

THE IMPACT OF IFRS ADOPTION ON THE  
FINANCIAL PERFORMANCE OF LISTED DEPOSIT MONEY  
BANKS ON NIGERIAN STOCK EXCHANGE (NSE)

BY

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## DECLARATION

I declare that this project is based on a study conducted by me, Sarah Oroso, in the Department of Accountancy, Bayelsa State Polytechnic, Aleibiri under the supervision of Mr Sunday Zibaghafa. This project report has not been submitted elsewhere for the award of a degree. The ideas and views of the research project are products of research undertaken by me. Where the ideas and views of other authors/researchers have been expressed, they have been duly acknowledged.

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## CERTIFICATION

The project, the impact of IFRS adoption on the financial performance of listed deposit money banks on Nigerian Stock Exchange (NSE), meets the regulations governing the award of National Diploma in Accounting, Department of Accountancy, Bayelsa State Polytechnic, Aleibiri.

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## **DEDICATION**

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## ABSTRACT

*This study empirically investigated the impact of IFRS adoption on financial performance of listed firms in Nigeria using data from 15 out of the 21 deposit money banks listed on the Nigerian Stock Exchange as at 30th September 2022. Using the cross – sectional quasi – experimental research design, as the research design for the study, and two robust performance measures – profitability and growth, a multiple regression model was used to test the hypothesis of this study. The research also carried out a pre and post study to investigate if there is any significant difference in the growth of listed banks in Nigeria following the adoption of IFRS. The study revealed that the adoption of IFRS has no significant effect on performance vis – a – vis the profitability and growth of listed banks in Nigeria. Findings from this study also revealed that IFRS adoption has no significant effect on the Pre and Post growth of listed banks in Nigeria. On the basis of the findings of this study, it was recommended, among others, that the Financial Reporting Council should undertake aggressive publicity on the IFRS operation in Nigeria and that the Central Bank of Nigeria, Financial Reporting Council of Nigeria, Nigeria Deposit Insurance Corporation and Securities and Exchange Commission should continuously monitor IFRS compliance by Banks.*

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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the Study

The adoption of the International Financial Reporting Standards (IFRS) is an issue of global relevance among nations due to the quest for uniformity, reliability and comparability of financial statements of companies. International Financial Reporting Standards (IFRS) is the blueprint, pivot and cornerstone for the preparation and presentation of financial statements for corporate entities to ensure standardization, globalization and credibility of financial reports across international borders. Statements of Accounting Standards (SAS) were hitherto used as guide in the preparation and presentation of financial statements in Nigeria prior to the adoption of International Financial Reporting Standards (IFRS) in 2012. Thus IFRS represents a benchmark for the preparation and presentation of financial statements for business entities in Nigeria post 2011 (Nwugo & Chima, 2021).

IFRS which are issued by the International Accounting Standards Board (IASB) ensures standardization and globalization of financial statements by corporate bodies. Osisioma (2012) surmises that accounting profession was terribly rocked by a series of professional misadventures that tore at the heart of the discipline with financial scandal in Enron, WorldCom, Global Crossing, Xerox, Deutsche, Telekom, Qwest, Waste management, Viuendi, Centrica, Royal Dutch/Shell and Tyco all through the United States, Europe, Asia and the Caribbean while in Nigeria we had African Petroleum, Cadbury among others. Nobes (2011) affirms that international differences in financial reporting create problems because many users such as investment analysts acting for investors in equity or debt assess companies internationally on a

comparative basis. According to Salaudeen (2015), one of the prevailing issues among corporate entities is how to build investors' confidence in the economy through ethical accounting standards to enhance financial reporting transparency. The objectives and importance of IFRS as highlighted by Fowokan (2011) amongst others include: to work actively with the national standard setters to bring about convergence of national accounting standards as well as to help participants (investors, stock brokers inclusive) in various markets across the globe to understand financial statements of Multinational corporations.

Due to differences in cultural, legal, political and other factors among nations there has been differences in regulatory standards and difficulty in assessing the performance of multinational corporations, thereby creating a need to harmonize and converge reports into an acceptable single set of standards. Herbert et al (2013) assert that the fast pace of globalization with integration of national financial markets has stimulated the need for a common financial language, otherwise called IFRS because good financial reporting makes investment and financial decisions more efficient. To ensure that such reports meet the needs and requirements of both national and international financial users, several standards and regulations have evolved overtime. Hence financial reporting has become the fundamental base upon which investors and other users rely on to make investment decisions and to evaluate corporate performance.

Nigeria has not been left out of the global moves towards this single set of worldwide regulations and standards. Consequently, the Nigeria Federal Executive Council had on 28 July, 2010, approved 1st January, 2012 as the effective date for convergence of accounting standards in Nigeria with IFRS; and on 3rd September, 2010, the NASB now referred to as FRC announced a staged implementation of IFRS with the expectation that all publicly quoted entities are to implement IFRS commencing from January 2012 and ending January 2014. The adoption of

IFRS – a guideline created by IASB, is intended to strengthen the financial reporting frameworks of firms in Nigeria. Financial Reporting Council of Nigeria was empowered to regulate standards in Nigeria under Financial Reporting Council Act of 2011.

The International Financial Reporting Standards (IFRS) are standards and frameworks adopted by the International Accounting Standards Board (IASB) with a view towards the convergence, harmonization and internationalization of financial reporting globally. Invariably, IFRS is seen as an international GAAP and standards set to assist those involved in the preparation of financial statements all over the world to prepare and present financial reports that are seen to be of high quality, transparent and comparable internationally by both national and multi - national investors. In Europe and around the world, the adoption of International Financial Reporting Standards represents the most important change in accounting regulation in recent years. In Nigeria, the banking industry is believed to be one of the leading sectors capable of propelling economic development of the nation. It provides funds for capital market participants and promotes investment. Prior to the mandatory adoption of IFRS by banks in Nigeria, the Companies and Allied Matters Act (CAMA, 1990) as amended till date, Banks and Other Financial Institution Act (BOFIA, 1999) as amended, Central Bank of Nigeria Act (CBN Act, 1999), Nigerian Security and Exchange Commission Act of 2003 as well local and international standards including professional pronouncements must be complied with by banks in the preparation and presentation of their financial reports. For instance, Part 1, Schedule 2 of CAMA 1990 outlines the form and content of published corporate financial reports. Nowadays, all banks financial reports must be presented and published in conformity with the requirements of IFRS.

Following the adoption of IFRS in Nigeria, all deposit money banks listed on the Nigeria Stock Exchange were mandatorily required to prepare and present their financial reports under IFRS by

January, 2012. Since then, there were high expectations that this adoption would improve the quality of financial reporting, improve corporate performance of banks, attract more investors and improve the reporting framework in Nigeria.

Although there are studies conducted in Nigeria on the mandatory adoption of IFRS in Nigeria, very few studies actually researched on the effect of such adoption on the performance of the banking sector. Hence with few years after its adoption and due to dynamic nature of IFRS, this research study uses robust performance indicators to investigate the effect of IFRS adoption on the performance of deposit money banks listed on the Nigeria Stock Exchange (NSE).

## **1.2 Statement of Problem**

IFRS effects vary from country to country, period to period and firm to firm. The Institute of Chartered Accountants of England and Wales (ICAEW) (2014) asserts that on many issues that arise from the EU's adoption of IFRS, the evidence is unclear and different researchers arrive at different answers. This is usually because they have applied different tests or looked at different samples or at different periods. Several studies have been carried out to examine the extent to which IFRS improve financial reporting quality and provides additional information to users. Multinational investors want financial statements and reports that are comparable with those in other parts of the world for making strategic decision. As such, many foreign investors would require their subsidiaries in Nigeria not to present their reports in local standards but to report in accordance with IFRS so that the parent company can comply with the reporting requirements in its domain territory. It is expected that following IFRS adoption by the Nigerian banks, the complications of the subsidiaries having to prepare different sets of records for reporting locally and internationally would be reduced, thereby facilitating business compliance globally. Before

the global convergence to International Financial Reporting Standards (IFRS), different countries of the world have had their respective accounting standards, developed, issued and regulated by their respective local bodies. Damagum & Chima (2014) highlighted that corporate regulators in different countries usually adopt the use of specifically designed codes to facilitate regulations. In Nigeria for instance, the Nigerian Accounting Standards Board (NASB) was responsible for developing, issuing and regulating accounting standards since 1982 till July 20th, 2011 when the Financial Reporting Council Bill was signed into law.

