent to which it measures what you intend to measure (Bordens et al, 2011:133).

In any kinds of research, whether they have been done or are about to be done, there are errors because there will always be difference between the research results and the real value. Unfortunately, there is no way to know about the real true value because if it were known, then there is no need to do the research. So usually, we use reliability and validity to estimate the errors in the research (Kent, 2007:141).

In this research, I anticipate the results to be valid, since the respondents who had the opportunity to answer the questionnaires from some selected branches of the case company in the whole of Ghana. Validity of the study was fulfilled since the personnel with adequate knowledge in accounting and finance were those who had the opportunity to answer the questionnaires. Also, the validity of the questionnaires can be measured to be accurate since the required information requested in the questionnaires was accurately given by the respondents.

In this thesis, the researcher has targeted a minimum of fifty (30) to be answered by the respondents in the case company. In determining the reliability of the study, the respondents chosen, the number of questionnaires fully answered and received determines how reliable the research is. From the thirty (30) questionnaires, only 20 were answered fully by the respondents. Those who did not answer the questionnaires, from my investigations, revealed that they were all busy getting ready for their Christmas holidays. The reliability of the survey therefore, to a larger extent is valid, since the response rate of the questionnaires was approximately 70%. It cannot be fully concluded to be reliable, but there can be a reliance on the information received from the number of respondents to make analysis and draw valid conclusions for the study.

## **4 EMPIRICAL STUDY AND FINDINGS**

In the previous chapter, the methods used in obtaining data for the study were clearly explained by the researcher. This helped in getting the required information intended for the study by the researcher. In the empirical study, findings of the research are analyzed and conclusions drawn. To be able to make such analysis, the researcher saw the need to use research method to find information from respondents. In this case, the quantitative research was the main focus, where questionnaires were distributed to experts in various branches of UT Bank Ghana Limited.

### **4.1 Overview of IFRS in the Global Market**

In a world of global business becoming one and together, it is very useful for financial accounting harmonization among countries and businesses to make the

business language one for better knowledge to be transferred easily across borders.

Accounting standards, as an important aspect of the practice, has over the years been given the necessary attention required. This is as a result of many industry players advocating for harmonization of accounting practices. As a result, the introduction of the IFRS has sharply been used worldwide to help provide annual information on one common standard. Also, as a result of globalization of capital markets due to movement of capital and services across borders, it became necessary for IFRS implementation into accounting practices.

It is known that, about 120 countries worldwide have adopted the international accounting standards into their accounting practices of which Ghana is of no exception. Out of this, only 90 have fully adopted IFRS. It is estimated that, 200 countries would be adopting IFRS by the end of the year 2014. Japan and Canada adopted IFRS in 2011 while the United States of America also plans to adopt by the end of 2014. ([www.ifrs.com](http://www.ifrs.com))

International Financial Reporting Standards (IFRSs) are developed through an international consultation process, which involves interested individuals and organizations from around the world. The due process comprises six stages, with the Trustees having the opportunity to ensure compliance at various points throughout:

- Setting the agenda planning the project
- Developing and publishing the discussion paper
- Developing and publishing the exposure draft
- Developing and publishing the standard
- After the standard is issued

(<http://www.ifrs.org/How+we+develop+standards/How+we+develop+standards.htm>)

#### **4.1.1 International Financial Reporting Standards in Ghana**

Ghana's economy has been a developing one across the world. It has been one of the fastest growing economies in Africa in the past five years. On 23<sup>rd</sup> January 2007, the then finance minister gave a speech in the Ghanaian parliament to announce the formal launching of the adoption of International financial reporting standards. In his speech, several reasons for the adoption were given which included some of the following:

- The international flows of investment capital and capital instruments across geographical boundaries, which Ghana is no exception
- For easy sourcing of financial support both internally and externally by private business enterprises
- For transparency and accountability at all levels of the economy: both public and private so that the public interest would be kept in view.

Before the adoption of these standards, the Ghana Generally Accepted Standards (GAAP) and the Ghana National Accounting Standards suffered international weakness in one way or the other. This made the World Bank and the ministry of finance to make a study into the effectiveness of the then standards used. Recommendations from these study showed that, there were not full compliance from companies in the then standards in use. This therefore called for leaving behind those accounting standards for the country to opt for the international financial reporting standards. The Institute of Chartered Accountants Ghana (ICAG) was then placed as a watchdog role over all companies in the Ghanaian economy to ensure full compliance with the adopted standards. It started this by organizing seminars to educate companies on expected benefits and possible challenges in its usage. From then the IFRS has been in use in Ghana for the past three years. Full time implementation of IFRS into preparing accounts began in the beginning of 2008, since most firms could not completely converge from the GNAS onto the IFRS for several reasons ([www.ghanaweb.com](http://www.ghanaweb.com)).

