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THE IMPACT OF INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) ADOPTION ON THE QUALITY OF CONSOLIDATED FINANCIAL REPORTING IN NIGERIA

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ABSTRACT

The purpose of this paper is to investigate the impact of IFRS adoption on the quality of consolidated financial reporting in Nigeria. This research has been performed using a sample of 20 companies listed on the Nigeria Stock Exchange (NSE) from 2010 to 2015. The relationship between the explained variable (market price per share) and explanatory variables was observed. The results of the multiple regression analysis were statistically significant at 0.001, 0.01 and 0.05 levels. The findings of the study revealed that the adoption of IFRS in the preparation of consolidated financial statement increases the quality of financial reporting in Nigeria. The research evidence also indicated that the adoption of IFRS increases the value relevance (relative quality) of financial reporting in Nigeria. Moreover, we ascertained an incremental utility (quality surplus) of financial reporting as a result of adoption of IFRS in Nigeria.

Keywords: International Financial Reporting Standard (IFRS), Statement of Accounting Standard (SAS), Consolidated Financial Reporting, Nigeria Stock Exchange (NSE)

1.0 INTRODUCTION

International Financial Reporting Standard (IFRS) is a set of high quality, understandable, enforceable and globally accepted standards based on clearly articulated principles (Muller, 2014). It is a set of accounting standard developed by an independent, not-for-profit organization called International Accounting Standard Board (IASB). The introduction of high quality globally acceptable financial reporting standard originated in 1973 when the International Accounting Standard Committee (IASC) was formed by 16 professional bodies from the

ISSN: 2455-8834

Volume:02, Issue:02

following countries; USA, United Kingdom, France, Canada, Germany, Australia, Japan, Netherlands and Mexico (Garuba and Donwa, 2011). International Accounting Standard Committee (IASC) was properly recognized in 2001 and later transformed to International Accounting Standard Board (IASB) which developed accounting standards and related interpretations jointly known as International Financial Reporting Standard (Ezeani and Oladele, 2012). International Financial Reporting Standards are formulated to promote unionization of accounting standards around the world for better quality and fair value at international level (Abdul Rashid et al, 2012).

Before the introduction of IFRS, most countries had their indigenous standards with local bodies responsible for the development and issuance of local standards (Abata, 2015). In Nigeria, the Nigerian Accounting Standards Board (NASB) was responsible for developing and issuing standards known as Statement of Accounting Standard (SAS) and NASB was later renamed on June 2011 by Financial Reporting Act No 6, 2011as Financial Reporting Council of Nigeria (FRCN) as the regulatory body overseeing the adoption and implementation of International Financial Reporting Standard (Kenneth, 2012).

The Federal Executive Council of Nigeria (FEC) approved the convergence of Statement of Accounting Standard (SAS) with International Financial Reporting Standard (IFRS) with effect from January 1st, 2012.

The Central Bank of Nigeria (CBN) and Securities and Exchange Commission (SEC) also adopted this date for compliance and guidance compliance circulars were issued to ensure full implementation of IFRS in Nigeria.

All quoted Companies and Significant Interest Entities are required by the IFRS Adoption Roadmap Committee (2010) to adopt the IFRS by January 1st 2012. All other public entities are mandated to adopt IFRS by January 2013 while Small and Medium Scale Enterprises are expected to adopt IFRS by January 2014. All quoted companies were required to prepare their closing balances as at December 31st, 2010 in line with IFRS provisions.

Consequently, the closing balances as at 31st December, 2010 will become the opening balances as at January 1st 2011 for IFRS-based financial statement as at December 31,2011. The opening balances as at January 1st 2012 will be the first FIRS full financial statements in line with the provision of IFRS as at December 31, 2012.

IFRS was formulated in order to enhance standardization of accounting regulations around the world. It provides better quality financial statements as compared to the then existing regulations (Barth et al, 2008; Prather-Kinsey et al, 2008).

