Int J Acc Research (IJAR)
DOI: 10.12816/0039223

An Open Access Journal
Vol. 3 (2), 2017

Accounting Research
International Journal of Accounting Research

Research Article Homepage: www.arabianjbmr.com Arabian Group of Journals

EMPIRICAL ASSESSMENT OF THE EFFECT OF INTERNATIONAL FINANCIAL REPORTING ON ACCOUNTING STANDARD IN NIGERIA

Okeke Mary Ozazi
Department of Accountanc
Delta State Polytechnic, Otefe-Oghara

Abstract

The study examines the relationship between international financial reporting standard (IFRS) and accounting standard in Nigeria. Prior to the advert of IFRS in Nigeria, inconsistencies in accounting standard were the norms which affected investors' decision thereby leading to dearth of investment especially small and medium scale enterprises. This prompted several numerous studies to assess the relevance of IFRS to accounting standard in Nigeria. Most of these studies lack indebt empirical probe. Thus, the current study employs questionnaires and chi-square methods to examine the relationship between the two variables. Observably, the study found that IFRS has a strong significant impact on accounting standard in Nigeria. It was recommended therefore that IFRS should be holistically implemented in both the public and private sectors of the economy. Also, there should be uniformity in the application of IFRS, strengthened and made active.

Keyword: IFRS, Accounting Standard, NASB, Questionnaire, Chi-Square

Introduction

Following the increasing demand for financial information on firms, banking sector, corporate organizations etc, financial reporting has now assumed an appreciable position in Nigeria. This is predicated on the fact that such information is useful to current and potential investors, creditors and other users in making rational investment, credit as well as financial decisions. It also enables users to assess the amount, timing and uncertainty of prospective cash receipts about economic resources, the claims to those resources and the changes there in. Over the last few decades, most of the Statement of Accounting Standards (SASs) issued by the Nigerian Accounting Standard Board (NASB) were outdated and considered insufficient to provide the necessary direction in the preparation of qualitative financial statements. As observed by Masud (2013), companies cook figures and manipulate financial statements even as tax avoidance is the norm of the day. Also, earnings of management were left unchecked by the authorities because of weak and ineffective regulations.

Previous studies focused on profitability and liquidity indicators with little or no attention paid to reported earnings and market value (Lantto and Sahlstrom, 2009; Blanchette, Racicot and Girard, 2011). These problems led to the introduction of International Financial Reporting Standards (IFRS) that replaced SAS having been recommended by NASB now Financial Reporting Council of Nigeria (FRCN). Consequently, the federal government approved the convergence of Nigerian SAS with IFRS with effect from January 1, 2012. The adoption was to ensure all stakeholders use IFRS by January 2014. Accordingly, IFRS was expected to be adopted by companies listed on the Nigerian Stock Exchange (NSE) by January 2012, significant public interest entities were to commence January 2013 while small and medium-scaled enterprises (SMEs) have January, 2014 as their compliance date (Masud, 2013). Consequently, the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC) also adopted this date for compliance and issued guidance compliance circulars to ensure full implementation of IFRS in Nigeria.

According to Abata (2015), accessibility to capital both from local and foreign investors were among the numerous benefits the country stand to gains from adopting the global accounting standards. The argument therefore is that businesses operating in the economy have to adopt this set of accounting standards which will arguably help entrench best practices in financial reporting so as to enables them derive these benefits. However, anecdotal evidence reveals that the paucity of published research about the dimensions of IFRS adoption in Nigeria tends to suggest that the Nigerian academic environment, commentators and even practitioners have not come to term with this new financial language. As Nigeria now belongs to the League of IFRS-adopting countries with effect from 2012, perhaps persuaded by the gains it promises, it however remains to be convincingly empirically established the extent to which this set of accounting standards has impacted on financial reporting practices in Nigeria. It is against this backdrop that the current study is germane. Expectedly, the sequence of the paper is clear. Following the introduction, section two presents a brief review of related literature while section three unveils the method of study. Whilst section four discusses the findings, section five concludes the paper with policy remarks.

Literature Review

Several definitions of financial reporting have been provided in the literature. Olakunori (2009) defines it as the fundamental accounting assumptions, principles and methods used to prepare, present and report financial statements for a wide variety of entities, including publicly traded and privately – held companies, non-profit organizations and governments. He argues that the framework for financial reporting include locally applicable accounting laws, regulations, rules and standards that are determined by regulatory authorities such as the NASB which operates under a set of assumptions, principles and constraints. In the view of Musa (2015), International Financial Reporting Standards (IFRSs) is a set of accounting standards developed by an independent, non-profit making organization popularly known as International Accounting Standard Board (IASB) which was created under the laws of state of Deleware, United States of America, on 8 March, 2001 (IFRS foundation). He opines that the objective of the standards is to present a unique and comparable accounting framework for public companies on how to prepare and disclose globally, their financial statements.

