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THE INTERNATIONAL FFINANCIAL REPORTING STANDARDS (IFRS) ADOPTION CHALLENGES ON CORPORATE TAX IN NIGERIA

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ABSTRACT

The Purpose of this study is to examine the impact of the adoption of IFRS on tax practices in Nigeria. International Financial Reporting Standards(IFRS) is a set of standards in principles-based that needs full reasoning, clear judgement and deep understandingfrom its user. Lack of understanding and judgement will indicate that managers have bigger flexibility. Also,Business environment and a fundamentally different situation determine the form and content of accountingstandards.To this end, the research objective among others examined the impact of the adoption of IFRS on tax practices in Nigeria with a view of determining its extent and quality on corporate financial reporting. The article also compares the Nigerian GAAP with that of the IFRS and asserts that there is a high level of adoption complianceparticularly in the financial institutions industry and other corporate bodies with little hitches. This methodology adopted is based on data obtained from literature in the context of worldwide convergence, compliance and adoption processes of IFRS. Recommendations were made amongst which are; provision of proper guidelines on implementation and introduce awareness programme to improve the degree of compliance.This research is able to give a new paradigm in the adoption of IFRS that needs a comprehensiveunderstanding for its user.

Key words *IFRS, Tax,Returns, Transition to IFRS, Challenges of IFRS Adoption,*

Introduction

The need for harmonization of financial statements and single set of consistent high quality financial reporting standard gained wide spread acceptance amongst policies makers, standard setters and preparers. The need for quality and uniformity in the preparation and presentation of financial statements gave birth to International Financial Reporting Standards (IFRS). Before the adoption in Nigeria, there was legal and regulatory framework of accounting in respect to preparation of financial report in Nigeria. The Company and Allied Matter Act (CAMA'90) prescribe some format and content of company financial statement disclosure requirements and auditing. It requires that the financial statement of all corporate organisations comply and adhere with the Statement of Accounting Standards (SAS) issued from time to time by the Nigerian Accounting Standard Board (NASB). This also requires that audit be carried out in accordance to with the General Auditing Standards. Therefore, the adoption of IFRS in Nigeria was launched in September, 2010 by the then Minister of Commerce and Industry. The adoption was organised in such that the entire stakeholders that prepare and present financial statement use it by the beginning of 2014. The adoption was made in such a way that all the first tier companies listed on the stock exchange and are of public interest use it by 2012, all other company of public interest but not first tier are to adopt in 2013 and all small and medium scale entity use it by January, 2014. Financial reporting standard exists because it serves as stewards to the owner of firms as ownership is divorced from controlling the activities of the business.

The objective of this paper is to review the literatures on the adoption of IFRS in Nigeria. Specifically, the paper deals with some of the issues and challenges associated with IFRS adoption with respect to tax. The rest of the paper is organized into five sections as follows. First, we look at the reasons for a move to global IFRS, the institutions responsible for IFRS adoption and the taxation application of IFRS 1 to 13. Thereafter, we proceed to look at the benefits of IFRS adoption and some of the issues in IFRS which include impact of IFRS on accounting quality and value relevance of accounting information under IFRS. Section four deals with the challenges associated with IFRS adoption while in section five we consider developing a methodological framework for of this paper. The last section is the conclusion and suggestions to countries wishing to adopt IFRS.

Historical Background of the internationalization of accounting standards

The first move towards accounting standards convergence was the proposal to create the Accountants International Study Group (AISG) by the professional accountancy bodies in Canada, the United Kingdom and the United States in 1966. This was formed in order to develop comparative studies of accounting and auditing practices in the three nations. The AISG was eventually created in 1967. It published 20 studies until it was disbanded in 1977. Sir Henry Benson put forward the proposal for the setting up of the International Accounting Standard Committee (IASC) at the 40th World Congress of Accountants in Sydney in 1972. After discussions and signature of approval by the three AISG countries and representatives of the professional accountancy bodies in Australia, France, Germany, Japan, Mexico and the Netherlands, the IASC was established in 1973. Sir Henry Benson was the first elected Chairman while Paul Rosenfieldwas the first secretary of the IASC. By the beginning of the 21 st century in only one of the nine original IASC countries (Germany) did even a relatively small number of listed companies used IASs to report to domestic Investors.