ISSN: 2455-8834

Volume:02, Issue:02

Financial information is provided through financial statements of entities quoted on the capital market (Muller, 2014). Some companies listed on Nigeria Stock Exchange (NSE) own one or more subsidiaries and are required to prepare consolidated financial statements for the group as a whole in accordance with IFRS provisions. The quality of financial reporting is indispensable to the needs of the stakeholders who require them for investment and other decision-making purposes (Fashina and Adegbite, 2014).

Research evidence has shown that IFRS influences the economic status of many firms and ensure accuracy of the value relevance of financial statements (Barthe et al, 2008; Daske et al, 2008; Prather-Kinsey et al, 2008).

This paper investigates the impact of IFRS adoption on the quality of consolidated financial reporting in Nigeria.

2.0 LITERATURE REVIEW

A large number of researches have investigated the motivations behind the adoption of IFRS by emerging economies like Nigeria. Saidi (2013) argued that the decision to adopt IFRS is premised on the fact that developing countries are generally unable to allocate the financial and technical resources needed to develop high-quality and indigenous accounting standards. Several studies have examined the adoption of the International Financial Reporting Standard (IFRS) across the world.

Muller (2014) measured the impact of IFRS adoption on the quality of consolidated financial reporting in Germany using multiple regression model for a period of 4 years (2003-2006). The results of the findings revealed an increase in consolidated financial statement quality as a result of the adoption of IFRS.

Hung and Subramanian (2004) examined the effect of IFRS adoption on financial statements and their value relevance for a sample of German listed firms from 1998-2002. The evidence of the study revealed that total assets, book values of equity, variability of book value and net income are significantly higher under FIRS than German GAAP.

Yahaya et al (2015) investigated the effects of IFRS adoption on the financial statements of Banks in Nigeria using multiple regression model. The results showed that IFRS adoption has impacted positively on profitability and growth potentials of Nigerian Banks.

Zakari (2014) investigated the challenges of IFRS adoption in Libya using descriptive statistics. The research evidence indicated that IFRS adoption by Libyan Companies has faced some obstacles such as accounting education and economic issues.

ISSN: 2455-8834

Volume:02, Issue:02

Irvine and Lucas (2006) examined the challenges facing the adoption of IFRS in the United Arab Emirates. The finding of the study suggests that UAE needs to develop appropriate regulatory systems to overcome cultural issues relating to secrecy and fraud in the adoption of IFRS.

Duarte et al (2015) investigated IFRS adoption and accounting quality in Brazil using bibliometric analysis for a period of 7 years (2007-2013). The evidence of the study revealed that the determinants of accounting quality after the adoption of IFRS are articulated in the quality of the standard's political and judicial system in the country and financial reporting incentives.

Ahmed and Alam (2012) investigated the effect of IFRS adoption on the reports of Local Government Entities in Australia using descriptive statistics and analysis of variance (ANOVA). The results of the findings revealed that the adoption of IFRS impacts positively on the surplus, equity, assets and liabilities of Local Government Entities in Australia.

Onalo et al (2014) investigated IFRS and the quality of banks' financial statement information in Nigeria from 2008 to 2013 using ordinary least square (OLS) regression model. The research evidence revealed that IFRS adoption engenders high quality of banks' financial statement in Nigeria.

Taouab et al (2014) conducted an empirical investigation on the adoption of IFRS in Morocco using a logistic regression model. The evidence of the findings revealed that the adoption of IFRS has a significant positive effect on firms' size.

Adetula et al (2014) investigated the adoption of IFRS by Small and Medium Scale Enterprises (SMES) in Nigeria using descriptive statistics. The results showed that the adoption of IFRS is relevant to Small and Medium Enterprises in Nigeria. The study also revealed that the adoption of IFRS is currently confronted with diverse challenges that may prevent the effective adoption and implementation of IFRS by SMES in Nigeria.

Abata (2015) examined the impact of IFRS adoption on financial reporting practice in Nigerian banking sector from 2010 to 2012 based on descriptive and inferential statistics. The research evidence revealedthat IFRS has an impact on financial reporting practices of Nigerian banks.

Gassen and Selhorn (2006) tested the adoption of International Financial Reporting Standard by publicly traded German firms. The empirical evidence showed that size, international exposure, dispersion of ownership are important determinants of IFRS of publicly traded German firms.

