



IFRS Implementation and Firms Financial Performance in Nigeria

¹UMOBONG, A.A. FCA & ²IBANICHUKA, E.A.L. Ph.D

¹Department of Accounting, University of Port Harcourt,
Choba , Port Harcourt, Rivers State, Nigeria
aumobong2007@yahoo.com; Phone: +2348077881419

²Department of Accounting, University of Port Harcourt,
Choba, Port Harcourt, Rivers State, Nigeria
Email: emmanuelibanichuka@yahoo.com; +2348137226840

ABSTRACT

The study examined IFRS adoption and firm's financial performance using Secondary data obtained from Nigeria stock exchange for the period 2006 to 2014 and tries to ascertain whether IFRS adoption reduces financial result manipulations by comparing financial results pre and post IFRS of food, beverage and pharmaceuticals firms. Independent sample t-test and ANOVA were carried out on data to compare pre and post IFRS adoption. Findings indicate no significant difference of mean of Return on assets, Return on Equity and Earnings per share in the two periods implying that IFRS adoption does not impact on reported performance Based on these findings, we conclude that IFRS failed to prevent bloated earnings. We recommend regulators overhaul of corporate governance mechanisms, staff training on IFRS, and internal audit empowerment.

Keywords: IFRS implementation, financial performance, return on assets, returns on equity and earnings per share

INTRODUCTION

Regulators and standard setters are constantly faced with the challenge of ensuring that published financial statements satisfy the need of diverse users. This necessitated the need for standards, corporate governance mechanisms and the constant review of internal control systems. However, the collapse of blue chip companies across the globe despite publications of juicy profits draws attention and required the tightening of standards. Globalization and the need for external capital and cross border investments energized the need for global standards and eventually resulted in the convergence of local standards with the aim of improving accounting quality and enhancing comparison of financial statements across the globe.

The introduction of International financial standards with diverse modifications in rules and reporting practices exacerbate the need to evaluate its influence on financial accounting manipulations. The adoption of a single set of standards across international boundaries (IFRS) has the merit of enhancing comparability of different financial statements across firms and countries. It is argued that IFRS increase firms' access to global capital with resultant reduction in cost. This viewpoint resulted in a quest for global standards by regulators, professional accountancy bodies as well as preparers of financial statements. In less developed countries, the advantage of comparability of local financial statements with that of advanced countries promotes sound cross border investment decision and improves the ability to attract investment capital across International boundaries is overwhelming. Despite these tremendous benefits, few researches have been carried out as to whether IFRS implementation has improved quality

of financial reporting and mitigate accounting manipulations in firms that have adopted it in emerging markets especially the West African countries. Studies in Germany (Hung & Subramanyam (2004) and Bartov, Goldberg, and Kim (2004) and China (Echer & Healy, 2003) provide mixed evidence on whether international accounting standards have improved reporting. Interestingly, most of the studies on the impact of IFRS on financial reporting that were recently conducted were all carried out in advanced countries. This highlights a major gap in the literature taking account of the differences that exist between third world economies and advanced economies. Therefore the main objective of this study is to compare reported earnings in pre and post IFRS and identify whether the introduction of IFRS has weakened accounting manipulations in Nigeria thereby increasing reliance on accounting reports. It will examine if IFRS implementation impacts firms financial performance with financial performance variables (Return on Assets, Return on Equity and Earnings per share).

Empirical Review

The adoption of IFRS has been shown to produce mixed results. Findings by prior researches show that the adoption of IFRS is positive and beneficial while other studies indicate it is negative and detrimental to the firm. According to Leuz & Verrecchia (2000) adoption of IFRS reduces cost of capital to the firm while findings by Bushman & Piotroski (2006) shows IFRS improves the efficiency of the firm in allocating capital. Young & Guenther (2003) IFRS enhances capital mobility across national boundaries while a study conducted by Ahmed (2011) indicates that IFRS adoption improves and develop capital market for the purchase and sale of shares and debt instruments. Adekoya (2011) confirms that IFRS raises capital market liquidity and improves the market value of firms. Other studies by Bhattacharjee & Hossain (2010) shows IFRS encourages international movement of capital and foreign direct investments, Mike (2009) in his findings that IFRS adoption makes financial statements more transparent leading to improved quality of financial reports. Also, Okere (2009) in his study found that IFRS enable firms to be compared across national boundaries thereby encouraging foreign flow of investments as investors will be able to make appropriate decisions on firms. Barth, Landsman & Lang (2006) find that firms adopting IFRS adoption reduces earnings management, enhances timely recognition of losses and makes reported earnings more relevant and all these translates to improved accounting quality. Existing literature such as Barth, *et al*, (2006), Gassen & Sellbom, (2006); Hung & Subramanyam (2007); Barth *et al*, (2008) document improvements in accounting quality due to intentional implementation of IFRS by firms. It helps to reduce information asymmetry between manager and shareholders and is evidenced by proper assets and earnings management, lower cost of capital and high forecasting capability by the investors about firm's future earnings. These are positive impacts of IFRS adoption.

