

Comparative Analysis of the Pre and Post Adoption of IFRS on Performance of Listed Manufacturing Companies in Nigeria

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Abstract

The need for a global financial language gave birth to the international financial reporting standards (IFRS). IFRS began as an attempt to harmonize accounting across the European Union but the value of harmonization quickly made the concept attractive around the world. Nigeria adopted the IFRS in January 2012. This study examined IFRS to access the effect of adoption and implementation on profitability, interest Coverage ratio, basic earnings power and leverage ratio of manufacturing companies' performances in Nigeria from 2006 to 2015. The study adopted ex-post facto research design. Purposive sampling technique was used to select ten out of the few adopters of IFRSs in the manufacturing sector in Nigeria. Secondary data were obtained from the audited financial statements and annual reports of various issues. An analysis of the financial statements of the selected companies over a period of six years (2006 – 2015) was conducted, covering a six-year period before and four years period after IFRSs adoption and implementation respectively. The data collected were analysed, using 't'-test statistical instrument. The results revealed that IFRSs adoption and implementation had significant effect on all the manufacturing companies' performance measurement ratios, except for the interest ratio. It was discovered that there was significant difference in the profitability ratios of the sampled manufacturing companies before and after IFRSs adoption and implementation in Nigeria, ($p = t\text{-cal}, 0.68 < t\text{-tab}, 1.83$) at 5% level of significance, but there was no significant difference in the interest ratio of manufacturing companies after IFRS adoption and implementation in Nigeria as evidenced by $t\text{-cal}, 1.87 > t\text{-tab}, 1.83$. Similarly, findings showed there was a significant difference in the basic earnings power ratio of sampled manufacturing companies after IFRS adoption and implementation in Nigeria, ($p = t\text{-cal}, -1.70 > t\text{-tab}, 1.83$) at 5% level of significance. It was also found that there is a significant difference in the leverage position of sampled manufacturing companies before and after IFRS adoption and implementation in Nigeria, hence, $t\text{-cal}, 1.20 < t\text{-tab}, 1.83$) at 5% level of significance. The study concluded that operators and managers of manufacturing companies in Nigeria, including other stakeholders should embrace the adoption of IFRSs practices in accordance with the standard roadmap for effective financial performance especially in the area of profitability, basic earnings power and leverage position as such will effect positively on the prospects of their businesses.

Keywords:

IFRSs, Profitability,
Leverage, Interest
coverage, Earning
power ratio

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Background to the Study

The collapse of giant corporations in the world which has led to losses of millions by stakeholders in terms of earnings has necessitated the need for looking into accounting quality as a solution to curbing corporate failures. Also the need for developing global accounting standards emanated from the internationalization of trading activities which has made the world to become a global village. Attending to these needs has led to development of international financial reporting standards which is a set of global standards for the preparation of financial statements.

International Financial Reporting Standards (IFRSs) are set of accounting standards developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements (Tanko, 2012). Kunle, Omoruyi and Hamed (2011), opined that just like every other system, IFRS is a systematic approach that promotes understandability, reliability, relevance and comparability of financial statements globally.

Garuba and Donwa (2011) opined that it is obvious that to operate in the modern day world economy and to fully realize the full gains of international listing, no individual country can operate alone in its financial Reporting standards. Therefore, IFRS afford companies with subsidiaries in countries that require or permit IFRS to be able to use one accounting language company-wide.

Opponents of IFRS like Armstrong, Barth, Jagolinzer, and Riedl, (2007), opined that the GAAP is a gold Standard of which the full adoption of IFRS will lead to loss of certain values. He further opined that certain businesses whose operations do not extend beyond their local territories may resist adoption of IFRS because they may not have a market incentive to prepare IFRS financial statements. They may believe that the significant costs associated with adopting IFRS supersedes the benefits since there is no need for them to operate beyond their shore; and thus it's a adoption will not be cost effective.

Subsequent to the adoption of International Financial Reporting Standards in Nigeria, the Nigerian Accounting Standard Board was renamed Financial Reporting Council of Nigeria with the oversight function of proper monitoring and controlling to ensure the proper adoption of IFRS by public quoted companies (Kenneth 2012). This implies that standard setting is no more done locally, which will give birth to high standard setting and enhance the international investors' confidence in the financial statement due to the global comparability of financial statement. These will thus facilitate effective monitoring, enhance inflow of foreign direct investment and improve financial reporting qualities by companies.

The financial statement is a means of communicating firm's performance to its stakeholders. These different stakeholders' decisions are based on the financial statements/financial report that is prepared and presented by the management. To assist the stakeholders to make rational decision, the financial statement must be of quality standards so that the stakeholders are not misled by manipulated financial statement. Hence the adoption of IFRS will enhance financial statement quality and guide the stakeholders correctly in making economic decisions.

