Sub-Sahara African Academic
Research Publications
March, 2021 Editions

JASD
Journal of African Sustainable Development
Vol.19, No.2, ISSN: 2115-4255

THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) IN FINANCIAL REPORTING IN NIGERIA.

[*]WETNWAN SETLE, [**]TAIYA, HAZIEL MBASITI
[*]Department of Insurance University of Jos, Plateau State, Nigeria.
[**]Department of Accounting, Adamawa State University, Mubi, Adamawa State, Nigeria.

ABSTRACT

The study evaluates the Adoption of International Financial Reporting Standard (IFRS) in financial reporting practices of corporate establishments in Nigeria. The objectives are to find out whether IFRS provides greater benefits than the current GAAP, to know if IFRS promotes best practices in an organization, to know if IFRS promotes cross border investment and to know if IFRS enhances the performance of companies. From the study, it is revealed that IFRS has impacted on the financial reporting practice in Nigeria. Also, IFRS has promoted best practices, increased cross border investment and performance of companies. Thus, there is no doubt that IFRS will confer greater benefit than the former SAS particularly in the areas of financial statements, cross border listings, merger and acquisitions and ability to raise finance. The study therefore recommended that regulatory bodies should embarked upon enlightenment campaigns on the potential impacts of adopting IFRS in Nigeria. It also points out that government should support the Nigeria's adoption of IFRS especially in the area of enforcement to compliance as a matter of urgency to enable full attainment of the country's economic potentials. The adoption and implementation of IFRS will have an impact on the performance of companies and it will enhance best practice.

***Keywords**: Adoption, Financial Reporting, Harmonization, NG-GAAP, IFRS.*

INTRODUCTION

The comparability and uniformity of financial statements has made the adoption of the International Financial Reporting Standards (IFRS) an issue of global relevance and concern. Financial statements provide other information apart from stating the financial position of the organization which include changes in equity, value added and cash flow of the enterprise within a defined period of time to which it relates (Iyoha and Faboyede, 2011). This information is required to enable users of financial information take informed economic decisions. Nigeria adopted the International Financial Reporting Standards (IFRS), and then referred to as International Accounting Standards (IAS) in 1999 through a resolution by the council of the Institute of Certified Public Accountants in Nigeria (lCPAN), the legally mandated accounting institute in Nigeria. The adoption of international financial reporting standards and its subsequent effects on financial reporting has been widely studied globally. Studies in Nigeria by Okere (2009), Gambari (2010), and Madawaki (2012) focused on issues and the need for the implementation of IFRS in Nigeria as it relates to financial reporting challenges.

Adekoya (2011) observed that it is in recognition of the need to have quality financial reports that the adoption of IFRS is taking a firm root in different countries around the world, with worldwide adoption. IFRS impacts changes in the preparation and contents of financial statements and it allows for international study of financial reports in different countries because of the uniformity of applicable standards. A number of corporate organizations with international interest have already begun the adoption of IFRS in preparing their statements. The IASB is committed to developing public interest as a single set of high quality global accounting standards that result in transparent and comparable information in general purpose of financial statements (IASB, 2002).

Despite all the benefits accruing to the adoption of IFRS, it is argued that the use of one single set of accounting and reporting standards cannot reflect the difference in national business practices arising from differences in national institutions, environments and cultures. This study therefore, seeks to find out the essence of IFRS and the need for its adoption as well as its prospects to further build on the existing studies.

LITERATURE REVIEW

The International Financial Reporting Standard is aim towards the harmonization and internationalization of financial reporting in response to the demands of business globalization and convergence. Ahmed (2011) said that International Accounting Standard Committee (IASC) formed in June 1973 is a body of professional accounting bodies of independent Countries, that produced International Accounting Standard (IAS). Most countries have local Generally Accepted Accounting Principles (GAAP), in the case of Nigeria, the GAAP include, Statements of Accounting Standards (SAS), Companies and Allied Matters Act 1990 (CAMA) and others. The Nigerian GAAP are implemented and enforced by relevant institutions, these institutions provide guidelines that determine what information and the format of such information in financial reports. The International Accounting Standard Board (IASB) was set up with an express purpose of developing a single set of global accounting and reporting standards. IFRS are universal principles and guidelines that guide the treatment of accounting transactions, preparation and presentation of financial statements. There is a growing demand for credible financial information to meet the need of shareholders who have operational interest in financial reports. This information must represent the economic substance of an organization taking into consideration, relevance, reliability and comparability (Mathew, 2015).