The implementation of IFRS is not without negative side effects. Prior empirical studies provide evidence of its shortcomings. Alp & Ustunda (2009) found that IFRS implementation reduces accounting knowledge and expertise amongst practitioners while Li & Meeks (2006) indicate IFRS has negative effects on the legal system. On the other hand, studies by Shleifer & Vishny (2003) shows IFRS impacts negatively on the countries existing tax system while Martins (2011) found it negatively affects the capacity of regulators to enforce and ensure compliance to accounting rules. According to Irvine & Lucas (2006) IFRS adoption negatively affects education and training in accounting field. These conflicting results demands further empirical research on effects of IFRS

RESEARCH METHODOLOGY

Sample

The population of the study is all the manufacturing firms listed in food, beverage and pharmaceutical sub sectors of the Nigeria economy. However, to conduct a meaningful research the entire population was considered for the study only 35 percent of the firms in the sub sector had complete information for the period of the study. Financial statements were obtained from the Port Harcourt branch of Nigeria stock exchange and the annual report fact book between 2006 and 2014.

Variables

The independent variable in this study is IFRS categorized into pre and post IFRS periods. Dependent

The dependent variables in this study are financial performance variables Return on Assets (ROA) Return on Equity (ROE) and Earnings per share.

Return on Assets (ROA)

The formula for calculating Return on Assets is shown thus:

$$\text{Return on Assets (ROA)} = \frac{\text{Net Profit after tax+interest}}{\text{Total Assets}}$$

Return on Equity (ROE)

ROE for the purpose of this study is ratio of Net profit after tax less preference dividend divided by shareholders equity and is expressed mathematically thus:

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit after tax – pref. Div}}{\text{Shareholders' Equity}}$$

Earnings per share (EPS)

. Earnings per Share (EPS) for the purpose of this study is measured thus:

$$\frac{\text{Net profit (loss) attributable to ordinary shareholders}}{\text{Weighted Average number of ordinary shares outstanding during the period}}$$

IFRS adoption and firm’s financial performance involve the use of descriptive statistics and comparative analysis (differences between groups). The relationship between IFRS (Independent variable) and dependent (Financial performance) is determined using independent sample t-test and analysis of variance (ANOVA). However, the calculation is carried out using SPSS statistical software package

RESULTS

HO₁: There is no significant difference between average levels of ROA in post-IFRS compared to pre-IFRS.

Table 1: Independent Samples Test Of Pre And Post Ifrs Adoption Of Return On Assets (ROA)

Group Statistics

		IFRS ADOPTION	N	Mean	Std. Deviation	Std. Error Mean
RETURN ON ASSETS	PRE-IFRS ADOPTION		47	.1136	.12715	.01855
	POST-IFRS ADOPTION		39	.1331	.15331	.02455

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
RETURN ON ASSETS	Equal variances assumed	.004	.952	-.643	84	.522	-.01945	.03024	-.07958	.04068
	Equal variances not assumed			-.632	73.878	.529	-.01945	.03077	-.08076	.04186

From table 1, observe that F-statistic = 0.004. Because F-statistic = 0.004 < 3.84 and p-value = 0.952, accept Ho. Specifically, no significant difference between the financial statements in pre-IFRS and post-

IFRS periods which produce return on assets with equal amount of variability. Therefore, the homogeneity-of- variance assumption for the independent samples t-test procedure is justified.

This result means there is no significant difference between ROA in pre-IFRS and post-IFRS. We conclude, IFRS implementation has no significant influence on ROA.

HO₂: There is no significant difference between average levels of ROE in post-IFRS compared to pre-IFRS.