The primary goal of IASC formation was to develop a single set of high quality International Accounting Standards (IASs) to replace national standards. Between 1973 and 2001, the IASC issued 41 standards or IASs before it was replaced by the International Accounting Standards Board (IASB). All listed companies in France, Germany, the Netherlands and the UK and other 21 countries were mandated by the European commission to adopt IASs or the International Financial Reporting Standards (IFRS) from 2005.The Australian government and standard setter had put up an adoption policy of IAS by 2005.The US roadmap for adoption is 2014-2016. Canada and Japan are also considering convergence with IFRS.

A Memorandum of Understanding (MOU) was agreed between the United States Financial Accounting Standard Board (FASB) and the International

Accounting Standard Board (IASB), towards the convergence of US GAAP and the IFRS in 2002. In the Norwalk Agreement, both the FASB and IASB pledged their joint commitment towards the development of high quality, compatible accounting standards for both domestic and cross border financial reporting. It is argued that changes made in the US GAAP can be expected to influence the international environment (Tarca, 2004). Gannon &Ashwal (2004) argue that the convergence efforts of the FASB and theIASB already have changed U.S. GAAP and more effects are expected as the efforts to narrow the differences between the IFRS and US GAAP continue.

Institutions fostering IFRS Adoption

On the international front, the World Bank, the International Monetary Fund (IMF), the G8, the G7 Finance Ministers and Central Bank Governors, International Organization of Securities Commissions (IOSCO), Basel Committee on Banking Supervision, the United Nations (UN) and the Organization for Economic Co-operation and Development (OECD) havepublicly recommended the adoption of a single set of global accounting standards or the IAS. The US SEC Concept released in 2000 on the International Accounting Standards also encouraged the convergence towards a high quality global financial reporting framework internationally that will enhance the vitality of capital markets. The European Commission saw in 2002 a common set of accounting standards as a critical pillar in building a united capital market in Europe (McCreevy, 2006). On the national level many government and tax authorities want a global accounting standards to regulate and tax businesses that operate within their countries. In Nigeria, besides the government's readiness, the Nigerian Accounting Standards Board (NASB) now the Financial Reporting Council (FRC), Nigerian Stock Exchange, (NSE) and Central Bank of Nigeria (CBN) were among the major agents for IFRS adoption in 2012.

Basically, a country's accounting and disclosure system is part of its financial system and more generally its institutional infrastructure. This is geared towards the informational and contracting needs of the key parties in the economy and its role in corporate governance and the capital market. Since the accounting system is complementary to other elements in the institutional framework, a fit between them is likely what result in different accounting system and infrastructural regimes across countries (Obazee, 2007). The institutional framework impacts on the form and content of financial reporting (Zeff,1972) and the use of international standard (Nobes&Parker,1998, Zarzeski,1996). Stock exchange requirements form part of the institutional framework which impacts on the use of international standards; others are company's choice of foreign exchange and level of disclosure. Cross-border listing makes reporting with IFRS very necessary for companies listed in stock exchanges under IFRS jurisdictions.

Harmonization, Convergence and Adoption of IFRS: The clarification

The concerns for harmonization of accounting standards and later, convergence in the 1990s with IFRS are due to the globalization of the capital markets. In fact, it is believed that accounting harmonization is necessary for the globalization of capital markets (Quigley, 2007). Investors now seek investment opportunities all over the world. Many business entities continue to expand their operations across national borders. Companies are seeking capital at the lowest cost anywhere.

Securities markets are crossing national boundaries (and increasing cross-border capital flow). Merger talks among some of the world's largest stock exchanges continue and the glowing investment transactions via the internet. There is need for transparency in company reports so that investors, lenders and other users of financial information of companies could compare their performance from one country to another. Also there is the need to provide information that are relevant, reliable and understandable to meet the needs of investors, for easy comparability of companies' performance and the decision to buy, hold or sell made easy through reduction or elimination of differences in accounting policies and principles between countries.