In the theoretical front, financial reporting is predicated on some theories in the literature. One of such is the theory of Stewardship. This theory allows managers to act as responsible stewards of the assets they control. The opportunistic pursuit by management of their own self-interest at the expense of the shareholders who can diversify their individual portfolio in the activities of companies should be done with fair judgment. Essentially, the theory reflects the interest of agency and stakeholders as part of the growing organizational economic movement. However, this view has been challenged by those who labeled stewardship theory as a framework which presumes the managers as seeking the maximization of the organizational performance (Chalaki, Didar and Riahinezhad, 2012). Palea, (2013) argued that the need of stewardship theory is predicated on the objective of financial reporting quality where investor's decision relies on the entities financial reporting quality that managers are entrusted to prepare. Accordingly, the objective of quality financial reports is to provide information for decision useful to current and potential providers of finance (Chalaki, et al., 2012).

There is also the rational choice theory which explains that a company will not introduce an accounting standard if by such introduction; it makes it worse off (Emeni, 2014).This means that a company will introduce IFRS if its benefits will exceed the NG-GAAP. Thus, the theory implies that a company will determine the possible costs and benefits of any action before making decision of what to do (Scott, 2000). The rational choice theory sees the actions and behavior of an individual or a company as rational in order to maximize one's utility. It attempts to explain why people or companies introduce IFRS or make do with their domestic accounting standard. In relating the rational choice theory to economic benefits to be derived by a company on IFRS introduction, proponents of IFRS argue that the standards reduce information costs to an economy, as it is cheaper for capital market participants to be familiar with one set of global standards (Li, 2010).From the empirical corridor, Study by Lantto and Sahlstrom (2009) on the effect of IFRS adoption on key financial ratios of Finnish listed firms shows that the introduction of IFRS has positively influenced the key accounting ratios. Essentially, the study found that all the key profitability and gearing ratios are significantly higher under IFRS adoption. The study by Punda (2011) was predicated on Lantto and Sahlstrom (2009). The study examines the effects of IFRS adoption on key financial ratios of UK listed firms and reported significant change in the key performance indicators of the listed firms' post IFRS introduction. Blanchette et al (2011) examine the effect of transition from Canadian Generally Accepted Accounting Principles (GAAP) to IFRS on financial ratios such as liquidity, leverage and profitability.

They reported significantly higher ratios under IFRS when compared with those derived under pre-Canadian GAAP. Isenmila and Adeyemo (2013) employ Perception Based Analysis (PBA) of the mandatory adoption of IFRS in Nigeria. They found that there is a statistical significant difference in the perception of the stakeholders regarding the desire for mandatory adoption of IFRS. Nyor (2013) assesses the quality of annual reports and accounts of Nigerian firms. The study relies on 100 questionnaires administered on respondents with a minimum qualification of first degree or Higher National Diploma (HND) to ensure high quality responses relating to accounting information. Using a five point Likert scale and Chi-Square test of hypothesis, the study found evidence in support of moderate annual reports and accounts of Nigerian firms.

Wilson, Ioraver, Adaeze and Iheanyi (2013) opine that the fast pace of globalization with integration of national financial markets has stimulated the need for a common financial language (IFRS) because good financial reporting makes investment and financial decisions more efficient. They examine the state of readiness of Nigerian academics (accounting lecturers and students) and practitioners (professional accountants and auditors) to embrace IFRS adoption. The study found significant differences between accounting students, lecturers and practitioners with respect to their degree of familiarity with IFRS. An important policy implication of the study is the urgency of accounting curriculum review in the tertiary institutions to incorporate IFRS and its implementation dimensions. Taiwo and Adejare (2014) argue that the adoption of IFRS in Nigeria saves multinational corporations the expense of preparing more than one set of accounts for different national jurisdictions. Using personal interview and questionnaire methods, the study employs Chi-square and ANOVA techniques for hypothesis testing. The study finds a strong positive relationship between the adoption of IFRS and financial performance of organization in Nigeria.

