



Maastricht School of Management
Outreach Programs

**ADOPTION OF INTERNATIONAL FINANCIAL
REPORTING STANDARDS: A KEY TOOL FOR
ENHANCING THE DEVELOPMENT OF BUSINESS IN
RWANDA**

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**THIS PAPER IS SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE DEGREE OF**

**MASTER OF BUSINESS ADMINISTRATION
(MBA)**

**AT
MAASTRICHT SCHOOL OF MANAGEMENT (MSM)
MAASTRICHT, THE NETHERLANDS**

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September 2011

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I, HAKIZIMANA Juvenal, hereby declare that, the present findings of this thesis are entirely of the candidate's own research and any part of the results has neither been accepted for any degree nor it is being concurrently submitted for any degree.

I further declare that, this is the result of my own research on the "ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS: A KEY TOOL FOR ENHANCING THE DEVELOPMENT OF BUSINESS IN RWANDA" and that, where necessary references have been made to the work of other researchers, academicians and authors.

Signature

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Date: 14th September 2011

This thesis was supervised by Professor HAMDI F. ALI of Maastricht School of Management (MSM), Maastricht, the Netherlands, and has been submitted for examination with his approval.

TABLE OF CONTENTS

TABLE OF CONTENTS.....	iii
LIST OF FIGURES.....	v
LIST OF TABLES.....	vi
.....	vii
LIST OF ABBREVIATIONS AND ACRONYMS	vii
ABSTRACT.....	viii
CHAPTER 1: INTRODUCTION	1
1.1 AN OVERVIEW	1
1.2 PROBLEM STATEMENT	2
1.3 RESEARCH OBJECTIVE	3
1.4 RESEARCH QUESTION	3
1.5 RESEARCH METHODOLOGY	4
1.5.1 Research design.....	4
1.5.2 Data collection.....	4
1.5.3 Data analysis method.....	4
1.6 SIGNIFICANCE OF THE STUDY	4
1.7 ORGANISATION OF THE STUDY.....	5
CHAPTER 2: LITERATURE REVIEW	6
2.1 INTRODUCTION	6
2.2 FUNDAMENTALS OF FINANCIAL REPORTING.....	6
2.2.1 The importance of accounting.....	7
2.2.2 The accounting system.....	8
2.2.3 Users of financial reports in Rwanda	9
2.2.4 Financial accounting versus financial reporting.....	10
2.3 International FINANCIAL reporting standards	11
2.3.1 Basis for accounting standards development.....	12
2.3.2 Principles-based versus rules-bases framework.....	13
2.3.3 International accounting setters.....	13
2.3.4 Costs and Benefits of IFRS	14
2.3.5 Adoption of International Financial Reporting Standards in African Countries.....	16
2.4 EVOLUTION IN SETTING ACCOUNTING STANDARDS IN RWANDA	17
2.4.1 A brief history of Accounting in Rwanda.....	17
2.4.2 Rwandan accounting institutional framework	18
2.4.3 Steps to accounting harmonization in Rwanda	21

2.4.4 Accountancy education and profession in Rwanda	21
2.5 The need for financial reporting.....	23
2.6 CHAPTER SUMMARY AND CONCLUSION	24
<i>CHAPTER THREE: THEORETICAL FRAMEWORK AND RESEARCH DESIGN.....</i>	<i>26</i>
3.1 introduction	26
3.2 Problem statement	26
3.3 Research objective	27
3.4 Theoretical framework.....	28
3.4.1 Research principal theme.....	31
3.4.2 Other themes	31
3.4.4 Research limitations.....	31
3.5 RESEARCH methodology.....	32
3.5.1 Research type.....	32
3.5.2 Designing the exploratory research.....	34
3.5.3 Conduct the Study	36
3.5.4 Data analysis methods	38
3.6 ASSUMPTIONS AND LIMITATIONS.....	39
3.7 Chapter summary.....	40
<i>CHAPTER FOUR: EMPIRICAL FINDINGS, ANALYSIS AND DISCUSSIONS.....</i>	<i>41</i>
4.1 DATA collection and analysis.....	41
4.2 findings and discussions	41
4.2.1 Desirability of IFRS in Rwanda.	41
4.2.2 Status of existing infrastructure of accounting in Rwanda.....	44
4.2.3 Likely obstacles to IFRS implementation in Rwanda.....	45
4.2.4 Who are mandated for IFRS?.....	47
4.2.5 Effective process to international convergence	48
4.3 Chapter summary.....	49
<i>CHAPTER FIVE: CONCLUSION, RECOMMENDATIONS, AND FUTURE WORK.....</i>	<i>51</i>
5.1 conclusion	51
5.2 RECOMMENDATIONS	52
5.3 FUTURE WORK	54
<i>REFERENCES.....</i>	<i>55</i>
<i>APPENDIX</i>	<i>58</i>

LIST OF FIGURES

Figure 2.1 : The place of accounting in the decision making process	7
Figure 2. 2 : Financial accounting versus financial reporting	11
Figure 2. 3 : Rwandan national accounting plan elements relationship.....	19

LIST OF TABLES

Table 2.1 : Basic characteristics of financial and managerial accounting	8
Table 3.1: General theoretical framework.....	29

LIST OF ABBREVIATIONS AND ACRONYMS

ACCA	Association of Chartered Certified Accountants
GAAP	Generally Accepted Accounting Principles
ICPAR	Institute of Certified Public Accountants of Rwanda
IAS	International Accounting Standards
Msm	Maastricht School of Management
OCAM	Organisation Commune Africaine et Mauriciennes
PCN	Plan Comptable National
GDP	Gross Domestic Product
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards issued by IFAC
IFAC	International Federation of Accountants
GoR	Government of Rwanda
IASB	International Accounting Standards Board
FASB	Financial Accounting Standards Board
MINECOFIN	Ministry of Finance and Economic Planning
ROSC	Reports on the Observance of Standards and Codes
ROTC	Rwanda Over the Counter
RSE	Rwanda Stock Exchange

ABSTRACT

In the law 11/2008 of 06/05/2008 establishing the Institute of Certified Public Accountants of Rwanda and the company law 07/2009 of 27/08/2009, the legislator introduced the requirement to use International Financial Reporting Standards in Rwanda. The decision is a big leap forward to the international convergence but the implementation is not an easy process. So, the rationale of this paper was the implementation of IFRS in Rwanda.

The paper is based on data gathered primarily from archived sources and secondly by means of seventeen semi-structured interviews with regulators, brokers, auditors, company finance managers and representatives of higher education institutions offering professional accounting. The attitude of key players preparing the implementation of IFRS in Rwanda accounting was assessed.

All the interviewees were positive about the adoption of IFRS. The researcher found that, in implementing IFRS, Rwanda is facing challenges including reforms to overcome a culture of secrecy prevalent in countries where creditors are dominant to shareholders focus, availability of technical experts in IFRS, cost of paying experts and a high cost of implementing IFRS in small and medium companies. The frequency and volume of changes in international standards is also a challenge.

Finally, we identified a pressing need to improve the professional education and training to acquire accounting skills meeting the needs of the Rwanda economy. Building the institutional capacity of ICPAR to provide support to its members and public and ensure the enforcement of accounting standards.

Key words: IFRS adoption, financial reporting, financial accounting, Rwanda.

CHAPTER 1: INTRODUCTION

1.1 AN OVERVIEW

Rwanda is a small and landlocked Country located in the Eastern part of Central Africa. With a population of ten million, Rwanda joined (July 2007) the large regional economic bloc encompassing Burundi, Kenya, Rwanda, Tanzania and Uganda with a combined population of 120 million, land area of 1.85 million square kilometers and a combined gross domestic product of \$ 41 billion.

Rwanda is independent since 1962 after colonization by Germany (1899) and Belgium (1919). It is among the poorest countries in the world with per capita income estimated at U.S \$ 520 (2009). Since 1994, Rwanda is steadily recovering from the genocide and has been able to improve its economy. The overall macroeconomic stability and a number of several reforms have contributed to its significant performance. It has made an obvious transition from reconstruction to development. According to World Bank, the GDP growth increased by 5 to 7 percent per year from 2005-2009. Inflation has been contained at about 10% and the exchange rate was relatively stable at around Rwandan Francs (Rwf) 570 per U.S. dollar.

The Government of Rwanda, in its Vision 2020 document, established targets to raise real per capita income from US \$ 230 to \$ 900 and to reduce by half the poverty incidence. According to the Vision 2020, targets will be achieved through aggressive export-driven programs, creation of a stable enabling environment for foreign investments and encouragement of an entrepreneurial culture in Rwanda. A number of structural reforms such as liberalization of the economy, improvement of the business and investment in human capital have been instituted with the objective to improve the foundations for more robust economic growth.

In parallel to several reforms, Rwanda is making efforts to develop a competitive and efficient financial sector. A financial Sector Development Plan is being implemented. The country in

which the contribution of the private sector to the economy remained limited for a long time, the financial system has to be reasonably robust to create and maintain the investors' confidence.

Enhancing the business environment by liberalization and deregulation needs to be accompanied with enhanced financial reforms. The problem at the core of this study is the adoption and implementation of International Financial Reporting Standards for the improvement of financial transparency to guide the investors and creditors for better investment in Rwanda.

1.2 PROBLEM STATEMENT

Since 2008, Rwanda is making efforts to develop the legal investment infrastructure. It is committed to transform its business environment to attract significant investments. One of the areas for reforms is the modernization of accounting which requires aligning the local accounting practices with internationally accepted standards and codes.

Compared to other countries, Rwanda delays to adopt the International Financial Reporting Standards. One of the propositions in the core of this study is that Rwanda should have a comprehensive action plan to adopt International Financial Reporting Standards.

Although, the adoption of International Financial Reporting Standards improves corporate governance, creates credibility of financial reports and improves trade trends in the country, the development and enactment of the new accounting policy has to consider the country's ability to carry out the new policy.

The infrastructure of accounting in its different dimensions (education system, accounting profession, institutions as well as statutory framework) needs reorganization and improvement. To ensure that investors in Rwanda will benefit from adoption of International Financial Reporting Standards, the standards-setters should consider the capacity and resources available and the business environment.

Some debates were proposing to allow companies and accounting profession time to adapt to new standards and in accordance to companies' size. For the ROSC-Rwanda (2008), the majority of companies which commensurate with their smaller size should adopt the simplified financial reporting requirement for small and medium enterprises while, the requirement for full IFRS compliance should be for all public interest entities.

