EFFECT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ON ELEMENTS OF FINANCIAL REPORTS OF NIGERIA DEPOSIT MONEY BANKS (DMBs)

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Abstract

This study is set out to examine the effect of International Financial Reporting standards (IFRSs)on elements of financial reports of Nigeria Deposit Money Banks(DMBs),specifically,it sort to determine whether significant differences exist between financial reports prepared with IFRS and that prepared with Nigerian Generally Accepted Accounting Principles (NGAAP) on elements of financial reports. Descriptive research design was adopted,secondary data were used for the research, data were obtained from Nigeria stock exchange Lagos, 21 existing money deposit banks in Nigeria were used as the population, a sample of 14 money deposit banks quoted in the floor of Nigerian stock exchange were adopted based on membership of Nigeria Stock Exchange. Mean,standard deviation and paired-sample t-test were employed to test the hypotheses formulated for this study. Findings revealed as follows; there is significant difference between pre and post-IFRS equity of Nigeria deposit money banks (DMBs), there is significant difference between pre and post-IFRS liability of Nigeria deposit money banks (DMBs), there is significant difference between the pre and post-IFRS asset value of Nigeria deposit money banks (DMBs) mandatory adopters.The researcher recommends that the financial analysts (experts) and investors involved in the analysis of financial reporting elements are counseled to give consideration to the trend analysis when comparing pre-adoption data under NGAAP with post-adoption data in IFRS. Managementand shareholders should evaluate the financial statements of equities under both NGAAP and IFRS for the comparative year prior to IFRS implementation may be considered as prudent step before performing a trend analysis of Nigeria deposit money banks among others.

Key words: Financial Reports, IFRSs, DMBs, Financial Analyst, NGAAP.

Introduction

International Financial Reporting Standards (IAS/IFRS) consist of a set of international accounting principles, the adoption of which aims at establishing clear rules and draw up comparable and transparent annual reports and financial statements (Cardozzo, 2008). Their adoption represents an essential element to obtain an integrated, competitive and attractive financial statement across the globe. With the increasing internationalization of trading activities amongst countries of the world, necessitated by globalization, the Nigerian government was persuaded to approve a roadmap to introduce this set of uniform accounting standards initially for public interest entities (PIEs). Before IFRS adoption era, most countries had their own standards with local bodies responsible for developing and issuance of the local standards even if some of them align largely with the LAS. In this vein and in the Nigerian context, the Nigerian Accounting Standards Board (NASB) was responsible for developing and issuing standards known as Statements of Accounting Standards (SAS) and in the new dispensation, the body was renamed Financial Reporting Council (FRC) of Nigeria as the regulatory body overseeing the adoption and implementation of IFRS (Kenneth 2012). Accessibility to capital, both from local and foreign investors, amongst other benefits, is one of the incontrovertible gains derivable from adopting the global accounting standards. And for companies to avail themselves of this gain, as contended by proponents of IFRS, they have to adopt this set of accounting standards which will arguably help entrench best practices in financial reporting. Apparently in a bid to take her own share of the benefits of using a set of accounting standards that not only allow for, but also enhance the comparability of financial reports across many geographical frontiers, on Wednesday, 28 July 2010, the Nigerian Federal Executive Council accepted the recommendation of the Committee on the Roadmap to the Adoption of IFRS in Nigeria, that it would be in the interest of the Nigerian economy for reporting entities in Nigeria to adopt globally accepted, high-quality accounting standards by fully adopting the International Financial Reporting Standards (IFRS) in a phased Transition (Fashina&Adegbite,2014). In December 2010,following the approval of the Federal Executive Council, the Nigerian Accounting Standards Board (NASB), (now designated as Financial Reporting Council of Nigeria (FRCN)) issued an implementation roadmap for Nigerian's adoption of IFRS which set a January 2012 date for compliance for publicly quoted companies and banks in Nigeria. Relatedly,according to Fashina and Adegbite (2014), the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission also adopted this date for compliance and has issued guidance compliance circulars to ensure full implementation of IFRS in Nigeria. The Council further directed the Nigerian Accounting Standards Board (NASB) to take necessary actions to give effect to the Council's approval. As part of plans to meet international standards,the Federal Governmenthas disclosed that new accounting system, the international financial reporting standard (IFRS)should take off in Nigeria on 1st January, 2012, especially with Public Interest Entities. In Nigeria,the government has taken its stand to involve all stake holders including institutions before it finally decided to adopt the IFRS on a gradual basis. IFRS for SMEs is to be mandatorily adopted as at January 1,2014.