Table 2: Independent Samples Test Of Mean Pre And Post IFRS Adoption Of Return On Earnings (ROE)

Group Statistics

	IFRS ADOPTION	N	Mean	Std. Deviation	Std. Error Mean
RETURN ON EARNINGS	PRE-IFRS ADOPTION	47	.5281	2.60491	.37997
	POST-IFRS ADOPTION	39	.1947	.48005	.07687

Independent Samples Test

	Levene's Test for Equality of Variances	t-test for Equality of Means								
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
RETURN ON EARNINGS	Equal variances assumed	1.887	.173	.787	84	.433	.33335	.42336	-.50855	1.17524
RETURN ON EARNINGS	Equal variances not assumed			.860	49.742	.394	.33335	.38766	-.44540	1.11209

From table 2, observe that F-statistic = 1.887. Because F-statistic = 1.887 < 3.84 and the p-value = 0.173, we do not reject Ho. We do not see any evidence of a significant difference in the two variances. In other words, it is reasonable to assume that financial statements from the two periods (i.e., the pre-IFRS and post-IFRS periods) produce return on earnings with equal amount of variability. Therefore, the homogeneity-of- variance assumption for the independent samples t-test procedure is justified.

HO₃: There is no significant difference between average levels of EPS in post-IFRS compared to pre-IFRS

Table 3: Independent Samples Test Of mean Pre And Post IFRS Adoption Of Earnings Per Share (EPS)

Group Statistics

	IFRS ADOPTION	N	Mean	Std. Deviation	Std. Error Mean
EARNINGS PER SHARE	PRE-IFRS ADOPTION	47	2.4426	4.43622	.64709
	POST-IFRS ADOPTION	39	4.4109	7.83415	1.25447

Independent Samples Test

	Levene's Test for Equality of Variances	t-test for Equality of Means								
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
EARNINGS PER SHARE Equal variances assumed	3.921	.051	-1.464	84	.147	-1.96839	1.34472	-4.64251	.70574	
EARNINGS PER SHARE Equal variances not assumed			-1.395	57.547	.169	-1.96839	1.41153	-4.79434	.85757	

From table 3, observe that F-statistic = 3.921. Because F-statistic = 3.921 > 3.84 and the p-value = 0.051, we reject Ho. There is evidence of a significant difference between the two variances. In other words, it is reasonable to assume that financial statements from the two periods (i.e., the pre-IFRS and post-IFRS periods) produce earnings per share with unequal amount of variability. Therefore, the homogeneity-of-variance assumption for the independent samples t-test procedure is not justified.

TABLE 4: Anova test of mean pre and post IFRS adoption of earnings per share (EPS)

Test of Homogeneity of Variances

Earnings Per Share

Levene Statistic	df1	df2	Sig.
4.408	1	68	.039

ANOVA

Earnings Per Share

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	150.048	3	50.016	1.101	.355
Within Groups	3089.718	68	45.437		
Total	3239.766	71			

From table 4, observe that F-statistic = 1.101. Because F-statistic = 1.101 < 3.84 and the p-value = 0.355, we do not reject Ho. There is no evidence of a significant difference between the two variances. In other words, it is justified to assume that financial statements from the two periods (i.e., the pre-IFRS and post-IFRS periods) produce earnings per share with equal amount of variability. Therefore, the homogeneity-of-variance assumption for the ANOVA test procedure is justified.

DISCUSSION OF FINDINGS

We postulated three hypotheses in this study and key findings of the tests are explained in subsequent paragraphs. The findings indicate that IFRS implementation has no effect on the financial performance of listed food, beverage and pharmaceutical firms in Nigeria. The result of the study on IFRS is summarized as follows:

- 1) No significant disparity in mean of Return on Assets Pre IFRS when compared to post IFRS

- 2) IFRS implementation does not affect Returns on Asset.
- 3) The mean of Return on Equity in pre IFRS period does not significantly differ from that of Post IFRS
- 4) Adoption of IFRS standards does not influence Return on Equity
- 5) No significant difference in mean of EPS pre –IFRS compared to mean of EPS post IFRS
- 6) IFRS implementation does not impact EPS.
- 7) IFRS adoption does not impact financial performance of manufacturing firms in Nigeria

The results based on analysis of GAAP and IFRS prepared financial statements, computation of average mean of the firms for pre and post IFRS and tests using independent sample T test and ANOVA are presented in Table 4.2-4.5

Anna et al (2010) concluded that IFRS adoption has significant effect on net profit, equity and gearing. Using Loan to asset ratio, Return on Assets (RoA), debt to asset ratio (DAR) and making comparison between pre and post IFRS adoption intan.et.al (2014) found differences in performance between the two eras. In Nigeria in a study of financial institutions Tanko (2012) found that IFRS adoption stabilizes earnings, reduces percentage change in liabilities, reduces growth, reduces cash flow changes and reduces earnings in relation to total assets. According to Latridis (2010) implementation of IFRS favourably affects UK firms while Blanchette (2011) found returns on Assets (ROA) and Return on Equity (ROE) Improves with IFRS adoption amongst Canadian firms. Also Latta & Sahstrom (2009) in a study of Finland firms comparing pre and post IFRS performance found that liquidity ratios reduces while profitability and leverage ratios increases on adoption of IFRS. In contrast, Pananen (2008) and Siogian, Dewl & Sunaryo (2015) found no significant effect of IFRS on firm performance ratios when comparing financial ratios between pre and Post IFRS adoption. Our study of pre and post IFRS adoption of food, beverage and pharmaceutical firms in Nigeria corroborates these findings and confirm no significant difference on firms' financial performance using Return on Assets, Returns in equity and Earnings per share as dependent variable.