#### **4.1.2 Requirements of the Ghana Stock Exchange (IFRS)**

All public interest entities in Ghana including banks and listed companies that are listed on the Ghana Stock Exchange were made to comply with IFRS effective January 1<sup>st</sup>, 2007. All other entities in Ghana can voluntary adopt International Financial Reporting Standards. For SME's the governing accounting body in Ghana, The Chartered Institute of Accountants, Ghana (ICAG) has begun developing a framework for implementing IFRS.

By December 2012, all insurance companies in Ghana are expected to adopt IFRS framework for reporting financial reports. (Price water house coopers, 2011).

#### **4.1.3 Banking Industry in Ghana – Brief**

The banking industry in Ghana is been operated by institutions which is made up of both foreign and local commercial banks, rural and community banks and savings and loans companies. Activities of the banking industry in Ghana, is been controlled mainly by the following institutions:

- Bank of Ghana
- National Insurance Commission
- Securities and Exchange Commission
- ARB Apex Rural Bank
- Ghana Cooperative Credit Unions Association

The entire above coordinate to ensure that, banking activities in Ghana are operated on a fair and competitive manner to ensure a better economic market for the nation. Approximately, the banking and finance sector of Ghana is made up of 28 commercial banks, 129 rural banks and 200 forex bureau. These banks all together provide services which include all the following: Current and savings accounts,



loan services, mortgage services, International and local money transfers services, mobile and telephone banking etc.

As at today, almost all commercial banks in Ghana, have implemented IFRS into their annual financial reporting. Some rural banks have also begun to move away from the GAAP (GNAS) way of reporting financial statements to join the globalization of accounting practices. These are the works of the regulatory bodies of the banking industry and the accounting profession in Ghana in collaboration with the respective banks. From the beginnings, there might be challenges with the implementation but there might be enormous benefits if proper measures are put in place for a successful implementation of IFRS in the banking industry.

Major challenges that might be faced in the Ghanaian banking industry for a first time adoption of IFRS might include; the lack of adequate training and personnel, high cost of computer software alterations etc.

#### **4.2 UT Bank Ghana Limited**

Before the name UT Bank Ghana Limited, the company was first know as UT financial services since 1997. The bank has over the years proven to one of Ghana's most respected indigenous banks. It is listed and trades on the Ghana stock exchange. Through its aim to become a successful bank, it has within a short period expanded its operations to most parts of the country with currently 26 branches and over 600 working staffs. In 2011, the bank accrued a turnover of 74 Million Ghana Cedis.

In March 2012, UT Bank signed a 15 million dollar joint equity investment with the International Financial Corporation (IFC), making them now having a 22% shares in the Bank. The investment will help UT Bank to be able to fulfill its objective of lending to small and medium businesses in Ghana.

(UT Bank, 2011).

#### **4.2.1 Products and Services**

UT Bank has a reputation in Ghana as one of the banks which provides convenient banking products and services to its clients over the years of its existence. Prominent among its products include: current accounts, Savings accounts, foreign accounts, Investment accounts, corporate accounts and a host of loan products for petty traders, individuals and also corporate institutions.

#### **4.2.2 UT International Affiliates**

According to the bank, it has over the past two years, opened branches in other countries in line with its vision of having a presence in five countries outside Ghana by 2010. UT is striving to take an African brand to all parts of the world, and the bank in the next few years ahead will establish itself in the global banking industry which will be a major boost to its objectives.

#### **4.2.3 UT financial services (Germany)**

UT started its first foreign operations in Hamburg, Germany as UT Logistics GmbH. The bank's major products being offered were acquisition and registration of land, building supervision and as well providing travel assistance to Ghanaians across the world. (UT Bank, 2011).

#### **4.2.4 UT financial services (Nigeria)**

UT bank in its quest to become a global financial institution obtained a license in 2009 to provide services to the people of Ikeja in the West African country of Nigeria. The target here has been to provide short term loans to petty traders and various SME's who would need their help. (UT Bank Ltd, 2011).

#### **4.2.5 Awards and Achievements**

Since its inception, the bank has chalked successes in various recognized awards in Ghana. A summary of the banks successes include:

- Best Bank in short term loan financing, 2010 Ghana Banking Awards.
- Third best bank in IT and Electronic Banking, 2010 Ghana Banking Awards.
- Number one indigenous company in Ghana 2009 by Ghana Investment Promotion Council (GIPC).
- Ghana's most respected company award for 2010
- Ghana's most respected CEO for 2010, Prince Kofi Amoabeng.
- Second best Company in Ghana, 2005 ( [www.utbankghana.com](http://www.utbankghana.com))

#### **4.2.6 Competitors**

UT Bank as an indigenous bank has competition from both Ghanaian owned and foreign banks in the banking industry.

The bank is operating in a highly competitive industry which includes prominent banks like:

- Standard Chartered bank
- Barclays Bank Ghana Limited
- Bank of Africa
- Zenith Bank Limited
- Ghana Commercial Bank
- The National Investment Bank
- United Bank for Africa
- CAL Bank Ghana Limited

Furthermore, the Ghanaian banking industry is also made up of rural Banks which are owned by communities within which they exist. Such Banks at times give the

commercial banks a stiff competition, especially in areas of the country where people believe in domesticating all activities.