In 2008, Rwanda legislator gave mandate to ICPAR to develop the accounting standards consistent with International Financial Reporting Standards (law 11/2008). It is known that stakeholders (creditors and investors) of public listed companies need regular financial position and performance of the company prepared as per certain accounting standards.

But, the questions which we thought of were what should be the effective process of adoption of international accounting according to the size of companies and how this should support the development of business in Rwanda? Thus, in order to find the answers to these questions based on empirical research, we have selected this subject as our choice of master research thesis.

1.3 RESEARCH OBJECTIVE

The objective of the study is to explore the attitudes of the accounting practitioners to the convergence to International Financial Reporting Standards in Rwanda. The minor objective is to examine how the accounting profession is evolving in Rwanda. It aims to contribute to the formulation of an effective process for convergence to the International Financial Reporting Standards in order to support and improve the business in Rwanda.

1.4 RESEARCH QUESTION

The research questions are:

- Are the companies in Rwanda inclined to the adoption of IFRS?
- What are the practical benefits of adopting IFRS in Rwanda?
- How the existing infrastructure of accounting should support the implementation of IFRS?

- What are the key challenges for Rwanda to adopt IFRS?
- What is the effective process for adoption/implementation of IFRS in Rwanda?

1.5 RESEARCH METHODOLOGY

1.5.1 Research design

This research is a qualitative study. The researcher aims at using both secondary and real-world data to base the researcher's conclusion on findings about actual behaviour of accounting practitioners in Rwanda as regards to the adoption of International Financial Reporting Standards.

1.5.2 Data collection

The study used secondary data that are available from a number of sources. But, to get enough information, the secondary data supplemented by primary data collected from financial statements preparers, auditors and regulators. A semi-structured interview was used.

1.5.3 Data analysis method

The researcher was continuously analysing data as collection goes on. Responses on similar themes were coded and compared to come up with the most common points of view. The explanation of results was descriptive and involved pattern matching.

1.6 SIGNIFICANCE OF THE STUDY

This study highlights the attitudes of financial statements preparers, auditors and regulators and the analysis of challenges to the implementation of IFRS. It provides recommendations for effective process of implementation. Finally, it contributes to the knowledge in financial accounting from the systematic study of the significant issues in the field of business (the quality of financial reporting in Rwanda).

1.7 ORGANISATION OF THE STUDY

The study consists of five chapters. The first chapter gives the background, statement of the problem, research questions, objective, research scope, significance and organization of the study. The second chapter reviews the current literature about the business development and corporate financial reporting and the problems thereof. It gives background on business development in Rwanda; describes the corporate accounting practices and the accounting institutional framework; whilst giving the importance of adopting the international standing for improvement of quality of financial reporting. The chapter ends with a summary of how the literature applies to the setting of accounting standards in Rwanda. The third chapter explains the research design and methodology. The chapter four is about data collection and analysis, and the last chapter, five, summarizes the study for conclusion and recommendations of this research

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

It is important to regulate financial reporting to ensure that, all companies in a country are presenting similar transaction in a consistent fashion. In Rwanda, a decree law of 1978 and the Ministerial order 006/FIN/10.07 of June 1983 provided for compulsory use of National Accounting Plan (PCN) and financial statements to private and public enterprises in Rwanda.

As Rwanda recognises the pace of international trade and investment and the importance of international harmonization with respect to financial reporting, it made, on May 6th, 2008, its clear position on standards governing the profession of accounting. The law 11/2008 of 06/05/2008 establishing the ICPAR clarifies in article 3 that *“within public organisations, the accounting standards shall be consistent with IPSAS while in private sector they shall be consistent with IFRS”*.

It is known that the financial reporting grew up differently and largely independently in different countries. Therefore, it has now become important to study afresh how Rwandan accounting should be harmonized with international standards and the input of the adoption of international standards to the development of business in Rwanda.

2.2 FUNDAMENTALS OF FINANCIAL REPORTING

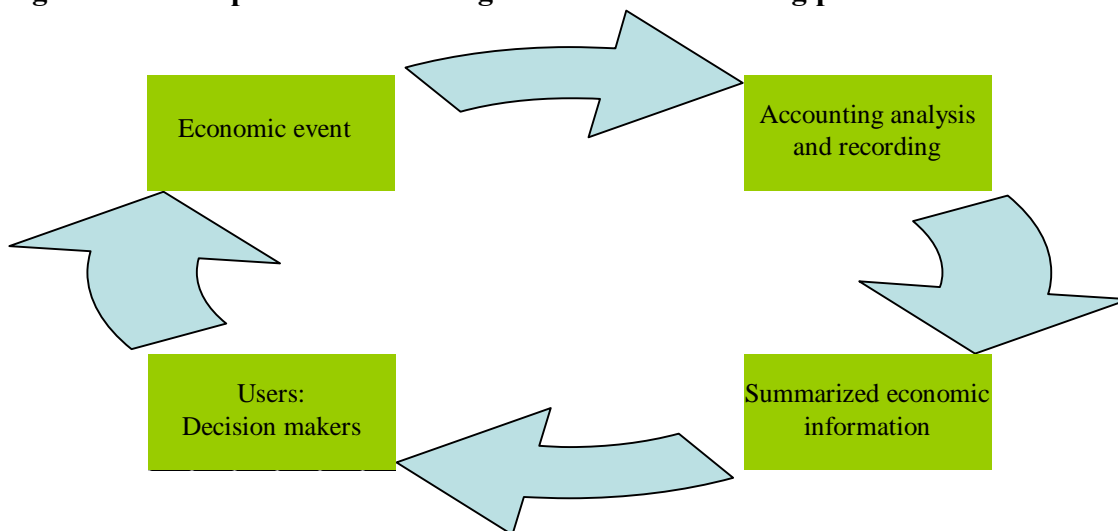
It is relevant to review the basics of accounting and financial accounting to delimitate the general scope of financial reporting. This will help the researcher for presentation, in the next section, of the background of the financial reporting in Rwanda.

2.2.1 The importance of accounting

According to David Alexander and Ann Britton and Ann Jorissen (2009), *the accounting is about the provision of figures to people about their resources*. They found simple terms to describe the main four things that accounting tells to people : a) what the business has got, b) what it used to have, c) the change in what the business has got and d) what it may get in the future.

In fact, accounting helps to maintain the following fundamental relationships in the decision-making process:

Figure 2.1 : The place of accounting in the decision making process



Source: Adapted by researcher from the Frank wood (2008) definition

As it has been defined by many writers, the cycle above illustrates how accounting is a process of identifying, analyzing, recording, summarizing and reporting the economic information to decision makers in the form of financial statements.

The economic information should be mainly used by two kinds of decision makers; internal and external users. Then, accounting is divided into management accounting and financial accounting. The latter is the core of the scope of the present research.

2.2.2 The accounting system

To describe the accounting system, many writers make distinction between the field of financial and managerial accounting. Meigs and Meigs (1993) made comparison of these two types of accounting, considering the five indicators: purpose, types of reports, standards for presentation, reporting entity and time period covered.

Within the framework of this research, the best indicator to distinguish the managerial and financial accounting is the user of information. It is known that, managerial accounting reports are not distributed to outsiders, while the financial statements produced by financial accounting are needed to outsiders (stockholders, creditors, prospective investors, tax and regulatory authorities and the general public) as well as managers.

It is important to know in which area of accounting as per the following table.

Table 2.1 : Basic characteristics of financial and managerial accounting

	FINANCIAL ACCOUNTING	MANAGERIAL ACCOUNTING
Purpose	To provide the financial position and operation results of a business entity to a variety of decision makers	To provide information useful in planning and controlling business operations and making managerial decisions to managers
Types of reports	Financial statements, income tax returns and other special reports (loan application, reports to regulatory agencies)	Many different types depending upon the nature of the business and the specific information needs of management
Standards	Local GAAP, IAS/IFRS for financial statement; tax regulations for income tax returns reports	No specific rules, whatever information is most relevant to the needs of management

Reporting entity	Usually the company viewed as a whole Group financial statement (company and its subsidiaries)	Usually a subdivision of the business (department, product line, type of activity)
Period	Upon completed period. Usually a year, quarter, or month.	Any period: year, quarter, month, week, day, even a work shift.
Time covered	Emphasis is placed on the current (latest) period, with periods often shown for comparison	Some reports are historical in nature; others focus on estimates of results expected in future period.

Table adapted from the Accounting system presented by Meigs & Meigs (1993).

From, the diagram above, the accountants of SMEs have to be aware that, as the business will evolve from mainly sole proprietorship to corporation, the accountancy will need to mature and provide much qualitative financial reporting to an increased number of users: prospective investors, financial analyst, ...

2.2.3 Users of financial reports in Rwanda

The national accounting plan of 1978 had been developed in context of dominance of banks, control of tax system and no exchange market with more state control for value-added requirements. This had consequences that firms in Rwanda are used to produce financial information for the sole use by government institutions (tax authorities) and banks and explain why the accounting evolved in the creditor-controlled stream.

To support the effort of attracting investment by creating the capital market, the accounting reforms should try to move from the state-controlled accounting to the market-controlled accounting.

For some years, the country makes effort for liberalism and promotion of exchange market. The accounting has to adapt to the context of the market-controlled to support new investment policies. The need for financial information will increase and users will be expanded to:

Equity investors (existing and potential shareholders) who will need timely, accurate and full financial reports to consider whether or not to invest in a business. The stock exchange authority is the one to reinforce the financial reporting requirement;

Analyst-adviser group: The development of the financial market in the country requires the existence of such a group for which the role is to analyse the financial information and provide strong and appropriate guidance to needs of a particular group they are advising. Currently the Rwanda stock exchange counts 7 brokers;

Loan creditor group: Risks are increasing requiring the holders of debentures and loan stock and providers of short-term secured and unsecured loans to pay more attention to risk management. The improvement in a firm's financial reporting helps to have financial statements useful to analyze if the debtor will get the money back.

Government institutions: Particularly, the tax authorities need financial information to calculate taxes payable.

There are many other users of accounting information including the managers, suppliers, employees, prospective partners.