As Nigeria now belongs to the league of IFRS-adopting countries with effect from 2012, perhaps persuaded by the gains it promises, it however remains to be convincingly empirically established the extent towhich this set of accounting standards has impacted on elements of financial statement and reporting practices in Nigeria. This study therefore is an attempt to provide evidence on the impact of IFRS on elements of financial statement in the Nigeria banking sector.

Statement of the Problem

The perception of Nigeria as a risky market for the flow of equity investments may be attributed to the limited financial reporting and information disclosure made by publicly listed companies in Nigeria. Thus, before the emergence of IFRS in Nigeria, investors especially the expatriate merchants suffered from insufficient disclosures of economic information in published financial reports which in turn made it evidently difficult for them to understand the risk profiles of such entities and permit informed judgment and equity investment decisions, in order words reduced the degree of equity investment in the companies.

According to Nwoye (2013), no significant and material increase in the value of financial statement's elements among Nigerian banks was part of common trends associated with pre IFRS reporting regime, (Aminu, Musa, &Sanusi, 2017). A country action plan for transition needs to have logistical framework of targeted activities to be completed within a specific period of time.This includes raising awareness on the potential impact of the IFRS conversion on elements of financial statement, identifying regulatory synergies to be derived and communicating the temporary impact of transition on financial statements elements and business performance.Abdulkadir (2013) noted that practical implementation that is, conversion of values of financial statement' elements from Nigerian Generally Accepted Accounting Principles (NGAAP) to IFRS requires adequate training and technical capacity among preparers and stakeholders.One of the difficulties Nigeria is likely to encounter is the shortage of accountants and auditors who are technically competent in implementing IFRS.

Consequently, accurate comparison may not b possible between those financial statements prepared under IFRS framework and those complied only with national standards. Furthermorenon-compliance with IFRS legal and professional framework may indicate a greater challenge for companies especially banks financial reporting and position as they might not be able topartake in the new and emerging business opportunity. Most studies on IFRS have concentrated on it as a financial business performance issue. But financial reporting elements (assets, liabilities,and equities) are one aspect of the total effect or impact of IFRS composition. Much more significant is the impact of a set of standards (IFRS) on a company's financial statement. This forms the back drop upon which the study seeks to determine the effect of international financial reporting standards (IFRS) on the elements of financial reporting among Nigeria deposit money banks (DMBs).

Objectives of the Study

The broad objective of this study is to examine effect of International Financial Reporting Standards (IFRS) on elements of financial reports of Nigeria deposit money banks. Specifically the study set out to:

i. Determine the effect of pre and post IFRS adoption on equities of Nigeria deposit money banks (DMBs).

ii. Ascertain the difference in liabilities before and after the adoption of IFRS among the Nigeria deposit money banks (DMBs).

iii. Determine the effect of pre and post IFRS adoption on asset of Nigeria deposit money banks among mandatory adopters.

Research Questions

The following research questions emanated from the aforementioned objectives:

i. What effect does pre and post-IFRS adoption have on equities of Nigeria deposit money banks (DMBs)?

ii. What is the difference in liabilities before and after the adoption of IFRS among the Nigeria deposit money banks(DMBs)?

iii. What is the effect ofpre and IFRS adoption on asset of Nigeria deposit money banks among mandatory adopters?

Hypotheses of the Study

The following null (Ho) hypotheses are tested at 5%level of significance:

i. The effect of pre and post-IFRS adoption on equities of Nigeria deposit money banks (DMBs) is not significant.

ii. There is no significant difference in liabilities before and after the adoption of IFRS among the Nigeria deposit money banks(DMBs)

iii. There is no significant effect of pre and post IFRS adoption on asset of Nigeria deposit money banks among mandatory adopters.

