

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND EARNINGS PER SHARE OF MONEY DEPOSIT BANKS IN NIGERIA

Adesanmi A.D., Sanyaolu O.A., Ajayi E.O. and Suyi-Ajayi A.D.

Bells University of Technology, Nigeria

ABSTRACT

The study examined the effect of International Financial Reporting Standard (IFRS) on the market performance of fourteen listed deposit money banks in Nigeria from 2007-2016. The study also examined the significant difference in the market performance of deposit money banks before and after adoption of IFRS. The study employed pooled ordinary least square and paired sample test to achieve the objectives. The result of the analysis revealed that the correlation coefficient of IFRS (0.00012) and the probability value (0.0124) is positively signed statistically significant at $p < 0.05$. This implies a positive and significant relationship between IFRS adoption and market performance of the listed deposit money banks. Also, the paired sample test shows that the probability value is 0.0383 which is statistically significant at $p < 0.05$. This implies that there is significant difference in the market performance of deposit money banks. The study therefore concludes that adoption of IFRS will effect positively on the market performance of companies in Nigeria. It recommended that all companies in Nigeria should not adopt the international standards, but adheres strictly to the requirements of these standards while applying them in the preparation of financial statement.

Keywords: IFRS, Financial reports, Earnings per share, Earnings management, Non-performing loans, Loss recognition, Bank regulation

1. INTRODUCTION

International Financial Reporting Standards (IFRS) are designed as a common global for language business affairs so that company accounts are understandable, reliable, relevant and comparable across international boundaries. International Financial Reporting Standards (IFRS) is the new dominant set of accounting standards developed under a rigorous due to diligence process and now used in more than 120 countries around the world, including Australia, Brazil, Canada, the European Union, South Africa, Nigeria and many others (Tohmastu, 2013). Each country adopting IFRS undergoes a transition process in the year of adoption. This process may be fairly disruptive for users of financial statements as accounting treatments of analogous items may vary, and impair comparability and trend analyses. Since the quality of financial statements

is influenced by the quality of the underlying accounting standards, users may benefit from understanding the impact of a shift from local Generally Accepted Accounting Principles (GAAP) to IFRS. Also, economic changes are likely to have similar consequences as Land and Lang (2002) document that accounting quality has improved worldwide since the beginning of the 1990s, and suggest that this could be due to factors such as globalization and anticipation of international accounting harmonization.

Considering the relative newness of the presence of IFRS in Nigeria and other sub Saharan Africa, its adoption has not been taken seriously. Thus only about 20% of the 54 countries in Africa have adopted IFRSs as a principle based financial reporting framework (Ismaila, 2010). This conforms their ignorance of the benefits which IFRSs can bring to a more transparent and credible financial reporting practice or their unwillingness to be part of the global economy (Abata, 2015). Consequently, accurate comparison may not be possible between those financial statements prepared under IFRS framework and those complied only with our local standard.

Furthermore, due to the difficulties associated with global accounting diversity; there have been efforts by government and regulatory bodies around the world to limit global accounting diversity across nations for decades (Nobes, 2004). As a result of the various benefits provided by the adoption of International Financial Reporting Standards (IFRS) to nations and international corporations, several nations have adopted the International Financial Reporting Standards (IFRS). The adoption of International Financial Reporting Standards (IFRS) has benefited stakeholders in areas such as, improved comparability of financial reports, better transparency, greater access to local and international capital markets and improved corporate reporting (Jermakowicz, 2004; Iyoha & Faboyede, 2011; Ikpefan & Akande 2012; Nassar, Uwuigbe, Uwuigbe & Abuwas 2014).

In addition, non-compliance with IFRS legal and professional framework may portend a greater challenge for companies especially banks performance and position as they might not be able to partake in the new and emerging business opportunity. Finally cross border investments and access to international market may be hindered as a result of non-compliance with IFRS (Barry, 2002) and the poor method of calculating the new introduced financial standard by financial reporting practice in Nigeria. There are contentious as to whether the adoption of IFRS improves the performance of companies adopting them for financial reporting. Some scholars argued that adoption of IFRS will not improve the performance of companies while others are of the opinion that the adoption of IFRS will improve the market performance of the firms adopting them as it will improve the inflow of investment from foreign countries.

