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Impact of IFRS on Financial Reporting Practices in Nigeria

Ubesie Madubuko Cyril and C. DenChukwu Ijeoma

Department of Accountancy, Enugu State University of Science and Technology, Nigeria

Abstract: The study examined the impact of international financial reporting standard (IFRS) or financial reporting practices of corporate establishment in Nigeria. The finding showed that FIRS directing affects how earnings and other key aspects of the business are accounted and reported for. However, the result of this study showed that changes in business processes and operations,. Financial position of companies and reduction in cost of finance was the lease contributions of IFRS ro financial reporting practices. The study therefore recommended that regulatory body should embarked upon enlightenment campaigns on the potential impacts of adopting IFRS in Nigeria. It is also point out that government should support the Nigeria adoption of IFRS especially in the area of enforcement to compliance as a matter of urgency to enable full attainment of the country's economic potential.

Key words: IFRS · Financial reporting · Corporate establishment and Nigeria

INTRODUCTION

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 [1]. 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. Consequently, accurate comparison may not be possible between those financial statements prepared under IFRS framework and those complied only with our local standard. Furthermore 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, [2] and the poor method of calculating the new introduced financial standard by financial reporting practice in Nigeria. Most studies on IFRS have concentrated on it as a financial reporting issue. But financial reporting is one aspect of the total impact of IFRS composition. Much more significant is the impact of a set of standards on a company's organization, philosophy, business structure compliance to the standards, performance management and internal control and so on. The objective of the study is to examine whether financial reports prepared in compliance with IFRS legal and professional framework enhances best practice in corporate organization.

IFRS and Financial Reporting Quality Empirical studies have investigated the effects of adopting IAS/IFRS in Europe on investors' perception of accounting quality prior to Regulation 1606/2002, providing evidence in favour of their adoption. By means of disclosure quality scores provided by reputed experts, Daske and Gebhardt [3], report, for instance, an increase in accounting quality for a sample of Austrian, German and Swiss firms switching to IAS/IFRS in the period prior to their mandatory adoption in Europe. Similar results are provided by value-relevance studies such as the ones by Bartov *et al*. [4], which document an increase in the value-relevance of earnings for German firms adopting IAS/IFRS. Barth *et al*. [5], also compare domestic GAAP and IAS/IFRS across 21 countries, suggesting that firms applying IAS/IFRS exhibit less earnings management, more timely loss recognition and more value-relevant accounting measures. However, all these studies refer to voluntary adoption of IAS/IFRS, which might be the result of corporate incentives to increase transparency. Ashbaugh [6], for instance, documents that the decision to report under IAS/IFRS is positively related to corporate size, the number of foreign equity markets on which the firm's shares are traded and the additional issuance of

Corresponding Author: Ubesie Madubuko Cyril, Department of Accountancy, Enugu State University of Science and Technology

equity shares. Similar findings are reported by [7, 8]. For a sample of European non-financial firms that voluntarily adopted IAS/IFRS, Cuijpers and Buijink [7], document that foreign listing and geographical dispersion of operations are important drivers. Gassen and Selhorn [8], also show that size, international exposure, dispersion of ownership and IPOs are important determinants of voluntary IAS/IFRS adoption by publicly traded German firms. Findings therefore suggest that companies voluntarily shifting to IAS/IFRS have incentives to improve transparency and the quality of financial reporting. Along the same lines, Covrig *et al*. [9], argued that foreign mutual fund ownership is significantly higher among IAS/IFRS adopters, which suggests a voluntary switch to IAS/IFRS aimed at attracting foreign investors by providing them with both more information and information that is more familiar to them.

Issues and Challenges in International Financial Reporting Standards: The international Financial Reporting Standards (IFRS) is regarded as a global GAAP and a set of principles –based and globally accepted standard published by the International Accounting Standards Board (IASB) to assist those involved in the preparation of financial statements all over the world to prepare and present high quality, transparent and comparable financial statements. According to Akinmutimi [10], the major strength of IFRS is that it offers a lot of benefits to corporate and public entities in terms of cost; easy consolidation of financial statements; better management control of internal consistencies of reporting; improved access to global financial capital markets; ability of international investors to make meaningful comparisons of investment portfolios in different countries and promotion of trade within regional economic groups. According to Izedonmi (2011), [11], the need and feasibility for a uniform global financial reporting framework has been on for many years. He identified the following factors supporting the adoption of IFRS:

- Continuous integration of world economy;
- Increased interdependence of the international financial markets;
- Absence of barriers of capital flows across national boundaries;
- Increased mobility of capital across national boundaries;
- Multiple listing by companies in capital markets within and outside their home jurisdiction;
- Continuous demand by stakeholders for quality information and greater disclosures.