The term harmonization means "the reconciliation of different accounting and financial reporting systems by fitting them into common broad classifications, so that form becomes standard while content retains significant differences" (Mathews &Perera, 1996, p. 322). Convergence means the process of converging or bringing together international standards issued by the IASB and existing standards issued by national standard setters, with the aim of eliminating alternatives in accounting for economic transactions and events. The ultimate objective of convergence is to achieve a single set of internally consistent, high quality global accounting standards, issued by the IASB and adopted by all the national standard setters (IASB, 2003).

The need for global convergence of accounting standard or for an international standard setter is to:

- Recognize the growing need for international accounting standards.
- Ensure no individual standards setter has a monopoly on the best solutions to accounting problems.
- Ensure no national standard setter is in a position to set accounting standards that can gain acceptance around the world.
- Clarify that there are many areas of financial reporting in which a national standards setter funds it difficult to act alone.

Convergence is the process by which standard setters across the globe discuss accounting issues drawing on their combined experiences in order to arrive at the most appropriate solution. Obazee(2007) suggests that convergence could be either by adoption (a complete replacement of national accounting standards with IASB's standards) or by adaptation (modification of IASB's standards to suit peculiarities of local market and economy without compromising the accounting standards and disclosure requirements of the IASB's standards and basis of conclusions). Convergence was meant to bring standards like the US GAP and IFRS closer or harmonize them; to produce identical standards. According to SEC (2010), there are two approaches to IFRS adoption around the world: convergence and endorsement approaches. SEC (2010) classifies jurisdictions which do not adopt IFRS as issued by the IASB as following the convergence approach.They keep their local standards but make effort to converge with IFRS over time e.gChina. Endorsement approach is where jurisdictions incorporate individual IFRSs into their local standards e.g. countries in the EU. But adoption of IFRS means full scale implementation or usage of IFRS without any variation. Convergence may facilitate adoption over a transition period but it is not substitute for adoption.

Therefore countries must resist the temptation of converging and go for full IFRS adoption. IFRS adoption is believed to have the most significant impact on accounting and financial reporting functions, enhance greater transparency and disclosures in financial statements etc (Ball, 1995, 2006; Epstein, 2009, Adam, 2009). However, clear empirical evidences of the economic consequences from mandatory adoption of IFRS have been limited (Daske et al, 2008).

Conceptual Framework

Many questions are linked by the transition from the Generally Accepted Accounting Principles (GAAP) to IFRS.

- Why are IFRS attractive as the ultimate global standard?

The IFRS are developed by the International Accounting Standards Board (IASB) in London in collaboration with the Financial Accounting Standards Board (FASB) and other global accounting standard-setters. As principles-based system, IFRS can allow issuers to reflect more fully the economic substance of transactions that may be unique to their industry, compared with a prescriptive, rules-based system such as GAAP.

- Does a global accounting standard benefit investors?

As markets become increasingly global, it is important to be able to rely on financial reporting and make international comparisons, both of which require a uniform set of high quality accounting standards. Investors also stand to benefit from a single financial "language" with which to interpret corporate activities. IFRS is currently required for all domestic listed entities in 85 jurisdictions and allowed in 113 jurisdictions.

- Is there an alternative approach for implementation?

Another approach is to complete the harmonization of GAAP and IFRS before converging to a single standard and selecting a single adoption date for all firms. This approach could reduce confusion and complexity. It might also provide time for investors and stakeholders to move smoothly to a single standard. It is also important to establish a "road map" for ultimate adoptions for issuers, investors andother stakeholders.

- How will investors adapt to converged standards?

Learning a new "language" for accounting and reporting certainly requires time and effort for education. Investors, issuers, auditors and regulators will all need to learn and understand IFRS, which will require training across the board.

- What is a reasonable time frame for adoption?

