

## Adoption of IFRS and Financial Statements Effects: The Perceived Confidence of Stakeholders in Nigerian Money Deposit Banks

<sup>1</sup>Alawiyya Suleiman Ilu, **Abstract**

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This study investigates the perceived confidence of stakeholders in financial statement reporting after the adoption of IFRS in Nigerian Money Deposit Banks (NMDBs). The population consist of 22 listed Money Deposit Banks in the Nigeria Stock Exchange (preparers) and Stakeholders (users). The study adopts the simple random sampling technique in arriving at the sample size of the study. This study is based on survey design via the use of questionnaires as a source of primary data collection. The Five-point Likert scale instrument was used in analyzing the data. Results indicate that IFRS implementation will promote confidence of stakeholders in financial statement reporting and reduce information irregularity and strengthen the communication link between all stakeholders. It is recommended that IFRS adoption should be sustained in NMDBs in order to increase stakeholder's confidence.

### Keywords:

IFRS, Financial  
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## **Background to the Study**

Over the past few years there has been a significant campaign by some international accounting organizations like International Accounting Standard Board (IASB), International Federation of Accountants (IFAC) and International Organization of Securities Commission (IOSC) among others to globally converge the accounting practice of all nations so as to enhance uniformity and easy comparability of financial statements presented by corporate entities operating in the global economy. The adoption and implementation of the International Financial Reporting Standard (IFRS) in the European Union and over 120 other countries is associated with a lot of challenges for countries (developing and developed) which are contemplating IFRS adoption or faced with the problems of whether to and why, when and how to converge or adopt IFRS. On 28 July, 2010 Nigeria sets in motion to adopt IFRS between January 2012 and 2014. All public listed entities (including Nigerian Money Deposit Banks) were made to mandatorily adopt IFRS on 1<sup>st</sup> January 2012 in place of her statement of Accounting Standards (SAS). One main objective of this new standard according to the International Accounting Standard Board (IASB, 2007) and IFRS Foundation (2011) is “to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles.” The IASB further states that these new standards should require high quality, transparent and comparable information in financial statements, and other financial reporting to help investors, other participants in the world's capital markets and users of financial information to make economic decisions.

There are other subordinating objectives of this IFRS which include: reduction of information irregularities and strengthen the communication link between all stakeholders (Bushman and Smith, 2001). The main objective of these new standards is not significantly different from the objectives of Nigerian SAS or simply GAAP. This is because the standards (SAS) developed by the Nigerian Accounting Standard Board (NASB) are of high quality, competitive, comparable, understandable, principles-based and generally accepted within the space and practice taking into consideration the need of all the users. Indeed, the main objectives of any financial reporting is affirmatively to communicate with the users, the true financial position of an enterprise in a summarized and standard form in order to facilitate their understanding for economic and related decision making process. The SAS from inception and through its rigorous process has had the quality and characteristics of relevance, materiality, faithfulness, comparability, verifiability, timeliness and understandability. This position has created a lot of controversies among regulators, preparers and users of corporate financial reports in Nigeria as some schools of thought are for Nigeria's adoption while others are against the move.

The thrust of this paper therefore is to assess how IFRS adoption influences the behavior of users of financial statement given certain economic, political and environmental conditions and then ascertain how this adoption influences the decision of all stakeholders in Nigerian money deposit banks.

The main objective of this paper is to examine the perceived confidence of stakeholders (users) in Nigeria money deposit banks after IFRS adoption in corporate financial reporting and then ascertain the IFRS applicability and acceptability in NMDBs. The beneficiaries of this study are the players of these banks and all other stakeholders in the financial institutions, their regulatory bodies and other interest groups. The outcome of this work is only intended to provide an insight and information required by all stakeholders of Nigerian money deposit banks on the international financial reporting standard. In order to increase stakeholders confidence and provide increasing acceptance of the standard, to achieve the aforementioned objectives.

## **Literature Review**

### **Factors influencing the Adoption and Implementation of IFRS**

According to Ayuba (2012) the adoption of IFRS is more than just an accounting exercise. This is because accounting and reporting represents approximately a quarter of conversion efforts. Other areas include system changes for capturing and reporting data, reappraising the tax cycle (planning, provision, compliance and controversy), aligning of internal and external audit plans. It is also important to note that the impact of IFRS accounting policies decisions of a parent on the subsidiary, data capture for accounting and management reporting, availability of technical resources, acquisitions and dispositions, executive compensation calculations and the basis of incentive pay, debt covenants and potential impact of IFRS-reported results, etc. were considered before arriving at the roadmap.