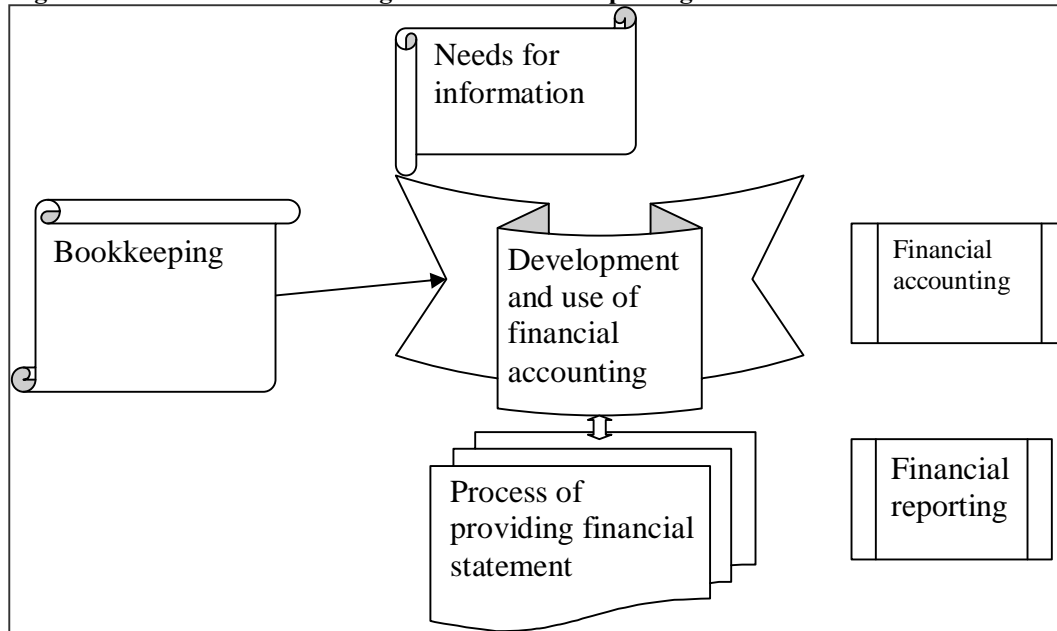
2.2.4 Financial accounting versus financial reporting

While management accounting will help the internal users (top executives, management, administrators í) to obtain whatever information they need from the organization, financial accounting has focus on the specific needs of decision makers external to the organisation. It helps stockholders, supplies, banks, government agencies, etc to obtain financial information.

The process by which external users should obtain information will be per negotiation or regulation. This process consists of financial reporting. It is a milestone of the present study.

The direct relationship between financial accounting and financial reporting is clear through their definitions. Financial accounting is the development and use of accounting information describing the financial position of an entity and the results of its operation, while, financial reporting is the process of periodically providing “general purpose” financial information (such as financial statements) to persons outside the business organization (Meigs and Meigs: 1993).

Figure 2. 2 : Financial accounting versus financial reporting



Source: Figure adapted by researcher from Meigs and Meigs (1993) concept.

2.3 INTERNATIONAL FINANCIAL REPORTING STANDARDS

For ACCA (2009), both regulatory and conceptual frameworks are necessary to build complete frameworks of financial reporting. Clarifying the aspects of the framework as the “fundamental building blocks” of financial statements, L.Todd Johnson defines two main components of the framework; the objectives of financial reporting and the concepts that result follow logically from those objectives.

The International Accounting Standards Board established in 1989 the guidelines, treatments, rules, regulations, policies and procedures for preparation of financial statements. Those are,

commonly, known as International Financial Reporting Standards and have the main objective to allow investors, organizations and government to compare the financial statements with greater ease.

2.3.1 Basis for accounting standards development

Different authors refer the conceptual framework of accounting as the constitution for financial reporting, providing the foundation for standards. For AT Foulks Lynch in citation by Christopher J Pyke (1999), it constitutes a *coherent system of inter-related objectives and fundamentals that should lead to consistent standards that prescribe the nature, function and limits of financial accounting and financial statements.*

Many years ago, different countries paid efforts to develop an agreed conceptual framework. For example, in the USA, the first definitive fruits of this effort begun in 1973 to develop a conceptual framework for financial accounting and reporting and the first definitive fruits were produced by the FASB, late in 1978. According to Carolin Becker (2004), in UK, the International Accounting Standards Committee published its conceptual framework in 1989. It was intended to guide both international and national standard setters when setting standards, and to assist preparers and auditors when interpreting standards or dealing with issues that the standards do not cover.

The conceptual framework of accounting defines the boundaries of accounting by providing basic objectives and users, definition of keys terms and establish fundamental concepts. It is assisting the local or international accounting standard board in standard settings by providing a basis for developing new and revised standards. Then, it provides a description of current practice and frame of reference for new issues and assists accountants and others in selecting between acceptable accounting alternatives.

The Framework applies to the financial statements of all commercial, industrial and business reporting entities, whether public or private.

2.3.2 Principles-based versus rules-based framework

From long time ago, there are two main approaches to accounting. The IASB is using the principles-based framework when the FASB prefers the rules-based approach.

The major objective of U.S. GAAP is to promote efficiency on Capital Markets, while the European Legislator, in defining accounting requirements for companies, aims to promote both economic and social progress of the Member States economy (M.G. Baldarelli, P. Demartini, L.Mo-nja^Tare:

http://www.efpu.hr/uploads/media/IFRS_for_SMEs_in_Italy_and_Croatia_01.pdf)

Both rules-based and principles-based standards aim to provide information that is helpful to users in making economic decisions. Pursuing the same objective, each uses a different way of getting there ó at least - that is what the defenders of the two accounting sets advance as their main argument. On the one hand, e.g. US-GAAP is totally rules based, setting out very detailed and precise rules for very specific accounting problems. On the other, e.g. IAS is completely principles-based, providing more general guidelines.

The first conceptual framework for financial reporting was published jointly by FASB and IASB in July 2006. It describes the objective of financial reporting and the Qualitative Characteristics of Decision-Useful financial Reporting, FASB (2008).

2.3.3 International accounting setters

It is known that accounting standards are not a complete regulatory framework. The legal and market regulations are also required to fully regulate the preparation of financial statements and the obligations of companies and directors.

To reduce the national differences between reports prepared in different countries, a number of international bodies are involved in the process of harmonization and standardization. The most influential are International Accounting Standards Committee, the International Federation of

Accountants, Organization for Economic and Development, European Union, North America Free Trade Agreement.

The International Accounting Standards Committee (IASC) was established in 1973 by the professional accounting bodies of Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the UK, Ireland and the USA. It has responsibilities for all technical matters including the preparation and implementation of International Accounting Standards which are currently known as International Financial Reporting Standards. Among the IASC accomplishment, it issued a Framework for Preparation and Presentation of Financial Statement which assists in the development of accounting standards and improves harmonization.

The International Federation of Accountants (IFAC) is a worldwide association formed in 1977 to develop the accounting profession, harmonize the auditing practices, and reduce the differences in the requirements to qualify as professional accountants in its member countries. It has issued international standards on auditing and assurance services, education, public-sector accounting, quality control standards and ethics.

Established by the Treaty of Rome in 1957, the European Economic Community plays an active role in the IASC with a view to use IAS in supporting the Directives.

The North America Free Trade Agreement (NAFTA) formed in 1993 between Canada, Mexico and the USA to create a common market play a role in international accounting standard setting by analyzing the similarities and differences between financial reporting and accounting standards of its member countries.

2.3.4 Costs and Benefits of IFRS

Empirical studies show that the costs and benefits of IFRS adoption vary amongst firms. In regards to firms, the voluntary adopters who have results in benefits exceeding costs are mostly the companies which are larger in size, have international dispersed operations, more diffused ownership and rely more to outside funding.

For IFRS in general, the benefits are associated with the improvement of financial reporting to global investors, the facilitation of cross-border investments, and the integration of capital markets. The adoption of IFRS is a response to one of issues of globalization because the international accounting harmonization provides the multinational companies with the opportunity to raise capital in international market and enhance their capacities.

In their study on the market Reaction to the Adoption of IFRS in Europe, Chris Armstrong, Mary E. Barth, Alan D. Jagolinzer and Edward J.Riedl concluded that there is a positive reaction to IFRS adoption events for firms with high quality pre-adoption information, consistent with investors expecting net convergence benefits from IFRS adoption. In one side, they found an incrementally positive reaction for firms with lower quality pre-adoption information, which is more pronounced in banks, and with higher pre-adoption information asymmetry, consistent with investors expecting net information quality benefits from IFRS adoption. In the other side, they found an incrementally negative reaction for firms domiciled in code law countries, consistent with investors' concerns over enforcement of IFRS in those countries.
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=903429

For both large companies and SMEs, the benefits of adoption of IFRS are associated with the monitoring, the use and decision making of financial statements.

For Harvey&Walton cited by Suhaib Aamir & Umar Farooq (2010), the costs of adoption rely on the preparation of the financial statements and usually depend upon the size of the enterprise.

In 2006 review of practical implementation issues of IFRS, many speakers argued that use of full IFRS for SMEs was not cost effective, UNCTAD/ITE/TEB/2007/2.

From the analysis of George Iatridis (2010), the lever of investor protection mechanisms is for great effect on cost of IFRS adoption. In countries with strong investor protection mechanisms, such as UK, the cost of IFRS adoption would tend to be lower as managers are less inclined to manipulate the reported accounting figures. In contrast, in countries with weak investors

protection mechanisms, the scope for earnings management would tend to be higher and the quality of financial reporting lower, implying that the costs of adopting IFRSs would be higher.

2.3.5 Adoption of International Financial Reporting Standards in African Countries

The differences in financial reporting are reduced by standardisation or harmonisation of financial reporting in different countries.

The development of accounting standards is costly, and it is not economically efficient for every country to have its own process for developing its own unique standards (Curtis L. Norton, Michael Diamond, Donald Pagach: 2006). Therefore, a good number of African countries have not yet adopted the IFRS.

Some African countries (Botswana, Ghana, Kenya, Malawi, Mauritius, Morocco, Namibia, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe) adopted IFRS as published by IASB (PriceWaterHouseCoopers, IFRS adoption by country). It is noticeable that most of those countries are commonwealth members and common law countries. Mozambique is an example of countries which decided to use IFRS as adapted locally.

According to UNCTAD (2007) South Africa is the best case study where the Professional Accountancy organizations played the pioneering and leading roles in introducing IFRS into the economy of the country. While IFRSs are adopted as issued by IASB, a national level process is followed before an IFRS issued by IASB takes effect in the country.