The IFRS was first published by IASB after the change in 2007 and IASC published its standard in a series of pronouncements called the International Financial Reporting Standards (IFRS). IFRS are high quality, understandable standards for general purpose financial reporting which are principles-based in contrast to the rule based approach. The standard comprised four types of documents, viz: IAS (41); IFRSs (18); the standing Interpretation Committee Statement, SICS (II); and the International Financial Reporting Issues Committee Statements, IFRICS (18) (Azobu, 2010). In many countries of the world, the adoption and implementation of International Accounting Standards were not mandatory on any Country's professional accountancy bodies who are members of these board but is a matter of choice. The differences in background and tradition of countries, differences in the needs by various economic environment and the perceived challenge to sovereignty of states and enforcing standards is a serious challenge to the automatic adoption by all countries (Okere, 2009).

CHALLENGES IN INTERNATIONAL FINANCIAL REPORTING STANDARDS

Despite the potentials of IFRS to facilitate cross-border comparability, increase reporting transparency, decrease information costs, reduce information asymmetry and thereby increase the liquidity, competition and efficiency of markets. Ball (2006), Odia & Ogiedu (2013) and Soderstrom & Sun (2007) posit that cultural, political and business differences may continue to impose serious obstacles in the progress towards a single global financial communication system because of national business practices arising from differences in institutions and cultures. Barth, Landsman and Lang (2008) outline the following challenges in IFRS adoption to include:

1. Funding, staffing and governance structure, consistent adoption, dominance by the developed countries and Political lobbying
2. Consistent adoption, application and regulatory review
3. Compliance issues and enforcement mechanisms
4. Cultural and structural changes in the various institutions in a country

Odia and Ogiedu (2013) outline the principal impeding factors in the adoption process of IFRS in Nigeria and the rest of the world to include: cultural issues, mental models, legal impediments, educational needs and political influences while the implementation challenges include: timely interpretation of standards, continuous amendments to IFRS, accounting knowledge and expertise possessed by financial statement users, preparers, auditors, regulators, and managerial incentives. They posit that the differences include accounting thought and practice which make harmonization and moving from one tradition to another difficult. Therefore, despite the benefits that can be derived from the adoption of IFRS in Nigeria, it still has numerous challenges,

ADOPTION OF IFRS IN NIGERIA

The major factors responsible for the adoption of IFRS in both the developed and developing countries are increasing growth in international trade, cross border financial transactions and investments which unavoidably involves the presentation of accounting reports that are useful across various national borders (Ahmed, 2011). African countries including Nigeria, Ghana, South Africa, Kenya, Zimbabwe and Tunisia among others have adopted the IFRS (Mathew, 2015). As at today, many business organizations have fully implemented IFRS which is considered a welcoming progress for developing countries especially some of those that had no resources to establish own standards.

There have been arguments for and against the global adoption of IFRS. According to Barth (2007), the adoption of a common body of international standards is expected to have the following benefits: lower cost of financial information processing and auditing familiarity with one common set of international accounting standards, comparability and uniformity of financial attraction of foreign investors in addition to general capital market liberation. On the other hand, Winney, Marshall, Bender and Swiger (2011) found that small businesses were not prepared for IFRS because they have the perception that there are no benefits in switching from GAAP to IFRS. Many countries have faced challenges in their decisions to adopt IFRS, its wide spread adoption has been promoted by the argument that the benefits outweigh the costs (Iyoba & Faboyede, 2011).