Each of these banks since 2008, prepare financial statements using the IFRS principles. This has made the banking industry more competitive. This has in the recent years called for better services to help maximize stakeholder's interest and also maintain share of the market.

### **4.3 Quantitative Research Analysis**

A total of 30 questionnaires were distributed to experts who were mainly accountants, managers and other banking professionals working for UT Bank Ghana Ltd across the country. Out of these, a total of 20 respondents answered the questions in all. After putting the responses together, SPSS analytical tool was used to analyze the data obtained. The quantitative research analysis will therefore focus on the main research objectives set out by the researcher. In this section, the results from the research are going to be analyzed according to the opinion of respondents based on research objectives and supporting theoretical framework.

#### **4.3.1 Opportunities Associated with International Financial Reporting Standards**

When policies are adopted into a business entity, it is the aim of management to get the possible best out of them to be able to maximize stakeholder's interest.

Respondents were asked to give in their own opinions what benefits they have experienced or still expect from the bank accounts being prepared based on IFRS. All 20 respondents gave their views which are summarized below:

- Out of the total respondents, 80% stated that preparing accounts with the IFRS as the basis has made accounts preparation to be easier for them. This is because it follows laid down instructions and uniformity with the rules.
- The implementation of IFRS in UT Bank has helped the bank in its access to capital in the financial markets hence, Preparing accounts based on IFRS has boosted the confidence stakeholders and other partners of the bank
- IFRS has helped to improve comparability, reliability, transparency and benchmarking of financial statements for the bank in the industry.
- The same accounting language for companies with subsidiaries and financial statement on the same basis as foreign counterparts in Nigeria and Germany.
- Management activities have also been so far successful and more innovative since IFRS is always in line with requirements in the business and accounting practices in the world and more specifically the banking industry of Ghana.

#### **4.3.2 Problems Associated with IFRS**

When banks introduce new products and new ideas into the working environment, they are bound to encounter numerous problems which in one way or the other might be a result of inadequate preparedness on the part of management, workers clients etc.

This question sought to ask respondents about problems they have encountered so far in dealing with financial reporting based on the IFRS. They were to state in their own opinions on problems they have faced so far at their work places. Out of the total responses received, the following is summed up to be the view of the respondents:

- Implementing IFRS for the first time seemed to be costly for the bank. This is a result of changing the old system of computer software into new ones to suit better financial reporting in accordance with the requirements of the IFRS. It was also revealed that, in the bank's quest to implement IFRS in 2008, it encountered problems to give adequate training to the staff. This was as a result of most of the staff having less idea about how International Standards are dealt with.
- IFRS seem to be time consuming if compared to previous accounting standards used. This is as a result of the various technicalities which need to be taught, especially to new graduates who have not dealt with IFRS for a very long time.

### **4.3.3 International Accounting Harmonization**

As noted earlier, the world of business today is coming into one place which requires that business executives and financial controllers worldwide need to acquaint themselves and also open themselves to harmonizing financial reporting with each country's own accepted standards and also what the world has accepted to make reporting conform. The World Bank, International Monetary Fund and other reputable world agencies all have been working together to strive towards harmonization of accounting practices, as a result of cross border trading, mergers and acquisitions and globalization of capital markets has called for harmonization in all financial reporting.

A question was asked to from respondents about their view on whether it is a good idea to harmonize accounting practices in the world. On a positive note all 20 respondents answered "Yes", which was an absolute 100% response rate from them. The respondents cited the reason as a good thing for having international accounting harmonization which is good for the Ghanaian economy and the world economic development as a whole.

The main reasons given by the respondents are summed up as follows:

- Uniformity in financial reporting for listed companies and also for multinational firms, therefore making the purpose of comparability and relevance achieved.
- Understanding of financial statements of foreign firms makes it easy to purchase shares thus becoming advantageous for firms to raise funds through the stock exchange market.
- Reliability and comparability in accounts are aided if accounting practices are harmonized.
- Others also cited consistency in financial reporting as an important quality in accounting information.

#### **4.3.4 Factors that Accounted for the Adoption of International Financial Reporting Standards**

Before the international financial reporting standards were adopted in Ghana, there were certain accepted standards which included the Ghana National Accounting Standards (GNAS) which both private and public institutions based upon and complied to prepare accounts. The government of Ghana at that moment in its quest to globalize accounting practices in Ghana sought to also adopt and implement IFRS which began in 2008.

The researcher found out from respondents what they think in their own opinion accounted for the country adopting the International Financial Reporting Standards for business and accounting practices in Ghana of which their bank has finally complied to

With respect to this, it is believed that certain factors accounted for the government to for the IFRS. Respondents were asked to give their opinion on the extent

to which they agree to certain issues enumerated by the researcher which accounted for the adoption of the International Financial Reporting standards.

The opinions of the respondents are analyzed as follows:

#### **4.3.4.1 IFRS are adopted in Ghana as a result of ineffectiveness in previous standards**

Before Ghana adopted the IFRS into its accounting practices, firms were mainly using the Ghana National Accounting Standards which was set out by the Chartered Institute of Accountants Ghana since 1993.