Barthe et al (2008) compared domestic GAAP and IAS/IFRS across 21 Countries. The study revealed that firms applying IAS/IFRS exhibit less earnings management, more timely loss regulation and more value-relevant accounting measures.

ISSN: 2455-8834

Volume:02, Issue:02

3.0 RESEARCH METHODOLOGY

The broad objective of this study is to investigate the impact of International Financial Reporting Standard (IFRS) adoption on the quality of consolidated financial reporting in Nigeria. Data were obtained from the annual reports of 20 quoted companies in Nigeria for a period of 6 years (2010-2015) and daily official listing of the Nigeria Stock Exchange (NSE). The data obtained for the purpose of the study were analyzed using multiple regression model.

In order to test the impact of mandatory adoption of IFRS on the absolute and incremental value relevance and the quality of financial information provided by consolidated financial statements, we developed econometric models, which measure the degree of association between share price and accounting information provided by financial statements. The bases for these are Ohlson (1995) model and Muller (2014) model, which express share price as a function of current accounting value of equity plus the discounted value of future (abnormal) results.

MODEL 1

This model shows the relationship between market price per share and qualityof consolidated financial statements, represented by book value of equity of the parent company and net income per share of the parent company.

$P_t = \beta 0 + \beta 1VEPt + \beta 2NIPt + \mu t$ (1)

Where P_t = Current market price

β = Regression coefficients

$BVEP_t$ = Book value of equity of the parent company in year t

NIP_t = Net income per share of the parent company in year t

μ_t = Stochastic error term in year t

MODEL 2

This model shows the relationship between market price per share and value relevance (relative quality) of consolidated financial statements, represented by book value of group equity per share and group earnings per share.

$P_t = \beta 0 + \beta 1BVGEt + \beta 2GEPSt + \mu t$ (2)

Where P_t = Current market price

ISSN: 2455-8834

Volume:02, Issue:02

β = Regression coefficient

$BVGE_t$ = Book value of group equity per share in year t

$GEPS_t$ = Group earnings per share in year t

MODEL 3

This model shows the relationship between market price per share and incremental utility (quality surplus) of consolidated financial statements, represented by change in book value of group equity per share and change in group earnings per share.

$$P_t = \beta 0 + \beta 1BVEP_t + \beta 2\Delta BVGE_t + \beta 3NIP_t + \beta 4\Delta GEPS_t + \mu_t \quad (3)$$

Where $\Delta BVGE_t$ = Change in book value of group equity per share in year t

$\Delta GEPS_t$ = Change in group earnings per share in year t

4.0 RESULTS

TABLE4.0.1 CORRELATION MATRIX

	PEARSON CORRELATION						
	P0	$BVGE_t$	$GEPS_t$	$BVEP_t$	NIP_t	$\Delta BVGE_t$	$\Delta GEPS_t$
P0	1.000						
$BVGE_t$	0.685	1.000					
$GEPS_t$	0.714	0.733	1.000				
$BVEP_t$	0.639	0.726	0.684	1.000			
NIP_t	0.612	0.642	0.525	0.387	1.000		
$\Delta BVGE_t$	0.601	0.659	0.638	0.104	0.132	1.000	
$\Delta GEPS_t$	0.546	0.551	0.447	0.235	0.106	0.508	1.000

Source: Authors' Computation, 2017

From the Pearson correlation matrix above regarding the association between the variables employed in the study, it could be seen that there is a significant positive correlation between the

ISSN: 2455-8834

Volume:02, Issue:02

explained variable (market price per share) and the explanatory variables. It must be noted that significant correlation exists between some explanatory variables used in the models. This indicates the existence of multicollinearity, which is common to studies of this nature.

To examine if the existence of multicollinearity generates instability in our empirical study, we computed the variance inflation factor (VIF) for each coefficient of the explanatory variables. The existence of variance inflation factor of more than 5 is an indication of serious autocorrelation problems between the independent variables.