Indiael (2015) reveals that the existing empirical crams and conclusions on the impact of IFRS on corporate entities are mixed. This indicates the pressing need for empirically tested studies of this nature that are country and period specific. Saidu & Umar (2014) highlight that in the wake of financial crises in the late 1990s, the international community emphasized on the major role that the observance of international standards and codes of best practices can play in strengthening national and international financial systems.

Several empirical literatures emerged that offers contradictory findings about the question to what extent accounting standards contribute to the decision usefulness of financial reporting information. Prior researches also have produced inconsistent and mixed findings and consequent upon the gap in literature arising from the conflicting views on the impact of IFRS adoption on financial reports in Europe, Asia and other regions, this study thus provides evidence from the Nigeria perspective by studying the effect of such mandatory adoption on the performance of listed banks in Nigeria.

ICAEW (2014) find increased liquidity following mandatory IFRS adoption for firms in France and Germany, but report mixed findings for UK and Swedish firms. IFRS is constantly changing; therefore, the effects found by one research would not always continue to apply indefinitely.

Effects of IFRS vary from firm to firm and country to country hence the impetus for this study on listed banks and evidence from Nigeria. Also the industry specific nature of IFRS made this research imperative for Nigerian banks. Therefore, this study is geared towards ascertaining the effect of IFRS adoption on performance of listed deposit money banks in Nigeria.

### **1.3 Purpose of the Study**

The main objective of this study is to empirically ascertain the impact of IFRS adoption on the financial performance of listed deposit money banks on Nigerian Stock Exchange (NSE).

Other specific objectives are:

- i To evaluate the effect of IFRS adoption on deposit money banks' profitability in Nigeria.
- ii To examine the impact of IFRS adoption on deposit money banks' growth in Nigeria.
- iii To ascertain the difference in the pre and post IFRS adoption on growth of listed deposit money banks in Nigeria.

### **1.4 Research Questions**

Based on the objective of the study, the following research questions are pertinent:

- i To what extent does IFRS adoption affect the profitability of listed deposit money banks in Nigeria?
- ii To what extent does IFRS adoption affect the growth of listed deposit money banks in Nigeria?
- iii. Does difference exist between the pre and post IFRS adoption on growth of listed deposit money banks in Nigeria?

## **1.5 Statement of Hypotheses**

To lend empirical credence to this study, the following research hypotheses, stated in only their null form, are formulated:

Ho1: There is no significant effect of IFRS adoption on the profitability of listed deposit money banks in Nigeria.

Ho2: There is no significant effect of IFRS adoption on the growth of listed deposit money banks in Nigeria.

Ho3: There is no significant difference between the pre and post IFRS adoption on growth of listed deposit money banks in Nigeria.

## **1.6 Significance of the Study**

It is an established fact that the international harmonization of accounting and subsequently, the adoption of the International Financial Reporting Standards (IFRS) is a step in the right direction for the accounting profession, which over time has come under severe criticism especially in the face of the numerous cases of window dressing and creative accounting. Moreover, this development is without a doubt, a boost to the profession, considering that the world is fast becoming a global village.

Following the harmonization and convergence of accounting standards globally and the adoption of IFRS in Nigeria especially by the banking sector in the year 2012, the benefits accruing from this study are enormous and significant as it will help capital market participants to understand

the relevance of IFRS in improving corporate growth through earnings management. It will also provide a framework for Financial Reporting Council of Nigeria and Central Bank of Nigeria to effectively understand how IFRS adoption has affected the activities of the banking sector through the findings and recommendation.

Similarly, it is believed that the study will serve as an inspiration to other potential students, institutions, stock market researchers in cost & management accounting and other users of the financial statements, as well as contribute to the growth and development of the Nigerian stock market, which will thus serve as data bank for research.

Finally, it is the belief of the researcher that the findings of this study will also be immensely beneficial to firms as it will provide a basis for evaluating the components that investors consider as determinants of organizational performance of their published financial statements. It is hoped that the study will assist in practice and standard setting, which in turn will increase investors' confidence in the Nigerian stock market.

### **1.7 Scope of the Study**

The scope of this study is limited to the banking sector especially the deposit money banks listed on the Nigerian Stock Exchange. It is limited only to the impact of IFRS on listed deposit money banks' financial performance using two variables to measure such effect. The period of coverage is ten (10) years (2007 -2016), thus cutting across the 5 years before adoption (2007 - 2011) and 5 years post IFRS adoption era (2012 – 2016).

## 1.8 Definition of Terms

**ADOPTION:** This can be described as a situation where the entirety of an idea or concept is accepted without any modification.

**IFRS:** It means International Financial Reporting Standards. These are standards set by the International Accounting Standards Board in order to enhance financial reporting and ensure the globalization and comparability of financial reports across countries of the world. As of today, there are 14 IFRS that have been developed by the IASB.

**IFRS ADOPTION:** This can be described as a situation whereby all the IFRS established (by the IASB) is accepted by companies worldwide, without any modification.

**COMPARABILITY:** Comparability is an important characteristic of financial reporting quality. It is defined as the quality of information that enables users to identify and understand similarities and differences between accounting items.

**RELEVANCE:** The characteristic of relevance implies that the information should have predictive and confirmatory value for users in making and evaluating economic decisions.

**FAITHFUL REPRESENTATION:** This implies that the financial information is complete, neutral and free from error.

**VERIFIABILITY:** The characteristic of verifiability provides assurance that the information faithfully represents what it purports to represent.

**TIMELINESS:** The characteristic of timeliness means that the accounting information is available to all stakeholders in time for decision-making purposes.

**UNDERSTANDABILITY:** This means that financial reports are prepared with the assumption that its users have a reasonable knowledge of the business and its economic activities.

**ORGANIZATIONAL PERFORMANCE:** It can be defined as the performance of an organization, especially in relation to profitability, over a particular period of time, usually a financial year.

**PROFITABILITY:** This is the degree to which a business or activity yields profit or financial gain.

**DEPOSIT MONEY BANKS:** These are formerly known as commercial banks whose responsibility is to accept deposits from customers and ensure the safe-keeping of those deposits.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter focuses on review of literature related to the adoption of the International Financial Reporting Standards (IFRS) and its impact on profitability of companies. Thus, this chapter shall be considered under: conceptual framework, theoretical framework and empirical framework.

#### **2.2 Conceptual Framework**

##### **2.2.1 History of IFRS**

According to Olawale (2013), the history of IFRS extends over 40 years. The first set of IAS was issued in 1971 by the International Accounting Standards Committee (IASC), which was subsequently restructured to form the International Accounting Standards Board (IASB) in 2001. The IASB has globally reshaped the map of financial reporting as evidenced by the large number of countries that have adopted IFRS. This holds true even when one excludes EU adoption, which provided the initial impetus for broader acceptance of IFRS.

The International Accounting Standards Board (IASB) was established in 2001 to develop International Financial Reporting Standards (IFRS). A year later, European Union (EU) member

states committed to requiring IFRS for all listed corporations in their jurisdictions effective year 2005. The first IFRS was issued in 2003, by which time at least 19 countries required compliance with the international standards. Since then, nearly 70 countries (including EU countries) have mandated IFRS for all listed companies. Further, about 23 countries have either mandated IFRS for some listed companies or allow listed companies to voluntarily adopt IFRS. However, as of 2007, at least 40 countries continue to require domestically developed accounting standards over IFRS, and this list includes some large economies like Brazil, Canada, China, Japan, India, and the US.

In the EU, most companies with securities traded on regulated markets have been required to prepare consolidated accounts in accordance with IFRS (as endorsed by the European Commission [EC]) for financial years starting on or after Jan. 1, 2005. However, a delayed adoption was allowed for companies that had only debt securities traded publicly. Several other jurisdictions such as Hong Kong and Australia chose to adopt IFRS around the same period with several others later following suit.

