Impact of the Adoption of International Reporting Standard on Firm Performance in Nigeria: Evidence from Nigerian Stock Exchange.

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ABSTRACT
This research work is on impact of adoption of international reporting standard on firm performance in Nigeria. Data were gathered through questionnaire and hypotheses stipulated which basically questioned the reliance on financial statement according to IFRS, quality of financial statement according to IFRS and the increase in capital formation in Nigerian companies. To test these hypotheses, Z-Test statistics was employed. The result revealed that both the local and foreign investors were happy with the introduction of current trends of corporate financial reporting standards. This was evidence as it provides clear insight in the interpretation and understanding of financial report and that the quality of corporate financial reports has improved since inception of IFRS. The regulatory authorities should further be strengthened and empowered. There should be a review of the current legal/statutory provision in order that reporting entities will not breach the law as they implement the current standards of corporate reporting which is IFRS.

KEYWORDS: *corporate financial reporting, international financial reporting standard (IFRS), firm performance.*

INTRODUCTION

Section 334 of CAMA (1990) requires a financial statement to be prepared and presented to the shareholders of the company at the Annual General Meeting. According to the Act the financial statement includes;

i. Comprehensive income statement for the period under consideration
ii. Statement of Financial position as at date of the financial statement
iii. Statement of sources and application of fund (cash flow)
iv. Value added statement
v. Five years financial summary.
vi. Note on account

The International financial reporting standards (IFRS) also postulated the information to be disclosed in financial reports. The aim of publication of financial report by management is to provide information to stakeholders for decision making. This may take the form of management information needed to enhance performance or to re-strategize. The report will enable investors to know the state of the organization or company; whether to invest or not or how well the company has performed during that particular Accounting period. Other parties that may desire the information are the creditors; to know the position of their investment, Government for the purpose of fiscal and monetary policies, Employee for salaries and wages negotiation and the shareholders to ascertain the performances of the management. Corporate organization or company makes internal use of the financial reports or statements to access performance either within the country of domiciliation or across the boarder of the country. The information so provided must be valuable in both cases. Corporate financial manager required quality information for their day to day decision as well as long term strategic decision. Providing financial information to users in a country is a challenge, there is even a greater challenge when the information is to go across the borders of a country. However there is a corporate report standard which has gained general acceptance worldwide.
Since International Financial Reporting Standards (IFRS) became operational more light has been thrown on financial reports. Most nations have embraced this set standard of financial reporting. This system of financial reporting was adopted in Nigeria and with effect from January 2012. The Federal Executive Council (FEC) approved January 2012 as the effective date for the convergence of accounting standards in Nigeria (SAS).

Few studies have acknowledged the adherence of uniform standard worldwide especially in a developing country like Nigeria. Approval was given by Federal executive council (FEC) on the 28th July 2010 in Nigeria for the convergence of accounting standards (SAS) to international financial reporting standards (IFRS) in January 2012 as reported by Deloitte Global services Ltd (2012). Most shareholders are of the view that International Financial Reporting Standard has not impacted on the growth and performance of corporate firms in Nigeria. It is argued that financial statement according to IFRS is not accepted to users of financial statement, and this has led to the fall in capital formation from investors. The Nigerian GAAP is said to be of high quality and generally accepted to all unlike IFRS which is difficult to implement and understand. Since the pronouncement and implementation of the change to international financial reporting, several event and activities have taken place and few studies or emphasis have been based on the current trends of Corporate financial reporting as a result of the change in financial reporting standards adopted since 2012 this create a gap and pose the problem this study seek to fill. The objective behind the preparation of financial report by the Accountant will be justified if the various users of the report prepared can understand it. It therefore necessary for financial reports to be prepared in such a way that the different categories of users will be able to interpret the information and data contained in the financial reports for the purpose of decision making. Here the location of the users and currency notwithstanding, the purpose of the financial report must be satisfactory.

The broad objective of the study is to explore the current trends of corporate financial reporting in relationship to corporate performance. Other specific objectives includes;

1. To determines the quality of corporate financial reporting in relation to IFRS.
2. To ascertain the extent of capital formation in corporate entities since adoption of the current trends of corporate financial reporting in Nigeria.
3. To ascertain users acceptance of financial statement in compliance with IFRS and its improvement in corporate earnings.

Hypotheses

The null hypotheses formulated to be tested in this study are stated as follows. $H0_1$: the quality of corporate financial reporting is poor in relation to IFRS. $H0_2$: capital formation in corporate entities is low since adoption of the current trends of corporate financial reporting in Nigeria. $H0_3$: Users do not accept financial statement in compliance with IFRS and its improvement in corporate earnings.

Literature review

This study was based on the theory of the pure – impression – management model (PIMM) of accounting propounded by Keppler in 1995 (as cited by Ezeani and Oladele, 2012). 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.