The study therefore, investigated the relationship between IFRS adoption and market performance in the Nigerian manufacturing sector. Also, the study investigated the difference in the market performance before and after adoption of IFRS in the Nigerian manufacturing sector.

2. LITERATURE REVIEW

Tanko (2012) examined the effect of International Financial Reporting Standards (IFRS) adoption on the performance of firms in Nigeria. The study assesses the effect of compliance with the regulation and provisions of the International Financial Reporting Standards on the performance of some selected Nigerian deposit money banks. This study finds that variability of earnings decreased from an average of 32624.4 to 14432.2 which suggests that there is low variability in earnings in the post adoption period, it also found that large negative earning was positive which means that IFRS firms recognizes losses more frequently in the post adoption period than they do in the pre adoption period.

Tesfu (2012) examined the adoption of International Financial Reporting Standards (IFRS) in Ethiopia focusing on the benefits and key challenges of adopting IFRS. The study focuses on examining the benefits and challenges of IFRS including the factors that could influence its adoption. The study made of survey research via the use of questionnaires. The questionnaires were analyzed using descriptive statistics, correlations, and multiple linear regression analysis. The study results show that IFRS adoption in Ethiopia will result in a number of important benefits to a wide range of stakeholders. High cost of adopting, the complex nature, lack of proper instructions from regulatory bodies for implementing IFRS, as well as IFRS's emphasis on fair value accounting, were listed among the most important challenges of IFRS adoption. The study also elucidates that except for government policy, professional bodies, capital market, educational level and company size significantly influence the adoption of IFRS in Ethiopia. The study recommended that a rigorous IFRS capacity building program should be embarked by the government, all regulatory bodies, firms and training institutions in order to provide the needed manpower for IFRS implementation.

Afolabi, Olu and Seye (2013) examined the effect of Financial Reporting on Investment Decision Making of Manufacturing Firms in Nigeria. The study critically analyzed the effect of financial reporting on effective management decision making process in Nigeria manufacturing companies making use of analysis of variance. The result of the findings of the study reveals that financial reporting disclosure, corporate fraud and scandals, and financial reporting transparency have significant influence on effective management decision making related to investment in quoted manufacturing firms in Nigeria. The study opined that corporate managers, executives, directors, investment analyst, investors and other shareholders should ensure intra and inter control system board is set up to ensure high transparency in their activities across

department and networked branches so as to avoid incidence of corporate frauds and financial reporting scandals.

Okoye and Ezejiolor (2014) examined the effect of Adoption of IFRS on the Stock Performance: Implications on investor's expectation. This study assessed the effect of IFRS on stock market performance of banks with a view to measure whether investors' expectation is satisfactory and becomes necessary. A Stratified Random sampling method was adopted and seven years (2006-2012) annual accounts of these banks covered both SAS and IFRS. The study findings showed that most of the banks could not generate sufficient interest earnings to cover their interest obligations thereby unable to satisfy investor's expectation, hence the assessment of stock market performance of banks therefore can be used to measure whether investors expectation is satisfactory or not. The study opined that there is the need to bring financial system under control and make them to fit for the service and the interest of depositors and shareholders.

Onalo, Lizam and Kaseri (2014) examined the International Financial Reporting Standards and the quality of Banks Financial Statement Information: Evidence from an Emergency Market in Nigeria. This study measures quality of financial statement information using earnings management, timeliness of loss recognition and value relevance. A total of twenty Nigeria banks data covering a period of six years were analyzed. The result shows that IFRS adoption is associated with minimal earnings management and timely recognition of losses. The study also found that marginally support IFRS adoption is associated with high value relevance of accounting information. This study concluded that IFRS adoption engenders higher quality of banks financial statement information compared to local GAAP, and therefore recommends global adoption of IFRS and that Nigeria banks should embrace best corporate governance practices.