In Nigeria, on 28 July 2010, the Nigerian Federal Executive Council approved 1 January 2012 as the effective date for convergence of accounting standards in Nigeria with the International Financial Reporting Standards (IFRS). The Council directed the Nigerian Accounting Standards Board, NASB (now Financial Reporting Council) under the supervision of the Federal Ministry of Commerce & Industry to take further necessary actions to give effect to Council's approval.

On 3 September 2010, the NASB announced a staged implementation of the IFRS, as follows:

- i. Public listed entities and significant public interest entities are expected to implement IFRS by 1 January 2012.
- ii. Other public interest entities are expected to implement IFRS by 1 January 2013

- iii. Small and Medium Entities are expected to implement IFRS by 1 January 2014

In June 2011, legislative changes were enacted under which the Financial Reporting Council (FRC) replaced the NASB as the entity responsible for setting financial reporting standards in Nigeria. The FRC has published regulatory guidance which requires Nigerian entities to make certain elections when applying IFRS 1- *First Time adoption of IFRS*.

Approximately 120 nations and reporting jurisdictions have permitted or required IFRS for domestic listed companies, although approximately 90 countries have fully conformed with IFRS as promulgated by the International Accounting Standard Board (IASB) and include a statement acknowledging such conformity in audit reports.

### **2.2.2 Development of IFRS**

International Financial Reporting Standards (IFRS) have been known long time ago under the name International Accounting Standard (IAS). IAS was issued since 1973-2000 by the International Accounting Standards Committee (IASC). IAS was issued in order to fix the global accounting standard thus there would be better financial understanding of all companies. However, on April 1, 2001 International Accounting Standard Board (IASB) replaced the IASC and took over responsibility to build international accounting standard and named it IFRS (IFRS Foundation, 2010). IFRS has been a trending topic since the European Union (EU) decided to convergence their financial reporting standard to IFRS, leaving the US Generally Accepted Accounting Principles (US GAAP) (Latifah, Asfadillah & Sukmana, 2012). IFRS are a manifestation of globalization, with financial reports prepared under IFRS presenting an image consistent with that of multinational corporations and developed nations. Recently, it is over 115 countries around the world require or permit IFRS, including big countries such as EU, China,

Japan, South Korea, Australia, Russia, etc. United States who adopt US GAAP for years also accept IFRS (Latifah *et al.*, 2012).

With the growing internationalization of economic trade and the globalization of businesses and financial markets, financial information prepared and audited according to a national accounting and auditing system may no longer satisfy the needs of users whose decisions are more international in scope (Zeghal & Mhedhbi, 2006; Carson & Dowling, 2010). As a result of the increasing popularity of participating in the global economy investors are becoming increasingly interested in emerging markets as they present a diversification opportunity according to Levich (2001). A side effect of working in a new or emerging environment is that integration of local and international accounting practices including the audit process needs to be considered. Part of the rationale as to why international organizations encourage the adoption of IFRS is that it helps the organizations feel that their investment is protected as these standards provide rigorous verification opportunities for stakeholder assessments of investment performance (Carson & Dowling, 2010; Latifah *et al.*, 2012).

According to Olawale (2013), IFRS are developed through an international consultation process, the "due process", which involves interested individuals and organizations from around the world. The due process comprises six stages, with the Trustees of the IFRS Foundation having the opportunity to ensure compliance at various points throughout:

1. Setting the agenda
2. Planning the project
3. Developing and publishing the Discussion Paper, including public consultation
4. Developing and publishing the Exposure Draft, including public consultation

5. Developing and publishing the Standard, and

6. Procedures after an IFRS is issued

IFRSs generally contain 14 principles and accompanying application guidance, both of which are mandatory and carry equal weight. Some Standards also include illustrative examples or implementation guidance, neither of which is part of IFRSs. They are therefore not mandatory. Each Standard and Interpretation has a basis for conclusions that explains the IASB's reasons for developing the particular requirements. The basis for conclusions is not part of IFRSs and is therefore also not mandatory.

### 2.2.3 IFRS till Date

The International Accounting Standards Board (IASB) has issued the following IFRS since its establishment till date:

Table 2.1: IFRS till date

IFRS	PURPOSE	ISSUE DATE
IFRS No.1	<i>First time Adoption of IFRS</i>	2008
IFRS No.2	<i>Share-based Payment</i>	2004
IFRS No.3	<i>Business Combinations</i>	2008
IFRS No.4	<i>Insurance Contracts</i>	2004
IFRS No.5	<i>Non- current Assets Held for sale and Discontinued Operations</i>	2004
IFRS No.6	<i>Exploration for and Evaluation of Mineral Assets</i>	2004
IFRS No.7	<i>Financial Instruments: Disclosures</i>	2005

IFRS No.8	<i>Operating Segments</i>	2006
IFRS No.9	<i>Financial Instruments</i>	2013
IFRS No.10	<i>Consolidated Financial Statements</i>	2011
IFRS No.11	<i>Joint Arrangements</i>	2011
IFRS No.12	<i>Disclosure of Interests in Other Entities</i>	2011
IFRS No.13	<i>Fair Value Measurement</i>	2011
IFRS No.14	<i>Regulatory Deferral Accounts</i>	2014

**Source:** (<http://www.ifrs.org/Pages/default.aspx>, 2014)

#### **2.2.4 The Concept of International Financial Reporting Standards (IFRS)**

The need for global financial language gave rise to the International Financial Reporting Standards (IFRS). IFRS began as an attempt to harmonize accounting across the European Union but the values of harmonization quickly made the concept attractive around the world. Accounting information constitutes one of the key inputs in portfolio investment decisions. Therefore, information presented under different accounting standards practices is likely to be a source of additional processing costs. Such processing costs consist of direct costs to learn different accounting standards as well as indirect cost arising from the need to interpret financial statements in light of local practices. When accounting information is presented under the same standards, investors find it easier to process the information and are more likely to reply on financial statements relative to other private information. The difficulty in examining the effect of accounting information on cross-border investments is that determinants of firms' accounting choices are commonly associated with other factors that affect the investors holding decisions.

Thus, it is hard to attribute the full extent of the observed association to accounting standards alone, rather than to other factors such as quality of instructions or reporting incentives. However, a natural experiment recently occurred when 89 countries mandated the adoption of IFRS for most, but not all, of their local companies. However, there is an ongoing call for “one accounting language”. However, after all these efforts in uniting the accounting standards, the financial experts began to ask again if these standards play a role in building a healthy financial environment or the opposite; more specifically, they are asking about the role of accounting standards in the financial crises in general and the crises of 2007/2008 in particular. In addition, the investors started to ask if these standards are in their interest and how can they use these standards to make good financial decisions and gain a profit.

The decision to adopt IFRS is gaining momentum by the day as more countries embrace the adoption. Generally, it is believed that the adoption arises from the understanding that IFRS is a product with network effect. Iyoha and Jimoh (2011) observe that Network effect is said to exist where users find a product or service more valuable as additional users use the same product or service. Therefore, it is believed that as more and more countries adopt IFRS, it becomes more appealing to others that are yet to consider the adoption. Although, a number of challenges have been observed and experienced by countries in their decision to adopt IFRS, its worldwide adoption has been promoted on the premise of its perceived benefits which are considered to outweigh its disadvantages.

For this review, we classify the adoption of IFRS into two; those that are in support of the adoption of the standard and those that oppose the adoption. The former, argue that there are a number of benefits which can be gained from greater cross country comparability of firms’ financial reports. Barth, (2007), for instance, argues that by adopting a common body of

international standards, countries can expect to lower the cost of information processing and auditors of financial reports can be expected to become familiar with one common set of international accounting standards than with various local accounting standards. Kunle, Omoruyi and Hamed (2011) posit that the adoption of IFRS will foster common benchmark in financial information across international borders with the aim of generating greater momentum for economic development.