Elbannan (2011) in a study of Egyptian firms did not find any effect of IFRS adoption. He attributes his findings to failure of standard enforcers in ensuring the proper rule is followed and a lack of training for those preparing and auditing the financial statements. The same issues may be at play in Nigeria. In consideration of research from other countries which confirm the positive advantages of IFRS implementation in their economies, we suggest that due diligence must be exercised in implementing and ensuring compliance to IFRS rules in Nigeria and probably in countries with the same prevailing enforcement traits.

Many studies conducted in the past show that firms published performances are not influenced solely by accounting standards. Barth et al. (2003) observed that results on financial statements are products of interplay of forces on the accounting system which includes accounting standards, the way the standards are interpreted, mode of enforcements and the legal system and this ultimately produces varied outcome from the implementation of same standards.

Reported performance is partially influenced by incentives which motivates firms to produce qualitative financial statements. Fang & Wong (2002), Leuz et.al (2003) and Haw et.al. (2004) stressed the use of institutional reporting incentives as drivers of qualitative reporting rather than accounting standards in force. They documented the significance of institutional incentives as a determining factor that affects firms actual reporting and disclosure practices rather than accounting standards.

There is evidence that firms' dependence on external capital increases their incentives to report higher-quality accounting information and to provide more useful financial disclosures (Francis et al. 2005). The provisions of quality financial statements imply less manipulations of reported performance. Christensen et al. (2008) suggests that increase in quality of financial information occur predominantly among entities with high financial reporting incentives. In Nigeria, many institutional factors can impact firms' reporting incentives.

First, the manufacturing sector plays a great role in the economy of Nigeria. Firms in this industry are linked with high growth potentials and greater competition for external capital than their counterparts in

other industries. Therefore, if IFRS implementation enhances accurate financial reporting to entice external investors, this impact would be expected to be predominant in manufacturing sector.

There are many factors that impact firm performance. These factors are culture, corporate governance, effectiveness and efficiency of management team, inflation rate, product quality, marketing strategies, competition and regulatory environment.

Successful implementation of IFRS standards demand good corporate governance from the board through its oversight functions. This requires board ensuring management exercise due care in making judgment and in using private information during preparation of financial reports and in determining reported performance. Therefore IFRS require managers to exercise substantial discretion in making judgments about available options. How well this discretionary power is used depends on firm reporting incentives, operating characteristics (Burgstahler et al., 2006) and the operating country's legal system (Ball et al., 2000, 2003).

Table 1-4 presents the results for the significance tests on the differences of the amount of mean for ROA, ROA and EPS between the pre- and post-IFRS period. The results for the t-tests, both assuming equal and unequal variances, show that there is no evidence of a significant difference between the two variances. In other words, it is reasonable to assume that financial statements from the two periods (i.e., the pre-IFRS and post-IFRS periods) produce return on assets, return on earnings and earnings per share with equal amount of variability. Therefore, the homogeneity-of- variance assumption for the independent samples t-test procedure is justified. These observation provide evidence that IFRS adoption has no effect on firm's financial performance. This disclosure departs from the observations of Tanko (2012) that IFRS implementation cause stability of earnings, reduces percentage changes in liabilities and influence financial performance of firms in the banking sector in Nigeria. This disparity could be due to different time horizon as the earlier study only used one year each for pre and post IFRS analysis. Our test uses a nine year period with more recent financial statements thus making our result recent and more robust. It may be that either the pre-IFRS observations are influenced by external factors not considered in the study that they bias the findings or the post-IFRS period is too small to provide expected results. Thirdly, the disparity in reported findings may be caused by differences in regulation in the different sub sectors. The previous study was conducted on the banking sector which is highly regulated while our study is on manufacturing sector which is less regulated and capital intensive. The quest for capital can influence reporting practices of firms and the manufacturing subsector is more susceptible because it is capital intensive.