Corporate reporting is an essential activity in the modern economic landscape in business environment replete business failure, bankruptcy news, lenders and investors pay attention to financial reports to distinguish companies experiencing economic distress from those that are profitable. These statements also help corporate leadership prevent losses resulting from litigation in case of inaccurate reporting.

Corporate financial reporting is a series that allows companies to record operating data and report accurate accounting statements at the end of each month and quarter, according to Duke University's, the Fuqua School of Business Bookkeepers record operating data by debiting and crediting financial accounts. Accountants prepare financial statements in accordance to corporate policies, Industry practices and regulatory guidelines.

The significance of corporate reporting can be evidence as it enables organizations to present accurate accounting statements, according to accounting lecturers David J Emerson and Khondkar E Karim of Rochester Institute of Technology and audit professor Robert Rutiedge of Texas state university. This practice helps firms conform to international financial reporting standards and the world gradually accepted accounting principles.

In the area of Corporate Reporting, which covers issues related to accounting, periodic reporting and storage of regulated information as well as auditing a lot of work has been done to have a uniform global standards as in International Accounting Standards (IASs), International Auditing Standards Requirement (IASR), International Public Sector Accounting Standards (IPSASs), International Financial Reporting Standards (IFRSs) etc.

Review of previous studies

Below are other details of earlier researchers which established and revealed the under listed theories:

S/N	**Author & year of study**	**Research Objectives**	**Methodology**	**Major finding**
1	OKoye, V. (1994)	Impact of regulatory accountant to refrain from professional misconduct.	Secondary data was analyzed using the augmented solow model.	Accountant conduct was positively related to prescribe standards.
2	Garuba et al, (2011)	Effect of better understanding of financial statement	Data collected by questionnaire was analyzed using strapro software	The call for a better understanding in preparing financial statement using global benchmark should be appreciated
2	Ezeani and Olaleye(2012)	Adoption of international financial reporting standards (ifrs) to enhance financial reporting in Nigeria universities	mean scores and Z-Test.	Accountants and auditors should focus in discharging their duties. And as well a lot of implications are also involved. Mostly accountants, auditors, bursars, financial analyst, etc, are the personnel involve in the IFRS financial instruments.
4	Abata M.A.(2015)	The impact of International financial reporting standards (IFRS) adoption on financial reporting practice in the Nigerian banking sector	modified version of the Gray's Conservatism Index Gray (1980, as cited in Cardozzo, 2008) and 'Comparability Index'.	the quantitative differences in the financial reports prepared under NGAAP and IAS/IFRS are statistically significant.

5	Abata, M.A.(2015)	Impact of IFRS on Financial Reporting Practices in Nigeria (A case of KPMG)	Pearson Chisquare analysis	reports prepared under IFRSs enhanced best practices in a corporate organization (Pearson Chi-Square = 37.857); financial statements prepared in line with IFRS provides greater benefits than the former GAAP (SAS) (Pearson Chi-Square = 75.763); the compliance with IFRS promotes cross border investment and access to (Pearson Chi-Square = 63.128); and compliance with IFRS will relatively improve the performance of companies (Pearson Chi-Square = 20.417).
6	Akindele, A.O.	The impacts of international financial reporting standards adoption on financial statements: The case of Nigeria	Theoritical research	IFRS should be included in the syllabus of accounting student in the tertiary institutions so that students will have the knowledge before entering into the labour market
7	Adetula D.T., Owolabi and Oyeoka I.O., (2014)	To explore the viability of the adoption of IFRS for SMEs in Nigeria.	t-test was also used.	IFRS would be adopted by Nigeria because other countries have adopted them. IFRS is relevant to small organizations as they operate in a globalized world. IFRS for SMEs adoption process is currently plagued with different challenges that may distort the effect adoption and implementation of IFRS for SMEs in Nigeria. That the level of preparation by SMEs in Lagos is not yet satisfactory.

METHODOLOGY

The structural framework of this study is based on Survey design. Questionnaires were administered to the respondents from Zenith bank Nigeria plc, Afrik Pharmaceuticals, Dangote cement, Berger paints, Honeywell flour mills and Mobil oil and gas Nigeria plc. To ensure that all industries quoted in the Nigerian stock exchange are covered, these companies were selected.

Population and Sample size of the Study

The population of this research will be the 299 public limited companies in Nigeria as at June, 2016, with a selection of 6 companies using the Quota random sampling technique. This is applied where the population is made up of some natural grouping or parts. Each natural grouping is given a fair representation in the sample (Asika 2006). The basis is to ensure that all industries are covered. . The respondents of these firms are Professional's Accountants of corporate entities, User of corporate financial statements, Financial Managers of Corporate entities and owners A total number of 150 questionnaires was distributed and the researcher was unable to distribute 21 copies, 25 each to Zenith bank Nigeria plc, Afrik Pharmaceuticals, Ashaka cement, Berger paints, Conoil and Presco Nigeria plc respectively.