Government policy of a country plays an important role in the adoption and implementation of IFRS in many developing countries (Chamisa, 2000; Najjar, 2007). According to Najjar (2007), government policy affects the adoption or non adoption of IFRS in developing countries. In the same vein, Tucker et al. (2002) found that where government policy is hostile to the foreign and global principles, the adoption of IFRS may be impossible. In a similar study by Zaman and Rahaman (2005) on the adoption of International Accounting Standards in Bangladesh, it was found out that government policy has positive roles to play in the adoption of IFRS for the purpose of developing accounting and auditing standards.

From the above analysis, it is apparent that companies listed on the stock exchange are most prepared for adoption of IFRS. Similarly, medium-sized companies are more prepared than small ones (Ayuba, Gugong and Adah, 2012). This is evidenced in the adoption of IFRS by Nigerian Money Deposit Banks.

### **Benefits of Adoption and Implementation of IFRS**

Globalization has promoted 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 includes: single reporting, greater comparability of financial information, greater willingness on the part of investors to invest across borders, lower cost of capital, higher economic growth etc. (Ikpefan and Akande, 2012).

According to Demaki (2013) IFRS will position Nigerian companies in the global market place as well as ensure transparency, accountability and integrity in financial reporting in Nigeria which is a prerequisite for the attraction of investment that will promote development. It will provide international investors the ability to make well-informed, useful and meaningful comparison of investment portfolio in Nigeria and other countries. Multinational companies with the aid of IFRS financial statement provide for easy consolidation of financial statements. It promotes better management control systems. IFRS statements are easier to comply with the financial requirements of overseas stock. It also facilitates ease of cross border transactions.

It is advocated that adoption of IFRS will lead to: greater transparency and understandability, lower cost of capital to companies and higher share prices, reduced national standard setting costs, ease of regulation of securities markets, easier comparability of financial data across borders and accessory investment opportunities, increased credibility of domestic markets to foreign capital providers and potential foreign merger partners, and t potential lenders of financial statements from companies in less-developed countries. It will also facilitate easier international mobility of professional staffs across national boundaries (Odia and Ogiedu, 2013). For the multinational companies, it will help them to fulfill the disclosure requirement for stock exchanges across the world (Armstrong, Barth, Jagolizer and Reidl, 2007; Covrig, Defond and Hung, 2007; Daske, Hail and Leuz, 2008). Other benefits include: the lower susceptibility to political pressures than national standards, continuation of local implementation guidance for local circumstances and the tendency for accounting standard to be raised to het highest possible quality level throughout the world. (Choi, Frost, Caood and Meck, 1999; Alfredson, Leo, Picker, Pacter and Radford, 2004). The net market effect of convergence is a function of two effects. The first is the direct informational effect – whether investors become experts in foreign accounting, which depends on how costly it is to develop the expertise. Therefore, ex ante net market effect of convergence is uncertain (Odia, and Ogiedu, 2013). From the above, one can deduce that IFRS adoption has a lot of benefits especially increasing the level of acceptability and reliability of financial statements across the globe.

### **IFRS and Accounting Quality**

The adoption of IFRS around the world is occurring rapidly to bring about accounting quality improvement through a uniform set of standards for financial reporting. However, accounting quality is a function of the firm's overall institutional setting, including the legal and political system of the country in which the firm resides (Bhattacharjee and Islam, 2009). Land & 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. IFRS is contingent on at least two factors. First, improvement is based upon the premise that change to IFRS constitutes change to a GAAP that induces higher quality financial reporting. For example, Barth, Landsman and Lang (2006) find that firms adopting IFRS have less earnings management, more timely loss recognition and more value relevance of earnings, all of which they interpret as evidence of higher accounting quality. Second, the accounting system is a complementary component of the country's overall institutional system (Ball, 2001) and is also determined by firm's incentives for financial reporting.