### **2.2.5 IFRS in Emerging Economies**

Several researchers (Zeghal & Mhedhbi, 2006; Hassan, 2009; Gyasi, 2010) argued that international accounting harmonization is beneficial for developing countries because it provides them with better-prepared standards as well as the best quality accounting framework and principles. However, others such as Cerne (2009) mentioned that the accounting information produced according to developed countries' accounting systems is not relevant to the decision models of emerging economics. The ultimate decision to adopt IFRS or not, however largely depends on certain motivating or discouraging factors which exist in a particular country or group of countries. Some emerging economies have taken the initiative to adopt IFRS such as Jordan, China, Poland and the United Arab Emirates (UAE) or adapt them to their particular reality as observed in Egypt. This process is expected to improve the quality and credibility of financial reporting and develop the flow of capital and investment, resulting in economic development. While most of Middle Eastern Countries require or allow companies under their financial authorities to use the globally known IFRS, only Syria, Morocco, Libya and Algeria have developed their national Generally Accepted Accounting Principles (GAAP) and are still asking companies under their financial authorities to follow them, and are not allowing any

company to use other standards. However, IFRS are also permitted (Abd El-Razik, 2009). The adoption of IFRS by the developing countries is not only imperative (Faraj & Akbar, 2010), but also required in order to access the capital markets at the global level. It is an international trend, which is recognized as „best practice“ around the world (Obaidat, 2007). In addition, the adoption of IFRS had become a significant global phenomenon (Al-Hussaini, 2008). Quinn (2004) concluded that accounting and financial information originating from developing countries is still difficult to trust, despite the urgent need for these countries to attract foreign investment and foreign capital, and despite the pressing demands from individual and institutional investors, lending institutions, and multinational agencies. Irvine and Lucas (2006) state that substantial benefits have been proposed by the adoption of IFRS, including a decreased cost of capital, greater mobility of capital, greater efficiency in the allocation of resources, improved and more comparable financial reporting, and a decrease in the opportunities for earnings management expression. These, together with the accountability demands of the World Bank (WB) and the International Monetary Fund (IMF), make a compelling case for the adoption of IFRS by developing countries as they seek to participate in the wealth and financial opportunities promised by globalization.

Emerging economies, in pursuing the global financial advantages offered by the adoption of IFRS, face challenges in adapting their regulatory infrastructure and culture to western oriented accounting standards (Irvine & Lucas, 2006; Zhang, 2007). Michas (2010) highlights that, in emerging market countries, there are often deficiencies in the accounting and auditing practices. Furthermore, Alp and Ustuntage (2009) and Zhang(2007) all reported that, implementing IFRS by developing countries had posed several challenges. Such difficulties include the complex structure of the international standards, potential knowledge shortfall and other difficulties in the

application and enforcement issues. While embracing globalization, and adopting IFRS, it nevertheless has challenges ahead as it makes necessary reforms to its regulatory, legal and economic structures and adapts its culture to westernized forms of expression (Irvine & Lucas, 2006). Emerging economies face challenges if they want to implement IFRS. Libya, one of many emerging countries do not adopt IFRS yet, faces challenges of culture, regulation and transparency and fraud, all of which threaten to damage the process of the implementation of IFRS. Considerable research studies have investigated the motivations behind the adoption of IFRS by emerging nations. According to some of these studies, the decision to adopt IFRS derives from the fact that developing nations are generally unable to allocate the financial and technical resources needed to develop high-quality, indigenous accounting standards (Saidi, 2013). Prior accounting research (Irvine & Lucas, 2006; Gyasi, 2010; Laga, 2012; Owolabi & Iyoha, 2012; Okpala, 2012; Schachler, 2012) have investigated the influences of several environmental issues on implementation of IFRS. These studies identify several factors, such as availability of capital market and degree of external economic openness, economic and political influences, legal systems, taxation, culture, and accounting education and training system that seem to affect the adoption of IFRS in emerging countries. For instance, Gyasi (2010) and Laga (2012) and Schachler(2012) all indicated some challenges that facing the adoption of IFRS in developing countries. These include:

- i. Since these standards are new and unfamiliar to the local staff, several training must be done to ensure that these accountants are adept with handling these new standards. This invariably leads to increase in the cost of training. Also, the services of consultants must be purchased so as to complete compliance with the new standards adopted which also increases the consultancy cost immensely,

- ii. Some standards do not meet the accounting and financial requirements of the developing countries, and
- iii. The variances in local regulations as one major challenge to the compliance to IFRS in developing countries.

### **2.2.6 Objectives and Rationale for IFRS Adoption**

According to Olawale (2013), two oft-stated objectives of IFRS adoption are to (i) enhance reporting quality and (ii) improve the comparability of financial statements across countries. This view is enshrined even in the European Parliament's Regulation 1606/2002, which required the European Union to adopt IFRS. The regulation states that IFRS adoption is intended to achieve "a high degree of transparency and comparability of financial statements and hence an efficient functioning of the (EU) Community capital market and of the Internal Market."

Confirming these objectives, the IASB states that the main purpose of its work is:

"... to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based on clearly articulated principles. These standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the various capital markets of the world and other users of financial information make economic decisions."

According to Barth (2008), the objectives of the IFRS include:

- i. *Enhance reporting quality*

The objective of IFRS to provide "a single set of high quality" accounting standards is often quoted and emphasized by its promoters. Although the goal of enhancing reporting quality

should be welcomed, as it promotes business by ameliorating information asymmetry issues, translating it into practice is unlikely to be a smooth or straightforward process. First, this objective is silent as to what “high quality” means. Dechow, Ge, and Schrand (2010) observe that accounting quality is conditional on the decision relevance of the financial information and so is better defined in the context of a specific decision model. For instance, although the liquidation values of assets are important inputs into decision-making by long-term debt holders, they are less useful for equity investment decisions. Dechow et al. (2010) conclude that “there is no measure of earnings quality that is superior to all decision models,” implying that an objective to prepare a single set of high quality standards for all identified users may not necessarily be achievable. Consistent with this concern, some recent studies point out that the emphasis of the role of IFRS in valuation has made accounting numbers less useful for inclusion in contracts.

Second, the development of high quality accounting standards may not automatically translate into firms providing high quality financial reports. Reporting quality is determined partly by the quality of accounting rules, but it is also affected by the innate reporting incentives facing managers and incentives facing enforcers of the accounting rules, which include auditors, capital market and other financial regulators, courts, etc. There is little reason to expect that the incentives and economic forces faced by managers and regulators of listed companies in a large open economy like the United Kingdom are the same as those in a relatively closed economy like Qatar. In general, managerial reporting incentives and accounting enforcement are endogenous to a country’s economic, legal, and cultural environments. For instance, managers’ reporting incentives are affected by how financial statement numbers are used in contracts, which in turn are likely to depend on legal dictates, by cultural values such as the religious beliefs of and trust between individuals, and by institutional factors such as firms’ ownership structures and

corporate governance. The enforcement of accounting rules also depends on the extent to which business transactions are conducted at arm's length. When companies rely frequently on closed-door dealings that do not require reliance on publicly available financial reports, regulators' incentives to enforce accounting rules are reduced. The reporting and enforcement incentives are also affected by governments' decisions to tie accounting numbers to tax policies.

The close link between financial reporting and legal, cultural, and institutional factors indicates that the cost-benefit trade-off of requiring firms to prepare high quality financial reports is not identical across countries. Accounting standards that may appear beneficial in the context of an open or developed economy may be less so elsewhere. A glaring example is the emphasis of IFRS on fair value accounting, which provides value-relevant information when fair values are obtained from deep and liquid markets but may permit manipulation in countries where capital markets are illiquid, opaque, underregulated or insufficiently representative of the economy.

Finally, in more recent mission statements, the IASB emphasizes the transparency of financial reports as part of the objectives of IFRS. However, it is unclear whether greater transparency translates to better quality financial statements, as mandating higher transparency requirements can lead firms to engage in costly real earnings management, i.e., structure their transactions to hide information or achieve specific reporting goals. Although most empirical evidence suggests that transparency in financial statements is useful to capital market participants, these studies are silent as to how much transparency is optimal and whether greater transparency necessarily promotes overall efficiency.