Abata (2015) stressed the importance of the internationalization of the adoption of the IFRS as a panacea to mitigate against financial reporting infractions. He tested hypothesis at 5% to determine whether the quantitative differences in the financial reports prepared by Nigerian listed banks under Nigeria GAAP and IAS/IFRS are statistically significant or not. He uses secondary data from the annual reports of fourteen Nigerian listed banks. The study finds that the quantitative differences in the financial reports prepared under NGAAP and IAS/IFRS are statistically significant and concludes that adoption of IFRS have positively impacted on financial reporting in the Nigerian Banking sector. Musa (2015) investigates the impact of international financial reporting quality on financial reporting quality by firms in Nigeria.

He finds that there is a positive relationship between less-earnings management and financial reporting quality as a result of the adoption of IFRS. The study also found that value-relevance positively associated with the quality of financial report where few studies have only highlighted positive relationship between timeliness of financial reports and the quality of financial reporting after the IFRS adoption in Nigeria. Jinadu, Sunday and Soyinka (2016) examine the relationship between SAS and IFRS introduction based on key performance indicators of listed companies in Nigeria in terms of liquidity, profitability, gearing, reported earnings and market value. The study employs a survey research method where 20 listed firms who published financial reports for 2011 under SAS were compared with 2012 under IFRS. The study uses Mean, standard deviation and Pearson Correlation Statistics and finds that the introduction of IFRS in Nigeria enhances credible and qualitative financial statements that would engender economic growth and development.

Methodology

The study adopts a survey research where questionnaires were distributed to respondents. The population comprises of 70 executives of 7 listed companies at the Nigerian stock exchange.
The study uses a simple random sampling to derive data and employ the Yamane (1964) sample formular to ensure accurate sample size. The formula states thus:

$$n = \frac{N}{1 + N(e)^2}$$

Where: n = sample size; N = study population; e = error margin (i.e. 5%); 1 = constant. Applying the desired error margin of 5% on the population of 70 professionals under study, 60 respondents were selected. The tools of analyzes include tables, frequency and simple percentage as well as chi-square technique. Specifically, chi-square (X^2) formular is denoted as:

$$X^2 = \sum \frac{(F0 - Fe)^2}{Fe}$$

Where; X^2 = chi-square; F0 = observed frequency; Fe = expected frequency; Σ = summation of value

Decision Rule: if X^2 is greater than the table value at the appropriate level of significance and degrees of freedom, the null hypothesis is rejected in favour of the alternative hypothesis and vice versa.

Data and Discussion

A total of 60 questionnaires were issued to respondents, 53 were returned with 3 completed. Consequently, 50 questionnaires were used for the analysis.

Table 1: Questionnaires Distributed

Response	Respondents	(%)
Returned	50	83
Not Returned	10	17
Total	60	100

Table 1 show that about 83% of distributed questionnaires was returned while 17% was not. The various field investigations were summarized and analyzed.

Question 1

Does IFRS play any role in accounting standard in Nigeria?

Table 2: Response

Option	Response	%
Yes	50	100
No	0	0
Total	50	100

Source: field Survey 2017

Table 1 reveals that all 50 respondents agree that IFRS play crucial roles in accounting standard in Nigeria.

Question 2

Does application of IFRS holds any potential for company accounting standard in Nigeria?

Table 3: Response

Option	Response	%
Yes	43	86
No	7	14
Total	50	100

Source: Author's computation

In Table 3, it was shown that 43 respondents or 86% agree that IFRS holds good potential for accounting standard for companies operating in Nigeria while 14% disagree.

Test of Hypotheses

The hypothesis is tested by combining Tables 2 and 3 as follows:

Table 4: Calculation of Expected Frequency

Option	Table 2	Table 3	Total
Yes	50	47	93
No	0	7	7
Total	50	50	100

Expected Frequency = Column total x Row total

Grand Total

$$\text{Yes} = \frac{50 \times 93}{100} = 46.5$$

$$\text{No} = \frac{50 \times 7}{100} = 3.5$$

Table 5: Contingency

Opinion	Fo	Fe	Table 2 Fo-Fe	$(Fo-Fe)^2$	$\frac{(Fo-Fe)^2}{Fe}$
Yes No	50 0	46.5 3.5	3.5 -3.5	12.25 12.25	0.263 3.5
Yes No	43 7	46.5 3.5	Table 3 -3.5 3.5	12.25 12.25	0.263 3.5
Total	100	100	0	49	7.526

$$X^2 = \frac{\Sigma(Fo - Fe)^2}{Fe} = 7.526$$

The test is conducted at 5% significant level at one degree of freedom. Consequently, the Table value is 3.841.Thus, X^2 calculated (7.526) is greater than X^2 Table (3.841). As such the null hypothesis is rejected in favour of the alternative hypothesis and we conclude that IFRS has strong impact on accounting standard in Nigeria.