As per the United Nations Publications (2008), while all companies listed on the Johannesburg Stock Exchange are required to comply with the requirements of International Financial Reporting Standards since 1 January 2005; the IFRS for SMEs may be applied by 'limited interest companies' since 2006.

Within Eastern African countries, Kenya can be a best case study about defining the scope of application of IFRS. According to UNCTAD report DIAE/ED/2008/1, Kenya has developed a

wealth of experience in the use of IFRS which would provide useful insights in the development of strategies to aid other countries in the implementation of IFRS. Kenya was one of the first countries to adopt the use of International Financial Reporting Standards in 1999. In Kenya, rather than utilize the scarce resources available at ICPAK in the development of standards, it has decided to adopt IFRS fully and utilize these resources to interpret IAS and provide user support (UNCTAD: 2006).

Different African countries are facing challenges (economic, political and social) which are making the adoption of international standards a big task. Effort can be noticed: 16 countries have at some lever accepted IFRS and 21 are members of IFAC. Unfortunately, Rwanda has not yet adopted IFRS and not member of IFAC.

2.4 EVOLUTION IN SETTING ACCOUNTING STANDARDS IN RWANDA

Rwanda has been among the most active reformers of business regulation worldwide this decade (World Bank: 2009). The Government of Rwanda is making effort to open up and liberalize its economy with a vision to build a dynamic market economy led by the private sector and capable to be integrated in the regional and global economy. As part of these efforts, the Government of Rwanda has launched several initiatives to reform corporate financial reporting and disclosure requirements, as well as accounting and auditing standards and practices.

The Government of Rwanda is making efforts to modify the law to achieve compliance with internationally accepted accounting and auditing standards. These modifications include new law establishing the Institute of Certified Public Accountants, the new Company law, the banking act and drafting the Capital Market law.

2.4.1 A brief history of Accounting in Rwanda

Rwanda is one of the countries which follow the legal and political systems of theirs former colonizers. In 1978, Rwanda published his first national accounting plan by decree law no 19/78. This is based on the OCAM plan derived from French accounting plan. Literature affirms that the

OCAM plan as well as the French accounting plan followed the principles of macro-accounting with strong government intervention to control the economy, and was closely connected with accounting for tax purposes. The details for execution of the decree law have been published by the Ministerial Order 006/FIN/10.07 on 22 June 1983 which imposes the preparation of financial statement comprising the balance sheet; the data on gross profit margin, value added, operating results, disposal of fixed assets, net result before tax; tax, and the result after tax. Data are prepared for the need and use of tax administration.

The last decade is marked by deep changes in financial policy in Rwanda. The economic liberalization in 2000s ó aimed at creating a guided free-market economy ó involved the activation of the stock exchange market in 2007 and a privatization program. This transition is posing challenges to the Government, the private sector institutions, and the accounting profession. The aim is to increase the role of the private sector and promote investment. There is, therefore, a need for changes and reforms of accounting system to improve decision-making, attract investment, stimulate economic development through increased competition, and enhance the level of confidence of foreign portfolio investors in the Rwandan capital market.

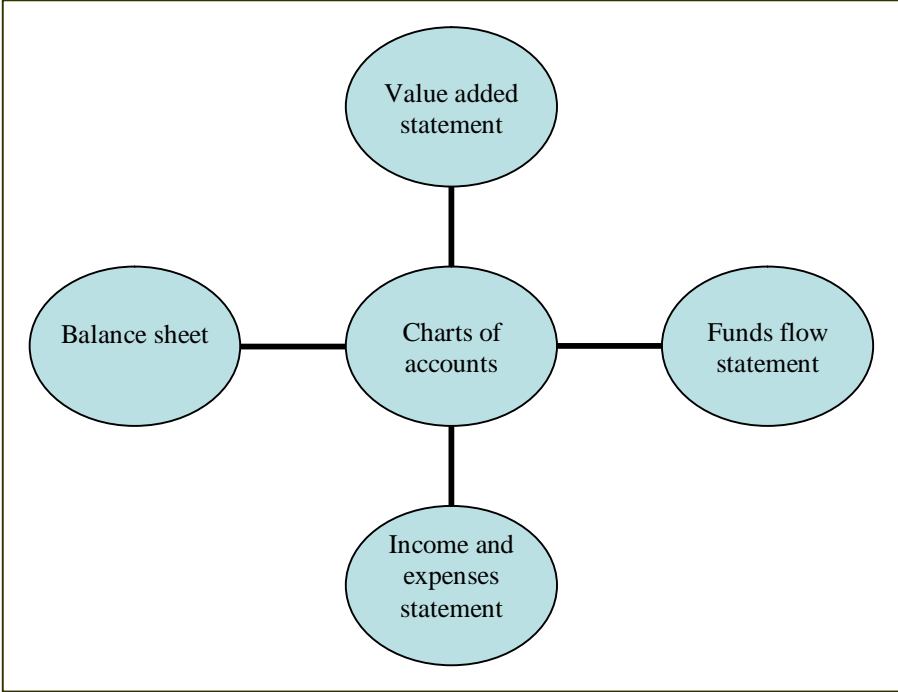
The banking act imposes the banks and other financial institutions to adopt IFRS. The new company act mandates the application of IFRS and ISA with regard to financial reporting by the registered companies. However, the users look forward the minister order which should be issued after the ICPAR work to prepare accounting auditing standards.

2.4.2 Rwandan accounting institutional framework

The Rwandan accounting plan as the OCAM plan has three objectives: meaning and definition of accounts to satisfy users, accounting standardization for general analysis and adoption of accounting methods for data processing.

The Rwandan accounting plan is less financially oriented and more statically oriented. It covers the large area including the accounting principles, list of accounts, charts of accounts (involving both financial accounts and managerial accounts) and financial sheets.

Figure 2. 3 : Rwandan national accounting plan elements relationship



Source: adapted by the researcher from the Plan comptable national

The chart of accounts is on the centre of the national accounting plan. It is composed of nine classes: Class 1/01 (long term and middle term accounts), class 2/02 (fixed assets accounts), class 3/03 (inventory assets accounts), class 4/04 (third person accounts or accounts receivables/payables), class 5/05 (financial assets accounts), class 6/06 (expenses accounts), class 7/07 (operating revenue and income accounts), class 8 (income accounts) and class 9 (cost accounts).

The Rwandan national accounting plan gives guidance and format for presentation of income and expenses statement and balance sheet.

The recent company law 07/2009 published in 2009 has covered the vacuum in corporate financial reporting. However, it is too early to think that Rwandan enterprises have provided adequate training to their accountants for compliance of this new law.

The law provides requirements for preparation, presentation, and publication of financial statements, disclosures and auditing for companies incorporated under the law.

Art 237 clarifies the contents of accounting records which should serve for financial statement preparation. Articles from 253 to 273 provide requirements for preparation, presentation and publication of financial statements and disclosures for companies incorporated under the law. Articles 238 to 252 provide requirement for auditing.

This law exonerates the small companies for audit and filing their financial statements.

Art 259 states that *“a small private company shall file with the Registrar General a financial summary for registration”*. The art 251 al 1 states that *“Small private companies need not to appoint an auditor”*.

The art 258 requires every company, other than a small company, for filing financial statements. The signed financial statements with copy of the auditor report on those statements have to be filed with the Registrar General for registration.

The banking act (law 08/1999) regulates financial reporting by banks and no-bank financial institutions and issues accounting instructions governing the treatment of specific transactions. It is the first text giving mandate for application of IFRS in Rwanda to banks and no-banks financial institutions.

The tax administration requires any individual who receives profits generated from his or her activities to file his annual tax declaration to the Tax Administration, accompanied by the balance sheet, profit and loss account for that tax period with annexes thereto drawn according to the requirements of the National Accounting Plan, and any other relevant requirement issued by the Commissioner General. However, taxpayers with an annual turnover to be determined by the Minister may be obliged to have their annual tax declarations and financial statements to be certified by qualified professionals and approved by the Commissioner General of the Rwanda Revenue Authority (LAW N°73/2008 OF 31/12/2008 MODIFYING AND COMPLEMENTING LAW N° 16/2005 OF 18/08/2005 ON DIRECT TAXES ON INCOME).

2.4.3 Steps to accounting harmonization in Rwanda

Till 2009, in Rwanda, there was no legal mandate for the application of IFRS and ISA for private sector, except for the banks and other financial institution (World Bank, 2008).

The law 11/2008 of 06/05/2008 gives to the ICPAR the mandate to prepare accounting and auditing standards which should be issued by Minister Order. This law clarify the Rwanda tendency towards IFRS: *“within public organisation, the accounting standards shall be consistent with IPSAS while in private sector they shall be consistent with IFRS”*.

According to the new company act issues in 2009, the financial statements of a company shall comply with international accounting standards (art. 247 and 254).

The present research will contribute to gather information on priorities and defining the effective process to update the accounting standards in Rwanda.

2.4.4 Accountancy education and profession in Rwanda

At first time, a set of curricula professionally oriented has been introduced with Education reform of 1980. An established commerce and accountancy track aimed to have secondary school graduated being adequately prepared in the accounting system. Since 1978 to 1996, the National University of Rwanda was offering a three years degree (baccalauréat) in accounting with input of 20 bacheliers en comptabilité per annum, but the number of graduates were grossly out of proportion to the needs of local market. The 1991 UN report on accountancy Development in Africa states that the annual demand for accountants was estimated at 300 of secondary-level education and at 250 for university-level accountants/auditors, United Nations Publications (1991).

The graduates in secondary and university level were absorbed by the public sector and international organization implying the serious shortage of accounting technicians in private

sector. The shortage continues in recent ten years ago. The Report on Observance on Standards and Codes (2008) states that the total number of qualified accounts in Rwanda has grown from 14 in 2004 to about 45 in October 2008.

In 1986, 46 Rwandese accountants who allegedly meet satisfactory professional standards attempted to set up an "Association Rwandaise des Comptables". However, an obvious lack of coordination in accountancy profession continued until the establishment of ICPAR by the government in 2008.

Starting 2000, Universities offer an accounting degree programs, however, those who aspire to gain professional accounting qualification must look for this certification. The UK-based association of Chartered Certified Accountants (ACCA) courses are the most popular (World Bank: 2008).

From 2008, the accounting profession in Rwanda is regulated by the law 11/2008 of 06/05/2008 establishing the ICPAR. It is responsible for the oversight of the profession. Any member who wishes to engage in public practice of accountancy shall apply to the President of the Institute to be so licensed (art. 68). Any person wishing to be a member of the Institute shall apply for membership in writing to the President of the Institute (art. 65).