When this question was asked, the respondents were asked to give a response to the extent to which each of them agrees to the question. Out of the total respondents, 4 answered “Don’t Agree” which represented 20% of the total respondents. On the other hand, 16 persons answered to “Fairly Agree” which represents 80% of the total respondents as shown in table 1.

#### **IFRS are adopted in Ghana as a result of ineffectiveness in old standards**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Don't Agree	4	20.0	20.0	20.0
Fairly Agree	16	80.0	80.0	100.0
Total	20	100.0	100.0	

Table 1: Ineffectiveness in old standards



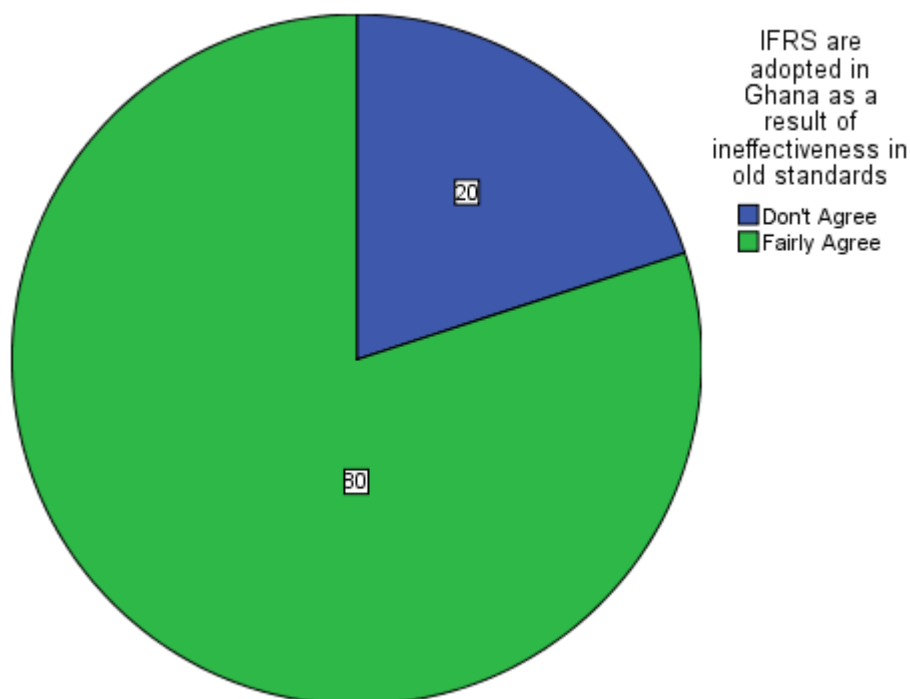


Figure 2: Ineffectiveness in previous standards

Based on this, it can be deduced that, the majority of the banks employees to some extent had problems with the previous accounting standards they based upon to preparing their final accounts. The few that did not agree to this might have their own reasons but refused to share their reasons.

#### **4.3.4.2 IFRS are adopted in Ghana as a result of influence from the World Bank and IMF**

Furthermore, the research sought to know the view of respondents concerning external influence on the Ghanaian economy. Ghana is a developing economy that annually gets support from agencies all around the world as budgetary supplements.

Before such moneys are given out, the international community or that particular agency such as World Bank, IMF and the European Union always want to ensure that such money is appropriated with the best accounting practices. The researcher therefore saw the need to seek the views of the bank officials to know the extent to which they agree to this assertion.

Three (3) of the representing 15% of the total respondents said they do not agree with this question while another 3 also representing, 15% also answered to 'fairly agree'. On the other hand, a total of 14 people representing 70% of the total respondents answered to the fact that they 'Strongly Agree' to the fact that IFRS are adopted in Ghana with influence from the World Bank and IMF as shown in Figure 3.

