Effect of the Adoption of International Financial Reporting Standards (IFRSS) on Value Relevance of Accounting Information of Nigerian Quoted Oil and Gas Companies

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Abstract

Adopting the International Financial Reporting Standard (IFRS) has been empirically found to improve the quality of accounting in some countries, thereby increasing its usefulness to stakeholders. This study examines whether IFRS adoption has improved the value relevance of accounting information in the financial statements of Nigerian listed oil and gas companies. The population of the study comprises of all the fifteen (15) listed oil and gas companies in Nigeria. The study sampled eight (8) oil and gas companies in Nigeria. Data were collected from the annual reports and accounts of the sampled firms, specifically financial statement figures of 2009 and 2011 (pre-adoption period) and 2012 and 2014 (post-adoption) were utilized. Descriptive statistics and multiple regressions were conducted to analyze the effect of IFRS adoption on the value relevance of accounting information. The result indicates that book value of equity per share and earnings per share of oil and gas industry are relatively value relevant to share prices under IFRS than under the previous Nigerian SAS. Results further revealed that book value of equity per share and earnings per share shows value relevance increase during post-IFRS period. The study concluded that value relevance in post IFRS adoption is more statistically significant than pre IFRS adoption period. The study therefore recommend that Financial Reporting Council of Nigeria and other accounting standards setters should incorporate more measures to enhance the quality of the financial reporting in order to increase the value relevance of financial statements.

Key words: *IFRS adoption, value relevance, share price, earnings per share and oil and gas companies*

Introduction

International Financial Reporting Standards are set of Standard issued by International Accounting Standard Board (IASB) in other to harmonize financial reporting around the globe. Nigeria being the giant of Africa was not left behind. Nigeria's Federal Executive Council (FEC) gave approval for the convergence of Nigerian SAS with the IFRS from

January 1, 2012. Also IFRS adoption committee were enacted by FEC, they agreed that Public Listed Entities and Significant Public Interest Entities are expected to adopt the IFRS by January 2012. All other Public Interest Entities are expected to mandatorily adopt the IFRS for statutory purposes by January 2013, and Small and Medium-sized Entities (SMEs) shall mandatorily adopt IFRS by January 2014. Nigerian listed entities were required to prepare their closing balances as at December 31, 2010 in accordance with IFRSs. The opening balances for January 1, 2012 will be the first IFRS full financial statements prepared in accordance with the provision of IFRS as at December 31, 2012. These was done in other to have a harmonized Financial reporting, where companies will be able to compare their financial reporting with others in Nigeria and elsewhere around the globe (NASB, 2010).

According to (Vishnani & Shah, 2008) “Value relevance” implies ability of the financial information contained in the financial statements to explain the stock market measures. A value relevant variable is that data or amount in the financial statement that guide investors in their pricing of shares. Investors, therefore, centres on the association between stock returns or share price and accounting related information such as earnings, cash flows, book value of equity, firm’s size, etc. Information provided by Financial Statement is considered value relevant if it is allied with market value of a company in question. That is, a company is presuming to be value relevance only if it is market value is statistically significant (Uthman & Abdul-Baki, 2014).

The oil and gas industry is a specialised sector with lots of complications concerning the recognition, measurement, classification and treatment of assets in the books. Oil and Gas sector is characterised by heavy initial investment in terms of Exploration and Evaluation (E&E) operations. A special standard “IFRS 6 –“explorations for, and evaluations of mineral resources” issued by the IASB is dedicated strictly for the extractive industry to provide guidance for the treatment of acquisition, exploration and evaluation costs. In Nigeria however, sequel to IFRS adoption SAS 14, “Accounting in the Petroleum industry - Upstream Activities “and SAS 17, “Accounting in the Petroleum Industry – Downstream Activities “are the two standards that provide regulation for the treatment of all costs incurred in Oil and Gas exploration and production prior to IFRS adoption. This study tends to explore the effect of IFRS standards on the value of accounting information disclosed in the financial statement.

Despite quite extensive literature and numerous published articles in the area of value relevance it is important to notice that the majority of studies were conducted on large and developed capital markets and that there are very few studies conducted on small, developing capital markets like Nigeria, precisely oil and Gas companies.

Among them are (Collins, Maydew & Weiss, 1997; Livnatt & Zarowin, 1999; Francis & Schipper, 1999) conducted in developed countries. Studies conducted in Nigeria include Oyerinde (2012), Abubakar (2010 & 2011), Abiodun (2012), Muhibudeen (2013) Onipe, Dabenege, Musa, and Yusuf (2015) ; Bala (2013). There studies geared toward the relationship between earnings and book value (Oyerinde, 2012). Others conducted in a different sector of the economy (Abubakar, 2010 & 2011) used simple descriptive statistics for analysis (Abiodun, 2012). It was also learned that most of the studies conducted in Nigeria, were based on the IFRS adoption. Looking to that, this study explored the pre and post effect of value relevance of accounting information of oil and gas sector in Nigeria. The objective of the study is to assess the effect of value relevance on pre and post IFRS adoption in Nigeria. This research therefore examines whether the adoption of IFRS has improved the quality of accounting information in the area of value relevance.

The Hypothesis of the paper is:
H_o: There is no significant relationship between pre and post IFRS adoption on Value relevance of accounting information on oil and gas industry in Nigeria.
Other section of the paper will include literature review of the previous studies, methodology adopted for the studies, Result, conclusion and recommendations.

Literature Review
Information provided for by companies is the vital weapon used by individuals as well as companies to make a decision on either to invest in the company or not. Financial accounting information is the product of corporate accounting and external reporting systems that measure and publicly disclose audited, quantitative data concerning the financial position and performance of firms. For the statement to serve its purpose, it must possess quality which includes: relevance, reliability, understandability and comparability in order to serve its purpose.