There is the expectation that IFRS implementation will assist in mitigating falsification of accounting results with the attendant effect of reducing over bloated reported earnings. When reported profit rise there is a corresponding rise in return on assets, return on equity and earnings per share provided the carrying amount of assets and share capital remains unchanged. The test result collaborates our hypothesis and negates the expectations of IFRS adoption that it will enhance firm performance as test shows no significant difference between performances of firm's pre and post IFRS. These results could be adduced to macroeconomic factors. There is the probability that the post IFRS implementation period in Nigeria produced better financial performance across the economy thus shadowing the effect of IFRS adoption. This is an assumed perspective considering the status of Nigeria as a third world economy. In combining this, it is bleak that macroeconomic factors are causing increases in financial performance thereby creating smooth offs and reducing reported earnings produced by IFRS.

Another perspective is the possibility IFRS yardsticks are less conservative in revenue recognition. This idea is collaborated by Street et al (1999) which found significant non-compliance with a list of IASs,; violation of the all-inclusive requirement for reporting gains or losses and the strict definition of extraordinary items; failure to capitalize certain development costs; default in full disclosure of plant and equipment especially after revaluations of associated costs and violations of pension disclosure rules. Also, firms operating in hyperinflationary economies may fail to convert financial statements of foreign entities in accordance with standard requirements and charging goodwill to reserves or amortizing

goodwill over a period in excess of the 20 year limit. Consequently, it is remote that lax conservatism is the cause of the increase in reported earnings which shadow fall in earnings during IFRS periods.

The perceived role of auditors may also be fingered in the debate. The argument could be exhumed that auditors are more sympathetic under IFRS either because their perceived risk is lower, or because auditing the new standards represents implementation problems.

Finally, Inflation may be identified as a possible cause of equality between financial performance of firms in pre and post IFRS periods; thus faulting the expectation that IFRS will reduced reported earnings. It was assumed that IFRS adoption will reduce the motive to massage earnings and consequently reduce reported financial profit. In Nigeria recently, the Federal office of statistics puts the inflation figure at 16.1%. It thus seems likely that inflation is a culprit in the surprising results found in table 1 to 4. Our result in this study confirms that financial performance of manufacturing firms in Nigeria is not affected by adoption of IFRS

CONCLUSION

The research goal was to examine whether IFRS implementation moderates falsification of firm's reported performance and enhance quality of accounting information by eliminating accounting bias. The research results suggest no significant disparity between financial performance of firm's pre and post IFRS adoption. This study compared the mean of ROA, ROE and EPS between pre and posts IFRS and tried to determine the degree of differences using a sample of quoted manufacturing companies reporting during 2006-2014. Specifically, the study evaluated pre and post IFRS periods to ascertain whether there is a change in performance in the two periods. Following prior researches, the study proxy firm performance using accounting ratios (ROA, ROE and EPS. Contrary to expectations, the results reveal no disparity of firm performance in pre and post IFRS implementation. The results from this analysis interestingly provides evidence that implementation of IFRS standard has no relation with firm performance. From a different perspective, the interpretation of the evaluation is that IFRS adoption has not affected accounting manipulation and hence the quality of financial reporting has not improved in Nigeria after implementation of IFRS.

It will be dangerous to draw conclusions about the quality of financial reporting using this type of evaluation. However, the findings of the investigation offer evidence on how IFRS impact financial reporting and could probably be an indication that IFRS implementation may have been overwhelming to a lot of firms in Nigeria and has not produced enhanced financial report necessary for an efficient capital market. There is the necessity to extend this study to other sectors of the Nigerian economy as peculiar industry characteristics may have impacted on our result.

In sum, it may be that poor implementation and dearth of skills might have affected the efficacy of IFRS in achieving its objective in Nigeria

RECOMMENDATION

1. Enhancement of corporate governance mechanisms and audit committees should enforce strict compliance of the requirements of IAS and IFRS.
2. Empowerment of internal auditors and absolute independence of managers that are directly involved with the preparation of financial statements without interference.
3. Regulatory bodies such as Securities and exchange commission, Financial Reporting Council of Nigeria should initiate bills and lobby the legislature to amend Companies and Allied Matters Act (CAMA) 2004 to conform to IFRS and international accounting standards issued by IASB. This will impact positively on the achievement of the goals of IFRS implementation in Nigeria.
4. Manufacturing firms should embark on re-training programs for accountants in their employment to facilitate the acquisition of requisite skills in handling the preparation of IFRS based financial statements.
5. Firms should create research fund for financing meaningful research into how countries that have succeeded at taking full advantage of IFRS are doing it and implement the same in Nigeria.

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