Statement of the Problem

This study focused on the comparative analysis of pre and post IFRS adoption on the financial performance of listed manufacturing firms in Nigeria. As evident from the foregoing, a good number of studies carried out in different countries have highlighted the benefits of having single set of financial reporting standards across the globe in supporting the adoption of IFRS globally. However, part of these good number of studies carried out around the globe on adoption and implementation of IFRSs include, international accounting harmonization which covered areas such as, the degree of harmonization inherent through the implementation of IFRSs (Tay and Parker, 1990; Murphy, 2000); and the degree of compliance with IFRS (Cairns, 2001; Street and Gray, 2001).

Furthermore, there were other research studies that had given contradictory views questioning the relevance of IFRS adoption in developed and emerging economies (Winney, Marshall, Bender and Swiger (2011). The World Bank reports assessed the comparability of national accounting and auditing standards with International Accounting Standards (IASs) and International Standards on Auditing respectively and the degree to which corporate entities complied with established accounting and auditing standards in the country (World Bank, 2012).

Similarly, another area that has also suffered little neglect in the literature and studies was the effect of IFRS implementation and adoption on the manufacturing companies' performance. However, this neglect manifested in the area of measuring the effect of the adoption and implementation of IFRS on the profitability, interest coverage, basic earnings power, as well as the leverage ratio of the manufacturing companies in developing countries, like Nigeria, as many of these researches were carried out in the developed countries like Europe (Daske, Hail, Leuz and Verdi, 2007; Lee, Walker and Christensen, 2008; Cuijpers and Buijink, 2005; Gkoukousi, 2012). Based on this observation, this research study was necessitated to fill these gaps and therefore contributed to the existing literatures and academic knowledge in the focus area.

Arising from the identified problems, the following research hypotheses will be tested.

Research Hypotheses

In order to arrive at reasonable conclusion and to provide reliable answers to the research objectives, the following hypotheses were tested and validated:

- H₀₁: There is no significant difference between the pre-adoption and post- adoption of IFRS on profitability of manufacturing companies in Nigeria.
- H₀₂: there is no significant difference between the Pre- IFRS adoption and post-IFRS adoption interest coverage ratio of manufacturing companies in Nigeria
- H₀₃: there is no significant difference between Pre-IFRS adoption and post IFRS adoption on basic Earnings Power of manufacturing companies in Nigeria.
- H₀₄: There is no significant difference between Pre-IFRS adoption and post IFRS adoption on leverage of manufacturing companies in Nigeria.

Conceptual Framework

Development of International Financial Reporting Standards

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 Delaware, United States of America, on 8 March, 2001 (IFRS foundation). The most significant financial accounting and reporting changes in the history of accounting was the adoption of International Financial Reporting Standards (IFRSs) around the world by public companies.

Presently, over 100 countries around the world have implemented IFRS or have at least taken steps towards the adoption of the standards in the near future (Soderstrom and Sun, 2007). European Union countries mandated all public traded companies' to implement IFRS when preparing and consolidating their financial statements, and even the US Security and Exchange Commission (SEC) has allowed non-US companies to file their financial statements in accordance with IFRS of the IASB without reconciliation (SEC, 2007).

IFRS Adoption and Implementation in Nigeria

The quality of financial reporting is indispensable to the need of users who requires them for investment and other decision making purposes. Kenneth, (2012) argued that financial reports can only be regarded as useful if it represents the “economic substance” of an organization in terms of relevance, reliability, comparability and aids interpretation simplicity. Before IFRS adoption era, most countries had their own standards with local bodies responsible for developing and issuance. For instance, the Nigerian Accounting Standards Board (NASB) was responsible for developing and issuing standards known as Statements of Accounting Standards (SAS).

Following the new era, the Nigerian Accounting Standards Board (NASB) was renamed Financial Reporting Council of Nigeria (FRCN) as the regulatory body overseeing the adoption and implementation of IFRS (Kenneth, 2012). As a result of increasing globalization resulting in more competition, it becomes imperative that countries and companies with the same interest solve issues that will make them become worthy of investors capital (Essien-Akpan, 2011). Therefore, the introduction of an acceptable global high quality financial reporting standards was initiated in 1973 when the International Accounting Standard Committee (IASC) was formed by Sixteen (16) professional bodies from different countries such as United States of America, United Kingdom, France, Canada, Germany, Australia, Japan, Netherlands and Mexico (Garuba and Donwa, 2011).

Owing to Ezeani and Oladele (2012), this body newly initiated committee was properly recognized in 2001 and later transformed into the International Accounting Standards Board (IASB) which developed accounting standards and related interpretations jointly referred to as the International Financial Reporting Standards (IFRS).

On Wednesday, 28 July 2010, the Nigerian Federal Executive Council accepted the recommendations of the Committee on the Roadmap to the Adoption of IFRS in Nigeria, that it would interest the Nigerian economy for reporting entities in Nigeria to adopt globally accepted, high-quality accounting standards by fully adopting the International Financial Reporting Standards (IFRS) in a Phased Transition (FIRS, 2013). In December 2010, following the approval of the Federal Executive Council, the Nigerian Accounting Standards Board (NASB), now designated as Financial Reporting Council of Nigeria (FRCN) issued an

implementation roadmap for Nigerian's adoption of IFRS which its compliance announced in January 2012 for publicly quoted companies and banks in Nigeria.