Requiring adoption by 2014 is reasonable. It allows time for reporting standards to converge and for the necessary training and education. An interim period of allowing a dual system now rushes matters. Given the vital role financial statements play in the world's capital markets, it is advisable to adopt a more deliberate, less experimental pace that ensures everyone is well- prepared.

- *What about small and medium-sized enterprises?*

The IASB has addressed this matter by issuing an exposure draft of a proposed IFRS for small and medium-sized enterprises (SME). The IASB also develops and publishes a separate standard intended to apply to the general purpose financial statements of, and other financial reporting by, entities that in many countries are referred to by a variety of terms, including small and medium-sized entities (SME's), private entities, and non-publicly accountable entities. That standard is the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SME's). Small and medium-sized entities are entities that:

- do not have public accountability, and
- publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies. On July 2009 the International Accounting Standards Board (IASB) issued an International Financial Reporting Standard (IFRS) designed for use by small and medium-sized entities (SME's). The standard is a result of a five-year development process involving extensive consultation with SME's worldwide.

TAX APPLICATION OF IFRS

Tax Issues in IFRS1- FIRST TIME ADOPTION

A taxpayer shall prepare and present an opening IFRS statement of financial position at the date of transition to IFRS. This is the starting point for its accounting in accordance with IFRS.

A first time adopter of IFRS is required by the standard:

a) To recognise all assets and liabilities whose recognition is required by IFRS;
b) Not to recognise items as assets or liabilities if IFRS do not permit such recognition;
c) To reclassify items that it recognised in accordance with previous GAAP as one type of assets, liabilities or component of equity, but are a different type of asset, liability or component of equity in accordance with IFRS; and
d) To apply IFRS in measuring all recognised assets and liabilities".

The new net asset based on the accounting balance shall not be adopted for minimum tax computation in the year of transition.

If the retained earnings of a taxpayer that had previously paid tax based on dividend for a particular tax year, increases as a result of the adoption of IFRS, and additional dividends are paid after the transition period from the portion of the retained earnings that relates to the tax year, the taxpayer shall be subjected to additional tax based on dividend in line with Section 19 of CITA.

Where however, the taxpayer was previously assessed to tax for the tax year in line with Section 40 of CITA, the taxpayer will only pay tax on its dividends based on Section 19, where the cumulative amount of dividends declared from the profits/retained earnings relating to the tax year, exceeds the taxable profits previously reported in the tax computations.

Details of recognitions, de-recognitions and reconciliation must be forwarded to FIRS by the taxpayer including all adjustments to opening retained earnings.

All conversion cost (Capital & Revenue) shall be subject to verification by the FIRS before it can be allowed as Qualified Capital Expenditure or revenue expenditure.

Extension of Time to File Returns

- First time adopters of *IFRS* would on application in accordance with Section 26 (5) of FIRSEA (and provisions of Self-Assessment Regulations 2012) be granted 3 months extension for filing of their first set of *IFRS* Financial statements and related returns to allow sufficient time to overcome initial conversion problems.

IAS 1 – Presentation of Financial Statements

IFRS compliant financial statement shall be included in tax returns in line with Financial Reporting Council of Nigeria (FRC) Act.

Tax returns under IFRS shall be in line with Section 55 of CITA and should include:

i) In respect of first time adopters;

a) Statement of Financial Position as at the beginning of the earliest comparative period when a taxpayer applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statement

b) Statement comparing the tax effect of IFRS adoption with Nigerian Generally Accepted Accounting Principles (GAAP)

c) Statement of reconciliations from Nigerian GAAP to IFRS

d) Deferred tax computation

ii) In respect of post-first time adoption:

Deferred tax computation

A statement showing the adjustments made on Income Statement or Total Comprehensive Income to arrive at Assessable Profit and Total Profit for tax purposes as the taxpayer may wish to adopt shall be included.

Deferred Tax: under previous GAAP, deferred taxation assets were classified between current and non-current, based on the classification of the underlying assets and liabilities that gave rise to the difference. IAS 12 requires that deferred taxation amounts be classified as non-current assets.