Abata (2015) examined the impact of IFRS on Financial Reporting Practices in Nigeria (A case of KPMG). The study examined the impact of International Financial Reporting Standard (IFRS) on financial reporting practices of corporate establishments in Nigeria. Data were collected from 50 employees of KPMG through the use of structured questionnaire and analyzed using mean scores, standard deviation and Pearson Chi-square. The study findings revealed that IFRS provides better information for regulators than GAAP. It further showed that IFRS directly affects how earnings and other key aspect of the business are accounted and reported. The result of Pearson Chi- square showed that financial reports prepared under IFRSs enhances best practices in a corporate organization financial statements. The study concluded that regulatory bodies should embark upon enlightenment campaigns on the potential benefits of adoption of IFRS especially in the area of enforcement of compliance as a matter of urgency to enable full attainment of the country's economic potentials.

Yusuf and Dania (2015) examined International Financial Reporting Standard Adoption and Financial statement using listed deposit money banks in Nigeria. with the objective of examining the effect of the adoption of the International Financial . The study made use of panel data and estimated the data using pooled regression model. The findings of the study shows IFRS adoption impacted on profitability and growth potentials of the banks. The study further revealed that fair value and transition to IFRS based financial statement brought about instability in the income statement figures.

Eneje, Obidike, Chukwujekwu (2016) examined the effect of IFRS Adoption on the Mechanics of Loan Loss Provisioning for Nigerian Banks. The study aimed at examining the effect of IFRS adoption on the mechanism of loan loss provisioning for Nigerian Banks. Their study specifically analyzed how the change in the recognition and measurement of loan loss provision affects the accounting quality of banks thereby reducing the income smoothing behavior of the money deposit banks. The study made use of secondary data which were obtained from the deposit money banks annual reports and accounts covering the period of 2005 to 2015. The study also used a descriptive statistics and the ordinary least square multiple regression analytical method the data analysis. The findings of the study showed that the limitation to recognize only incurred losses under IAS 39 significantly reduces income smoothing and delay recognition of future expected losses. Based on the sampled bank dataset and results, this study showed that the post-IFRS has had significant effects on the mechanics of loan loss provisioning compared to the pre- IFRS era in the Nigerian Money Deposit Banks. They recommend that banks CEO's should actively train fresh accountants and auditors who are yet to be acquainted with IFRS guidelines and standards.

Olugbenga (2016) examined the Adoption of International Financial Reporting Standard and value relevance of Accounting Information in Nigeria. The study specifically investigates the perceptions of the preparers and users of financial statements on the effect of value relevance on quoted companies that have adopted IFRS in Nigeria. This study also examines whether the adoption of International Financial Reporting Standards (IFRS) has improved the quality of accounting information in the area of value relevance as it affects the Nigerian quoted firm. This study used Regression method to analyze the data collected. The study findings revealed that the adoption of IFRS has a positive and significant effect on the value relevance of accounting information. The study recommends that the government should empower the relevant bodies to incorporate more measures to improve the quality of the financial reporting in order to increase the value relevance of financial statements.

Sanyaolu, Iyoha, Ojeka (2017) examined the International Financial Reporting Standards Adoption and Earnings of Quoted Banks in Nigeria. Their study aimed to examine the effect of adopted International Financial Reporting Standards (IFRS) adoption on the earning yield (EY)

and earnings per share (EPS) of quoted banks in Nigeria. The study made use of cross sectional data obtained for a period of six years from 2009 to 2014, while the panel ordinary least method of analysis was used to examine the impact of IFRS adoption on the earnings of all the fifteen quoted banks in the Nigerian Stock Exchange. Their study found a significant and positive relationship between IFRS adoption and the EY of quoted banks in Nigeria. They also found a significant and positive relationship between IFRS adoption and EPS of quoted banks in Nigeria. Their study concluded that IFRS adoption has improved the decision making capability of the various stakeholders, thus, increasing investors' confidence and the inflow of capital in the country through foreign direct investment.

3. METHODOLOGY

3.1 Model Specification

To examine the effect of IFRS adoption on the earnings per share of money deposit banks, the study will specify the following model.