Challenges of IFRS Adoption and Implementation in Nigeria

According to Abdulkadir (2012), the following are the challenges inherent in the adoption and implementation of the IFRS in Nigeria:

- (i) **Cultural, Political and Business Differences**
Armstrong, Bath, Jagolizer and Riedl, (2007) have found that cultural, political and business differences could continue to impose significant obstacles in the progress towards a single global financial communication system because a single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures.
- (ii) **IASB Funding, Staffing and Governance Structure, Consistent Adoption**
Adopters need assurance of IASB true independence with stable funding, expert staffing, appropriate governance to ensure standards setting process, freedom undue influence and politicization maneuvers. This will ensure IASB legitimacy and assure the confidence of market participants and adopting nations around the world (Saudagaran, 2006).
- (iii) **Dominance of the Developed Countries and Political Lobbying**
The developed countries want to dominant the IASB structure and standards setting process to the detriments of the developing countries. There is also strong lobbying and opposition by these groups to IASB's standards (Nobes and Zeff, 2008).
- (iv) **Consistent Adoption, Application and Regulatory Review**
Daske, Hail, Leuz and Verdi (2007) argued that presently most IFRS adoptions are in labels and with various versions which are inconsistent with IASB's prescription (Ball, 2006)
- (v) **Compliance Issues and Enforcement Mechanisms**
Cairns (2001) reported that varying levels of compliance with IFRS have emerged from companies that their financial statements conform with the latest financial reporting standards.
- (vi) **Cultural and Structural Changes in the various Institutions in a Country**
The challenges face in adopting IFRS in terms of changing culture and developing systems of regulation and accountability are quite enormous. There are cultural, language, regulatory and accounting profession challenges as well as demands for greater accountability and wider political participation and embracing of necessary political reforms faced by countries in adopting IFRS.
- (vii) **Tax Reporting**
The tax considerations associated with the conversion to IFRS, like other aspects of a conversion, are complex. IFRS conversion calls for a detailed review of tax laws and tax administration.
- (viii) **Amendment to Existing Laws**
In Nigeria, accounting practices are governed by the Companies and Allied Matters Act (CAMA) 1990, and the Statement of Accounting Standards (SAS) issued by the Nigerian Accounting Standards Board (NASB) and other existing laws such as Nigerian Stock Exchange Act 1961, Nigerian Deposit Insurance Act 2006, Banks and Other Financial Institution Act 1991, Investment and Securities Act 2007, Companies Income Tax Act 2004, Federal Inland Revenue Services Act 2007

- (ix) **Accounting Education and Training**
One of the principal challenges Nigeria may encounter in the practical implementation process, shall be the shortage of accountants and auditors who are technically competent in implementing IFRS.
- (x) **Size**
According to political cost theory, large companies should publish more information than smaller ones because they are subject to more attentive examination by financial analysts and greater demand from the public (Schipper, 2005).
- (xi) **Profitability**
In line with the signaling theory, the most successful companies should distinguish themselves in order to obtain capital in optimal conditions. According to political costs theory, companies with high profits will publish more information to justify their profitability (Schipper, 2005). On the other hand, when performance is low, managers hide the reasons for losses or lower profit. Similar to leverage level, the association between profitability and voluntary IFRS adoption is a priority, since compliance with IFRS makes earnings management more difficult, as firms choosing to use IFRS may be providing a signal of superior performance, thereby expected that the propensity to adopt IFRS increases with profitability. However, adoption of IFRS is typically a long term choice in financial information disclosure policy which maybe considered regardless of a firm's profitability.
- (xii) **Growth**
Growth is one of the determinants in the decision process. As a result, firms with expected future growth opportunities are more likely to be seeking external financing to fund current and future profitable projects, in order to provide a signal of high quality accounting information to external capital providers and are more motivated to adopt IFRS.
- (xiii) **Type of Auditor**
Large and well-known audit firms encouraged their customers to disclose the maximum of information. Big audit firms have a competitive advantage in controlling IFRS applications because of the high-level training of their employees. Thus, the voluntary adoption of IFRS would increase the volume and quality of information disclosed.

Benefits of Adoption and Implementation of IFRS in Nigeria

- (i) **Credible Financial Statements**
The adoption and implementation of IFRS in Nigeria would bring about credible financial reporting regime by the Nigerian public sector entities. However, credibility of financial statements implied that the report issued in Nigeria could be compared with those issued in any other country that has adopted IFRS.
- (ii) **Job Creation and Poverty Alleviation**
Anybody with the knowledge of IFRS application in Nigeria can obtain job in any part of the world. The person can work in any other country that has adopted IFRS as a standard for preparation of financial statements.
- (iii) **Promotion of Foreign Direct Investment**
Nigerian public have almost lost interest in financial statement issued in Nigeria

because of fraud and failed banking institutions and public limited entities. For instance, the cases of Liver Brothers and Cadbury Nigeria Limited really eroded public interest and confidence in financial statements issued by companies in Nigeria. This condition certainly affected foreign direct investment in Nigeria. Therefore, introduction of IFRS in Nigeria will help to restore this confidence and promote foreign direct investment. IFRS financial statements will certainly attract foreign investors into the country thereby increasing access to external capital.