Review of Related Literature

The elements of financial statements are valued at historical cost, current cost, realisable-settlement value and present value. The choice of capital concept is determined by the requirements of those who use the financial statements of an enterprise. A distinction is made between financial capital maintenance and physical capital maintenance. In addition, the elements of financial reporting or statements can be derived from statement of financial position, statement of comprehensive income, statement of cash flow and statement of changes in equities; majorly the financial statement elements are been derived from statement of financial position (SOFP) and statement of comprehensive income (SOCI). These financial reporting elements entail assets,equities, liabilities and profit for the year. Nigeria Generally accepted accounting principles (NGAAP) and International Financial Reporting Standards (IFRS) carefully outlined the procedures required in treating and disclosing the financial reporting elements. Atu (2013) defined an asset as resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprises. While liability is a present obligation of the enterprise arising from the past event, the settlement of which is expected to result in an outflow from the enterprise' resources, i.e., assets.Equity is the residual interest in the enterprise arising after deducting all the liabilities under the Historical Cost Accounting model. Equity is also known as owner's equity. Under the units of constant purchasing power model is the constant real value of shareholders' equity.

Statement of comprehensive income which measures the financial performance of an enterprise is primarily provided in the Statement of Comprehensive Income statement or profit and loss account. The elements of an income statement or the elements that measure the financial performance are revenue and expenses. Revenues increase in economic benefit during an accounting period in the form of inflows or enhancements of assets, or decrease of liabilities that result in increase in equity. However, it does riot include the contributions made by the equity participants, i.e. proprietor, partners and shareholders. In order hand, expenses decrease in economic benefits during an accounting period in the form of outflows, or depletions of assets or increase of liabilities that result in decrease in equity. Revenues and expenses are measured in nominal monetary units under the Historical Cost Accounting model and in units of constantpurchasing power (inflation-adjusted) under the Units of Constant Purchasing Power model(Atu,2013).

Most importantly required is a statement of comprehensive income separate statements comparing an income statement and separately a statement of comprehensive income, which reconciles profit or loss on the income statement to total comprehensive income. The financial statements also entail, statement of changes in equity requirements of IFRS, statement of cash flows or cash flow statement and notes to the financial statements including a summary of the significant accounting policies. Comparative information is required for the prior reporting period (IAS 1.36). An entity preparing IFRS accounts for the first time must apply IFRS in full for the current and comparative period although there are transitional exemptions. On 6 September 2007, the IASB issued a revised IAS 1 Presentation of Financial Statements.The main changes from the previous version are to require that an entity must:

Present all non-owner changes in equity (that is,'comprehensive income') either in one Statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income may not be presented in the Statement of changes in equity.Present a statement of financial position (balance sheet) as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies the new standard. Present a statement of cash flow; make necessary disclosure by the way of a note. The revised IAS is effective for annual periods beginning on or after 1 January 2009. Early adoption is permitted (Atu,2013).

Theoretical Framework

This study was based on the theory of the pure-impression-management model (PIMM)of accounting propounded by Keppler in 1995.The theory states that accountability serves as a linkage construct by continually reminding people of the need to:

a) Act in accordance with the prevailing form and content of financial reporting.

b) Advance compelling,justification/excuses for conduct that deviate from the form and content of financial reporting.

In the real sense, financial reporting cannot be accepted by general public or would-be investors if certain guidelines/standards that are generally expected are not followed and observed. This theory on the other hand, recognizes that uniformity and observance of relevant standards that are meant for the smooth functioning of the public companies. This theory is relevant to the present study in that it focuses on behavioural aspect of accounting. Accountability is the missing link inthe seemingly perpetual level-of analysis controversy, the connection between individual decision makers and the collectives within which they live and work. The concept accountability serves as a linkage construct by continually reminding people of the need to:

a. Act in accordance with the prevailing norms.

b. Advance compelling justifications or excuses for conducts that deviates from those norms.

The PIMM recognizes that a large measure of trust and self-accountability is necessary for the smooth functioning of institutions. Therefore, if PIMM of accountability is properly utilized by the management of companies or institutions in Nigeria, it will fetch a good result on public accountability.

Methodology

The research design adopted was descriptive research design. Currently,there are twenty one(21)money deposit banks operating in Nigeria. Considering the fact that data for the analysis posed serious challenge in this study, fifteen (15) money deposit banks out of twenty one (21) existing money deposit banks in Nigeria were judgmentally selected, based on their membership of Nigerian Stock Exchange.The researcher considered thesefifteen (15) money deposit banks quoted in the floor of Nigerian Stock Exchange (NSE) appropriate for the analysis because of data availability. In furtherance to the research,the researcher found out that the official website and annual reports of Skye bank were not downloading as at the time of this report, and as a result, the researcher was unable to access the website and financial statement of the bank. This situation therefore reduced the sample of the study to fourteen deposit money banks (14), where the data for the analysis were generated. The banks are as listed below:

Table 1: List of Nigeria deposit money banks (DBMs) listed on Nigerian Stock Exchange.