TABLE 4.0.2

Period/Sample		Characteristics				
		β0	$BVEP_t$	NIP_t	F	Adjusted R^2
2010	α	10.238	0.817	1.824		
SAS	t	3.895****	4.906***	3.477***	104.128	0.363
n = 20	VIF		1.638	1.638		
2011	α	9.416	0.712	1.686		
SAS	t	3.025****	2.841****	2.293****	73.538	0.324
n = 20	VIF		2.542	2.542		
2012	α	12.176	0.903	2.781		
IFRS	t	4.038****	7.186****	3.309**	106.938	0.422
n = 20	VIF		3.605	3.605		
2013	α	12.188	0.925	2.118		
IFRS	t	4.321****	7.139****	2.704***	109.048	0.511
n = 20	VIF		3.885	3.885		
2014	α	12.227	0.921	2.397		
IFRS	t	4.698****	7.436****	2.882***	110.376	0.625
n = 20	VIF		3.974	3.974		
2015	α	13.069	0.933	2.406		
IFRS	t	4.718****	7.485****	3.039**	113.875	0.639
n = 20	VIF		3.182	3.182		

**** Significant @ 0.001, *** Significant @0.01, ** Significant @ 0.05

Source: Authors' Computation, 2017

Table 4.0.2 above shows the relationship between the market price per share and quality of consolidated financial statements, represented by book value of equity of the parent company and net income per share of the parent company.

The difference between the quality of consolidated financial statements in accordance with IFRS and quality of consolidated financial statement prepared in the context of SAS is revealed by the

ISSN: 2455-8834

Volume:02, Issue:02

explanatory power of Adjusted R^2. The adjusted R^2 was higher in 2012 (42.2%), 2013 (51.15), 2014 (62.5%) and 2015 (63.9%) after IFRS adoption than before IFRS adoption (2010-2011). Due to the fact that the explanatory power of the econometric model is used as a measure of the quality of financial statement, it implies that IFRS adoption increases the quality of consolidated financial statements in Nigeria.

TABLE 4.0.3

Period/Sample			Characteristics			
		β0	BVGE	GEPS	F	Adjusted R^2
2010	α	8.901	0.629	1.734		
SAS	t	2.397****	4.895****	2.318***	83.171	0.323
n = 20	VIF		1.638	1.638		
2011	α	10.818	0.725	1.716		
SAS	t	3.782****	3.341****	2.403****	88.132	0.385
n = 20	VIF		2.217	2.217		
2012	α	11.673	0.908	2.362		
IFRS	t	3.581****	6.684****	2.015**	105.237	0.579
n = 20	VIF		3.336	3.336		
2013	α	11.758	0.916	2.107		
IFRS	t	4.112****	7.033****	2.698***	108.31	0.594
n = 20	VIF		3.751	3.751		
2014	α	11.849	0.728	4.031		
IFRS	t	4.337****	6.895****	2.104***	115.106	0.707
n = 20	VIF		3.186	3.186		
2015	α	11.877	0.739	4.166		
IFRS	t	4.408****	6.946****	2.119***	116.837	0.714
n = 20	VIF		3.348	3.348		

**** Significant @ 0.001, *** Significant @0.01, ** Significant @ 0.05

Source: Authors' Computation, 2017

Table 4.0.3 above shows the relationship between the market price per share and value relevance (relative quality) of consolidated financial statements, represented by book value of group equity and group equity per share.

The difference between the value relevance of consolidated financial statements in accordance with IFRS and value relevance of consolidated financial statement prepared in the context of SAS is revealed by the explanatory power of Adjusted R^2. The adjusted R^2 was higher in 2012 (57.9%), 2013 (59.4%), 2014 (70.7%) and 2015 (71.4%) than before IFRS adoption (2010-

ISSN: 2455-8834

Volume:02, Issue:02

2011). The empirical evidence shows that IFRS adoption increases the value relevance (relative quality) of consolidated financial statements in Nigeria.