(iv) **Cross Border Listing**

Few companies precisely banks are listed in the foreign stock exchange. The financial reports prepared in Nigeria under the global financial reporting benchmarks, decisions about the flow of economic capital can be easily made. Hence, with IFRS financial statements, barriers to cross border listing is eliminated, and Nigerian companies can stand a better chance of raising capital abroad (Stacy, 2012).

(v) **Cost Reduction**

Adoption of IFRS for financial reporting in Nigeria means that the information produced is final. Thus, with the adoption of IFRS, no supplementary information will be required from companies in Nigeria by foreign investors. Thus, its adoption will really help to reduce the cost of doing business across borders (Martins-Kuye, 2011).

(vi) **Easy Consolidation of Financial Information**

Consolidation of financial information of parent companies in Nigeria and their subsidiaries outside Nigeria is made easy. This is because the same standards are applied.

Theoretical Framework

Supporting Theories of IFRSs Adoption and Implementation

(i) **Stewardship Theory**

Stewardship theory developed by Donaldson and Davis (1991) recognized the importance of structures that empower the steward and offers maximum autonomy built on trust. Donaldson (1997) asserted that “a steward protects and maximizes shareholders' wealth through firm performance, because by so doing, the steward's utility functions are maximized. More so, stewardship theory de-emphasized the duality role of Board chair and CEO, suggesting that the unified function empowers the steward to safeguard the interest of the shareholder. In view of the above, (Daily *et al*, 2003) stressed the fact that for the employees and executive to protect their reputation, they will take those decisions that will improve performance. This is consistent with the position of Owolabi and Dada (2011), who argued that stewards are expected to behave rationally because if they refuse to take decisions that will improve performance, then the shareholder operating in a free market system can switch to a performing firm and the stewards may lose their job. So in stewardship theory, it is assumed that stewards will act in the best interest of the shareholders. .

(ii) **Economic Theory**

Economic theory was introduced by Rose (1973), suggested that voluntary disclosures and increased information quality reduce information asymmetries; either between the firm and market participants or between informed and uninformed investors. The theory argued that this reduction in information asymmetries increases the firm's

liquidity (Easley and O'Hara, 2004). For instance, early empirical work by Amihud and Mendelson (1986) reported that firms that provide more public information can reduce the adverse selection component of the bid-ask spread, and thus potentially reduce their cost of equity capital.

(iii) **Agency Theory**

Agency theory (Jensen and Meckling, 1976), posited that in the presence of information asymmetry, the agent (in this case, the directors and managers) is likely to pursue interests that may hurt principal (shareholders) Ross, (1973); Fama, (1980).

(iv) **Stakeholder Theory**

Stakeholder theory was postulated by Freeman in 1984. The principle of stakeholder theory was gradually dragged into management theory since the 80s. Freeman, (1984), argued that corporate bodies have a wide coverage of accountability than the parochial representation of agency theory. Wheeler *et al*, (2003), support this argument by saying that stakeholder's theory is a product of sociology and organisational disciplines that identify a good array of other stakeholders in an organization.

Stakeholder theory postulated that a stakeholder is 'any group or individual who can affect or is affected by the achievement of the organisation's objectives. In other words, whoever is affected by failure or success of the enterprise is a stakeholder. Unlike the agency theory, stakeholder theory demonstrated that there are chains of parties who are affected by the management decisions such as suppliers, employees and business partners.

Empirical Framework

Different studies have reported improvements in financial reporting quality following voluntary IFRS adoption include Barth, Landsman and Lang, (2008) and Gassen and Sellborn (2006). Barth (2007) examined accounting quality before and after the introduction of IFRS for a sample of 327 firms that voluntarily adopted IFRS between 1994 and 2003. Their findings revealed that there was lower earnings management, higher value relevance and more timely recognition of losses after the introduction of IFRS, compared to the pre-transition local Generally Accepted Accounting Principles (GAAPs).

Daske, Hail, Leuz and Verdi (2007) found that serious IFRS adopters experience significant declines in their cost of capital and substantial improvements in their market liquidity compared to label adopters. Their findings further suggested that IFRS were designed for large corporations and unfavorable to the reporting needs of smaller firms.

Furthermore, curiosity shown by recent studies found that the feasibility of IFRS, included the potential advantages of producing more accurate, timely, and complete financial information, eliminating international differences in accounting standards, and removing barriers to the global capital markets (Barth 2008, Ball 2006, and Nobes, 2006).