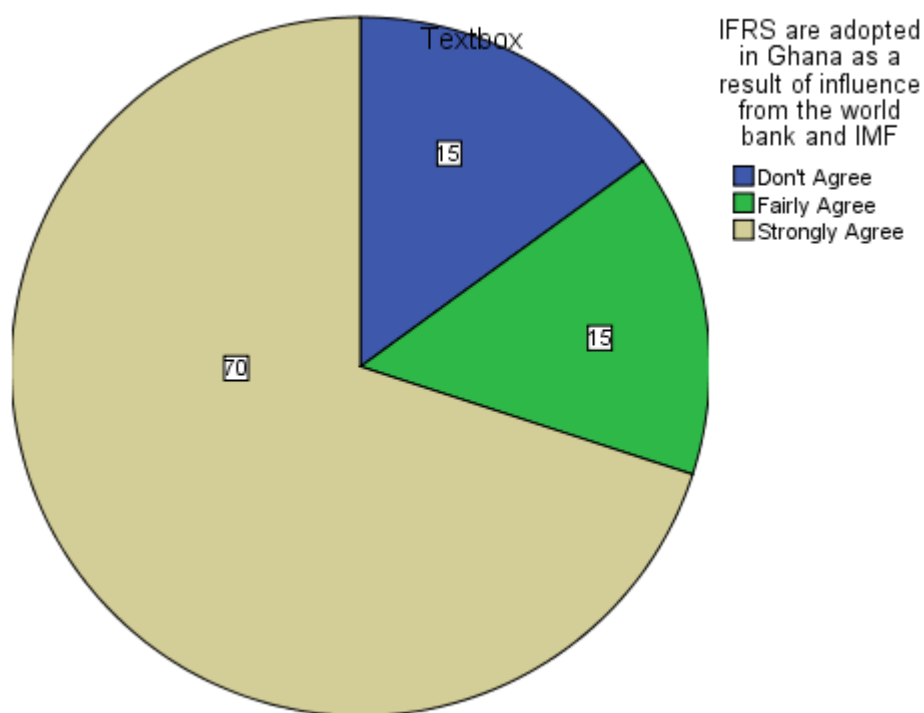


Figure 3: Influence from World Bank and IMF

When the question was asked, the response was really encouraging and interesting since there were three main different ideas from the respondents. The response gained clearly showed that Ghana, as a result of implementing IFRS had some external influences which to a larger extent will be good for the country's own economic development.

#### **4.3.4.3 Economic Development**

As every economy grows, new methods of doing things are adopted in order to be able to catch up with the most developed and transitional economies across the world. As Ghana has been in the developing pattern of the world's economy, it is better to improve all aspects of the economy. This might be a major factor for the government to push forward for the adoption of IFRS in 2008, since Ghana's economy has been on a positive development from that time.

The question was therefore intended to know the extent to which each of the respondents agrees to this opinion. Out of the total 20 respondents, only 1 person, representing 5%, said he did not agree while 4 of them, representing 20% of total respondents, answered to fairly agree to the opinion. On the other hand, 15 of the bank officials representing 75% of the total respondents said they strongly agree with the opinion that accounting standards are adopted as a result of economic development in Ghana.

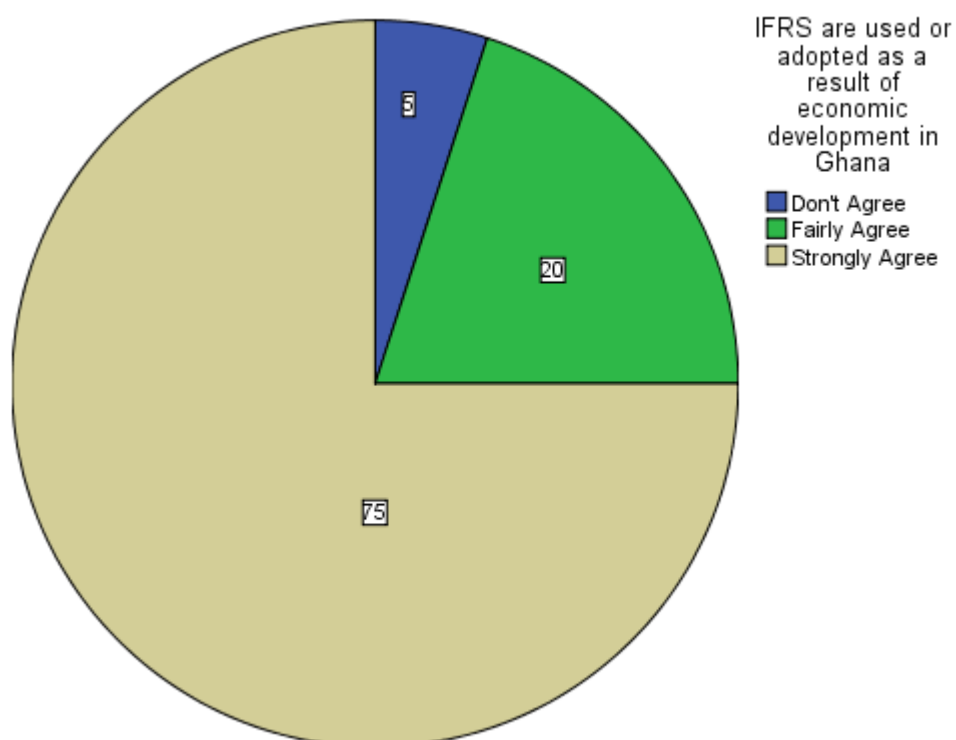


Figure 4: Economic development

#### 4.3.4.4 Globalization of capital markets

It can be noted that, capital markets across the world are in the process of rapid evolution. This means that capital flows are now going through a shift from governments into the hands of individuals, brokers and banks etc. This calls for better accounting practices to help sustain them for a very long time.

Since the study is examining the views of banking official who have knowledge in finance, the researcher saw the need to know the extent to which it is good to adopt International Financial Reporting Standards as a basis for reporting final accounts.