Additionally, deferred taxes have been adjusted for the changes to net book values arising as a result of the adjustments for first time adoption of IFRS as discussed above.

IFRS 2 - Share Based Payment

- Capital allowance shall be claimable if the asset acquired is a QCE.
- The cost of the asset, purchases or expense is the invoice price, upon which VAT Act provisions shall be applicable
- Any related expense involved in the issuance of shares under share based payment shall be disallowed for income tax purposes.

- The goods/services exchanged under share based payment shall be recognized at the current market value and the impact on shareholders fund (Share premium) must be clearly shown.

IFRS 3 – Business Combinations

- All tax issues arising from business combinations and merger shall be treated in accordance with FIRS Information Circular No. 2006/04 of February 2006 on Tax Implications of Mergers and Acquisitions.
- Goodwill impairment charged to the Statement of Comprehensive Income or Income Statement shall be disallowed for tax purposes, while goodwill acquired shall not form part of the qualifying capital expenditure on which capital allowances can be claimed.
- Gains arising from disposal of a Cash Generating Unit (CGU) with Goodwill components is subject to Capital Gain Tax.
- Gains on Bargain Purchase charged to income statement or Other Comprehensive Income (OCI) shall be disallowed for tax purposes.
- Gains or Losses arising from Contingent Consideration charged to income statement shall be disallowed as it is part of deferred cost of acquisition.
- Contingent consideration shall be recognized for CGT purpose when realized.

Provision made on incomplete business combination transaction: Provisions in relation to business combination charged to income statement shall be disallowed for tax purposes.
The Costs incurred to effect business combination are capital in nature and shall be disallowed for tax purposes in line with FIRS Information Circular No. 2006/04 of February 2006 on Tax Implications of Mergers and Acquisition.

IFRS 4 – Insurance Contract

The Tax law has not changed and as a result, the provisions specified under Section 16 of CITA are still operational.

IFRS 5 - Asset Held for Sale and Discontinued Operation

The FIRS shall take any asset classified as "held for sale" under IFRS not to be in use and shall suspend capital allowances on it until otherwise proved. However, if the asset is subsequently reclassified as in use, then the CapitalAllowance would be granted on the tax written down value. Additionally, where the asset is eventually disposed, the provisions of the relevant tax laws shall apply

Discontinued Operation:

Cessation rule shall apply when a taxpayer discontinues a line of business and Commencement rule will apply if the line of business is bought over by another party at arm's length in line with Section 29 (9) of CITA.

IFRS 7, IFRS 9, IAS 32 and IAS 39 – Financial Instruments

- Financial Instruments classified as **Fair Value Through Profit or Loss (FVTPL)** held for trading or short-term profit-taking such as derivatives are revenue in nature and therefore liable to CITA to the extent that they are not specifically exempted from tax. The transaction shall be taken as a separate line of business except where the taxpayer is already engaged in the same line of business.
- Financial instruments classified as **Held to Maturity Investments** such as debt securities and mandatory redeemable preference shares are capital instruments. Consequently, capital gains tax shall apply to gains derived from the disposal of such instruments, except for gains exempted by relevant provisions of the Capital Gains Tax Act and Regulations.
- Financial instruments classified as **Loans and Receivables -** To be treated in line with the provisions of the relevant tax laws.
- Financial instruments classified as **Available for Sale** (as a default class) such as all equity instruments not measured at FVTPL are capital instruments. Consequently, capital gains tax shall apply to gains derived from the disposal of such instruments, except for gains exempted by relevant provisions in the CGTA and Regulations.
- All transaction costs incurred on Financial Instruments shall be disclosed.
- Initial cost of various classes of Financial Instrument except FVTPL is to be capitalised as part of the cost of the investment.