In a study by Stacy (2011), examined IFRS Challenges in Implementation and European Experiences in Overcoming Them; he found that IFRS adoption will add to financial reporting complexities and increase compliance with accounting standards in European

countries. In terms of greater transparency, Stacy (2011) declared that implementation of IFRS would guarantee some level of confidence in the areas of common accounting system, better relationship with investors and stakeholders, an accounting framework that addresses changing commercial practices, and global markets as well as investors needs; cost efficiency as there would be no need for consolidation purposes, and streamlined reporting will be guaranteed.

In Nigeria, Okafor and Killian (2011) researched on the Potential Effects of the Adoption and Implementation of International Financial Accounting Standards (IFRS) in Nigeria, and from the perspective of stakeholders; the study presented the results from a questionnaire survey of a sample of accounting lecturers, auditors and accountants. The study found that International Financial Reporting Standards had the potentials of yielding greater benefits than Generally Accepted Accounting Principles (GAAPs); improve business performance management and impact on other business functions apart from financial reporting. In a more significant point, it then recommended that management should start making comprehensive plans ahead of IFRS adoption.

The study conducted by Onafalujo, Eke and Akinlabi, (2011) on the impact of International Financial Reporting Standards on insurance management in Nigeria, examined a global agenda to foster common benchmark in financial information across international borders with the aim of generating greater momentum for economic development. The study in its findings showed that insurance management handled a large part of entrepreneurial risks and feedback long term capital into the economy; but insurance accounting was driven by contingent liabilities and asset volatilities that required global standards. In their conclusion, financial measurement model as envisioned by IFRS 4 and 7 are quite relevant to Nigerian financial environment, but there is need to modify to a more restrictive model in the determination of insurance accounting items to enable future compliance to IFRS be efficient. Akiwi (2010), stated that the advent of companies going international or even global has given rise to the need to develop accounting standards that ensure uniformity and standardization of reporting financial information among parent companies and subsidiaries.

Isenmila and Adeyemo, (2013) studied on the opinion of stakeholders in financial reporting, as regards the necessity for the adoption of IFRS in Nigeria, in their research titled "A Perception Based Analysis of the Mandatory Adoption of (IFRS) in Nigeria" adopted the questionnaire survey method to seek respondents' views on the subject matter. Specifically, in line with the focus of this research work, Isenmila and Adeyemo, (2013) adopted stakeholders theory expected to be of significance to Equity Investors' Group, Governments and Regulators, National Standard Setter, International Standards Setters and Donor Agencies, and various organizations engaged in accounting processes. The results from their study showed that there is a statistically significant difference in the perception of the stakeholders about the desirability of the mandatory adoption of IFRS. The stakeholders of interest were Preparers of Financial Reports, Auditors, Capital Market Operators, and Trainers of accounting students. Therefore, from the stakeholders' interest, Capital Market Operators was found to be the most optimistic about the success of the adoption of IFRS, while Auditors seem to be the least optimistic. In addition, the study found that mandatory adoption of IFRS would have

significant prospects as well as challenges on the activities of stakeholders. The study recommended that the capacity of regulators like Corporate Affairs Commission, Securities and Exchange Commission, National Insurance Commission, Central Bank of Nigeria, must be strengthened so as to enable them to effectively deal with accounting and financial reporting practices of the regulated concerns, so that the mandatory adoption of IFRS in Nigeria, does not become a mere labeled or nominal one (Isenmila and Adeyemo, 2013).

Kenneth, (2012) in his study on Adoption of IFRS and Financial Statements Effects on Foreign Direct Investment (FDI) and Nigeria Economy; he argued that IFRS adoption is an issue of global relevance among various countries of the world due to the quest for uniformity, reliability and comparability of financial statements of companies. The study's findings showed that IFRS has been adopted in Nigeria but only fraction of companies has implemented, with deadline for the others to comply. In his conclusion, he stated that IFRS implementation will promote FDI inflows and economic growth. The study recommended that all stakeholders should endeavour to have full implementation to reap benefits of the principle-based standards.

Sample Size

The population of the study included the adopters of IFRS in the manufacturing sector of the Nigerian economy. The samples used were the published financial statements of 10 companies listed on the Nigerian stock exchange.

Variables

The independent variable in this study is IFRS adoption.

Dependent

The dependent variables in this study are financial performance variables **Profitability Ratio**

Profitability Ratio (Return on Total Assets – ROTA): is a financial ratio that shows the percentage of profit that a company earns in relation to its overall resources (total assets).

$$\text{ROTA} = \frac{\text{Net Income after Tax (Comprehensive Income)}}{\text{Total Assets}}$$

Basic Earnings Power Ratio (BEP): Basic earnings power ratio is calculated by dividing operating income (earnings before interest and taxes or EBIT) by total assets.

$$\text{BEP} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

Leverage Ratio (LR): The leverage or debt to equity ratio measures the riskiness of the firm's capital structure in terms of the relationship between the funds supplied by creditors and investors (Fraser and Ormiston, 2004). The debt to equity ratio is measured as:

$$\text{LR} = \frac{\text{Total liabilities}}{\text{Total stockholders' equity}}$$

Interest Coverage Ratio (ICR): This is a measure of a company's ability to meet its interest payments. It determines how easily a company can pay interest expenses on outstanding debt. It is calculated as:

$$\text{ICR} = \frac{\text{Earnings before Interest and Tax (EBIT)}}{\text{Interest Expenses}}$$

Model Specification

Model specification is the mathematical representation of the relationship between independent variable (IFRS Adoption) and dependent variable (Manufacturing Companies' Performance).