Research instrument

The research instrument contains 13 questions on dividend policies against which the respondents were asked to indicate their level of agreement upon a five point Likert scale (where 5 = strongly agree, 4 = agree, 3 = undecided, 2 = disagree and 1 = strongly disagree). Each question number is subsequently referred to as Q1-Q13. The Cronbach's alpha was used to test the reliability of questionnaire and it gave a value of 0.839. This suggests that the item have relatively high internal consistency. The sample size is a segment of the total population whose characteristics are used to represent the entire population. For this research work denoted by (n) and is derived using the Yaro Yamen's formular

Method of analysis

In order to prove the reliability of the responses three hypotheses were tested. The data were analyzed using descriptive statistic including percentages. Question that are closely related to each hypothesis were tabulated and analysed.

TEST OF HYPOTHESIS ONE

$H0_1$: There is Poor quality of corporate financial reporting in since the adoption of IFRS.

Table 1.2: Results of z-test on the quality of corporate financial reporting in relation to IFRS.

Group	Respondents	Mean (x)	Standard deviation	Standard error	Z-Test score	Significant probability	Decision
Accountants	64	2.78	1.1235	0.0134			
					0.853	0.3341	Accept
Auditors	36	2.83	1.1823	0.0112			

Source: author's computation.

With the z- test score value of 0.853 the z- test is at 0.05 level of significant since 0.3341 is greater than 0.05. This means that there is high quality of corporate financial reporting in relation to IFRS in Nigeria by accountants and auditors. Therefore, the null hypothesis is rejected and the alternate hypothesis is accepted.

TEST OF HYPOTHESIS TWO

Ho_2: there is low capital formation in corporate entities since adoption of the current trends of corporate financial reporting in Nigeria.

Table 1.3: Results of z-test on the extent of capital formation in corporate entities since adoption of the current trends of corporate financial reporting in Nigeria.

Group	Sample size	Mean (x)	Standard deviation	Standard error	Z-Test score	Significant probability	Decision
Accountants	64	2.68	0.1518	0.0211			
					0.756	0.0351	Accept
Auditors	36	2.59	0.18605	0.0223			

Source: Author's computation.

The data presented on table 3 showed that with the z-test value of 0.756 and significant probability of 0.0351, z-test is significant at 0.05 level since 0.0351 is less than 0.05. This means that there is improved capital formation in corporate entities since adoption of the current trends of corporate financial reporting in Nigeria. Therefore, the null hypothesis is rejected and the alternate hypothesis accepted.

TEST OF HYPOTHESIS THREE

$H0_3$: Financial statement in compliance with IFRS are not acceptable to users and it does not improve corporate earnings.

Table 1.4: Result of Z- Test of Users acceptance of financial statement in compliance with IFRS and its improvement in corporate earnings.

Group	Sample size	Mean (x)	Standard deviation	Standard error	Z-Test score	Significant probability	Decision
Accountants	100	1.77	0.9506	0.0689			
					0.456	0.4895	Accept
Auditors	60	1.68	0.931	0.065			

Source: Author's computation.

1. With the z- test score value of 0.856 the z- test is not significant at 0.05 percent level of significance since 0.4895 is greater than 0.05. This means that users accept financial statement in compliance with IFRS and it improves corporate earnings.

CONCLUSION AND RECOMMENDATIONS

Many respondents believe that corporate entities have improved with the provision and implementation of IFRS in Nigeria. The result revealed that both the local and foreign investors were happy with the introduction of current trends of corporate financial reporting standards. This was evidence as it provides clear insight in the interpretation and understanding of financial report. Many respondents confirmed that the quality of corporate financial reports has improved since inception of IFRS. This was confirmed by about (84%) of the respondents.

That International Financial Report Standards (IFRS) enhances corporate growth and quality of financial report in Nigeria. This study has thrown light on the fact that the international reporting standards is a welcome development as the change in standards has enhances the performance of corporate entities in recent time. Although it have posed some challenges on corporate entities in the area of cost of implementation, training and retraining of personnel, infrastructural development, information technology etc. However, since inception of IFRS as a new standard of corporate reporting there have been increased competitions across borders and substantial growth in corporate entities. This study has shown that IFRS improves firm performance. Base on the finding of this study. The following recommendations were made: The government and stakeholders should promote enforcement machineries which include, among other things, adequate manpower, computers, and effective communication system, hire appropriate qualified personnel etc. When this is done the economic objective of IFRS will be fully achieved in Nigeria. The regulatory authorities should further be strengthened and empowered. There should be a review of the current legal/statutory provision in order that reporting entities will not breach the law as they implement the current standards of corporate reporting which is IFRS. When this is done economic growth and development will fully be realized in the sector.

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