S/NO	Banks	Year of adoption of IFRS	Year of establish	Year listed in the floor of Nigeria Stock Exchange	Official Website
1.	Access	2009	1989	1998	www.accessbankpl.com
2.	Diamond	2012	1990	2005	www.diamond.com
3.	Eco	2009	1986	2006	www.econb.com
4.	Fidelity	2012	1987	2005	www.fidelity.com
5.	First	2012	1894	1971	www.firstbank.com
6.	FCMB	2012	1982	2004	www.fcmb.com
7.	GTB	2011	1990	1996	www.gtbank.com
8.	Stanbic IBTC	2012	1989	2005	www.stanbicibtcbank.com
9.	Sterling	2012	1960	1992	www.sterlingbank.com
10.	Union	2012	1917	1969	www.unionbank.com
11.	UBA	2012	1949	1970	www.ubagroup.com
12.	Unity	2012	2006	1970	www.unitybank.com
13.	Wema	2012	1945	1991	www.wemabank.com
14.	Zenith	2011	1990	2004	www.zenithbank.com

Source: Nigerian Stock Exchange (2016)

The study adopted a secondary technique of data collection. Data was collected from the audited annual accounts and reports of the selected deposit money banks from 2008 to 2015. The study adopted the descriptive and inferential statistics; the descriptive statistics involved mean and standard deviation while the inferential statis+.ics adopted was paired-sample t-test employed to test the hypotheses formulated for this study.

Decision Rule

The decision rule is based on 5% level of significant. Accept null hypothesis (Ho) if probability value (i.e. P-value or Sig.) calculated is greater than or equals to (>) stated 5%

level of significance (a); otherwise,reject and accept alternate hypothesis (Ha), if p-value or sig calculated is less than 5% level of significance (Osisioma, Egbunike&Jesuwunmi, 2015).

Data Presentation and Analysis

Presentation of Data

See Appendix

Test of Hypotheses

i. **Ho:The effect of pre and post-IFRS adoption on equities of Nigeria deposit money banks (DMBs) is not significant.**

Table 2:Paired-Samples t-test Comparison of pre and post-IFRS equities of Nigeria deposit money banks (DMBs) (2008-2015).

T-test for Equity of Means	X(N=56)	SD (0)	t(55)	Sig.	Decision
Pre and Post-IFRS Equities	-35989035.73	73781051.69	-3.65	.00	Accept Ha

Source: Researcher's computation using SPSS version23.

Table 2 showed that a paired-samples t-test was conducted to compare pre and post-IFRS equities of Nigeria deposit money banks (DMBs) (2008-2015). There was significant difference in the mean values: (M=-35989035.73, SD = 73781051.69), t (55) = -3.65, p < 0.05). Due to the means of the two periods (i.e. pre and post-IFRS) and the direction of the t-value,we can conclude that there was a statistically significant improvement or increase in equities values of Nigeria deposit money banks (DMBs) following the adoption of International Financial Reporting Standards (IFRS) from N66898447.69±73781051.69 to N102887483.43 ±73781051.69 (p < 0.0005); an improvement of N35989035.73±M5989035.73.

The result implies that the method of disclosuresand treatment of statement of financial position element does have significant effect on equity. Specifically, our result suggests that pre and post-IFRS equity among Nigeria deposit money banks is not the same. We therefore accept the alternate hypothesis (Ha) and reject the null hypothesis (Ho) and concluded that there is significant difference between the pre and post-IFRS equity of Nigeria deposit money banks (DMBs).

ii. Ho:There is no significant difference in liabilities before and after the adoption of IFRS among the Nigeria deposit money banks (DMBs).

Table 3: Paired-Samples t-test Comparison of pre and post-IFRS liabilities of Nigeria deposit money banks (DMBs) (2008-2015).

T-test for Equity of Means	X(N=56)	SD (0)	t(55)	Sig.	Decision
Liabilities	-309832008.64	666897389.44	-3.48	.001	Accept Ha

Source: Researcher's computation using SPSS version23.