- The transaction cost relating to FVTPL shall be allowed to be expensed while cost relating to held-to-maturity shall be capitalised.
- All gains and losses on FVTPL shall only be allowed for tax purposes when they are realised.
- Interest and Dividends earned on financial instruments shall be taxable to the extent that they are not final tax.
- FIRS shall disregard the effective interest rate used in calculating both the interest income and expense and use the interest rate stated in the contract. VAT shall be applicable on fees and similar charges incurred.
- Fees and interest income on Financial Instruments (assets) classified as **Loans and Receivables** shall be recognised for tax purposes immediately they are earned. VAT and WHT shall be applicable to the fees while only WHT will be applicable to interest income.
- Taxpayers shall provide detailed schedule of interest expense.
- Gains and losses arising from assets classified as available for sale that appear in **Other Comprehensive Income** statement shall not be allowed for tax purposes.
- FIRS shall ignore all fair values assigned to financial instruments, and at disposal, the historical cost shall be used as the basis for tax computation.
- Impairment losses on individual financial assets (Loan & Advances) shall be subject to Section 20 of CITA.
- **Compound Instrument -** FIRS shall regard this as pure debt instrument. Nominal Interest is not allowable for tax purposes, actual interest incurred should be allowed for deduction.
- **Preference Share -** The IFRS is in conflict with the provisions of Companies and Allied Matters Act (CAMA). This implies that any payment made in respect of preference share shall be treated as dividend until the provisions of CAMA are amended.

IFRS 8 - Operating Segments

Irrespective of the segmentation criteria adopted by the taxpayer, only segmentation based in lines of trade or business shall be acceptable for tax purposes.

IFRS 10 and IAS 27 – Consolidated Financial Statements

- In line with the existing Nigerian tax laws, separate income taxes is computed and charged on every line of business or subsidiary. Group taxation is not in the Nigerian tax laws.
- Gains or Losses made from the disposal of Cash Generating Unit or Subsidiary with Goodwill component shall be subject to CGT in the hands of the parent company. However where the acquisition is fully share based, there shall be no tax implication.
- Capital Allowance shall not be granted on Purchased Goodwill.

IFRS 11 - Joint Arrangements (*Effective date 1st January,2013)*

Joint venture activities shall be taxed in the hands of the individual joint venturer in proportion to their individual investment in the joint venture.

IFRS 13 - Fair Value Measurement

All gains and losses that may arise from fair value measurement shall be disregarded for tax purposes.

The Impact of IFRS on Tax in Nigeria

The implementation of IFRS berth in Nigeriaposses major challenges for tax practice in Nigeria. The IFRS which is a whole body of literature adopted and published by the International accounting Standard Board (IASB). It includes standards interpretations and framework which are continuously evolving, and affects financial statement in four conceptual areas, namely; presentation, disclosure, recognition and measurement. For example, capital expenditure incurred is not tax deductible under Company Income Tax Act (CITA) in lieu of this CITA grant capital allowances to deserving tax payers which in some cases may be higher than depreciation expenses (KPMG 2013) instead, IFRS decide to prescribe a tax depreciation rate for repair of plant and machineries. This will significantly affect the income statement and balances sheet as there will be increase in net worth and increase in profit which may not be the true state of the financial statement. There is need for amendment of CITA in order to go in line with the new financial reporting standards.

IFRS Adoption and Income Taxes of Petroleum Companies

The adoption of IFRS in Nigeria will greatly impact the system and administration of the country taxation. Taxation in the Oil and Gas sector is regulated by the Petroleum Profits Tax Act Cap P13 LFN 2004 (PPTA). However, the legislative framework relating to the oil and gas industry is currently being overhauled and is likely to have a significant impact on the Nigerian oil and gas industry. The draft of the Petroleum Industry Bill (PIB) which is aimed at restructuring the entire oil and gas sector is currently before the Nigerian parliament waiting to be passed into law. The draft contains changes to taxation regimes, improved economies for small, onshore developments, review of Joint Ventures (JVs) and Production Sharing Contracts (PSCs) and an amended royalty structure. BDO (2013)