When this question globalization as a factor for IFRS adoption in Ghana was asked, a convincing response was received which showed that most of the re-

spondents agree with the fact that global emergence of capital markets is a cause for firms and worldwide economies adopting the IFRS. A total of 3 respondents answered to 'fairly agree' to the fact that globalization in capital markets is a cause for adoption of IFRS. This represented only 15% of the total respondents. On the other hand, a total of 17 responded to strongly agree, which represented 85% of the total respondents. Figure 5 below shows the total view of respondents:

Fig

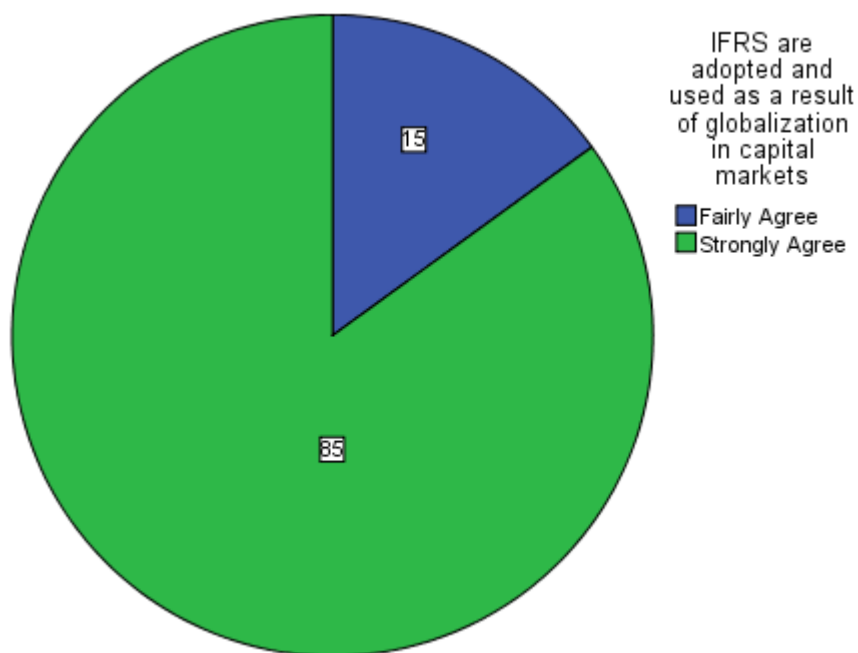


Figure 5: Globalization in capital markets

Based on the answers from the respondents, it can be seen that a majority of them believe that, for developing countries and also for indigenous firms to be able to compete with foreign firms on capital market, there is the need to adopt interna-

tional accounting practices, this will help put the country and companies operating in them on a positive competitive edge.

#### **4.3.5 Knowledge in International Accounting Standards**

Respondents were asked the extent of their knowledge in International Financial Reporting Standards. Since the introduction of IFRS in Ghana, it is expected that banking experts have worked in other places and that they have experienced or prepared accounts based on these standards. The question sought to know what level the bankers' knowledge on IFRS was. When asked this question, 50% of the respondents answered "good", meaning their knowledge in International Financial Reporting Standards was good but not excellent. On the other hand, 50% also responded to have a "fair" but not 'poor' knowledge in the standards as shown in Figure 6.