There is however some inherent problems with aligning with international accounting standards, Ukpai [12], pointed out that international accounting clearly has a language problem. The word “asset” in French may also connote “active”. The German language has no reasonable single-word counterpart for the term fair. Since accounting itself is not readily translatable into Dutch, people in Holland simply use the English word “accounting” as part of their native language. Accounting words are far from universally comprehensible. More so, government policy may not be in support of international standards. Adams [13], claimed that where an accounting standard conflicts with government policy, the standard is revised. For instance, LIFO is not allowable for tax purpose in stock valuation. Another problem inherent with the adoption of IFRS is the universal tendency to resist change. Too often, cooperation comes only from compromise and sometimes to the detriment of quality [14]. After few years of vacillation, Nigeria in 2010 formally decided to align her financial and accounting computations and reporting standards with what obtains in most futuristic economies across the world by setting January 1, 2012 as the commencement date for corporate and public entities to adopt the IFRS. Having weighted the challenges and benefits associated with IFRS, some reporting entities in Nigeria especially those with global operations such as Guaranty Trust Bank, Access Bank, EcoBank and Oando have taken steps toward its development and implementation. To facilitate the adoption of IFRS the NASB, investors, commercial enterprises and government regulatory agencies, in collaboration with other professional bodies involved in financial reporting have organized series of workshops and seminars across the country as part of their efforts to create awareness about IFRS project conversion. The implications of this decision are as numerous as they are profound. Akinmutimi (2011), [10], stated that corporate entities need to build capacity to drive the process and revisit their operational and internal control systems. More so, the laws need to be amended and the transition processes need to be handled efficiently, effectively and professionally in order to sustain the confidence of users of accounting services on the confidence of users of accounting services on the skills of professional accountants. Gambari (2010), [15], stated that the successful adoption of FRS entails assessing technical accounting, tax implications, internal processes and statutory reporting, technology infrastructure and organizational issues.

Convergence with IFRS

Convergence means to achieve harmony with IFRS; in precise terms convergence can be considered "to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRSs", i.e when the national accounting standards will comply with all the requirements of IFRS. Convergence does not mean that IFRS should be adopted word by word, e.g replacing the term 'true & fair' for 'present fairly', in IAS 1, 'Presentation of Financial Statements'. Such changes do not lead to non-convergence with IFRS. Convergence would enhance international capital flow more freely, enabling companies to develop

Ikpefan O. A., Akande A. O. - International Financial Reporting Standard (IFRS): Benefits, Obstacles and Intrigues for Implementation in Nigeria

Ikpefan, Ochei Ailemen and Akande, A.O

Business Intelligence Journal - July, 2012 Vol.5 No.2

304 Business Intelligence Journal July consistent global practices on accounting problems. It will help standardize training and assure better quality on international accounting standard.

Benefits of Convergence to IFRS: Globalization has prompted more and more countries to open their doors to foreign investment and as business themselves expand across borders, both the public and private sectors are expected to recognize the benefits of having a commonly understood financial reporting framework supported by strong globally accepted auditing standards. But suffice to say that some of the benefits include:

- Single Reporting – Convergence with IFRS eliminates multiple reporting such as Nigeria GAAP, IFRS and Nigeria GAAP.
- Greater comparability of financial information for investors as a result of transparent financial reporting of company's activities; among sectors, countries and companies.
- Greater willingness on the part of investors to invest across borders will enable entities to have access to global capital markets and eliminates barriers to cross border listing. It will also bring in foreign capital flows to the country. Common accounting standards help investors to understand available investment opportunities as opposed to financial statements prepared under different set of national accounting standards. iv. Lower cost of capital; more efficient allocation of resources;
- Higher economic growth.
- Convergence to IFRS gives Nigerian professionals opportunities to sell their services as experts in different parts of the world.
- IFRS balance sheet will be closer to economic value because historical cost will be substituted by fair values for several balance sheet items, which enable a corporate to know its true worth.
- Convergence will place better quality of financial reporting due to consistent application of accounting principles and reliability of financial statements. Trust and reliance can be place by investors, analysts and other stakeholders in a company's financial statements.