*ii. Improve reporting comparability*

Even without necessarily improving reporting quality, IFRS may prove economically beneficial by merely narrowing cross-country differences in financial reports and promoting international

trade. For instance, EU Regulation 1606/2002 states that: “This Regulation reinforces the freedom of movement of capital in the internal market and helps to enable Community companies to compete on an equal footing for financial resources available in the Community capital markets, as well as in world capital markets.” Along similar lines, emphasizing the need for global accounting standards to make cross-country transactions less costly and more efficient, former SEC Chairman Christopher Cox observes the following:

“And markets are really just aggregations of people, all of whom communicate better if they speak the same language. ... Breaking down barriers between nations and among social classes, which commerce does, has advanced the cause of civilization. That has always been the idea behind the SEC’s cooperative initiatives with the International Accounting Standards Board, and with the authorities in over one hundred nations that today are using International Financial Reporting Standards.” (Cox 2014).

Confirming these benefits of improved comparability, Cox (2014) noted that “global accounting and disclosure standards will be of great value to our analysts, by improving data consistency and enabling enhanced global peer comparisons.”

However, as discussed earlier, financial reporting quality is determined not only by accounting standards but also by a country’s legal system, culture, and institutions. As a result, researchers and practitioners have questioned the ability of a common accounting standard, even if mandated, to achieve convergence in the quality of reported financial statements. Ball (2003) provide empirical support for this concern by showing that reported accounting numbers in shareholder-model countries reflect economic losses in a timelier manner than in stakeholder-model countries.

Even if IFRS achieve global convergence in the short term, observers have questioned whether these benefits are sustainable. By adopting IFRS, a country essentially allows a foreign entity with no local accountability to dictate reporting laws and thereby control the economic incentives and activities of its people and businesses. Cox (2014) points to this concern as a reason why a full-scale adoption of IFRS is unlikely to occur in the US. Several major IFRS-adopting economies have protected themselves from this concern by requiring a national standard setter to review and, if needed, modify IFRS before they become the law of the land. This approach to protecting legislative sovereignty may lead each national regulator to adopt certain standards while rejecting others and over time cause countries to diverge in their accounting standards.

### **2.2.7 Benefits and Challenges of Implementing IFRS in Nigeria**

Olawale (2013) opined that results arising from investigation conducted on the European Union member states highlighted how IFRS has benefited European countries in terms of attracting Foreign Direct Investment (FDI). The benefits are as follows:

- i. IFRS will position Nigerian companies in the global market place as well as ensure transparency, accountability and integrity in financial reporting in Nigeria which is a prerequisite for the attraction of investment that will promote economic development.
- ii. It will provide international investors the ability to make well-informed, useful and meaningful comparison of investment portfolio in Nigeria and other countries. Multinational companies with the aid of IFRS financial statement provide for easy consolidation of financial statements.
- iii. It promotes better management control systems.

- iv. IFRS statements are easier to comply with the financial requirements of overseas stock.
- v. It also facilitates ease of cross border transactions and trading within the region through common accounting practice especially in underdeveloped regions of the world like the Economic Community of West African States (ECOWAS).
- vi. It will help to facilitate compilation of meaningful data on the performance of enterprises within the ECOWAS and other regions of the world.
- vii. It will assist Nigeria, the federal and state government, local governments inclusive, in attracting international investors as the adoption of IFRS financials promotes easy monitoring of overseas investments.
- viii. Transparency and better accountability in government Ministries, Departments and Agencies (MDA) will be promoted through the IFRS adoption in the public sector accounting and management of resources.
- ix. It will also lead to increase in government revenue as a result of transparency and integrity in reporting.
- x. Easier access to capital is also facilitated through IFRS.

Despite the aforementioned envisaged benefits, there are still challenges. The challenges as opined by Olawale (2013) include:

- i. There is the urgent need to improve the level of public awareness especially among investors and regulatory authorities in Nigeria.
- ii. There is also chronic shortage of professionals that are competent to implement the IFRS within the given time frame as contained in the schedule of the Nigerian roadmap for its adoption (i.e. January 2012 - January 2014).

### 2.2.8 IFRS and Financial Reporting Quality

Barth (2008) pointed out that IFRS introduction seems to have had a substantial effect on the reported financial statements of firms. Even in the UK, where the local GAAP have been viewed as similar to IFRS, the financial reports of some firms have changed dramatically under IFRS. For instance, in its reconciliation of profits under IFRS and UK GAAP, Vodafone disclosed a net profit of £6.5 billion based on IFRS for fiscal 2005 and a net loss of £6.9 billion under UK GAAP, with the difference largely explained by goodwill amortization alone. British Airways similarly reported a decline of nearly two-thirds in its shareholders' equity as a result of having to recognize pension liabilities on the balance sheet under IFRS. Under UK GAAP, the company disclosed the liabilities in its footnotes. These examples show how just one or two accounting items can substantially affect a company's reported profits. This clearly indicates that IFRS adoption has had a major effect on the financial reports of firms, even in countries whose GAAP and IFRS are similar.

Many proponents believe that IFRS reporting is of a higher quality than previous local GAAP and that its adoption improves financial transparency, lowers information asymmetry in capital markets, promotes cross-border comparability, attracts foreign capital flows, and consequently lowers the cost of capital for firms in adopting countries. Given these oft-repeated benefits, it is of little surprise that the earliest IFRS studies typically focus on evaluating the quality of financial reports under IFRS following Europe's mandatory IFRS adoption.

*Financial reporting quality and comparability*

Comparability is an important characteristic of financial reporting quality. It is defined as the quality of information that enables users to identify and understand similarities and differences between accounting items (IASB, 2010). That is, financial reports are considered comparable if similar economic transactions yield similar accounting items and different economic events result in different reported items. The importance placed on this attribute by standard setters is evident given the following statement of the IFRS conceptual framework: “Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.” The EU regulation for IFRS adoption (EC No. 1606/2002) also states comparability across markets as a reason for its adoption.

#### *IFRS adoption and comparability*

Proponents of IFRS have argued that globally mandating a uniform accounting standard should improve financial statement comparability and allow investors and firms to make better investment decisions. The argument rests on the notion that greater comparability increases the information available to decision-makers by allowing them to better understand competitors’ financial reports and thereby enhances information transfers across many firms and across countries.

IFRS is in fact well placed to improve comparability due to its focus on principles rather than rules. By encouraging managers to prepare financial statements based on the essence of an economic transaction rather than a set of relatively inflexible rules, IFRS can ensure that managers account for like transactions in a like manner and dissimilar transactions differently (Schipper, 2003). However, for this strength to be realized, strong enforcement is required. Weak

enforcement can worsen comparability under principles-based accounting standards, as the flexibility can lead managers to opportunistically select dissimilar accounting methods for the same set of transactions. A related concern is the larger set of accounting choices offered under IFRS. As standard setters observe, “permitting alternative accounting methods for the same economic phenomenon diminishes comparability” (IASB, 2010).

### **2.2.9 IFRS Adoption Process in Nigeria**

The adoption of IFRS in countries requires standard setters to understand the different regulatory and commercial environments in various countries. A road-map on the adoption of IFRS (issued by the International Accounting Standards Board) was used as a guideline for the preparation of statutory financial statement in Nigeria. The roadmap also outlines some specific milestone that if realized, could lead to the adoption of IFRS in three phases. The roadmap discusses various areas of consideration by stakeholders in order to ensure effective adoption of IFRS in Nigeria. The process of adoption was organized in such a way that all stakeholders use IFRS standards in the preparation of financial statement by January 2014. Publicly listed entities and significant public interest entities: this means government business entities, all entities that have their equity or debt instrument listed and traded in the public markets (a domestic or foreign stock exchange or an over-the-counter market).