The mathematical equation below therefore shows the linearity between dependent and independent variables as thus:

If, $Y = f(X)$ i
 And $Y = P_R, I_{CR}, B_{EP}, L_R$
 Then, $X = \text{IFRS}_A$

Where, Y represents manufacturing companies' performance

X represents IFRSs Adoption

P_R = Profitability ratio, manufacturing companies' performance proxy

I_{CR} = Interest Coverage ratio, manufacturing companies' performance proxy

B_{EP} = Basic Earnings Power, manufacturing companies' performance proxy

L_R = Leverage ratio, manufacturing companies' performance proxy

IFRS and Profitability Model

If, $Y = f(X)$
 Then, $Y = f(\text{IFRS}_A)$
 $P_R = f(\text{IFRS}_A)$
 : $P_R = a + b(\text{IFRS}_A)$
 ∴ $P_R = a + b(\text{IFRS}_A) + E_u$ ii

IFRS and Interest Coverage Model

If, $Y = f(X)$
 Then, $Y = f(\text{IFRS}_A)$
 $I_{CR} = f(\text{IFRS}_A)$
 : $I_{CR} = a + b(\text{IFRS}_A)$
 ∴ $I_{CR} = a + b(\text{IFRS}_A) + E_u$ iii

IFRS and Basic Earnings Power Model

If, $Y = f(X)$
 Then, $Y = f(\text{IFRS}_A)$
 $B_{EP} = f(\text{IFRS}_A)$
 : $B_{EP} = a + b(\text{IFRS}_A)$
 ∴ $B_{EP} = a + b(\text{IFRS}_A) + E_u$ iv

IFRS and Leverage Model

If, $Y = f(X)$
 Then, $Y = f(\text{IFRS}_A)$

$$\begin{aligned}
 &L_R = f(\text{IFRS}_A) \\
 : &L_R = a + b(\text{IFRS}_A) \\
 \therefore &L_R = a + b(\text{IFRS}_A) + E_u \dots \dots \dots v
 \end{aligned}$$

Note: Profitability ratio (P_R), Interest Coverage ratio (I_{CR}), Basic Earnings Power ratio (B_{EP}), and Leverage Ratio (L_R) are proxies for measuring sampled manufacturing companies' performance in Nigeria, while E_u represents the error term.

Validity and Reliability of Research Instruments

The secondary data used were subjected to validation and auditing by independent auditor and upon which necessary loop holes and abnormalities has been adjusted and corrected in accordance with international accounting standard and international reporting standards, this depicts the quality and reliability of the financial statement.

There is no significant difference between the pre-adoption and post- adoption of IFRS on profitability of manufacturing companies in Nigeria.

H_{o1} : There is no significant difference between the pre-adoption and post- adoption of IFRS on profitability of manufacturing companies in Nigeria.

Table 1: Z-Test Paired Sample Statistics of the Sampled Manufacturing Companies' Profitability Ratio before and after IFRS Adoption in Nigeria, 2 006-2015.

Pair	ROTA ₁ (MEAN)	ROTA ₂ (MEAN)	Mean Diff ₁₋₂	Std. D.	Std. Error	t-cal	t-tab (5%)
Profitability Ratio	1.51	4.11	-2.59	11.94	3.77	-0.68	1.83

Source: Results obtained from researcher's computation (SPSS, 17).

Interpretation of Results

Table 1 revealed that the mean score of the profitability ratio (ROTA) of the manufacturing companies before IFRS adoption and implementation (1.51) is less than the mean score after, (4.11). Therefore, using the two sample means before and after IFRS adoption and implementation, it was evidenced that the profitability ratio of the manufacturing companies in Nigeria after IFRS adoption was significantly different from the mean score before IFRS adoption. However, the empirical value (t-cal), -0.68, was less than the critical value, 1.83 at 5% level of significance. Hence, the implication of this finding was that the adoption and implementation of IFRS by the Nigeria manufacturing companies actually enhanced their profitability level. Therefore, IFRS had positive effect on the profitability ratios of manufacturing companies in Nigeria. In other words, the profitability position of the sampled manufacturing companies in Nigeria after the adoption and implementation of IFRS is now better off.

Decision: A null hypothesis (H_o) was rejected while the alternative hypothesis (H_i) was accepted.

There is no significant difference between the pre-adoption and post- adoption of IFRS on the Interest Coverage Ratio of Manufacturing Companies

H_{02} : There is no significant difference between the pre-adoption and post- adoption of IFRS on the interest coverage ratio of manufacturing companies

Table 2: Z-Test Paired Sample Statistics of the Sampled Manufacturing Companies' Interest Coverage Ratio before and after IFRS Adoption and Implementation in Nigeria, 2006-2015.