Petroleum taxes generally fall into two main categories – those that are calculated on profits earned (income taxes) and those calculated on sales (royalty or excise taxes). In Nigeria, the profits of the oil producing companies are chargeable to tax under the PPTA and are also governed by the terms of any relevant memorandum of understanding or PSC. The tax rate under the PPTA is 85% for JV companies and 50% for PSC companies operating in deep offshore sites. However, a special rate of 65.75% applies when a company has not yet started the sale or bulk disposal of chargeable oil under a programme of continuous production, and all preproduction capitalized costs have not been fully amortised (BDO 2013). Capital allowances are charged at the rate of 20% per annum in the first four years of production, 19% in the fifth year and the remaining 1% retained in the books of the company. Firms in PSCs are however, entitled to an investment tax credit of 5%. Royalty is payable in ranges from 0 – 20% of production, depending on the location and depth of the area of production. Other taxes and levies in the oil and gas sector include the education tax at 2% and the Niger Delta Development Commission (NDDC) levy at 3%. VAT is generally applicable to oil and gas operations at a flat rate of 5%.

The classification and treatment of taxes under different accounting regimes will have a significant impact on the firm's financial statement.

Table i. Differences Between IFRS and Nigerian GAAP

AREAS	NG-GAAP	IFRS
Financial statement presentation	Income statement Balance sheet	Statement of comprehensive income Statement of financial position(balance sheet)

	Cash flow statement Value added statement Accounting policies Note to account Directors report	Statement of changes in equity Statement of cash flows Accounting policies Notes Significant management estimates and judgement
Property, plant and equipment	Measured using cost model	Measured using cost model with detailed guidance regarding; Componentisation Useful life Residual value Impairment calculations and identifying cash generating unit
Related parties	Limited disclosure but expected	Detailed guidance on identification of related parties and detailed disclosure of related parties and transactions.
.Segment reporting	More on geography	operation segment based on management view Threshold for reportable segments is result or assets of an individual segment should be 10% or more of all segment. If the aggregate revenue of all reported segments on this basis is less than 75% of total , then more segment required until 75% threshold is reached.
IFRS- first time adoption	Not applicable	Provide guidance and requirements on the transition to IFRS. Also provides relief for certain items in the preparation for opening balance sheet

Financial guarantees	Disclosed as contingent liabilities	Requires financial guarantees to be recognised at their fair value
Scope of consolidation	General principles	Investment under control is consolidated.
Employees benefits	General expenses and disclosure on pension	Complex criteria of accounting Recognise the undiscounted amount of short term employee's benefit.
Risk management disclosure	Limited disclosure on foreign exchange and credit risk.	Credit risk Liquidity risk Price risk Capital risk management Risk management
Leases	Based on general guideline, operating and finance lease	Fair value and amortised cost are used in valuation. Certain transactions/contracts containing hidden leases which needed to be accounted for.
Impairment	No specific standard	Carry out impairment test based on trigger vent IFRS 36 impairment on non-financial assets IAS 39 impairments on financial assets
Financial assets classification and valuation	Classification includes; cost and amortised cost	Classification included; amortised cost, fair value cost. This is driven by the business model and the nature of instrument.

Source: Adekoya, (2011) in Abdulkadir (2013)

BENEFITS OF IFRS ADOPTION

It is advocated that adoption of IFRS will lead to: greater transparency and understandability, lower cost of capital to companies and higher share prices (due to greater confidence of investors and transparent information), reduced national standard-setting costs, ease of regulation of securities markets, easier comparability of financial data across borders and assessory investment opportunities, increased credibility of domestic markets to foreign capital providers and potentials foreign merger partners, and to potential lenders of financial statements from companies in less-developed countries. It will also facilitate easier international mobility of professional staffs across national boundaries. For the multinational companies, it will help them to fulfill the disclosure requirement for stock exchanges around the world (Armstrong, Barth,Jagolizer&Riedl , 2007., Covrig, Defond& Hung 2007, Daske et al 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 standards to be raised to the highest possible quality level throughout the world. (Choi, et al, 1999; Alfredson et al,2004). The net market effect of convergence is a function of two effects. The first is the direct informational effect - whether convergence increases or decreases accounting quality. The second is the expertise acquisition effect or 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.