### **2.2.10 Impact of IFRS Adoption on Financial Performance of Companies**

The increased comparability of financial information could result to better investment decisions and ensure a more optimal allocation of resources across the global economy (Jacob & Maud,

2009). Ai and Wong (2010) posit that having a single set of internationally acceptable financial reporting standards would eliminate the need for restatement of financial statement, yet ensure accounting diversity among countries; thereby facilitating cross-border movement of capital and greater integration of the global financial market. Latridis (2010) finds out that implementation has favourably affected the financial performance of firms in United Kingdom with profitability and growth ratio tested. A number of researchers are indicating that the first-time adoption of IFRS has led to an increase in equity or income or both of them. Jermakowicz (2004) identifies that the adoption of IFRS by listed companies in Belgium has caused a significant rise in shareholders' equity and decrease in net income. Hung and Subramanyan (2004), while investigating the effect of IAS on financial statement of German firms, found that the adjustment related to financial instrument on the average increased equity by 7million US dollars.

### **2.2.11 Overview of Bank's Performance in Nigeria**

The banking sector plays a vital role in the economic growth and development of a nation. Ismail (2010) surmises that banks in Nigeria are characterized by high competition, huge deposits and varied investment opportunities. As a result of the consolidation of the banking system completed in 2005, Nigeria witnessed growth in the banking sector. Banks expanded very rapidly, raising large amounts of new capital and attracting large volumes of new deposits. These were in turn deployed to fund enormous growth in the bank loan portfolio. Nzotta (2014) surmise that banking sector is the dominant sector in the Nigerian financial service industry and the most vibrant component because whatever difficulties it passes through affects the entire economy greatly. Nwala & Adebayo (2016) asserts that post consolidation era contributes immensely to the growth of Nigerian banks. Yahaya, Yusuf & Dania (2015) surmise that growth is natural logarithm of gross earnings of bank  $i$  at year  $t$

and summarized that under IFRS, important financial performance figure, such as profitability and growth, appear to be higher.

## **2.3 Theoretical Framework**

### **2.3.1 Stakeholders Theory**

This study adopts the stakeholders' theory as the fundamental theory upon which this research is anchored on. Ian Mitroff propounded the stakeholders' theory in 1983 and sees a stakeholder as a person or group that can affect or be affected by how an entity conducts its operations. The stakeholder theory looks at the relationship between an organization and others in the environment. In other words, it looks at the interaction of internal and external factors and its influence on the conduct of corporate activities. The principal reason behind the stakeholder's theory is that organizations can survive longer and perform better when they manage their stakeholder relationship effectively. The stakeholder's theory offers a model which is an instrumental framework for investigating the relationship between firm performance and the practice of management. In relation to regulatory standards, the stakeholder's theory is seen as a conceptual framework for good business ethics as it addresses moral and ethical values in the management of an organization (Donaldson & Preston, 1995).

Clarkson (1994) defines stakeholders as persons, or entities who either voluntarily or involuntarily becomes exposed to risk from the activities of a firm. John & Corporate firms are often bound by their obligations to its stakeholders and this usually helps them create new moral

obligations. This study is investigating empirically the impact of IFRS adoption on corporate performance and stakeholder's theory is a relevant anchor for this study as it suggests that the purpose of a business is to perform very well and create more values for its stakeholders. Hence this theory really explains one of the motives for firms IFRS adoption globally in their financial statements.

### **2.3.2 Conservative Method Theory**

The principle of conservatism is a pervasive concept in modern accounting theory, and is probably a carry-over from the days when banks were the primary users of firms' financial statements. Conservatism reflects the idea that, given two equally likely outcomes, a firm should use the accounting method that results in smaller reported income or smaller reported net assets. The accounting concept of conservatism has crossed into the financial analysis arena. Ejike (2012) implies in his "Wall Street" journal that conservative accounting is necessary when he stated that "low-quality means the bottom line is padded with paper gain such as the profit fattening effect of inflation on a country's reported inventory values, or gains produced by under-depreciation when the country does not write off plants and equipment as their real value is falling". Hung and Subramayan (2007) state that the quality of conservatively determined earnings is perceived highly because they are less likely to overstate current and future performance expectations compared with those determined in an aggressive manner. Asaolu (2012) concludes his research regarding the effect of changing depreciation policies by stating that the particular set of accounting alternatives can be thought of as adding a unique "quality

dimension” to the earnings. He further suggests that switch to straight-line depreciation would lead to materially larger amount of earnings and equity (i.e book value), in future years.

## **2.4 Empirical Review**

There are lots of growing numbers of researches carried out about the IFRS adoption.

Covrig, Defond and Hung (2007) documented that foreign mutual fund ownership is significantly higher for IFRS adopters compared to local GAAP firms and that the difference in mutual fund holdings increases for firms in poor information environments and with low visibility, suggesting that IFRS reporting can help firms attract foreign institutional investment.

Hung and Subramanyam (2007) investigated the effect of IFRS adoption on the financial statement and their value relevance for a sample of German listed firms during 1998-2002. By implementing an innovative research design, they compared accounting numbers reported under German accounting rules with those under IAS for the same set of firm years and document how IAS adoption changes key financial measures and the value relevance of financial statement information. They reported that the total assets and book values of equity as well as variability of book value and net income are significantly higher under IAS/IFRS than under German GAAP.

Olawale (2013) carried out a study of the impact of IFRS adoption in the performance of banks. His work examined the impact of International Financial Reporting Standard (IFRS) adoption on Banks performance in Nigeria, using Access bank Plc’s annual report from 2007 to 2012. as a case study. The result of the analysis showed that at there is significant relationship adoption of IFRS and financial reporting of banks in Nigeria and that there is significant relationship between IFRS and banks performance in Nigeria. He therefore recommended, among others, that

there should be a comprehensive implementation of the standard to its totality by firms in the country, and the regulatory authorities should monitor strict compliance.

Ibiamike and Briggs (2014) evaluated the impact of IFRSs adoption by Nigerian listed firms using key financial ratios used by investors. The study used an innovative design known as “same firm year” research design to examine how IFRS adoption changes key financial ratios of Nigeria listed firms. Their findings reveal that IFRS adoption has caused a negative impact on the financial ratios of Nigerian listed firms but the impact was not statistically significant.

Yahaya et al (2015) investigated the effect of IFRS on earning management behavior of listed Deposit Money Banks in Nigeria. The study examines how the change in the recognition and measurement of banks loan loss provision affects management behavior. Using a sample of 15 deposit money banks listed on the Nigeria Stock Exchange (NSE), financial data in respect of the periods before and after adoption of FIRS (i.e 2005 to 2008 and 2009 to 2013) were selected. Their study reveals that the restriction of incurred loss under IFRS significantly reduced the ability of banks to engage in earning management.

Azor (2017) examined the adoption of the International Financial Reporting Standards (IFRS) and its impact on the corporate performance of oil companies in Nigeria, using several variables such as total assets (for the independent variable, IFRS adoption) and profit before tax, earnings per share and return on investment (for the dependent variable, organizational performance). The data used for the study were secondary data collected from annual reports and accounts of the sampled company, which is Total Nigeria Plc for the period 2008 to 2015. The data were analyzed using simple linear regression analysis, with the help of the statistical package for social sciences software. In relation to the objective of the study, it was discovered that there is a significant and positive relationship between the adoption of IFRS and corporate performance of

oil companies. Therefore, it was recommended, among others, that the International Accounting Standard Board (IASB) must ensure strict compliance to the adoption and implementation of the International Financial Reporting Standards (IFRS).

The study of Nwifo and Chima (2021) empirically investigated the effect of IFRS adoption on the performance of listed firms in Nigeria using data from all the 21 banks listed on the Nigerian Stock Exchange as at 31st December 2016. Using two robust performance measures – profitability and growth, a multiple regression model was used to test the hypothesis of this study. The research also carried out a pre and post study to investigate if there is any significant difference in the growth of listed banks in Nigeria following the adoption of IFRS. The study reveals that the adoption of IFRS has no significant effect on performance vis – a – vis the profitability and growth of listed banks in Nigeria. Findings from this study also reveals that IFRS adoption has no significant effect on the Pre and Post growth of listed banks in Nigeria.

**CHAPTER THREE**  
**RESEARCH METHODOLOGY**

**3.1 Introduction**

This chapter focuses on the method and procedures that were employed in carrying out the research. They include research design, study population, selection of sample/ sampling technique, sources of data, methods of data collection and method of data analysis.