Table 3 presented the paired-samples t-test conducted to compare pre and post-IFRS liabilities of Nigeria deposit money banks (DMBs) (2008-2015). There was significant difference in the mean values: (M=-309832008.64, SD = 666897389.44); t (55) = -3.48, p = .001). Due to the means ofthe two periods(i.e. pre and post-IFRS) and the direction of the t-value,we can conclude that there was a statistically significant increase in liabilities values of Nigeria deposit money banks (DMBs)following the adoption of International Financial Reporting Standards (IFRS) from N371751963.46 ± 666897389.44 to N681583972.11 ± 666897389.44 (p =.001);an increase of N.309832008.64±41.309832008.64.

The result implies that the method of disclosures and treatment of statement of financial position element does have significant effect on liabilities. Specifically, our result suggests that pre and post-IFRS liabilities among Nigeria deposit money banks is not the same. We therefore accept the alternate hypothesis (IL) and reject the null hypothesis (Ho) and concluded that there is significant difference between the pre and post-IFRS liability of Nigeria deposit money banks (DMBs).

iii. There is no significant effect of pre and post IFRS adoption on asset of Nigeria deposit money banks among mandatory adopters.

Table 4: Paired-Samples t-test Comparison of pre and post-IFRS assets of Nigeria deposit money banks (DMBs) mandatory adopters (2008-2015).

T-test for Equity of Means	**X(N=56)**	**SD (0)**	**t(55)**	**Sig.**	**Decision**
Assets	-438140274.45	473108226.77	-5.86	.000	Accept Ha

Source: Researcher's computation using SPSS version23.

Table 4 showed the paired-samples t-test conducted to compare pre and post-IFRS assets of Nigeria deposit money banks (DMBs) mandatory adopters (2008-2015). There was significant difference in the mean values: (M=-438140274.45 SD $= 473108\,226.77$); t $(39) = -5.86, \mathrm{p} < 05)$. Due to the means of pre and post-IFRS and the direction of the t-value, we can conclude that there was a statistically significant increase in assets values of Nigeria deposit money banks (DMBs)mandatory adopters following the adoption of International Financial Reporting Standards (IFRS)from N689882106.03±473108226.77to N1128022380.48±473108226.77 $(p < 001)$;an increase of 4438140274.45 ± 4438140274.45.The result implies that the method of disclosures and treatment of statement of financial position element does have significant effect on assets.Specifically,our result suggests that pre and post-IFRS assets among Nigeria deposit money banks mandatory adopters is not the same. We therefore accept the alternate hypothesis (Ha) and reject the null hypothesis (Ho) and concluded that there is significant difference between the pre and post-IFRS asset value of Nigeria deposit money banks (DMBs) mandatory adopters.

Conclusion

In line with the above summarized findings from the study, the researcher therefore concludes as follows: That significant difference exists between financial statements prepared with IFRS reporting framework and that prepared with NGAAP reporting framework. From the analysis, data for equity, assets, and liabilities showed more significance increase in the post IFRS adoption.Based on the result of the analysis, it is better to report with IFRS reporting framework than Nigerian Generally Accepted Accounting Principles (NGAAP) reporting framework.

The researcher also concludes that IFRS based financial reporting framework has increased the value of total equity,asset, and liability among Nigerian banking sector.The researcher arrived at this conclusion because all the data collected for equity,asset, and liabilities in post IFRS reporting years of the banks are all show significant difference in all the analysis.

Finally,Members of the international community are interested in financial reports that have been prepared on the basis of IFRS, thereby help in enhancing comparability financial reporting and enhancing the investors' confidence.

Recommendations

Based on the conclusion, the researcher proffers the following recommendations:

i. The financial analysts (experts) and investors involved in the analysis of financial reporting elements are counseled to give consideration to the trend analysis when comparing pre-adoption data under NGAAP with post-adoption data in IFRS.

ii. Management and shareholders should evaluate the financial statements equities under both NGAAP and IFRS for the comparative year prior to IFRS implementation may be considered as prudent step before performing a trend analysis of Nigeria deposit money banks.

iii. The management and Nigerian Stock Exchange should be aware of the underlying reasons for the significant differences in assets and liabilities as they transpire from the transition note that accompanies the IFRS financial statements.

iv. Nigeria deposit money banks should involve in the analysis of financial statements and accord attention to the trend analysis when comparing pre-adoption data under NGAAP with post-adoption data in IFRS.

In order to enhance financial reporting quality and transparent financial reporting practices i the Nigerian banking sector Federal Government of Nigeria (FRCN) should strengthen the financial reporting institutional framework by further empowering the Financial Reporting Council of Nigeria.

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