Global Convergence Is Best Explained by the Objective as Enunciated in the International Accounting Standards: Committee Foundation (IASCF) constitution, which states that the ultimate aims of the IASB and other accounting standard setters are: to develop, in the public interest, a single set of high quality, understandable and enforceable global accountings that require quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions; to promote the use and rigorous application of those standards; in fulfilling the objectives with (a) and (b) above, to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and to bring about unison of national accounting standards and international Financial Reporting (IFRSs) to high quality level. There are two schools of thoughts to convergence. There is the one that promotes adoption (a complete replacement of national accounting standards with IASB's standards) and the other, which tends to adaptation (modification of IASB's standards to suit peculiarities of local market, culture and economy without compromising the accounting standards and disclosure requirements of the IASBs standards and basis of conclusions. The adoption and implementation of the international standards in a country takes place in an environment that is affected by factors unique to that country, for example, the economy, politics, laws and regulations and culture. A reason that seems to cut across countries for not fully incorporating IFRSs and ISAs is the irresistible urge to amend the international standards to provide for national specifities. Juan [16], identified two barriers to convergence. The first is the translation of the standards to the different languages and the reduction of the complexity and structure of the international accounting standards, without losing quality. However, to have a common language as soon as possible cannot be overemphasized. Wong [17], in his study of those issues that affect the adoption and implementation of IFRSs and ISAs, opined that time lag in adopting the international standards is due mainly to translation of the standards. For example, in one country a five-year time lag was experienced due to the need for translation of the ISAs. Adoption refers to "harmonization", "transformation". The World Bank, in Wong [17], noted that there can be full adoption of IFRSs, but with time lag; selective adoption of IFRSs; and national standards "based on" IFRSs.

Requirements That Will Assist Implementation of IFRS in Nigeria: To achieve international convergence, requires consensus by countries especially in respect of international standards that will serve as the foundation for financial reporting and auditing globally and taking steps to encourage implementation. If there are any impediments to our ability to follow professional standards, the Institute of Chartered Accountants of Nigeria, the Nigeria Accounting Standards Board, together with international and other standard setters, regulators, governments and others must work together. Companies, auditors, user and regulators would need to get familiar with fair measurement techniques in the preparation of financial statements. We need accounting standards that are consistent, comprehensive and based on clear principles that communicate economic reality and, in the global world which we are living, homogenous enough so as to allow their use and facilitate understanding by everyone. Adequate corporate governance practices are required, which among other things, should ensure appropriate internal controls and effective implementation of these accounting standards. There is need for the existence of efficient and effective audits which should grant external reliability to the information prepared by the companies following the referred standards. Besides there should be a supervision or quality control mechanism accompanied by a disciplinary system, which should ensure the effective compliance with the earlier mentioned conditions. In addition, companies need to explain the impact of IFRS convergence to their investors to enable them readily accept the shift from Nigeria GAAP to IFRS.

Recommendations and Conclusion: Abstracting from the above, the paper makes the following recommendations:

- In keeping with international best practices, IFRS under the auspices of IASB should take cognizance of the GAAP of different countries in its subsequent review so that users can benefit globally.
- IFRS should be included in universities, polythenic and Institute of Chartered Accountant of Nigeria (ICAN) curriculum so as to build human capacity that will support the preparation of financial statements in organization.
- A continuous research is in fact needed to harmonize and converge with the international standards through mutual international understanding of corporate objectives.
- Since tax laws of different nations gives rise to varied tax liabilities, IFRS under the auspices of IASB should also resolve the question of tax liabilities as a result of convergence.
- Steps should be taken of existing laws such as CAMA 1990, SEC, banking laws and regulation and Islamic banking/Non-interest banking that conflict with the reporting requirements of IFRS.
- In IFRS and other nations reporting requirements, the differences between fair value and carrying value need to resolve in measurement of most financial statements.

CONCLUSION

Financial report is authenticated by auditor for reliance to be placed on it by users of the report. Auditor report is the culmination of all the work done by the auditor. In reporting under statute, the auditor must ensure full compliance with statutory requirements. Majority of our auditor reports in Nigeria will be under the Companies and Allied Matters Act, 1990 in conjunction with relevant ancillary legislation e.g Banks and Other Financial Institutions Act, the Insurance Act, etc. Just as we crave for IFRS, there should be International Auditor Reporting Standard (IARS) by auditors in respect of financial statements. The harmonization of International Auditing Report Standard should be clear, concise and unambiguous expression of opinion (or disclaimer of opinion) on the financial statement that will also facilitate the interpretation of financial reports by users globally. The Institute of Chartered Accountant of Nigeria (ICAN) has expressed its opinion of adopting IFRS which was considered and supported by the Nigerian Accounting Standard Board. With a view to set up a road map for convergence and provide the necessary approach for convergence, NASB need to set up an IFRS task Force. Based on the recommendations/ submission of the Task force, the council of the institute should adopt and decide on the accounting period - date, month and year of convergence with IFRS that will form the basis of compliance for listed companies in Nigeria.

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