The ICPR accepts 4 forms of accreditation: Certified Public Accountants; Associate Accountants; Certified Accounting Technicians and Fellow Certified Public accountants (art57).

In Rwanda, the main legislation governing companies, including the financial reporting is the company law. However, there are other legislations that impact on financial reporting such as the banking act, insurance law and regulations, Rwanda over the Counter (ROTC) rules and regulations.

2.5 THE NEED FOR FINANCIAL REPORTING

For many years, many Rwandese evolved as refugees in different parts of the world. *“Because of the diversity of origin, training and practice, financial reporting in Rwanda is done depending on whether one originates from French or English world”, Peter Rutaremara (2006).*

While some companies are reporting according to the Rwandan decree law 19/78 of 14/08/1974 derived from the OCAM accounting plan as well as the French accounting system of 1975, other companies are attempting to report in line with International Financial Reporting Standards.

All financial reporting (whether OCAM/French accounting or English accounting stream) are acceptable by the main users of financial statement. However, the sensitization is being done to fully migrate to the IAS/English accounting system.

The establishment of the Rwanda over the Counter (ROTC) on January 31, 2008 is viewed as part of the approach to develop a capital market in Kigali. One of the big challenges will be to address the weaknesses in financial reporting. The sound corporate financial reporting system will be the cornerstone of a well functioning market economy and a robust financial system.

According to Mr Mathu (CEO Rwanda Stock Exchange), companies are not in a hurry to go public because: *“Many of them may not have all the requirements because they have not bothered. They have had no reason in the past to try to meet the requirements”*

Rwandan companies need to change the tradition of preparing accounts only to convince the tax authorities that they are fine to the accounting. For competition in the region and attract additional investors, the country needs much more improvement in financial reporting to guarantee the quality of financial information in accordance to international standards. To facilitate this effort, the country needs to set comprehensive/harmonized accounting framework: an accounting law.

The Reports on Observance of Standards and codes (ROSC) team recommended that there should be collaboration amongst the government, regulators, the accountancy profession, and other stakeholder groups for developing and implementing a country strategy and a detailed country action plan for developing and implementing a country strategy, and a detailed country action plan that clearly sets out the key actions and allocates responsibilities for implementing the necessary reforms.

The effort to develop the private sector and to improve the quality of financial reporting has convergence in different dimensions. Both are concerned with strengthening the domestic financial architecture and reducing the risk of financial market crises; they contribute to foreign direct investment and the mobilization of domestic savings; they facilitate the smaller-scale corporate borrowers' access to credit from the formal financial sector by lowering high costs of information and borrowing; they give opportunity to investors to evaluate corporate prospects and make informed investment and voting decisions, which results in a lower cost of capital and a better allocation of resources and they aim to support economic integration, both regionally and globally.

2.6 CHAPTER SUMMARY AND CONCLUSION

This chapter reviewed the literature about the main constructs of financial reporting. It started with defining the fundamental basics of financial reporting; illustrating the role of accounting in the decision making process, types of accounting and the relationship between financial accounting and financial reporting. It also described the framework worldwide; giving sources of accounting authority, how they operate, their roles in the development of accounting standards.

In greater details, it discussed the local problem in financial reporting. After a brief history on accounting in Rwanda, it details the initial accounting plan (Plan comptable national) issued in 1978, reviewed the different source authorities of accounting such as the company act of 2009, the tax law of 2008 and the banking act of 1999.

The review was important and provided a basis for making an informed analysis. It provided an overview that can be used and narrowed to the case of Rwanda, in general, and the adoption of international accounting standard in particular. From reviewed literature, it can be concluded that, in regard to the path of internationalization of business and the development of standardization of accounting, there is a real pressure need for adoption of International Financial Reporting Standards.

The improvement of financial reporting is in the best interest of business development in Rwanda in general, of the development of the financial sector itself. Thus, the adoption international financial reporting standards are paramount to ensure the quality of information in the decision making process and investment in Rwanda.

The next chapter covers the conceptual framework and research design.

CHAPTER THREE: THEORETICAL FRAMEWORK AND RESEARCH DESIGN

3.1 INTRODUCTION

This chapter describes the research plan design. As seen in the literature, the international accounting setters took time to agree on a uniform system which would facilitate the users across boundaries of countries to understand the activities reflected in financial statements and hopefully stimulate more international investments.

The study consists of analyzing, from the current evolution of setting the accounting standards and to regard of benefice to users, the effective process for adoption and implementation of International Financial Reporting Standards in Rwanda. From the theoretical framework, testable propositions were developed to examine whether the theory formulated is valid or not. Finally, this chapter describes the study methodology.

3.2 PROBLEM STATEMENT

Since 2008, Rwanda is making efforts to develop the legal investment infrastructure. It is committed to transform its business environment to attract significant investments. One of the areas for reforms is the modernization of accounting which requires aligning the local accounting practices with internationally accepted standards and codes.

Compared to other countries, Rwanda delays to adopt the International Financial Reporting Standards. One of the propositions in the core of this study is that Rwanda should have a comprehensive action plan to adopt International Financial Reporting Standards.

Although, the adoption of International Financial Reporting Standards improves corporate governance, creates credibility of financial reports and improves trade trends in the country, the

development and enactment of the new accounting policy has to consider the country's ability to carry out the new policy.

The infrastructure of accounting in its different dimensions (education system, accounting profession, institutions as well as statutory framework) needs reorganization and improvement. To ensure that investors in Rwanda will benefit from adoption of International Financial Reporting Standards, the standards-setters should consider the capacity and resources available and the business environment.

Some debates were proposing to allow companies and accounting profession time to adapt to new standards and in accordance to companies' size. For the ROSC-Rwanda (2008), the majority of companies which commensurate with their smaller size should adopt the simplified financial reporting requirement for small and medium enterprises while, the requirement for full IFRS compliance should be for all public interest entities.

In 2008, Rwanda legislator gave mandate to ICPAR to develop the accounting standards consistent with International Financial Reporting Standards (law 11/2008). It is known that stakeholders (creditors and investors) of public listed companies need regular financial position and performance of the company prepared as per certain accounting standards.

But, the questions which we thought of were what should be the effective process of adoption of international accounting according to the size of companies and how this should support the development of business in Rwanda? Thus, in order to find the answers to these questions based on empirical research, we have selected this subject as our choice of master research thesis.

3.3 RESEARCH OBJECTIVE

The objective of the study is to examine the attitude of practitioners to the convergence to International Financial Reporting Standards in Rwanda. The minor objective is to examine how the accounting profession is evolving in Rwanda and to analyze the effective process to adopt and implement the International Financial Reporting Standards in Rwanda.

3.4 THEORETICAL FRAMEWORK

The study covers business in Rwanda in relation to improvement of financial reporting. To have a good support of the theory of this research work and maintain a logical sense of the relationships among several factors identified as relevant to the problem study, the researcher use the general theoretical framework summarized in table 1. The theoretical orientation helped to examine whether the theory formulated about adoption of accounting standards in Rwanda is valid or not.

Table 3.1: General theoretical framework

Research Question	Study Objectives	Propositions	Research themes/ interest areas	Research Indicators	Research topics	Interview questions guidance :
What could be the effective process for adoption of IAS/IFRS in Rwanda?	Examine the evolution of accounting profession in Rwanda	Rwanda should have a comprehensive action plan to adopt step by step IAS/IFRS. The decision and implementation of IFRS should allow listed company and accounting profession adequate time to adapt to new standard and in accordance to size (SMEs and big companies)	Infrastructure of accounting existing in Rwanda	Accounting professional education and training in Rwanda	Institution for Professional accounting education	1. Is infrastructure of accounting strong enough to support the implementation of IFRS?
					Professional qualified accountants	
	Explore the attitudes of preparers, auditors and regulators to the adoption of IFRS		Acceptance of International Financial Reporting Standards in Rwanda	Accounting profession in Rwanda	Evolution of accounting in Rwanda	2. Opinion about the local accounting standards 3. Comparison of IFRS to local accounting standards
	Establish the effective process for adoption of IAS/IFRS in Rwanda.		The national accounting development plan harmonized with IAS/IFRS	Accounting Rulemakings bodies in Rwanda	Setting accounting standards	4. Is introduction of IFRS a priority for the development of business in Rwanda? 5. Effective process for adoption and implementation of IFRS
				Reporting statutory framework	Adoption and implementation of IFRS in Rwanda	
				6. Which categories of companies should be mandated for the use of IFRS? 7. Challenges for adopting IFRS 8. Benefit of adopting IFRS 9. Link between the accounting standard and the development of business within the country		

The researcher summarizes the theoretical framework from what was stated in the literature. On basis of this theoretical framework, we will be developing our interview guide. What was mentioned in the theoretical framework will be compared with the results from empirical findings.

As seen in the literature, the conceptual framework of accounting is the constitution for financial reporting and provides the foundation for standards (Christopher J Pyke: 1999). The conceptual framework published in 1989 by IASC is intended to guide both international and national standard setters when setting standards, and to assist preparers and auditors when interpreting standards or dealing with issues that the standards do not cover (Carolin Becker: 2004).

Some African countries adopted IFRS, other decided to use IFRS as adapted locally. Some other including Rwanda are facing challenges which are making the adoption of international standards a big task.

Theory suggests that the sound corporate financial reporting system will be the cornerstone of a well functioning market economy and a robust financial system. To be competitive within the region and to attract new investors, Rwanda needs much more improvement in financial reporting to guaranty the quality of financial information in accordance to international standard.

As per the theory stated above, the ICPAR received the mandate to prepare accounting and auditing standards consistent with IFRS (The law 11/2008 of 06/05/2008). The company law enacted in 2009 reinforces the wish of Rwanda to see the financial statements of a company comply with International Financial Reporting Standards (art. 247 and 254).

Theory suggests that the benefits of adoption of IFRS are associated with the improvement of financial reporting to global investors, the facilitation of cross-border investments, and the integration of capital markets.

Different authors recognize that countries have to be aware that adoption of IFRS will cost companies both time and resources. They stated in the theory that some countries choose the adoption of IFRS fully, other harmonize the IFRS with the local GAAP.

3.4.1 Research principal theme

The principal area of interest for this research is the harmonization of Rwandan financial reporting with international standards.