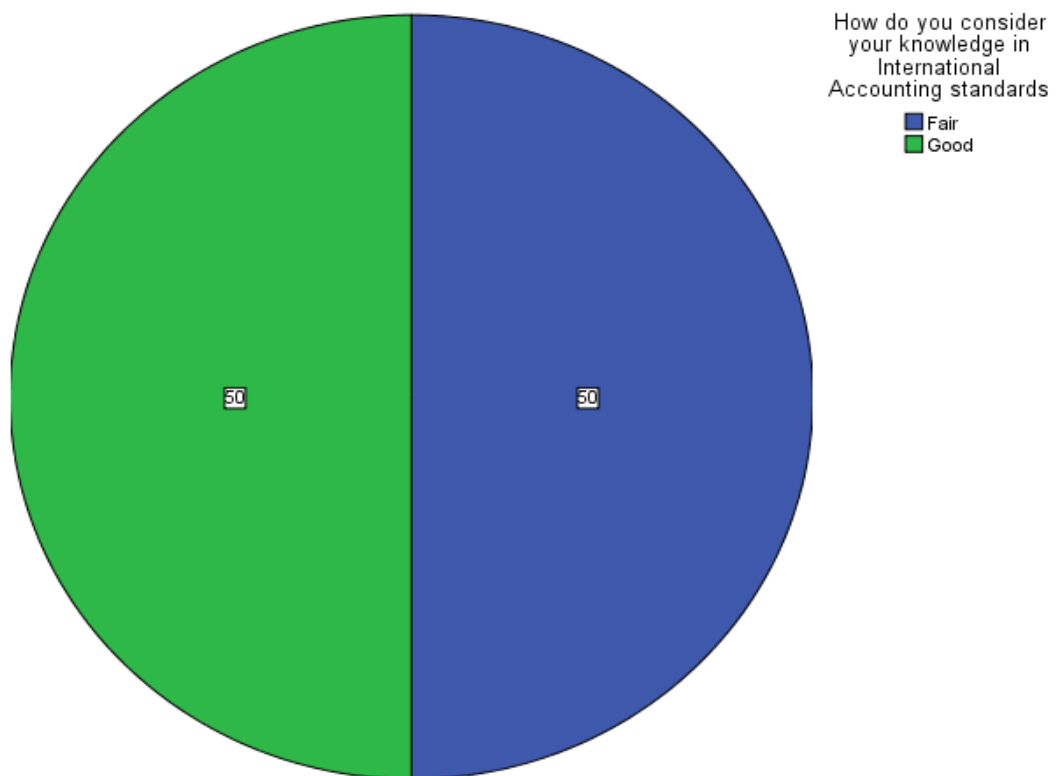


Figure 6: Knowledge in accounting standards.

Based on this result it can be stated that equally half of all the respondents of the bank in all branches across the country have knowledge in accounting standards on which they base the preparing of final accounts annually. It can be deduced that those with fair knowledge are those employees who have not worked with the bank for a very long time or are coming across International Financial Reporting Standards for the first time. The factor that might be the cause for no respondent answering excellent might be the case that it has been barely four years now since IFRS was adopted by Ghanaian firms.

## **5 CONCLUSION AND DISCUSSIONS**

As from the introduction of this study, the main purpose has been to make a study into the opportunities and challenges firms encounter when they adopt and using International Financial Reporting Standards (IFRS) to prepare their annual accounts. The researcher took into consideration the banking industry in Ghana, specifically UT Bank Ghana Limited which is an indigenous Ghanaian Bank making greater stride in the banking industry in Ghana, across Africa and the world in general.

The bank officials, whom the questionnaires were directed to, helped the researcher to get the necessary information required for the empirical study, with its results displayed in the previous chapter.

From the results obtained, the analysis was made and based on that, the focus of this chapter will be on the research conclusion and suggestions for further research and studies.

### **5.1 Conclusions**

From the research, it was found out that UT Bank Ghana Limited in its own way has been able to adopt and been preparing final accounts based on International Financial Reporting Standards since 2008, after Ghana as a whole nation converged to the standards for the first time in 2007. As at this time, it is the company's policy to comply with IFRS in all branches of the bank where its employees are also doing their possible best to adapt to it in the shortest possible time.

The following conclusions are drawn, based on the objectives of the study and respondents opinions. The discussions below will be based on the main challenges and opportunities that as a result of implementing IFRS into their annual



account preparations, the Bank as a whole has experienced according to its employees. Also, results will be drawn from the theoretical point of view, especially in the case of various literatures which aided a successful completion of the study

1. The research showed that, preparation of financial reports based on IFRS helps improve the quality of financial reporting, especially in the banking industry.
2. The introduction of IFRS in Ghana has helped increase reliability, transparency and comparability of financial reporting.
3. IFRS helps increase the trust of shareholders and other user of financial statements in the business activities of the bank.
4. One particular obvious benefit was the fact that firms are now becoming global and, therefore, there is the need to prepare accounts with one particular language which will help subsidiaries and parent companies across the world
5. Also, the respondents accounted for one particular importance which was the fact that IFRS follows laid down principles which might not have existed in local GAAP's or previous standards which were used earlier.

Also, further emphasis must be placed on the numerous advantages when the IFRS are adopted by firms. For example, adopting IFRS will help:

1. Instill stakeholder's interest in business activities
2. Easy external financial resort
3. Access to international markets, when high quality financial reports are presented.

On the other hand, one significant problem which almost all respondents answered to was the fact that preparing their accounts based on IFRS was time consuming. It can be said from this opinion that IFRS involves certain particu-

lar technicalities which might not have been in local GAAP's which was the GNAS.

It can also be proven that, IFRS implementation becomes costly for firms in developing economies. This is as a result of the lack of adequate accounting infrastructure in such economies.

Harmonizing accounting practices which is a backbone for having a specific standard for reporting accounting information is of importance to the researcher. Furthermore, a conclusion can be drawn from international accounting harmonization based on the opinions of the respondents as a good step which will help bring accounting practice under a single language across the world.

Finally on factors that can be accounted for the adoption of International Financial Reporting Standards in Ghana, an interesting opinion gathered pointed to the fact that, the majority of the respondents believed in certain external factors accounting for it. However, these external factors do not stand alone, but it confirms why the respondents believe in accounting harmonization. If there is the need for harmonization as said by the respondents, then there is also a possibility of external pressures from the World Bank and International Monetary Fund (IMF) and also considering the fact that firms are moving from one country to the other.

## **5.2 Recommendations**

This study cannot be concluded in a better way without coming out with certain recommendations which the researcher believes, if taken seriously, will help to realize the real benefit in a country preparing accounts based on International Financial Reporting Standards. From the research conducted, the following recommendations are made which can be of help for further studies in the area of financial standards in Ghana. These include:

Active participation of the Institute of Chartered Accountants, Ghana (ICAG) and the Chartered Institute of Banking, Ghana (CIBG) to ensure that all public and private entities comply and use the IFRS as a basis for financial reporting. This can be effectively done through:

- Better training for banking officials
- Better computer software alterations and
- Better actuarial studies before implementing IFRS.