**3.2 Research Design**

This research work used descriptive statistics of annual reports of listed banks to empirically investigate the effect of International Financial Reporting Standards on banks performance. Therefore, the quasi – experimental research design is chosen and applied because of the fact that the various elements of the design are not under the control of the researcher. The cross –

sectional quasi – experimental research design is thus applied because it is a survey that relies on sample elements from the population of interest.

### **3.3 Characteristics of Study Population**

The population of this study comprises twenty-one (21) deposit money banks listed on the Nigerian Stock Exchange as at 31st September, 2022 (Wikipedia, 2022).

### **3.4 Sampling Design and Procedures**

For the purpose of this research, stratified sample technique was used in selecting sample size of fifteen (15) listed commercial banks in Nigeria. This is very justified and equitable since all the banks were listed before the adoption of IFRS in 2012. Hence, the sample consist of the fifteen (15) banks for a period of ten years (2007 to 2016). This period is further sub analyzed into pre IFRS adoption era – 2007 to 2011 and post IFRS adoption era – 2012 to 2016.

### **3.5 Data Collection Instrument**

In this study, secondary data drawn from annual reports and accounts of the selected banks for ten years (2007-2016) are applied. The study is depending on data from quoted companies because they are the proximate reflection of the registered economic growth statistics and performance indicators. Annual reports and accounts of a company remain a regularly produced statutory document (CAMA, 2004) that evokes an important or valid construction of a company social imagery. The mandatory annual audit of the company's annual reports and accounts

further portrays them as credible and highly reliable documents. In addition to this, secondary data from data sources- The Nigerian Stock Exchange Factbook, Cash Craft Website and Capital Asset Limited Website were obtained in relation to the variables under study.

### 3.6 Operational Measure of Variables

The dependent variable of this study is International Financial Reporting Standards (IFRS) which is measured by a dummy variable representing the regulatory regime, 1 for financial reports under IFRS and 0 for financial reports under NGAAP.

The independent variables are two performance indicators / measures comprising Profitability and Growth.

#### Model Specification

The multiple linear Regression equation empirical model was used for this study. The regression model shown in the equation below is estimated using pooled (panel) data (pre-adoption, 2007-2011) and (post-adoption, 2012-2016) and fitted with various measures of financials as defined in the equation below. The empirical analysis used the binary logistic regression analysis. The logistic regression analysis is useful in analyzing categorical data, where the dependent variable is dichotomous and takes only two values, i.e. 0 and 1.

The multiple regression equation is given as:

$$IFRS = \beta_0 + \beta_1 Pfrty + \beta_2 \ln(g.er) + \beta_3 SIZ + \beta_4 \ln(age) + \epsilon$$

These proxies are explained below:

Dependent Variable

**IFRS**= INTERNATIONAL FINANCIAL REPORTING STANDARDS. FRSs is a dummy variable representing the regulatory regime, 1 for financial reports under IFRS and 0 for financial reports under NGAAP.

### Independent Variables

The independent variables are:

Profitability and Growth, used as proxies for Banks Performance, while Firm Size and Age are proxies used for control variables. They are computed using the following variables:

**1. Pfty** = Profitability variable which is measured using the following proxies:

(i) NIM which is Net Operating Income Margin of bank *i* at year *t*

(ii) EPS which is Actual Earnings per Share of bank *i* at year *t*

**2. In(g.er)Growth** = Increase in gross earnings measured by Total income before taxes and deductions or the total revenues minus expenses

**3. Size** = FIRM SIZE representing firm growth (measured by the natural logarithm of total assets of the company at year end).

**4. Age** = 16 – year of establishment of Bank.

**5.  $\beta_0$**  = intercept coefficient

( $\beta_i = 1, \dots, 4$ )= coefficient of each of the independent variables and control variables.

**6. e** = error estimate.

**7.  $\ln$**  = Natural log

### **3.7 Method of Data Analysis**

The techniques adopted for the data presentation and analysis include tables with summary and descriptive statistics. Preliminary data set test such as the Multicollinearity test using the

variance inflation factors (VIF) was computed. Also, a binary logistic multiple Regression model was used to ascertain the effect of IFRSs on corporate performance variables. The co-efficient of determination (Cox & Snell R<sup>2</sup>) as well as the Nagelkerke adjusted R<sup>2</sup> were computed to determine the proportion of explained variation in the dependent variables. The Descriptive Statistics showing the mean, standard deviation, minimum and maximum values were also computed. Finally a mean comparison test of the pre and post IFRS adoption was tested by Mann-Whitney test statistics at 5% level of significance.

Decision rule –

- (a) Reject the null hypothesis (H<sub>0</sub>) if p value is < .05 significant level.
- (b) Accept the null hypothesis (H<sub>0</sub>) if p value is > .05 significant level.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Introduction

This chapter deals with the presentation and analysis of data obtained from secondary sources as stated in Chapter three. The statistical tool used in the analysis of data, especially in testing the hypothesis statement is the simple linear regression which was run using SPSS software.

#### 4.2 Data Presentation

The descriptive statistics are presented on Table 4.1

**Table 4.1 Descriptive statistics**

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance

	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
IFRS	150	1	0	1	.50	.041	.502	.252
Pfty	150	49.815			.976654	.44485	5.4482943	
ln(g.er)	150	12.703	-1.7976	48.0174	14.4490	.26860	3.2897771	29.684
Siz	150	7.8438	7.1309	19.8346	7.88855	.13150	1.6106352	10.823
ln(age)			3.5265	11.3704				2.594
Valid N (listwise)	150	3.1781	.6931	3.8712	2.59243	.06297	.7713184	.595

Source: SPSS Output (2022)

The table 4.1 is the statistics table that presents the properties of the data set. The mean of the profitability is 0.9766 with standard deviation of 5.4482. This means that the profit can deviate from mean to both sides by 5.4482. The mean of the Growth is 14.4490 with standard deviation of 3.2897. This means that the Growth can deviate from mean to both sides by 3.2897.

Table 4.2 Group Statistics

	IFRS	N	Mean	Std. Deviation	Std. Error Mean
Pfty	0	75	.967100	5.5798366	.6443040
	1	75	.986209	5.3510927	.6178910
ln(g.er)	0	75	14.472269	2.9789892	.3439840
	1	75	14.425835	3.5938906	.4149867
Siz	0	75	7.516954	1.6351506	.1888109

	1	75	8.260154	1.5065607	.1739626
ln(age)	0	75	2.367492	.8915725	.1029499
	1	75	2.817372	.5481229	.0632918

Source: SPSS Output (2022)

Table 4.2 above presents the group statistics determining variables on the effect IFRS pre and post. Making IFRS a dummy variable with indicators of 0 for pre IFRS and 1 for post IFRS. The determining variables with their respective mean difference is as follows: for Pfty an Increased mean is observed between the pre IFRS and the post IFRS; for ln(g.er) a decreased mean is observed between the pre IFRS and the post IFRS; for l; for size an Increased mean is observed between the pre IFRS and the post IFRS while for ln(age) an Increased mean is observed between the pre IFRS and the post IFRS.

Table 4.3 Multicollinearity test

Model		Collinearity Statistics	
		Tolerance	VIF
1	Pfty	.043	1.874
	ln(g.er)	.811	1.234
	Siz	.767	1.304
	ln(age)	.866	1.155

Table 4.4 Variance inflation factors (VIF)

VIF	Status of predictors
VIF = 1	Not correlated



Wilcoxon W	5444.000	5416.50	4639.00	4768.50	Table
Z	-.821	-.925	-3.847	-3.362	4.5.
Asymp. Sig. (2-tailed)	.411	.355	.000	.001	2

a. Grouping Variable: IFRS

The table 4.5 above presents the results for Mann-Whitney test for all the IFRS impact indicator variables for both the pre IFRS and the post IFRS period. The variable Pfty of the 15 deposit banks before the IFRS was compared to the post IFRS using the Mann-Whitney test with a p-value of 0.411 which is greater than the 0.05 (5%) level of significance. This suggest that there is no significant difference between the pre and post IFRS in terms of the banks Pfty. However, for the variable ln(g.er) of the listed banks before the IFRS was compared to the post IFRS using the Mann-Whitney test with a p-value of 0.355 which is greater than the 0.05 (5%) level of significance. This suggests that there is no significant difference between the pre and post IFRS in terms of the banks ln(g.er).