3.4.2 Other themes

These are other areas of interest affecting the harmonization of Rwandan financial reporting with international standards, they are:

- The infrastructure of accounting existing in Rwanda considered in the following dimensions :
 - Accounting professional education and training in Rwanda
 - Accounting profession in Rwanda
 - Accounting rulemakings bodies in Rwanda
 - Reporting statutory framework
- The acceptance of International Financial Reporting Standards in Rwanda

3.4.4 Research limitations

The study will be subjected to the following limitations due to time and financial resources:

- The law 11/2008 recognizes distinction of standards governing professional accounting with public organs [consistent with IPSAS] and within private sector [consistent with IFRS]. Discussions in this paper will be limited to accounting standards within the private sector. The audit standards are also not covered in this paper.
- As the accounting standards are self-explanatory, the explanation of IFRS or Rwanda GAAP are not discussed in this paper,

- The review of literature was not taking into consideration the details and standards provided in different sets of accounting standards. It was only about the key issues and needs for new adoption of International Financial Reporting Standards.
- Interview for primary data focused on accounting rulemaking institutions and public interest entities.

3.5 RESEARCH METHODOLOGY

3.5.1 Research type

The purpose of this study was to explore the attitudes of Rwanda regulators and practitioners of accounting to the introduction and implementation of IFRS in Rwanda. The study was done in the Rwandan context by comparing country specifics with international accepted practices appropriate for introduction and implementation of the international reporting standards. Consequently a qualitative study approach was used.

The interpretive position was chosen to identify and interpret the approach of companies in Rwanda towards International Financial Reporting Standards. On the other hand, the constructionist view point led the researcher in accomplishing his conclusive result as per his analysis of the knowledge acquired. During data collection and analysis, the subjective judgment of the respondent was held vital in expressing their viewpoint in support of easing the tasks of interpretation and opinion building.

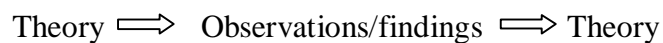
Bryman and Bell (2007) describe the epistemology as the study of knowledge and knowing belief. From its two parts [Positivism and interpretivism], the researcher is choosing the later which relates to elements such values, norms and subjective position of research. The research community will have importance for interpretation of reality towards financial reporting in Rwanda.

The Study covered the economy of Rwanda with conceptual coverage focusing on adoption and implementation of International Financial Reporting Standards paying particular attention to the regulatory environment in the country. The review of different aspects related to financial reporting, in general, and the accounting standards, in particular, served for making an informed analysis.

For the research approach, the researcher started with the theory about the IFRS which was on the basis to develop the theoretical framework. From this, he researcher created the interview questions. He analyzed and tested empirical findings against theoretical framework and derive conclusion on the basis of results of these analysis.

In fact, from the three different types of research approaches developed by Bryman and Bell [inductive, deductive, abductive], the researcher is opted for abductive approach. As a combination of both the deductive and inductive approach, it has link with chosed research methods to answer our research questions.

By adapting the Bryman and Bell theory, the research approach was on the following schema:



It is expected that tests conducted on the observations/findings leaded us to conclusions which were in terms of validating theoretical framework per the empirical findings or not. The researcher would generate any new theory if the empirical findings were in line with his theoretical framework. Otherwise, the contribution to the knowledge would not be made.

Semi-structured interviews are used to collect data with adequate representativeness of the sampled population.

3.5.2 Designing the exploratory research

3.5.2.1 Study questions

It is known that for most purposes, exploratory research produces qualitative data. In this study, the researcher was analyzing the attitudes of Rwanda accounting practitioners and regulators to the modernization of accounting in Rwanda and how the introduction of IFRS will not distort the essence of international harmonization/standardization. According this objective, the following research questions were examined:

- Are the companies in Rwanda inclined to the adoption of IFRS?
- What are the practical benefits of adopting IFRS in Rwanda?
- How the existing infrastructure of accounting should support the implementation of IFRS?
- What are the key challenges for Rwanda to adopt IFRS?
- What is the effective process for adoption/implementation of IFRS in Rwanda?

3.5.2.2 Research propositions

In qualitative research, Yin (2003) recommends to formulate propositions which will direct attention to something that is examined within the scope of the study. Propositions below were used to guide where the researcher looked for relevant evidence.

Major research proposition:

P0: The availability of financial statements of large companies to investors, banks and the public in general is a key issue for financial transparency required to sustain the capital market which is in its early stage. Given the cost of implementing the full IFRS, ICPAR should mandate the IFRS-compliant financial statement only to the public interest entities. The majority of companies in Rwanda which are small in size and are performing simple transactions should be mandated to use IFRS for SMEs.

Minor research propositions:

P1: In Rwanda, there is no set standards for practitioners in the accounting field and no national or international harmonized accounting and financial reporting standards [Rutaremara:2006]. ICPAR and other stakeholders should set a comprehensive country action plan for convergence to IFRS and IFRS for SMEs.

P2. The important pillars of financial reporting are poor to support the implementation of IFRS.

P3. According to Rutaremara (2006), the accounting system in Rwanda is mainly based on preparing returns to RRA on profit/loss accounts. There is not uniformity in financial reporting. Although, the establishment of ICPAR and release of the company laws were clear the vision of Rwanda to converge to International Financial Reporting Standards, the following challenges should be overcome; lack of adequate skills among the corporate accountants; the weak experience of the accounting body; the accounting degree curricula in higher education institution are not harmonized with professional requirement; the cost of implementing the IFRS, the language, etc

P4. The public interest companies should be only mandated for full IFRS. ICPAR should adapt the IFRS for SMEs for use in the context of other companies.

P5. ICPAR to lead the collaboration of all stakeholders to develop and implement a country action plan clear about the key actions and responsibilities.

3.5.2.3 Research unit of analysis

The convergence to the International Financial Reporting standards is a big topic. So, the researcher needs to focus his attention. The point of entry into studying the topic was the attitudes of practitioners and regulators in Rwanda.

3.5.2.4 The logic linking the data to the Propositions.

The researcher and subject worked rather closely together to collect data. Then, the researcher managed interview transcripts to locate meaningful units which are independently able to convey meaning. Thereafter, the researcher identified patterns by linking the meaningful units to theoretical propositions. The pattern-matching technique defined by Yin (2003) is used.

3.5.2.5 The Criteria for interpreting the findings.

The researcher's effort was to show that the data matches one pattern better than they match the other. But as per Yin (2003), there was not precise way of setting the criteria for interpreting the findings. Assumption was that the different patterns were sufficient contrasting that the findings were interpreted in terms of comparing at least two rival propositions.

3.5.3 Conduct the Study

3.5.3.1 Target population and sampling method

The target population is selected from regulators and professionals of accounting in Rwanda. Sample selection is based on judgement (purposive) sampling because we had pre-defined groups in our mind. The sample was based on those institutions with an actual need and use of financial information. A subset of 22 interviewees was purposely chosen and Grouped into 5 strata according to the following pre selected criteria relevant to their interest and involvement on development of the accounting profession in Rwanda: Policy makers and accounting professional body, listed and regulated companies, private companies and other experts.

The sampling for the first group includes 4 respondents: One accounting professional body (ICPAR) for its role of regulation the accounting profession and three officials from institutions MINECOFIN, National Bank of Rwanda and Rwanda Stock exchange as member of the Capital Market Advisory Council which is responsible to regulate and provide strategic leadership in the development of Capital Market in Rwanda.

The second group comprising 5 regulated companies and listed companies which are required to comply with IFRS : KBC (Kenya Commercial Bank), BK (Bank of Kigali), BRD (Banque Rwandaise de Development), SONARWA (Société Nouvelle d'Assurance du Rwanda), SORAS (Societe Rwandaise d'assurance) group ltd.

We have chosen 5 non listed companies from various industries sectors for a third group. From transport: PETROCOM, from manufacturing companies: SOSOMA industries ltd from telecommunication: ONP (office National des Postes), from services companies: Kigali Media Production and from retailers: SP (Societe Petroliere).

Auditors are expected to play a vital role ensuring compliance of IFRS by companies which are mandating them. From the list of 25 accredited audit partners firms, we selected the following including one from the big four: Ernest and Young Rwanda, and 4 local audit firms: AUGECO ltd, RUMA CPA, KSK associates and TM auditors.

A fifth group comprises one other expert selected from one education institution which is currently facilitating ACCA training.

From the 22

3.5.3.2 Prepare for data collection

This study used both secondary data collected from different sources and real-worlds data collected from in-depth interview.

Secondary data was sourced from publications such as Rwanda law, international accounting setters' reports, textbooks, journals, etc in libraries as well as the internet. An extensive review was made of the existing literature about International Financial Reporting Standards and the Rwandan financial reporting in particular. Secondary data enabled researcher to provide a strong background for developing and theorizing the research problem.

Primary data will be provided during the process of interviewing the respondents as well as personal observations. An interview questionnaire guide was designed with questions aimed at enlisting data for making proper judgement about the research problems. Interviews were

conducted at the interviewees' workplace and completed by the researcher based on what respondents would say.

Therefore, the 'standardized, open-ended interview' was used to ensure that the same open-ended questions are asked to all interviewees. This type of interview enabled faster interviews and facilitated analysis and comparison of data. Participants were given assurances they and their organization not be named in final dissertation report.

In order to collect full range of insight into the financial reporting, interviewees were chosen from regulators and professionals of accounting in Rwanda. The study used intensive interviewing. The first stage of sampling involved stratifying the population into regulators, members of Rwanda stock Exchange, audit firm partners, institutions offering education and training for professional accountants and listed companies.

The second stage consisted of making judgement about which might be the most useful or representative by purposeful sampling.

Nineteen interviews were conducted to identify the attitudes of regulators, listed companies, financial companies (banks and insurers), and firm audit partners and unlisted companies to the convergence to IFRS. For interview questions and details, kindly refer to Appendix 1.

3.5.4 Data analysis methods

This is a qualitative study, and analysis was made as collection was taking place. Data was edited and coded by question to ensure comparison of responses to similar themes and to come up with the most frequent ones.

As per the Glaser and Strauss's approach (1967), transcripts of unstructured interviews were used to identify cross case patterns. An evaluation was made about the most frequent responses to form an opinion. Data was summarized in a narrative form for interpretation and conclusions.