Existing literatures document improvements in accounting quality following voluntary IFRS adoption (e.g. Barth et al, 2008; Gassen and Sellhorn, 2006; Hung & Subramanyam, 2007) to reduce information asymmetry between managers and shareholders and it can be evidenced by proper assets and earnings management, lower cost of capital, and high forecasting capability by the investors about firm's future earnings. Barth et al. (2006) suggest that accounting quality could be improved when alternative accounting methods used by managers to manage earnings are eliminated. They compare earnings management for firms that voluntarily switch to IFRS with firms that use domestic accounting standards. They find that after IFRS adoption, firms have higher variance of changes in net income to variance of changes in cash flows, higher correlation between accruals and cash flows, lower frequency of small positive net income, and higher frequency of large losses.

Barth, Landsman and Lang (2008) also find from international sample of firms that voluntarily adopted IFRS up to 2003 exhibits lower levels of earnings management and more timely loss recognition than a matched sample of firms using local GAAP. As an extension of these findings, Daske et al. (2008) focus on the heterogeneity in the consequences of voluntary IFRS adoption and find that on average capital markets respond modestly to voluntary IFRS reporting.

Overall the evidence on the association between voluntary IFRS adoption and accounting quality is mixed, although papers applying more recent data generally find relatively better accounting quality among the firms that adopt IFRS (Christendon et al, 2008). A common feature of these studies is that much of the previous studies on IFRS compliance relates to voluntary adopters, which by definition suffer from selection bias (Ashbaugh, 2001). This raises the question as to whether we can attribute the improved quality to the application of IFRS have an incremental effect on accounting quality, or is the observed quality improvement a result of other changes implemented simultaneously by the adopting firms (Odia and Ogedu, 2013).

### **Benefits to Preparers (Nigerian Deposit Money Banks) and Users (Financial Analysts) of Financial Statement**

With adopting IFRS, a business have presented their financial statements on a single set of high quality, global accounting standards, our local standard are partly out of data and are not sufficiently comprehensive to form a basis for preparation of high quality financial statements, its adoption has resulted in high quality, transparent and comparable financial statements based on modern accounting principles and concepts that are being applied in global markets, companies now easily raise capital abroad and it assists local investors to make better and well informed investment decisions.

### **Methodology**

The population of the study consists of two categories of respondents. They are the (22) quoted money deposit banks in Nigeria (preparers) between 2012 and 2014 represented by Directors/Finance managers responsible for the preparation of financial statements who are selected as respondents due to their involvement and knowledge of IFRS and can speak on

behalf of the shareholders, and the users of financial reports who are the investors (Financial Analyst) and represented by 3 active investment analyst firms resident in Kaduna identified from the Nigerian Stock Exchange Kaduna Branch. Investment analysts are selected as respondents for the fact that they are principal users of financial report (Clement and Tse, 2003; Mangena, 2004). They have good investment knowledge which aids analysis of financial report and decision making (Baker, 1998) and the needs of their clients (Gbhardt, Reichadt and Witten, 2004). The analyst's financial report usage rate is higher than all other users. The researchers have a target of 50 respondents to be drawn from the two categories of the target population. The sample size is made up of 2 respondents (1 director/1 finance manager) each from twenty two (22) MDBs sampled from the quoted MDBs category and 2 respondents (senior officials) each from the three investment analyst firms. The instrument was a 7-term survey questionnaire with a 5-point Likert type/opinion attitude scale options divided into five sections. Very Low (VL) Low (L) Moderate (M) High (H) Very High (VH). Descriptive statistics using mean score was used in analyzing the data collected for the research. It is obtained by dividing the sum of the scores by the total number of scores. It is usually expressed as:

$$X = \frac{\sum fx}{\sum f}$$

Where:

F = frequency

X = score

∑ = sum of

A mean score of 3.5 and above is interpreted as being accepted (or agree or high) while a mean score below 3.5 is interpreted as being rejected (or disagree or low). The choice of descriptive statistics using mean score was made because of its ability to bring out information that is more detailed from the respondents.

### Discussion of Results

For the purpose of this study, data was obtained using questionnaire administered by the researcher. Fifty (50) questionnaires were administered on the respondents of the study. The number of questionnaires administered on the two (2) categories of respondents were 44 and 6 respectively. Out of the questionnaires administered, thirty-nine (39) representing 78% were filled and returned by the respondents. The respondents did not return the balance of eleven (11) questionnaires representing 22%.

Table 1 shows the analysis of questionnaires administered and questionnaires completed and returned by the respondents.