EPS = f (IFRS adoption, Fsize, profitability, Vol)(1)

The is expressed in econometric form as follows;

EPS_{i,t} = β₀ + β₁IFRS_{i,t}+ β₂FSIZE_{i,t} + β₃PROF_{i,t} +β₄Vol_{i,t}μ(2)

Where,

EPS= Earnings Per Share.

IFRS adopt = IFRS Adoption.

F Size = Firms Size.

Vol = Volume of Shareholdings

Prof= Profitability, t = number of period or years., i = number of firms., β₀ = intercept.

β₁ to β₅ = coefficient of the explanatory variables and μ = Error term.

Where β₁>0>β₂>β₃>0

3.2 Measurement of variables

This study consists of both dependent variables and independent variables:

Dependent variables: Earnings Per Share

Earnings per share (EPS) is calculated as ;

$$\frac{\text{Total earnings}}{\text{Number of Ordinary shares in issue}}$$

Independent variable consists of the following;

International Financial Reporting Standard (IFRS) will be measured using dummy variable, 0 for non-adoption and 1 for adoption.

Firm's size is measured using a natural logarithm of all the asset at the end of the period of each selected money deposit banks.

Volume of Share is measured by the number of ordinary shares issued.

Profitability is measured using ROA which is calculated;

$$\text{ROA} = \frac{\text{profit before interest and tax}}{\text{Total Asset}} \times 100$$

Total Asset

3.3 Method of data analysis

The objectives were achieved using pooled ordinary least square regression and paired sample test technique.

3.4 Sources of data

This study made use of a secondary data; data were sourced from the annual reports of the listed money deposit banks in Nigeria spanning from 2007-2016.

4. DATA ANALYSIS AND DISCUSSION

4.1 Panel Result of the effect of IFRS on the market performance of listed money deposit banks

Table 2: Panel Least Square Regression.

Dependent Variable: EPS

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FS	5.28E-05	4.21E-05	1.253133	0.2126
IFRS	0.000124	4.77E-05	2.609149	0.0102*
PROFIT	0.000302	3.27E-05	9.214589	0.0000**
VOL	-0.000954	0.000166	-5.731402	0.0000**
C	0.008107	0.001605	5.051469	0.0000**

Effects Specification			
Cross-section fixed (dummy variables)			
Weighted Statistics			
R-squared	0.724634	Durbin-Watson stat	1.816282
Adjusted R-squared	0.686263		
F-statistic	18.88511		
Prob(F-statistic)	0.000000		

***, ** significant at 5% and 1% respectively**
Source: `Author's computation (2017)

Table 2 shows the result of effect of IFRS on the market performance of listed deposit money banks in Nigeria. The data estimated span over ten years across fourteen deposit money banks while the method used for the estimation is pooled ordinary least square using fixed effect. The R-squared is 0.724634 which implies that 72% of the total change in the Earnings per share (EPS) can be explained by the combined explanatory variables (International Financial Reporting Standard, Profit, Share volume and Firm Size). This implies that all independent variables are sufficient to explain changes in the dependent variable and can be used for the estimation. Furthermore, the probability of the F-statistic is 0.0000, this indicates that the model is statistically significant at 1% and as such it is well specified and can be used for the estimation. Also the adjusted R² of 0.686263 further confirmed the fitness of the model. Lastly, the Durbin-Watson of 1.81 indicates that the result is free from serial autocorrelation problem. Specifically, the coefficient of firm size (5.28E-05) and the p-value (0.2126) is positively signed but not statistically significant at p<0.05. This implies that there is an insignificant positive relationship between firm size and earnings per share (EPS) of listed money deposit banks in Nigeria. The IFRS has correlation coefficient of (0.000124) and the p-value of (0.0102). This is positively signed and statistically significant at p<0.05. It follows that increase in adoption of IFRS will lead to increase in the market performance of deposit money banks in Nigeria. In other words a unit increase in the adoption of IFRS will lead to 0.0001 increases in the market performance of the money deposit banks. Furthermore, the coefficient of share volume (-0.000954) and p-value (0.0000) is negatively signed but statistically significant at 5% level of significance. This implies that there is an insignificant negative relationship between share volume and earnings per Share (EPS) of listed deposit money banks in Nigeria.