Conclusion and Recommendation

The study focuses on the impact of international financial reporting on accounting standard in Nigeria. It has been argued in the literature that the growth of businesses in Nigeria has declined which has been partly attributed to inconsistent accounting standard. This has prompted several numerous studies to ascertain the relevance of IFRS to accounting standard to Nigeria business environment but often without indebt empirical probe. To this end, the current study employs questionnaires and chi-square methods to examine the relationship between IFRS and accounting standard in Nigeria. Observably, the study found that IFRS has a strong significant impact on accounting standard in Nigeria. Consequently, it is recommended that there should be implementation of IFRS in both public and private sectors in Nigeria. Also, there should be uniformity in the application of IFRS which should be strengthened and made active. Finally, IFRS practices must be timely while government should develop an efficient approach to integrate it into all potential business transformation in Nigeria.

References

Abata, M.A. (2015). The impact of international financial reporting standards adoption on financial reporting practice in the Nigerian banking sector. *Journal of Policy and Development Studies, 9*(2): 169-184.

Blanchette, M., Racicot, F. & Girard, J. (2011). The effects of IFRS on financial ratios: Early evidence in Canada. *Certified General Accountants of Canada (CGAC) publications.* Available at: http://www.cga-canada.org/enca/researchreports/ca_rep_2011- 03_IFRS__early_adopter.pdf

Chalaki, P., Didar, H., & Riahinezhad, M. (2012). Corporate governance attributes and financial reporting quality: Empirical evidence from Iran. *International Journal of Business and Social Science, 3*(15), 223-229.

Emeni, F. K. (2014). Foreign direct investments and international financial reporting standards adoption in Africa. *Ushus Journal of Business Management*, 13(3):27- 41.

European Union reduce the cost of equity capital? *The Accounting Review,85*(2): 607- 636.

Isenmila, P. A. & Adeyemo, K. A. (2013). A perception based analysis of the mandatory adoption of international financial reporting standards (IFRS) in Nigeria. *Journal of Emerging Trends in Economics and Management Sciences (JETEMS),4*(2): 203-210.

Jinadu, O., Sunday, O.M. & Soyinka, K.A. (2016). Mandatory IFRS introduction and financial statements comparability: Evidence from Nigerian listed companies. *International Journal of Research Science and management, 3*(3): 19-30.

Lantto, A. M. & Sahlström, P. (2009). Impact of international financial reporting standard adoption on key financial ratios. *Accounting and Finance, 49*(2): 341-361.

Li, S. (2010). Does mandatory adoption of international financial reporting standards in the

Masud, B. (2013). Effects of IFRS adoption on the financial reports of Nigerian listed entities: The case of oil and gas companies. *The Macrotheme Review,2*(7): 9-26.

Musa, A. (2015). The impact of IFRS on financial reporting quality in Nigerian listed companies. *The International Journal of Business and Management, 3*(5): 275-282.

Nyor, T. (2013). Financial reporting quality of Nigeria firms: Users' perception. *International Journal of Business and Social Science, 4*(13): 273-279.

Olakunori, D. (2009). Financial reporting framework. *American Economic Review, 93*(1): 114 - 119.

Palea, V. (2013). IAS/IFRS and financial reporting quality: Lessons from the European Experience. *China Journal of Accounting Research, 6*(4), 247-263.

Punda, P. (2011). *The impact of international financial reporting standards adoption on Key Financial Ratios: Evidence from the UK*. Unpublished Master's Thesis submitted to Aarhus School of Business.

Scott, J. (2000). *Rational choice theory, in understanding contemporary society: Theories of the present,* in., G. Browning, H. Haleli and F. Webster (eds), London, Sage Publications.

Taiwo, F. H., & Adejare, A. T. (2014). Empirical analysis of the effect of international financial reporting standards (IFRS) adoption on accounting practices in Nigeria. *Archives of Business Research*, *2*(2), 1-14.

Wilson, E.H., Ioraver, N.T., Adaeze, C.O. & Iheanyi, O.A. (2013). Adoption of international financial reporting standards: Insights from Nigerian Academics and Practitioners. *Research Journal of Finance and Accounting*, *4*(6): 121-135.