**Table 4.6 Logistic Regression**

		B	S.E.	Wald	Df	Sig.	Exp(B)	95% C.I. for EXP(B)	
								Lower	Upper
Step 1 <sup>a</sup>	Pfty	-.001	.032	.001	1	.975	.999	.938	1.064
	Inger	-.099	.064	2.406	1	.121	.906	.799	1.027
	Siz	.332	.133	6.182	1	.013	1.394	1.073	1.810
	Inage	.993	.285	12.193	1	.000	2.701	1.546	4.717
	Constant	-	4.906	11.355	1	.001	.007		

Source: SPSS Output (2022)

a. Variable(s) entered on step 1: Pfty, Inger, siz, Inage.

Table 4.6 shows the deposit money banks performance variables. When regressed on IFRS (0 = preIFRS, 1 = postIFRS) variable have returned the following as results. The multiple logistic regression analysis finding indicates that size and age had significantly been influenced by IFRS whereas Pfty, (g.er) did not at alpha = 0.05 (5%).

**Table 4.7: Model Summary of the Relationship between IFRS and the Listed Bank Performance Variable**

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	181.206 <sup>a</sup>	.163	.218

Further evaluation of Table 4.7 (Model Summary section) shows that the (Cox & Snell R Square) $R^2$  value of 0.163 which infers that about 16.3% of the observed variability in the Bank performance variables is explained by the IFRS variable.

Regression model equation is as follows:

$$\text{IFRS} = -4.906 - 0.001Pfrty - 0.099\ln(g. er) + 0.332SIZ + 0.993(age)$$

### 4.3 Test of Hypotheses

The following hypotheses formulated are hereby subjected to statistical test:

Test of Hypothesis 1

$H_{01}$ : There is no significant effect of IFRS adoption on the profitability of listed banks in Nigeria.

**Table 4.8 Test of Hypothesis 1**

	<b>B</b>	<b>SE</b>	<b>Wald</b>	<b>Df</b>	<b>Sig.</b>	<b>Exp(B)</b>
Profitability	-0.001	0.032	0.001	1	0.975	0.999

**Source: Extract from Table 4.6**

On table 4.8 since P-value 0.999 is greater than 0.05 level of significance, thus hypothesis 1 is accepted. Therefore, IFRS has no significant effect on profitability of listed Banks in Nigeria.

Test of Hypothesis 2

$H_{02}$ : There is no significant effect of IFRS adoption on the growth of listed banks in Nigeria.

**Table 4.9 Test of Hypothesis 2**

	<b>B</b>	<b>SE</b>	<b>Wald</b>	<b>Df</b>	<b>Sig.</b>	<b>Exp(B)</b>
ln (g.er) Growth	-0.099	0.64	2.406	1	0.121	0.906

**Source: Extract from Table 4.6**

On table 4.9 since P-value 0.906 is greater than 0.05 level of significance, thus hypothesis 1 is accepted. Therefore, IFRS has no significant effect on growth of Banks in Nigeria.

### Test of Hypothesis 3

H<sub>03</sub>: There is no significant difference between pre and post IFRS adoption on growth of listed Banks in Nigeria.

**Table 4.10 Test of Hypothesis 3**

	ln(g.er)
Mann-Whitney U	2566.500
Wilcoxon W	5416.500
Z	-.925
Asymp. Sig. (2-tailed)	.355

On table 4.10 p-value 0.355 is greater than 0.05 (5%) level of significance. Therefore, the null hypothesis is accepted, thus there is no significant difference between pre and post IFRS adoption on growth of listed banks in Nigeria.

## 4.4 Discussion of Findings

The analysis result indicates that Pft, which yielded a Beta ( $\beta$ ) of -.001, was deemed to not be statistically significant since the obtained p-value is greater than 0.05 level of significance. Therefore, IFRS adoption has no significant effect on Pft level of the Nigeria's listed banks. Therefore, the hypothesis that IFRS adoption has no significant effect on profitability is accepted. This agrees with the findings of Latridis (2010); Yahaya, Yusuf & Dania (2015); Street & Gray (2000). This is also against the findings of Lantto & Sahlstrom (2009).

Furthermore, the result shows that growth, which yielded a Beta ( $\beta$ ) of -.099, and a p-value of 0.121, were deemed to be not statistically significant since the obtained p-value (0.121) which is greater than 0.05 level of significance. Therefore, IFRS adoption has no significant effect on the growth level of the Nigeria's listed banks. Therefore, the hypothesis that IFRS adoption has no significant effect on the growth is accepted. This agrees with the findings of Yahaya, Yusuf & Dania (2015); Blanchette (2011); Chukwu & Okoye (2016); Contrary to Latridis (2010).

The result also shows that the profitability which depicts a p-value of 0.411 is greater than .05 level of significant. Thus there is no significant difference in the pre and post adoption on profitability of listed banks in Nigeria. This agrees with the findings of Latridis (2010); Yahaya, Yusuf & Dania (2015); Street & Gray (2002). This is also against the findings of Lantto & Sahlstrom (2009). Also finding shows that growth gives a p-value of 0.355 which is greater than 0.05 level of significant. Therefore, there is no significant difference in the pre and post adoption on growth of listed banks in Nigeria. This agrees with the findings of Yahaya, Yusuf & Dania (2015); Blanchette (2011); Chukwu & Okoye (2016); Contrary to Latridis (2010). This implication of the study is that the increase in mean of profits and decrease in mean of growth are not attributable to adoption of IFRS.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter is concerned with the summary of the findings from the study, drawing conclusion to that effect and making recommendations relating to the adoption of IFRS and its impact on profitability of deposit money banks in Nigeria.

#### **5.2 Summary of Findings**

This study sets out to investigate the impact of the adoption of IFRS on financial performance of listed deposit money banks in Nigeria.

Following the data analyses and interpretation of results, the summary of findings are as follows:

- a. IFRS adoption has no significant impact on profitability of listed deposit money banks in Nigeria.
- b. IFRS adoption has no significant effect on growth of listed deposit money banks in Nigeria.
- c. IFRS adoption has no significant difference on pre and post growth of listed deposit money banks in Nigeria.

#### **5.3 Conclusion**

The need for the adoption of the International Financial Reporting Standards by every company cannot be over-emphasized. Harmonization of accounting standards is needed in order to enhance the quality of accounting information and for comparability of financial statements by foreign investors.

Since the large-scale mandatory adoption of IFRS over 10 years ago, a number of research studies have evaluated the effects of IFRS adoption. Among others, there is convincing evidence that IFRS have triggered greater interest from foreign investors and foreign analysts, although whether such increased interest is of any benefit to domestic firms is unclear. Given that an oft-repeated objective of IFRS adoption by regulators has been the achievement of financial reporting comparability, researchers have begun paying more attention to better understanding and measuring comparability. That said, simply harmonizing accounting standards does not appear to achieve full comparability in financial reporting.

Finally, although IFRS is now required for listed firms in many countries, several countries permit or even require private companies also to adopt them. The need of private firms for financial reports differs vastly from that of listed firms, raising questions about whether requiring private firms to report under a relatively complex set of accounting standards passes the cost-benefit test. Overall, although the literature is making progress, research conducted across a variety of dimensions is required before researchers can claim to have a decent understanding of the mechanisms based on which IFRS affect the various facets of a business.

#### **5.4 Recommendations**

From the analysis of data and subsequent discussion of the findings of this study, the following recommendations are hereby suggested:

- (a) The Financial Reporting Council of Nigeria should sponsor continuous researches on the application of IFRS in Nigeria.
- (b) The Financial Reporting Council should undertake aggressive publicity on the IFRS operation in Nigeria.
- (c) Central Bank of Nigeria, Financial Reporting Council of Nigeria, Nigeria Deposit Insurance Corporation and Securities and Exchange Commission should continuously monitor IFRS compliance by Banks.
- (d) There should be massive educational training and re-training on IFRS for students, employees, employers, accountants and auditors.

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