**Table 1: Analysis of questionnaires administered and questionnaires returned**

Category	Administered		Completed and Returned	
	Number	%	Number	%
NMDBs	44	88	34	87
FA	6	12	5	13
Total	50	100	39	100

From table 1 above the number of questionnaires administered on the two categories of the respondents was 44 and 6 representing 88% and 12% respectively. Concerning the questionnaires completed and returned, 34 copies (representing 87%) of the total copies of the questionnaires retrieved were from NMDBs. In addition 5 copies representing 13% were FA.

The data collected from the respondents in the course of this study is analyzed and interpreted below.

The relevance of IFRS in increasing the confidence of stakeholders in Nigerian Money Deposit Banks.

Respondents were asked to rank certain statements as they relate to the relevance of IFRS in increasing the confidence of stakeholders in Nigerian Money Deposit Banks.

**Table 2: Relevance of IFRS in increasing the confidence of stakeholders in Nigerian Money Deposit Banks**

	1	2	3	4	5	TOTAL	MEAN SCORE	REMARKS
Making interpretation of financial statements easy	2	2	3	22	11	39	4.1	H
Boosting investors' confidence and leading to cross border financial transactions	3	3	3	21	9	39	3.8	H
Ensuring NMDBs access to global capital market.	2	3	0	10	24	39	4.3	H
Making financial statements more reliable	2	4	2	9	22	39	4.2	H
Satisfying users through the provision of timely, accurate and reliable information	0	4	3	22	10	39	4.0	H
TOTAL	9	16	9	83	76	195		
AVERAGE SCORE							4.1	H

**Source:** Field Survey, 2015

Table 2 shows that majority of the respondents (77% and above) ranked all the statements high in relation to the relevance of IFRS in increasing the confidence of stakeholders in Nigerian Money Deposit Banks.

The average score of 4.1 is an indication of the relevance of IFRS in ensuring stakeholders confidence in NMDBs. The relevance of IFRS in areas like making financial statements easy, boosting investors' confidence, ensuring access to financial statements cannot be overemphasized. Thus adoption adds credibility to the financial statements usually prepared by the NMDBs.

Respondents were asked to rank certain statements as they relate to level of confidence of global investors and investment analyst in the financial statements of NMDBs.

**Table 3: Relevance of IFRS in increasing the level of confidence of global investors and investment analyst in the financial statements of Money Deposit Banks in Nigeria**

	1	2	3	4	5	TOTAL	MEAN SCORE	REMARKS
IFRS adoption has enhanced greater transparency and disclosure	3	4	2	24	6	39	3.9	H
IFRS adoption provides better financial information for shareholders	3	5	0	23	8	39	3.7	H
IFRS has improved value relevance of Accounting Information	0	0	0	9	30	39	4.8	H
IFRS adoption has led to easy to comparability of financial statements	0	3	4	25	7	39	3.9	H
TOTAL	6	12	6	81	51	156		
AVERAGE SCORE							4.1	H

**Source:** Field Survey, 2015

The average score of 4.1 in the table above shows that majority of the respondents (83% and above) ranked the four statements relating to IFRS increasing the level of confidence of global investors and investment analyst in the financial statements of NMDBs high. Although the mean scores of the individual statements are within the acceptable region (since they are above 3.5), from 6-17% of the respondents had reservations on the level of confidence in relation to enhanced transparency and disclosures, providing better financial information for shareholders, improved value relevance of accounting information and comparability of financial statements. From these responses it could be deduced that the financial analyst confidence has increased in the financial statements of NMDBs with the adoption of IFRS

### Conclusion and Recommendations

Review of literature revealed that; the IFRS adoption created platform for standard setters to share ideas and resources and strengthen national standards. Besides, it assisted developing countries to save cost of standard setting, added more credibility to financial statements which also aided the attraction of foreign investors. Moreover, it enhanced analyst, investors and other stakeholders' understandability, comparability, transparency, confidence and reduction of cost of analyzing financial statements and other investment decisions. It also



helps in reducing cost of capital and minimizes uncertainty, enhances a single accounting and therefore no need for reconciliation.

To realize the full benefits of the adoption of IFRS, Nigerian Money Deposit Banks (preparers) need to work on skills and expertise gap by organizing series of training and workshops. Regulatory bodies are to monitor and enforce these standards to the core but where there is the need for local content, standard setters should provide convergence rather than adoption. IFRS adoption should be sustained in Nigerian Money Deposit Banks in order to increase stakeholders' confidence.

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