CHALLENGES OF IFRS ADOPTION

According to Rong- Ruey Duh (2006), the implementation challenges include: timely interpretation of standards, continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement users, preparers, auditors and regulators, and managerial incentive.

Others serious challenges to IFRS adoption include:

1. *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 is free from undue influence and politicization maneuvers. This will ensure IASB legitimacy and assure the confidence of market participants and adopting nations around the world (Choi, F,Saudagaran,2006).

Dominance of the developed countries and Political lobbying

The developed countries want to dominate 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 (Ball,1995,Nobes& Zeff,2008).

2. *Consistent adoption, application and regulatory review*

Presently most IFRS adoptions are in labels (Daske et al ,2007) and with various versions which are inconsistent with IASB's prescription (Ball,2006).Besides there are lots of uneven applications, breeding different IFRS versions (Tsakumis et al, 2009).Nobes (2006) has indicated the motivations and opportunities for different IFRS to continue. There must a coordinated regulatory review and enforcement mechanism to facilitate consistent application. The complexity of certain IFRSs and tax orientation of most nations have been identified as the two most significant impediments to convergence (Larson & Street,2004).

3. *Compliance issues and enforcement mechanisms*

There have been varying levels of compliance with IFRS despite claims by companies that their financial statements complying with IFRS. Equally disturbing is auditors failed to express opinion on IFRS compliance or non-compliance (Cairns, 2001). A major challenge is enforcement mechanisms of IFRS especially in jurisdictions with weak institutions and enforcement agencies.

4. *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. In fact embracing globalization and adopting IFRS has challenges as it makes necessary reforms to a country's regulatory, legal and economic structures and adaption of its culture to the West. There is increased need for training and education for investors, accountants, auditors, preparers and users of financial reports etc, development of IFRS curricula at the university and other levels, adjustment of the accounting training and education to incorporate IFRS. (Alfredson. R, Ball,2006).

Methodology

To address the convergence and adoption of IFRS in the context of the transformation of financial reporting and tax practices, the paper adopts review approach. The research presented here holds on an analysis of discourses within the range of documentary evidence and is based upon an examination of major publications and materials emanating from the professional accounting bodies and academic research carried out in the past. This paper is purely a conceptual review.

Conclusion and Suggestions

The adoption of IFRS continues with many countries setting timetable or roadmap for adoption expecting to reap the benefits of IFRS adoption. Nevertheless there are numerous challenges a country must confront and overcome. A critical assessment of countries where IFRS has been adopted and implemented reveals that countries like Nigeria which has just adopted IFRS or those countries about to adopt or converge their local GAAP with IFRS must be adequately prepared However for effective IFRS adoption, the following are suggested:

(i) Effective implementation of IFRS requires careful planning and extensive public education, the allocation of resources, a legal and regulatory support system and institutional support with strong management systems. Unless the various stakeholders are integrally involved and included in development plans and how they are affected, they will be reluctant to support the change and IFRS adoption may not succeed.

(ii) The communications system for informing users of the changes in reporting requirements must be effective and responsive. Users of financial statements have to be able to interpret financial reports and raise questions about an entity's performance. Efforts to build good corporate governance and enhance corporate transparency will be successful only when the key stakeholders have the desired knowledge to understand the financial reports and interrogate reported information. Also, the transition plans to IFRS and its implications for preparers, users, educators and other stakeholders have to be effectively communicated

(iii) Adequate resources must be put in place to support the sustainable implementation of IFRS. This includes having consultative groups available to respond promptly to concerns by users and to provide for their ongoing training. Assisting key stakeholders, including regulators with training, and possessing the required resources to interpret and apply the requirements of IFRS is a critical element underlying the successful implementation of IFRS.

(iv) Suitable standards must be developed to facilitate recognition of the small and medium scale enterprises (SMEs) because most of the standards include complex and detailed disclosure issues applicable to larger companies which are listed in the stock exchange.

(v) Continual training of auditors, regulators, analysts and other users is an important factor in the transition to IFRS. In fact, capacity building of the various stakeholders by the accounting profession is a necessity.

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