Table 3: Paired Sample Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 PRE – POST	-.00011512748	.00113611976	.00013118781	-.00037652490	.00014626994	-.878	74	.383

Source: Author’s Computation (2017)

The table 3 gives the result of the paired sample test of the difference in the market performance of deposit money banks pre and post adoption of IFRS. The result reveals that the probability value (0.0383) is statistically significant at $p < 0.05$, therefore, there is significant difference in the performance of the banks before and after adoption of International Financial reporting Standards. In other words the post adoption financial performance was significantly better than the pre IFRS adoption financial performance.

4.2 Discussion of the findings

The result of the estimation of effect of IFRS on the market performance of money deposit banks reveals that there is positive and significant relationship between IFRS and market performance. This implies a direct relationship between IFRS and financial performance of money deposit banks in Nigeria. It therefore follows that the IFRS adoption has an effect on the market performance of the listed money deposit banks in Nigeria. The findings are in line with the following theory and findings of Tesfu (2012), Abdulrazak (2013), Olugbenga (2016), Jinadu and Olugbenga (2016).

Furthermore, the result of the analysis reveals that a direct and insignificant relationship exists between firm size and market performance of sampled money deposit banks. This implies that increase in the size of firm will improve the performance of the banks. Also, the study found that profit impacts on financial performance of the sampled money deposit banks positively and significantly. This suggests that an increase in profit will positively improve the financial performance of money deposit banks.

Finally the study reveals that there is a negative and significant relationship between share volume and financial performance of money deposit banks. This implies that the share volume negatively affects the performance of selected listed money deposit banks in Nigeria

5. CONCLUSION AND RECOMMENDATION

The finding of the study reveals there is a positive and significant relationship between International Financial Reporting Standard and Earnings per share (EPS) of listed deposit money banks in Nigeria. This findings agrees with the findings of Tesfu (2012), Abdulrazak (2013), Olugbenga (2016), Jinadu and Olugbenga (2016). Furthermore, the study finds that there is positive and significant relationship between firm size and market performance of the sampled listed money deposit banks.

The study therefore concludes that the IFRS adoption affects the market performance of listed money deposit banks in Nigeria positively. Therefore adoption of IFRS will significantly affect the market performance of the money deposit banks by attracting more investors both locally and international since the reporting language is now global language.

Based on the empirical findings of this study the following recommendations are put forward;

- i. Banks and other companies in Nigeria should adopt and adhere strictly to the requirements of International Financial Reporting Standards as this will enhance their market performance.
- ii. Training and retaining of financial statements preparers should be fully embraced as this will aid their understanding and applications of the IFRS.
- iii. This study has only been limited to one sector of the economy; therefore it is recommended that further studies can extend it to other sectors of the economy.

REFERENCES

- Abata, M.A. (2015). Impact of International Financial Reporting Standard on financial reporting practices in Nigeria (A case of KPMG). *Global journal of contemporary research in Accounting, Auditing and Business Ethics (GJCRA)*. An Online International Research **2(1)**.
- Ahmed, K. Alam, M. (2012). The Effect of IFRS Adoption on the Financial Reports of Local Government Entities. *Australasian Accounting, Business and Finance Journal*, 6(3), 109-120.
- Akinyemi, O.A. (2012). The impacts of International Financial Reporting Standards adoption on Financial Statements: The case of Nigeria, *Business Economics and Tourism*. Vasaan Ammattikorkeakoulu, Vasa Yrkeshogskola University of applied science.
- Afolabi, M.O. (2013). Effect of financial reporting on investment decision making of manufacturing firms in Nigeria. *European journal of humanities and social science*.