DIFFERENCES BETWEEN NG. GAAP AND IFRS

The major differences between **NG. GAAP AND IFRS** are presented below:

TABLE 1: DIFFERENCES BETWEEN NG. GAAP AND IFRS

TOPIC	NG-GAAP	IFRS
Financial Statement Presentation	Income Statement Balance Sheet Cash flow Statement Value added statement Accounting policies	Statement of comprehensive income (including income Statement). Statement of financial position (balance sheet). Statement of changes in equity. Statement of cash flows Accounting policies Significance management estimates and judgements.
Property plant and equipment	Measured using cost model	Measured using cost model with detailed guidance regarding: Componentization, Useful lives, Residual values, Impairment calculations and identifying cash generating units.

Related parties	Limited disclosure but expected	Detailed guidance on identification of related parties, detailed disclosure of related parties and transactions.
Segment reporting	More on geography	Operation segments based on management's view Threshold for reportable segments is results or assets of an individual segment should be 10% or more of all segments. If the aggregate revenue of all reported segment on this basis less than 75% of total, then more segments required Until 75% threshold is reached.
IFRS 1-First time adoption of IFRS	Not applicable	Provides guidance and requirement on the transition to IFRS. Also provides relief for certain items in the preparation of the opening balance sheet.
Financial guarantees	Disclosed as continent liabilities	Requires financial guarantees to be recognized at their fair value.
Scope of consolation	General principles	Investment under control is consolidated. SPEs are potentially also consolidated.
Employee benefits	General expense and disclosures on pensions	Complex criteria of accounting Recognize the undiscounted amount of short-term employee benefits.
Risk management disclosure	Limited disclosure of foreign exchange and credit risk	Disclosure required for: Credit risk, liquidity risk, price risk, capital risk management and risk management.
Impairments	No specific standard	IFRS 36 – impairment on non-financial assets IAS 39 – impairment on financial assets
Financial asset classification and valuation	Classification include: cost amortization cost	Classification include: Amortization cost Fair value This is driven by the business model and nature of the instrument.

Source: Mathew (2015).

IMPORTACNE OF ADOPTING IFRS IN NIGERIA

The ultimate objective of uniformity 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). Ball (2006) has found that IFRS has the potentials to facilitate cross-border comparability, increase reporting transparency, decrease information costs, reduce information asymmetry and thereby increase the liquidity, competition and efficiency of markets. Therefore, it is advocated that the 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 investment opportunities and increased credibility of domestic markets to foreign capital providers.

Mathew (2015) states that the benefits Nigeria stands to gain in the adoption of IFRS are: Promotion of the compilation of meaningful data on the performance of various reporting entitles, attraction of direct foreign investment, assurance of easier access to external capital for local companies, cost reduction, facilitation or easy consolidation of financial information, easier regulation of financial information, enhanced knowledge of global financial reporting standards, better quality of financial information for shareholders and to assist government to access the tax liabilities of multinational companies.

CRITIQUES OF IFRS ADOPTION

The practical challenges have been evidenced by previous studies conducted by scholars such as: Gambari (2010): potential knowledge shortfall, Mathew (2015): legal system effect and tax system effect and Barth, et'al (2008): education and training, enforcement and compliance mechanism. Adekoya (2011) argued that there exist two schools of thought in this area, the first, which is known as the rightist school, supports a single set of global standards as being suitable for application. The second, the leftist school, opposes the use of IFRS in developing countries by arguing that the characteristics of local business environments and institutional frameworks should determine the form and contents of accounting standards. In spite of the arguments, Nigeria has gone ahead to adopt the IFRS. The need to evaluate the impact of its adoption is therefore essential for both the academia and the professional environment. Critiques of IFRS such as Barth, et'al (2008) and Bartov, Goldgerg, & Kim (2005) argue that there is no conclusive evidence that standards have contributed to improvements in accounting quality. Therefore, much need to be done for this global standard (IFRS) to be embraced by Nigerians especially those in the public sector because the trend in the local GAAP is bleak and remote.