The ICAG, which act as the regulatory body for accounting practice in Ghana can do so by organizing seminars and fairs to publicly educate firms and their employees who in their daily activities deal with IFRS practices. Also, it can ensure better compliance by putting down laid down rules to convince firms to know the enormous benefits from the international accounting standards.

The area of International Accounting Standards must be of importance for studies in Advanced Accounting for all students in tertiary institutions in Ghana, since it will be part of their daily accounting practice in the working environment. Apart from a person working as chartered accountants, students hardly get the opportunity to get in depth knowledge in international accounting standards when taught in public institutions in Ghana.

### **5.3 Suggestions for future studies**

The focus of this thesis has been to analyze the various challenges and opportunities in implementing IFRS into annual financial reporting with a focus on UT Bank Ghana Ltd. The research also looked into the necessity of accounting practice harmonization and certain factors which contributed to the IFRS adoption into the Ghanaian economy in the first instance.

The researcher, thereby suggest that, future studies into International Financial Reporting Standards in Ghana could be done by considering the following suggestions below:

A much larger quantitative research can be done by focusing on two banks In the Ghanaian banking industry to know the opinions of different experts from the two different banks.

Also, the researcher believes in another way of qualitative research which is employing interviews into the study. It is believed that a great deal of quality information may come from talking with people through formal interviews in both structured and unstructured manner. This was a limitation to the study since there wasn't any opportunity to conduct the interview with the bank officials, but in any future studies, it is recommended to be used to get adequate information right in front of these experts practicing their profession and using IFRS daily.

A study can also be made into the extent to which IFRS adoption in Ghana has helped in attracting foreign investment into the Ghanaian economy over the years.

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## **APPENDICES**

### **Questionnaire to Bank officials of UT Bank, Ghana Ltd**

#### **1. Quantitative Research Questions**

Dear Respondent

I am a Ghanaian studying my bachelors in Business Administration (International Business in Vaasa University of Applied Sciences- Finland.

I am carrying out a quantitative and qualitative research on the topic “Preparing financial reports based on International Financial Reporting Standards; Challenges and Opportunities.

I am sending these questionnaires to you to help me with your answers in order to write my thesis as a partial fulfilment of obtaining my Bachelors in the above mentioned school.

The questionnaire is designed to take 15-20 minutes of your time and i promise to treat views expressed confidential as possible.

I am counting on your co-operation to help me do my empirical study in my thesis. Attached is the questionnaire. Thank you.

Yours Sincerely,

Benjamin Adjei.

e1100092.

Please answer the following questions.

1. As an accountant, what are some important qualities of accounting information you consider most when presenting annual reports.

- |          |         |
|----------|---------|
| i. ....  | ii..... |
| ii. .... | iv..... |

2. Who are the main users of your annual financial reports?

- |          |         |
|----------|---------|
| i .....  | ii..... |
| iii..... | iv..... |

3. What are the main contents of your annual reports?

- |          |         |
|----------|---------|
| i .....  | ii..... |
| iii..... | iv..... |

In the next 2 questions, please underline the one applicable to you.

4. How do you consider your knowledge in International Accounting Standards?

Excellent

Good

Fair

Poor

5. Do you have any knowledge about the International Financial Standards (IFRS?)



Yes                      No

6. Which accounting standards do you base on to prepare financial reports?

Please state .....

7. Before IFRS, which accounting standards did you use.

Please state .....

8. When did your company adopt IFRS?

- 2008
- 2009
- 2010
- 2011

9. If you don't use IFRS which standards do you use now? Please state

.....

10. When do you expect to adopt the IFRS if you are not using it now?

Please state the year

.....

11. Comparing previous accounting standards and the IFRS, which one easier to use. Underline answer

Previous standard                      IFRS

12. In your own opinion, do you see it necessary for International accounting Harmonization?

Yes                      No                      .....why?

.....  
.....

13. What are some problems you think will be associated with International accounting harmonization. Please state

- i.....
- ii.....
- iii.....
- iv.....

14. What benefits do you think will be associated with using the IFRS? Please state

- i.....
- ii.....
- iii.....
- iv.....

**Factors causing IFRS adoption in Ghana**

From the questions below, please underline your view from the provided options.

15. IFRS are used or adopted in Ghana as a result of ineffectiveness in old standards.

Strongly Agree      Fairly Agree      Don't Agree      Not Sure

16. IFRS are adopted in Ghana as a result of influence from the World Bank and the IMF.

Strongly agree      Fairly Agree      Don't Agree      Not Sure

17. IFRS are used or adopted as a result of economic development in Ghana.

Strongly agree      Fairly Agree      Don't Agree      Not Sure

18. IFRS are adopted and used as a result of globalisation of capital markets.

Strongly Agree      Fairly Agree      Don't Agree      Not Sure