3.6 ASSUMPTIONS AND LIMITATIONS

The study was conducted for the partial fulfilment of MBA degree in Finance. It was conducted under the following assumptions:

1. It was assumed that the informants are aware of the Rwanda Legislators 2009 decision requiring the private sector to use accounting standards consistent with IFRS. They are also aware of the likely challenges to implementation and are able to categorize them according the most critical to offer suggestions to address them,
2. It was also assumed that respondents can understand and the question and will be willing to give honest answers while facing the researcher,
3. The interview guide was given to institution when requesting appointment for interview. It was assumed that the interview question will help to solicit data about what a respondent knows, believes, expects, feels, wants, experiences or experienced and about his/her reasons for any proceedings.
4. The data from existing reports would then be compared to the findings from primary study about IFRS and make an objective analysis and recommendation about the research problem.

The study is subject to the following limitations:

1. The study is a qualitative-empirical research. All findings are limited to information and views from in-depth interviews with financial statement preparers, auditors and regulators and previous studies.
2. Most of assumptions were held although some did not. Some of informant whom we assumed would be more interested, are preparing the implementation in their companies and would therefore, volunteer detailed information, did not be comfortable with our open-ended

questions. Despite proposing to them a timeframe with we prefer having interview, our request was rarely granted. Most of them answered to our questions after several visits to their institutions. 3 out of 22 which received our request for interviews did not organize the interviews. This cost a great deal of time and resources, resulting in delayed completion and submission of the study.

3.7 CHAPTER SUMMARY

To theorize and make sense of relationship among key factor relevant to this study, the chapter 3 describes in details the research problem and define the objective and the theoretical framework. Then, it ends by giving the methodology used to collect the data which are presented in the next chapter 4.

CHAPTER FOUR: EMPIRICAL FINDINGS, ANALYSIS AND DISCUSSIONS

4.1 DATA COLLECTION AND ANALYSIS

As the world continues to globalize, discussion of convergence of national and international standards has increased significantly (Peter Wong: 2004). All interviewees in this study are positive to the importance of using common global standards but they believe that Rwanda has many challenges to achieving international convergence.

The empirical findings are based upon the 19 interviews conducted at the interviewees' workplace. Although the interviewees' expertise and experience varied, the same questions have been discussed with reasonable flexibility on the order of question to ensure the continuity. The interview questions were asked in an open-ended fashion to "minimize the imposition of predetermined responses when gathering data" (Patton: 1990).

As per Jones S (1985), data was transcribed and analyzed. Not all data from the interview is discussed in this chapter, although all relevant data coded is included.

4.2 FINDINGS AND DISCUSSIONS

This section discusses the findings from this study in regard to previous studies. For purpose of logical discussions, findings were grouped into the following four key themes:

4.2.1 Desirability of IFRS in Rwanda.

All the interviewees argue for the desirability of International Financial Reporting Standards compliance in principle.

Out of nineteen (19) respondents, fifteen (15) think that IFRS should help to improve the quality of financial reporting and enhance the culture of disclosure.

But, the reasons are different per group of respondents. While most of informant from the group of regulators are highlighting the need to adapt the accounting system with the Rwanda Business reforms and economic growth, informant from banks and listed companies are mostly thinking to the need of comparable and comprehensible financial information to help the investors and financial analyst in their analysis and decision making.

Two informants from private companies and one expert think that external pressures from international financial institutions and multinationals corporations is top factor for adoption of IFRS in Rwanda. They explain that as much as the Rwanda's economy is opening as the level on international pressures in regards to develop accounting systems is increasing.

The usual arguments in favour are articulated:

“Given the ambitious program to be a leader in doing business reforms, the process to converge to international standards is a good thing in principle. Rwanda should not be exception dealing with the increasing demand to provide reliable information on their financial performance and position.”

Although they are supportive to the introduction of IFRS, two respondents from private companies draw attention to the concern over the transition from local to International Financial Reporting Standards. They recognize that the local financial/accounting environment is undeveloped and think that it will take time to build required capacities to support adoption and implementation of IFRS in private companies.

In absence of harmonized standards within the region, one interviewee with experience in capital markets expressed a concern about the likelihood of differences in interpretation evolving to the different stock exchange markets within the East African Region:

“You can have a company cross listing on Rwanda, Uganda and Kenya stock exchange. It should be a serious problem of every country is interpreting accounting standard differently and you do not have a common set of accounts...Let us take a case in which the company’s accounts prepared in Rwanda, although from the same standards, do not convey the same information as accounts prepared in Kenya as the interpretation is different..This is a typical example of the comparability issue which is affecting the effort for economic integration.”

For most of the respondents, the local standards (in fact, the plan comptable national derived from OCAM or French accounting system) were useful during their time. Actually, they are not applicable any more to the transactions which increasingly become influenced by globalization. An auditor explains that *“although the IFRS is a new concept, it constitutes good and key guidelines to facilitate the understandability of financial statement. If the country is attracting investors to come from Europe or Asia to invest in the country, I can say yes, it is a priority for Rwanda to implement IFRS to increase the investors’ confidence on financial information to use for their decision”*.

The views of interviewees corroborate the Rwanda Report on Observance of Standards and Codes (2008) that *“corporate accounting and disclosure practice need to develop in line with growing economy, as well as with international best practice. The adoption of IFRS in Rwanda was made at a time of financial sector reforms. The period is also characterized by privatization of companies through a sale of shares at the Rwanda Stock Exchange.*

The researcher is supporting the importance and desirability of IFRS to improve corporate governance to prevent failures in banking sector and to promote the capital market. Indeed, the process of international convergence will address expectation of users of financial statement enjoying the improvement of the quality of financial reporting.

According to interviewees, the international convergence has various benefits for the country: One manager from the banking sector thinks that banks and creditors will benefit first from

the financial statement compliant to IFRS: *“the comparability of financial statement and better financial information will facilitate our analysis and decision-making by various users”*.

One broker believes that the international convergence will help to reduce the asymmetries of information by strengthening the culture of corporate disclosure which is critical for the functioning of an efficient market. She concludes that; *“Our stock exchange market should witness increased activities and the country will be able to increase investments from abroad”*.

In conclusion, the implementation of IFRS will contribute to increase the public confidence in financial reporting and provide safeguards to the public. Regulators in various industries (banking, insurances, capital market) will increase their reliance on financial reports.

4.2.2 Status of existing infrastructure of accounting in Rwanda.

Fifteen (15) respondent out of nineteen (19) deplore the absence of clear general accepted accounting practice for general accounting or auditing system. They think that 95% of companies in Rwanda before adopting IFRS they were using the national accounting standards (plan comptable national) to prepare their financial statements and deplore that the tax regulations were dominant two other factor motivating the development of accounting system in Rwanda.

At the time of this research, the organization of accounting profession was at its infancy. However, it laid a good foundation for future development. The number of qualified accountants is limited. Most interviewees think that the education and training capacity is not adequate to support the implementation of IFRS in Rwanda.

One interviewee from higher education institution points out that: *“the progress needed in the infrastructure of accounting will not take place overnight. For example, the ICPAR needs to mature to start to promote skills development and transformation in Rwanda certified accountants profession.”*

Both the Institute of Certified Public Accountants of Rwanda and the Rwanda Stock Exchange are too young to form a body which should handle the need to issue statements of local accepted accounting practice.

An interviewee from the higher education institution confirms the correlation between the level of economic development and accounting development. Thus, the absence of a sound accounting infrastructure and of an appropriate qualified and experienced accounting profession is a limitation to sustained economic growth. The country needs to invest in infrastructure of accounting as a milestone to eliminate various challenges to international convergence.

4.2.3 Likely obstacles to IFRS implementation in Rwanda.

The common challenges from most of informant ranges in the availability of technical experts in IFRSs, the high cost of implementing IFRSs and the cost of paying experts and the rapidly changing financial reporting framework both from within the country and external.

One Managing director from a no-listed company (Manufacture Company) points out that *“the opportunities available to train experts are few and the costs are high. IFRS implementation is expensive and companies/firms are factoring in this decision as they do financial planning.”*

One regulator who has experience in professional training think that some standards will not be appropriate for Rwandan companies *“Some standards are developed for multinational companies from developed countries and should not be applicable to local companies.”*

One auditor points out another likely resistance related to the culture. *“While the company law enacted in 2009 recommends the use of IFRS for financial statement, today some companies tend to be attached to the OCAM/French system accounting rules.”* The accounting system in Rwanda was mainly used to prepare returns to RRA on profit/loss accounts. This culture has to change as well as the shift from a creditor to a shareholder focus.

Some are more forthright in expressing their view that the accounting profession still depends on external qualifications: *“less accountants are qualified...Most are external...All professional training are external (ACCA, CPA)”*. To verify the views of interviewees, the researcher obtained from ICPAR the following numbers. On the ICPAR members master list as of February 2011, the total number of Certified Public accountant is 170; the Certified Technicians accountants are 10 and 30 people have practicing certificate. The ICPAR governing council approved on 16 March 2011 a list of 25 firms eligible for engaging in public practice of accountancy or independent auditing. As consequence, the corporate sector has insufficient access to professionally qualified accountants. Despite the company law enforcing IFRS compliant financial statement, compliance to IFRS is still limited.

One regulator with experience in accounting professional training is concerned with legislation. *“The country has several laws dealing with accounting, for example in taxation, banking, insurance sectors. It is necessary to ensure that all these disparate policies are harmonized with International Financial Reporting Standards”*.

Another issue outside the ICPAR control is the frequency and volume of changes of international standards. Some interviewees were concerned with the complexity of international standards.

On the other hand, some opportunities were revealed by interviewees. *“While the ICPAR is developing its internal capacity, the country should continue to take advantage of the services of UK-ACCA and Kenya CPA by entering into joint examination scheme agreements with the institute”*. Another adds that *“the ACPAR is an asset to ensure the application of sound accounting standards and practices and to regulate the ethical standards of accountant”*.

One Head of accounting from a no-listed company (Telecommunication Company) think that benefits from the use of IFRS will encourage people to overcome obstacles. He concludes that *“There is uniformity in financial reporting which makes it easier for stakeholders to assess each company’s performance based on a uniform criterion. This increases the global competitiveness of Rwandan firms and enhances corporate governance”*.

Both the law establishing the ICPAR and the company law prove the political decision to overcome the obstacles to international convergence. One of the steps to implementation is to fairly determine which set of accounting regulation is appropriate to different categories of companies according to their size, types and volume of transaction.