METHODOLOGY

This study adopted the theoretical approach as its research design. This led to the review of materials in the area of IFRS and NG. GAAP. Secondary data were employed for the study through the use of textbooks, Journals and other related internet materials for review

CONCLUSION AND RECOMMENDATIONS

The accounting profession has concern for quality financial statements which provide economic information about an enterprise to permit users to make informed decision, leading to effective allocation of scarce resources. It was found that IFRS provides greater benefits than the current GAAP, it promotes best practices in an organization, promotes cross border investment and improve the performance of companies. Thus, there is no doubt that IFRS will confer greater benefit than the former SAS particularly in the areas of financial statements, cross border listings, merger and acquisitions and ability to raise finance. The study therefore recommend that regulatory bodies should embark on enlightenment campaigns on the potential impacts of adopting IFRS in Nigeria. It also points out that government should support the adoption of IFRS especially in the area of enforcement to compliance as a matter of urgency to enable full attainment of the country's economic potentials. The adoption and implementation of IFRS will have an impact on the performance of companies and it will enhance best practices of companies.

Based on the findings, the study put forward the following recommendations: The Financial Reporting Council (FRC) should assist standard setters by making an effort in the areas of enlightenment and creating awareness to Improve the standards (IFRS). It should also sensitize the public of its activities in financial statements. Financial statement prepared using the IFRS with uniformity and global acceptability should ensure that it provides information that is transparent and relevant to decision makers like the investors, creditors and other users of financial statements; hence, its wide acceptability. There should be publication of exposure drafts in the national dailies. The IFRS should suit local problems not fashioned in line with foreign phenomena. There should also be effective monitoring of the level of its compliance and also continuous review of standards so that it should be of more benefits to users of these statements.

REFERENCES:

Adekoya, O. (2011). Similarities and differences, IFRS and Nigeria GAAP. Lagos: Price Water House Coopers International Limited (PNCIL).

Ahmed, A. (2011). Practical challenges of HRS implementation. "What Bank Regulators Need To Know" IFRS International Conference Nigeria.

Azobu, M. (2010). Adoption of IFRS in developing countries. International Journal of Business and Management, 7(3), 155-157.

Ball, R 2006, 'IFRS: Pros and Cons for Investors' Accounting and Business Research International Accounting Policy Forum pp 5-27

Barth, M., Landsman, W.R. & Lang, M. (2008). International Accounting Standards and accounting quality. Journal of Accounting Research 46, 467–498.

Bartov, E.Goldberg, S and Kim M.(2005) Comparative Value Relevance among German, US and international Accounting Standards: A German stock Market perspective. Journal of accounting, Auditing and Finance 20:95-119

Gambari, Y. (2010). "issues in the implementation of IFRS ". Accounting Financial Reporting issues; Toronto;CICA

ICAN (2006). Statement of Basic Accounting Standard, Nigeria VI Publication. Ismaila, M. Z. (2010). IFRS as a tool for cross Border Financial Reporting. International Financial Reporting Standards. Nigeria: Hazi publishers.

Iyoha, F.O & Faboyede,S.O.(2011). Adopting International Financial Reporting Standards (IFRS)- A Focus on Nigeria. International journal of research in commerce and Management. 2(1), 35-4

Madawaki, A. (2012). Adoption of international Financial Reporting Standards in Developing countries: The case of Nigeria. International Journal of business and Management, 7(3), 152-161. Retrieved on March 10, 2014 from http:jwww.ccsenet.orgjijbm.

Mathew, A. A. (2015) Global Journal of Contemporary Research in Accounting, Auditing and Business Ethics (GJCRA) An Online International Research Journal (ISSN: 2311-3162) 2015 Vol: 1 Issue: 1

Odia, J. O, and Ogiedu, K. O (2013). IFRS Adoption: Issues, Challenges and Lessons for Nigeria and other Adopters. Mediterranean Journal of Social Sciences MCSER Publishing, Rome-Italy Vol 4 No 3

Okere, E.O. (2009). International Financial Reporting and Accounting Issues; Imperative of Attainment of Economic Development in Nigeria, ICAN 39 Annual Accountant C

Soderstrom, NS & Sun KJ 2007, 'IFRS adoption and Accounting Quality: A Review'; European Accounting Review Vol.16 No.4, pp 675-702.

Winney,K. ,Marshall,D ..Bender,B & Swiger,J 2011, 'Accounting Globalization: Roadblocks to IFRS Adoption in the United States',Global Review of Accounting and Finance pp 16- 178 Barth, Landsman, & Lang, (2008). Barth, (2007