TABLE 4.0.4

Period/Sample		Characteristics						
		β0	$BVEP_t$	$\Delta BVGE_t$	NIP_t	$\Delta GEPS_t$	F	Adjusted R^2
2010	α	8.039	0.546	0.699	3.351	0.194		
SAS	t	2.175****	4.624****	2.188***	2.909	0.228	75.373	0.441
n = 20	VIF		1.836	1.029	1.748	1.089		
2011	α	9.26	0.804	0.705	3.913	0.208		
SAS	t	3.429****	4.141****	2.397***	2.968	0.395	83.306	0.396
n = 20	VIF		1.906	1.275	1.834	1.117		
2012	α	10.147	0.898	0.773	4.015	0.232		
IFRS	t	3.764****	4.285****	2.455**	3.006	0.431	88.435	0.685
n = 20	VIF		1.918	1.288	1.963	0.448		
2013	α	10.166	0.909	0.784	4.036	0.258		
IFRS	t	3.834****	4.297****	2.514***	3.148	0.504	91.337	0.693
n = 20	VIF		1.926	1.301	1.977	0.516		
2014	α	11.224	0.935	0.792	4.044	0.269		
IFRS	t	3.907****	4.374****	2.597**	3.166	0.548	93.275	0.784
n = 20	VIF		2.038	1.786	2.113	0.527		
2015	α	11.472	0.957	0.886	4.075	0.386		
IFRS	t	4.055****	4.698****	2.804***	3.679	0.594	95.203	0.812
n = 20	VIF		2.133	1.892	2.265	0.644		

**** Significant @ 0.001, *** Significant @0.01, ** Significant @ 0.05

Source: Authors' Computation, 2016

Table 4.0.4 above shows the relationship between the market price per share and quality surplus (incremental utility) of consolidated financial statements, represented by change in book value of group equity per share and change in group earnings per share. The difference between the incremental utility of consolidated financial statements in accordance with IFRS and incremental utility of consolidated financial statement prepared in the context of SAS is revealed by the difference between the explanatory powers (Adjusted R^2). The adjusted R^2 was higher in 2012 (68.5%), 2013 (69.3%), 2014 (78.4%) and 2015 (81.2%) after the IFRS adoption than before IFRS adoption. The empirical evidence shows that IFRS adoption increases the quality surplus of consolidated financial statements in Nigeria.

ISSN: 2455-8834

Volume:02, Issue:02

TABLE 4.0.5 VALUE SURPLUS OF IFRS ADOPTION

	BEFORE IFRS		AFTER IFRS			
	2010	2011	2012	2013	2014	2015
Adjusted R2 Model 1	36.3	32.4	42.2	61.1	62.5	63.9
Adjusted R2 Model 3	44.1	39.6	48.5	69.3	70.4	81.2
Δ Adjusted R2	7.8	7.2	6.3	8.2	7.9	17.3
Sig	0.001	0.002	0.004	0.000	0.001	0.000

Source: Authors' Computation, 2017

Table 4.0.5 shows the incremental utility of consolidated financial statement before and after IFRS adoption.

The difference between the utility of consolidated financial statements in accordance with IFRS and utility of consolidated financial statement prepared in the context of SAS is revealed by an increase in the difference between the explanatory powers (Adjusted R^2). The difference in adjusted R^2 was 26.3% in 2012, 18.2% in 2013, 15.9% in 2014 and 17.3% in 2015 (17.3%). The findings of the study revealed that IFRS adoption maximises the quality surplus (incremental utility) of consolidated financial statements in Nigeria.

5.0 CONCLUSION

This study examines the impact of International Financial Reporting Standard (IFRS) adoption on consolidated financial reporting in Nigeria using multiple regression analysis. The evidence of the findings revealed a significant positive relationship between IFRS adoption and quality of consolidated financial statement. Moreover, a significant positive relationship was also found between IFRS adoption and value relevance (relative quality) of consolidated financial statement. The research evidence also shows that IFRS adoption increases the quality surplus (incremental utility) of consolidated financial statement.

The empirical evidence revealed that IFRS adoption increases the qua;ity of consolidated financial reporting in Nigeria

ISSN: 2455-8834

Volume:02, Issue:02

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Volume:02, Issue:02

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