- Bala, M. (2013). Effects of international financial reporting standards (IFRS) adoption on the financial reports of Nigerian listed Entities: A case study of oil and gas companies. *A multidisciplinary journal of global macro trends*.
- Baki, Z.A., Uthman, A.B., & Sanni, M. (2014). Financial ratio as performance measure: A comparison of IFRS and Nigerian Gaap, Accounting and Management Information systems.
- Bansal, A. (2011). Effect of International Financial Reporting Standard in Indian banking sector. Summer Internship Society.
- Edogbanya, A., & Kamardin, H. (2014). Adoption of international financial reporting standards in Nigeria: concepts and issues. *Journal of Advanced Management Science*.
- Eneje, Obidike, B.C., & Chukwujekwu, P. (2016). The effect of international financial reporting standard (IFRS) adoption on the mechanics of loan loss provisioning for Nigerian banks. *Journal of Business and Management*, Issue 6, P 42-52.
- Evan, O., Enahoro, J.A. (2014). Comparative study of the international financial reporting standard implementation in Ghana and Nigeria. *European scientific Journal*.
- Ikpefan, A., Ailemen, O., & Akande, A. O. (2010). International financial reporting standard (IFRS): benefits, obstacles and intrigues for implementation in Nigeria. *Business Intelligence Journal*.
- Masud, B. (2013). Effect of IFRS adoption on the Financial Reports of Nigerian Listed Entities: The case of oil and gas companies. A Macrotheme review, *A multiple Journal of global macro trend*.
- Mgbame, C.J., Donwa, P.A., Agbonkolor, O.R. (2015). International Financial Reporting Standard (IFRS) and financial reporting, implications. *International Journal of Multidisciplinary Research and Development*, Issue: 10, p 50-55.
- Musa, A. (2015). The impact of IFRS on the financial reporting quality in Nigeria listed companies. *International Journal of Business*.
- Nneka, S., & Oladele, R. (2012). Adoption of International Financial Reporting Standard (IFRS) to enhance financial reporting in Nigeria Universities. *Arabian Journal of Business and Management Review*. (OMAN Chapter).

- Odia, J.O., & Ogiedu, K.O. (2013). IFRS Adoption: Issues, Challenges and Lessons for Nigeria and other Adopters, *Mediterranean Journal of Social Sciences*. MCSER Publishing, Rome-Italy.
- Okpala, K.E. (2012). Adoption of IFRS and financial statement effects: The perceived implications on FDI and Nigeria economy. *Australian Journal of Business and Management research*, No.05 [76-83].
- Onalo, U., Lizam, M., & Kaseri, A., IFRS and value relevance of accounting information in Nigeria. *International Journal of Innovative Research and Advanced Studies (IJIRAS)*, Volume 3, Issue 4, P.P. 243 – 255.
- Onulaka, P., Impact of adoption of IFRS in Nigeria capital. *International Journal of Science and Market, Preparers of Financial Statements and Auditors, Research (IJSR)*, ISSN (Online): 2319-7064, Impact Factor (2012): 3.358.
- Puis, V.C., Okoye, & Ezejiolor R. (2014). Impact of the IFRS adoption on stock market movement in Nigerian corporate organization. *International Journal of Academic Research in Business and Social Sciences*.
- Tanko, M. (2012). Effect of international financial reporting standards (IFRS) adoption on the performance of firms in Nigeria. *Journal of Administrative and economic sciences*, No 2, pp 133 – 157.
- Ugbede, O., Lizam., & Kaseri, A. (2016). Do international financial reporting standards Influence Malaysian and Nigerian banks earnings management Goals?. *British Journal of Economics, Management & Trade*, 12(3): 1-12.
- Yahya, K.A., Fagbemi, T.O., Oyeniyi, K.K., Onile O.O., & Sulaiman A.B. (2013). Impact of international financial reporting standard (IFRS) on the financial statements figures and key financial ratios of Nigerian banks. *Journal of Commerce*. No.3 pp.127-150.
- Yahaya. A.O., Yusuf M.J., & Dania I.S (2015). International financial reporting standards' adoption and financial statement effects: Evidence from listed deposit money banks in Nigeria. *Research Journal of Finance and Accounting*, ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online), No.12, 2015.
- Sanyaolu, O.A., Iyoha, F.O., & Ojeka, S.A. (2017). International Financial Reporting Standards Adoption and Earnings of Quoted Banks in Nigeria. *International Journal of Economics and Financial*, 7(1), 279-284.