Pair	ICR ₁ (MEAN)	ICR ₂ (MEAN)	Mean Diff ₁₋₂	Std. D.	Std. Error	t-cal	t-tab (5%)
Interest Coverage Ratio	134.66	37.63	97.03	163.70	51.76	1.87	1.83

Source: Results obtained from researcher's computation (SPSS, 17).

Interpretation of Results

Table 2 showed that the mean score of interest coverage ratio of the Nigeria manufacturing companies before IFRS adoption, (134.66) was greater than the mean score after (37.63). It thus means that the interest coverage position of the Nigeria manufacturing companies post-IFRS adoption was not statistical different from pre-IFRS adoption. By implication, the interest coverage ratio of the Nigeria manufacturing companies after IFRS adoption was still on the same level. In other words, adoption of IFRS in the Nigerian manufacturing industry did not significantly change the central values that explain the financial performance of these companies in terms of interest coverage position. Though, 'z' test sample statistics of calculated value (1.87) is greater than table value (1.83) at 5% level of significance. Thus, the alternative hypothesis (Hi) was rejected. By extension, IFRS adoption had not accounted to the prospects of the adopters in terms of minimizing their finance costs or proportion of their interest expenses, in relation to their respective capital structure and earnings power ratio.

Decision: Based on the outcome of the findings, the alternative hypothesis (Hi) was rejected and null hypothesis (H₀) was accepted.

There is no significant difference between the pre-adoption and post- adoption of IFRS on basic earnings rower ratio listed manufacturing companies in Nigerian

H_{03} : There is no significant difference between the pre-adoption and post- adoption of IFRS on basic earnings rower ratio listed manufacturing companies in Nigerian

Table 3: Z-Test Paired Sample Statistics of the Sampled Manufacturing Companies' Basic Earnings Power Ratio before and after IFRS Adoption in Nigeria, 2006-2015.

Pair	BEP ₁ (MEAN)	BEP ₂ (MEAN)	Mean Diff ₁₋₂	Std. D.	Std. Error	t-cal	t-tab (0.05)
Basic Earnings Power Ratio	74.21	120.36	-46.14	85.65	27.08	-1.70	1.83

Source: Results obtained from researcher's computation (SPSS, 17).

Interpretation of Results

Table 3 revealed that the mean score of the basic earnings power ratio before adoption of IFRS, (74.21) was less than the mean score after adoption by the manufacturing companies in Nigeria (120.36). Owing to this outcome, the result showed there was a significant difference in the basic earnings power ratio of Nigeria manufacturing companies after IFRS adoption. However, 'z'-test paired sample statistics revealed that calculated value (-1.70), was less than table value (1.83) at 5% level of significance. Finding clearly revealed that adoption of IFRS had a significant effect on the basic earnings power of manufacturing companies in Nigeria. The study therefore accepted alternative hypothesis (Hi) and rejected null hypothesis (Ho). It thus implied that raw earning power of the manufacturing companies' assets before influence of taxes and debt after IFRS adoption and implementation was better than what it's usually being experienced before adoption. In other words, the ratio of wealth generated by the adopters of IFRS after adoption, to the amount invested to generate the wealth, was improved compared to their size of wealth accumulation before IFRS adoption in Nigeria.

Decision: Based on outcome of the findings, the alternative hypothesis (Hi) was accepted and the null hypothesis (Ho) was rejected.

There is no significant difference between the pre-adoption and post- adoption of IFRS on the leverage of manufacturing companies in Nigeria.

H₀₄: There is no significant difference between the pre-adoption and post- adoption of IFRS on the leverage of manufacturing companies in Nigeria.

Table 4: Z-Test Paired Sample Statistics of the Sampled Manufacturing Companies' Leverage Ratio before and after IFRS Adoption in Nigeria, 2006-2015.

Pair	LF ₁ (MEAN)	LF ₂ (MEAN)	Mean Diff ₁₋₂	Std. D.	Std. Error	t-cal	t-tab (0.05)
Leverage Ratio	23.75	8.39	15.36	40.20	12.71	1.20	1.83

Source: Results obtained from researcher's computation (SPSS, 17).

Interpretation of Results

Table 4 showed that the mean score of leverage ratio of the manufacturing companies prior IFRS adoption (23.75) was statistically higher than the mean score after IFRS adoption (8.39). As a result, there was a significant difference in the leverage position of the Nigeria manufacturing companies before and after IFRS adoption. The implication of this result was that Nigeria manufacturing companies were highly levered before IFRS adoption, compared to current state of their leverage ratio after full adoption. By being highly levered, it means that manufacturing companies adopted more of debt finance in their capital structure than equity finance; hence the level of riskiness of the manufacturing companies' capital structure after IFRS adoption was now minimal. In other words, the proportion of total liabilities (debt) to total equity of the manufacturing companies in Nigeria after IFRS adoption was lesser than what was experienced prior IFRS adoption. The 'z' test paired sample statistics showed the empirical value, (1.20) less than critical value (1.83) at 5% level of significance.