4.2.4 Who are mandated for IFRS?

According to the interviewees with high experience in International Financial Reporting Standards, ICPAR should save its scarce resources by interpreting the international standards and providing user support instead of engaging in the development of standards for any category of companies.

“The IFAC has two set of IFRS: full IFRS appropriate to listed and regulated companies and simplified IFRS for SMEs”. One auditor points out two concerns *“the issue is to clearly define SMEs in perspective of IFRS compliance. For example, a company in South Africa like MTN should be classified in SME, when the same sized company is classified as big company.”*

It is suggested that the ICPAR works on determination of how best small and medium entities (which are majority) should improve and provide their financial reporting. The criteria should be the relevancy and appropriateness of the international standards to the entity according to cost of compliance with IFRS versus benefits obtained, the length and complexity of the international standards, etc.

One Managing director from Manufacture Company (unlisted company) insists that: *the unlisted companies do not have much information to provide to the public...It is good for them to use a set of simplified accounting standards*

All listed companies and financial institutions should be mandated to Full IFRS. The other big and mediums companies should use IFRS for SMEs. As the majority of companies in Rwanda fall in SME group and the level of disclosure still low, the ICPAR should adjust the IFRS for SMEs to the Rwandan context. Their financial reporting is mainly for tax authorities and banks.

4.2.5 Effective process to international convergence

The development of IFRS was one of manifestation globalization. Rwanda was rushing to decide the convergence of its financial reporting requirement with IFRS, for its effort to attract new investors and achieve its vision 2020. The choices were limited, because capital providers need information that they can be confident about. However, the adoption is an end. The key issue is, the good quality of implementation rather than the decision to adopt.

Exploring the attitudes of practitioners is one of the mechanisms to ensure that, the adoption of IFRS is not distorting the essence of international standardization. This section presents the summary of compilation from views of interviewees, from the previous studies or other countries' experience for the researcher's tentative guidance for an effective process to international convergence. For the purpose of this study, the researcher limited his analysis to the actions directly impacting the accounting environment.

The Rwandese authority posed the base in 2008 by enacting the legislation and establishing the institute responsible to regulate the accounting profession. ICPAR has a challenging mandate to support the accounting profession for application of the company law which requires the preparation, presentation, publication and disclosure of financial statement.

The second pillar of action is about the capacity strengthening of ICPAR as institution and of practitioners. According to the 7 IFAC Statements of Membership Obligations, ICPAR has first to acquire minimum capacity and a governance structure and then goes up onto the third basis.

Once ICPAR will have adequate capacity, the priority on its pipeline should be to support preparatory of financial statements and auditors through training and enforcement. It can maintain its role as a regulator by providing the regulatory framework for education and training to strengthen higher educational institutions' curriculum in the field of accounting.

It can be expected that the next stage will be to carry out its responsibilities for adoption and dissemination of international standards. According to ROSC (2008), the focus is on development of core groups of national experts and a sustainable arrangement for development and dissemination of implementation guidance on IFRS.

For better use of limited resources, ICPAR should engage relevant stakeholders and better coordinate efforts among various organizations involved in this process.

4.3 CHAPTER SUMMARY

The primary data was collected using the interviews because the research was to explore and obtain deeper understanding of the context in which the IFRS will be implemented in Rwanda.

Then this chapter presents systematically, the analysis of data by seeking examples of relevant views which appear to challenge the theory derived from the majority. The next and last chapter gives a conclusion, recommendations and suggested areas for future study.

CHAPTER FIVE: CONCLUSION, RECOMMENDATIONS, AND FUTURE WORK

5.1 CONCLUSION

The ways of enhancing International Financial Reporting Standards in Rwanda are currently subject to much discussion and review. This study embarks to explore the importance of International Financial Reporting Standards to the development of business in Rwanda.

Through interviews and review of previous researches, it examines the desirability of IFRS in Rwanda, the status of infrastructure of accounting in the country, the potential obstacles to international convergence, the users of IFRS and the success factors for implementation. It brought to the light that the country's adoption of IFRS was a big leap forward but the implementation will not be an easy process. The study ends with recommendations and suggested areas for future work.

The previous studies reviewed were completed before the publication of the company law and establishment of the ICPAR. The ROSC report detailed the weaknesses in the regulatory framework and accounting profession and stressed for adoption of IFRS and establishment of ICPAR. This study which is conducted after ICPAR activities started adds value by identifying the challenges of implementation of IFRS and tentatively formulating the success factors for implementation.

None of our interviewees disagreed about the desirability of IFRS in Rwanda. They believe in the benefits of IFRS adoption including the increase of the level of disclosure, comparability and transparency, support to investments opportunities, access to capital and greater economic growth.

However the adoption is not seen as a satisfactory end in itself, the accounting profession will need to be organized to be able to accommodate the implementation of international standards. Users have to make efforts to adapt their culture and change their reporting focus. As per the initial research propositions, the companies need to move towards adopting IFRS. However, ICPAR will need to regulate and clarify for which companies are mandated for full IFRS and which ones should be using simplified IFRS.

A greater percentage of informants are quite aware of the adoption of IFRS and likely challenges to implementation. They, too, recognize the role of ICPAR in this process and are waiting it to really start to support its membership base and disseminate information and to collaborate on the international accounting issues.

5.2 RECOMMENDATIONS

The country authority has recognized in its company law that the accounting standards in private sector shall be consistent with IFRS. The implementation typically requires reforms in accounting profession. In addition to other recommendations already made by other studies, hereunder are some of recommendations that can play an important role to overcome the obstacles to the implementation:

*** Improving the Professional education and training:**

The collaborative effort between ICPAR and educational institutions should harmonize the curricula with professional requirement and accelerate the development of skills.

ICPAR should provide a regulatory framework for education and training in the area of accounting.

The theoretical teaching and examinations should be conducted by educational institutions but ICPAR or another Professional Examining board should retain the right to set the qualifying examination of CPA and CTA.

The country should recognize three levels of accountancy qualification: Full-qualified accountants, CPA, and accounting technicians (CTA and bookkeepers)

The Ministry of Education should ensure that enough bookkeepers are prepared through the general educational system. The ICPAR should coordinate with this Ministry to improve the standards of accountancy education in secondary and higher education.

While, in short run, the ICPAR should introduce the national professional examination with assistance from outside bodies such as the UK Association of Chartered Certified Accountants, the sustainable recommendation is to set a timeline [5-10 years] in which preparations will be intensive to carry to the country's own examination scheme. Among different actions to plan, it will be urgent to create a Rwanda Accountants National Examination board to ensure. This will help to have separation of responsibilities of administering examinations and the ICPAR's responsibilities to register qualified accountants and oversight of the accounting profession.

***Managing the transition to international standards:**

While building its internal capacity, the ICPAR should seek for external expertise to assist for urgent activities enabling to confirm the reasonable time lag for convergence.

The starting point should be the assessment of the difference between the Rwandan GAAP and IFRS to assist in focusing effort and to develop implementation strategies. The assessments report should inform the institute and other stakeholders about introduction of necessary changes, the likely additions into current legislation to ensure legal basis for IFRS implementation and for the methodology to harmonize accounting standards for different businesses and aligning the existing laws and regulations dealing with International Financial Reporting Standards.

***Take steps for monitoring and enforcement:**

As ICPAR will be maturing; it will have to use its authority and independence to ensure effective enforcement. In fact, when other infrastructure of accounting will have the capacity

to accommodate the international standards, the implementation will also require enforcement at three levels.

The company direction will have the obligation to ensure that staff applies the standards properly.

It is in auditor's obligation to discharge their professional responsibilities independently by providing assurance that financial statements comply with applicable statements.

Then, ICPAR keeps its role to monitor proper compliance and consistently take actions against violators.

5.3 FUTURE WORK

The study of financial reporting in Rwanda is too vast and has not been fully explored. Its focus is on the attitudes of practitioners to the introduction of IFRS in Rwanda. It would be interesting to analyse the international standards compared to local standards in use in Rwanda. The case of insurance sector is mostly interesting. A number of other Gray areas still exist for further investigation. A few of these have been given below:

- An investigation of the asymmetry of information on Rwanda Stock Exchange
- Appropriate financial regulation for non-listed companies in Rwanda,
- The impact of IFRS on corporate financial statements
- An investigation of compliance with IFRS by listed companies in Rwanda,
- Implementation of IFRS in Rwanda banking sector.

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APPENDIX

APPENDIX 1: Interview Guide

Q.1. In your opinion, what do you think about the local accounting standards/Rwanda?

[Quelle est votre opinion sur les normes locales de comptabilité au Rwanda?]

Q.2. Is the introduction of International financial reporting standards [IFRS] a priority for the development of business in Rwanda?

[Est-ce l'introduction des normes Internationales de Reportage Financière une priorité pour le développement des affaires au Rwanda?]

Q.3. In your opinion, how do you compare the IFRS to the Rwanda local accounting standards? [Quelle est votre comparaison de IFRS aux normes locales de comptabilité?]

Q.4. Do you think the existing infrastructure of accounting is strong enough to support the implementation of IFRS? [Looking at the following dimensions : Education and training of accounting professionals, accounting profession, accounting policymaking and reporting framework]

[Pensez-vous que l'infrastructure de comptabilité [en termes d'éducation et formation, de profession comptable, de régulation et de cadre légal de rapportage financier] soit suffisamment forte pour supporter l'application de IFRS?]

Q.5. What are the key challenges or problems for Rwanda adopting IFRS?

[Quelles sont les problèmes majeurs pour le Rwanda pour l'adoption/l'implémentation de IFRS au Rwanda ?]

Q.6. Which categories of companies should be mandated to use IFRS?

[Quelles sont les catégories de compagnies/entreprises qui seraient exigées l'utilisation de IFRS au Rwanda ?]

Q.7. What should be the benefits of adopting/converging to IFRS in Rwanda?

[Quelles sont les avantages de l'adoption ou de convergence à IFRS au Rwanda ?]

Q.8. Is any link between the accounting standards and the development of business within the country?

[Existe-t-il des liens entre les standards de comptabilités et le développement des affaires dans un pays ?]

Q.9. What should be the regulation for unlisted companies and SMEs?

[Quelles serait le règlement approprié aux compagnes et SMEs non inscrites au marché des capitaux] ?

Q.10. What is the effective process toward adoption and implementation of IFRS in Rwanda?

[Quel est le processus efficace de adoption et application de IFRS au Rwanda ?]