Decision: The alternative hypothesis (H_1) was accepted, while the null hypothesis (H_0) was rejected.

Discussion of Findings

Findings revealed that adoption of IFRS had a significant effect on the basic earnings power of manufacturing companies in Nigeria. This finding opposed the finding of Asian and Dike (2015) that found a decline in the basic earnings of firms and the value of equity are less relevant or less significant in post-IFRS compared to pre-IFRS period. However, the outcome of this study agrees with that of Hayfa, Nadia and Sarra (2013) in their study of sampled listed companies in European stock market that IFRS adoption has improved accounting quality by the increase in the firm's market value through basic earnings power.

Chinwuba and Killian (2011) in their study found that IFRS have potential for yielding greater benefits than old financial reporting, GAAP, by improving business performance management and other business functions owing from stakeholders' perspective, therefore, the finding corroborates the outcome of this study, in the areas of profitability, basic earnings power, and leveraging as highly beneficial to manufacturing companies in Nigeria.

Similarly, the finding of this study that the basic earnings per share of Nigeria manufacturing companies in the post-IFRS is better than its value in the pre-IFRS period, confirms the findings in the work of Adebimpe and Ekwere (2015) in the banking industry that equity value and earnings of banks are relatively value relevant to share price under IFRS than previous Nigerian SAS. Again, their finding is line with the finding of this study that adoption of IFRS by manufacturing companies in Nigeria is highly relevant as more of equity financing is used as against that of debt financing in the pre-IFRS period.

In the work of Fasina and Adegbite (2014) study, the effect of IFRS adoption on accounting practices in Nigeria found a strong positive relationship between IFRS adoption and financial performance due to cost reduction of an organization, in contrary to the result of this study that IFRS adoption has no significant implication in the interest coverage ratio of companies, specifically in manufacturing industry in Nigeria. In other words, pre-IFRS interest coverage ratio is not significantly different from post-IFRS period, due to non-reduction in their finance costs.

In terms of financial riskiness, this study found out that IFRS adoption actually reduced the level of financial riskiness in the capital structure of the adopters, measured in terms of leverage ratio which shows a statistically significant effect in the post-IFRS period; as different from the outcome of the study carried out by Rahul and Ruchir (2014), that IFRS adoption has statistically significant impact on financial risks of sampled Indian companies.

In accordance with the finding of this study on the implication of IFRS adoption on the interest coverage position of manufacturing companies in Nigeria, for instance, the study agrees with the findings of Canadian researchers, Michel, Francois-Eric and Komlan (2013), that adoption of IFRS does not significantly change the central values behind the financial position and performance of companies reported in financial statements.

Furthermore, David, Carlota and Neus (2004) found in their study of listed Spanish companies between 1999 and 2009, that there is a significant reduction in their cost of equity capital after IFRS adoption in 2005. However, this study in its own findings discovered that IFRS adoption has not accounted to the prospects of the adopters in Nigeria manufacturing companies, by minimizing their finance costs or proportion of their interest expenses, relative to their capital structure and earnings power ratio.

In terms of profitability level, the finding of this study agrees with that of Kipchoge (2015) conducted on a sample of listed 30 companies on the Nigeria Stock Exchange (NSE) from 2007 to 2011, that IFRS adoption has a significant effect on corporate profitability.

Subsequently, in terms of leverage position, the finding of this study significantly agreed with the study of Kipchoge's (2015) that IFRS adoption has significant effect on companies' leverage. Hence, this study reveals that IFRS adoption has a significant effect on companies leverage, specifically in the manufacturing industries in Nigeria.

Conclusion

The study concluded that operators and managers of manufacturing companies in Nigeria, including other stakeholders should embrace the adoption of IFRSs practices in accordance with the standard roadmap for effective financial performance especially in the area of profitability, basic earnings power and leverage position as such would affect positively on the prospects of their businesses.

Recommendations

Arising from the conclusion of the study, the following recommendations were made:

- (i) The regulators of accounting practices in Nigeria should increase the level of awareness and campaign among managers, investors and other stakeholders, specifically the non-adopters, on the imminent benefits of adopting IFRS. This will help to enhance the degree of compliance with current financial reporting standard and requirement, so that uniformity in accounting practices regarding annual preparation of financial reports can be achieved.
- (ii) The adopters should be consistent in the adoption and practices of IFRS standards and requirements in order to maintain and sustain the prospects in which its adoption

has brought, especially on manufacturing companies financial performance, relative to their profitability, basic earnings power, and leverage position. This will further encourage the non-adopters to emulate the practices.

- (iii) Lastly, the Federal Ministry of Education in Nigeria should endeavour to include IFRS standards into the curriculum of the Nigerian educational institutions, from secondary to tertiary levels. This effort will help to teach the students basics of IFRS and thus knowledgeable enough about IFRS standards and practices, as a result, educational institutions in Nigeria can further be boast of quality and competent graduates and practitioners who will be able to compete effectively anywhere in the world as far as this new accounting financial reporting standard is concerned.

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