Accounting information is hypothesized to have information content if it conveys information that changes investors' viewpoint pertaining to firms' future cash flows, ultimately causing the stock price to change (Beaver, 1997). On the other hand, accounting information is hypothesized to be value relevant if it captures events that have affected the firm during a reporting period. Empirical studies on Value relevance and Accounting Information are many, among them are:
Tanko (2012) applied a multiple regression model to examine financial performance measures under the IFRS. The study finds that variability of earnings has decreased which suggest that there was low variability in earnings in the post IFRS adoption period. The study also finds large negative net income to be positive which signifies that IFRS firms recognize losses more frequently in the post adoption period than they do in the pre adoption period, the study conclude that accounting quality improves after the adoption of IFRS. This study suggests that, companies that adopt IFRS are borne to have improved quality than those that do not.

Muhammed and Nor (2014) discussed efforts and challenges of IFRS adoption in Nigeria. The objective of the study is to determine the disclosures under NGAAP and IFRS after the adoption of new accounting reporting. The study is significant to investors, policy makers, professionals and regulatory bodies on the additional disclosures in the new accounting regime. Previous literature have shown that IFRS provide more transparent, more disclosures than domestic accounting. Despite the significance of financial sector in the Nigerian economy little or none has been studied. However, this documents major improvement on disclosures from the new accounting regulations (IFRS) in comparison to NGAAP reporting among Nigerian financial institutions.

Also in Nigeria, Omokhudu and Okoeguale (2015) conducted a research on The Value Relevance of Accounting Information. The study examined the extent to which accounting information is associated with firm value, from an emerging market context. The paper uses the basic Ohlson (1995) model and the modification of the model that includes cash flow from operation, and dividends, to ascertain the value relevance of accounting information in Nigeria. The paper accommodates the documented relative.

Uthman and Abdul- Baki (2014) investigated the effect of IFRS adoption on the value relevance of accounting information in Nigeria. They build on the explanation of extant finance theories on the value relevance and timing of information. IFRS was measured with more disclosure of economic events as well as the fair valuation of economic events under IFRS. Email questionnaires were sent to financial analysts. A log-linear test was employed. A significant relationship was found between each of the independent and dependent variable at 5% level of significance; hence they concluded that IFRS adoption has enhanced the value relevance of accounting information in Nigeria.

Adaramola and Oyerinde (2014) examined the trend in value relevance of accounting information, using a sample of sixty six listed companies in the Nigerian Stock Exchange. The study found that value relevance of accounting information did not follow any trend, but it was lower in the period of military dictatorship and global economic crisis.
Muhibudeen (2015) examined whether the mandatory adoption of IFRS has improved the value relevance of financial statement of quoted cement companies in Nigeria. The study covers a period of four years from 2010 to 2013. The populations constitute five listed companies on the Nigerian Stock Exchange (NSE). Using descriptive statistics and regression; ran on stata version 12, it was found that the earning per share, book value of equity and share price of cement companies have significantly improved following IFRS adoption, although earning per share proved more significant compared to book value of equity. The study further suggests that earnings per share and book value of equity are relevant in determining the value of shares in Nigerian cement companies in the post IFRS era.

Umoren and Enang (2015) also examined whether the mandatory adoption of IFRS has improved has improved the value relevance of financial information in the financial statements of commercial banks in Nigeria using financial statement figures of 2010 and 2011 (pre-adoption period) and 2012 and 2013(post-adoption period). Descriptive statistics and least square regression where employed and they found that equity value and earnings of banks are relatively value relevant to share price under IFRS than under the previous Nigerian SAS; earning per share is incrementally less value relevant during post IFRS period while book value of equity per share is incrementally less value relevant during the post IFRS period.

Umobong and Akani (2015) also investigated the difference in the quality of accounting information, pre and post IFRS adoption, in the manufacturing firms in Nigeria. The study covers a period of five years from 2009 to 2013. Multiple regression analysis was performed on accounting quality variables and t-test was carried-out for equality of mean to compare pre and post IFRS. Results indicated a decline in accounting quality using earnings management, value relevance and timely loss recognition as independent variables. Earnings and book value of equity are less value relevant and timely loss recognition is less in post IFRS compared to pre IFRS period.

Onipe et.al (2015) conducted a study on International Financial Reporting Standards' Adoption and Financial Statement Effects: Evidence from Listed Deposit Money Banks. The study examines the effects of the adoption of the International Financial Reporting Standards on the financial statements of banks. Regression model was employed and the result shows that IFRS adoption has positively impacted some variables in the financial statement of banks, for example, profitability and growth potential. The paper also reveals that given the fair value perspective of IFRS, the transition to IFRS brings instability in income statement figures.

Murtini and Lusiana (2016) study Earning Management and Value Relevance Before and After the Adoption of IFRS in Manufacturing Company in Indonesia. The study tests the quality of accounting information before and after the adoption of IFRS on Financial Accounting Standards in Indonesia, and discusses the value relevance of earnings as one dimension of the quality of accounting information. The research concludes that there are no significant differences between the earnings management before and after the adoption of the IFRS as measured by discretionary accruals and the value relevance before and after the adoption of the IFRS as measured by the price model (dependent variable: stock price, independent variable: earnings per share and book value per share, control variables: company's size). It shows a revaluation of assets in Indonesia carried out every 5 years can't be illustrated clearly and value relevance before and after the adoption did not experience significant differences. This condition occurs due to the use of fair value in Indonesia that experiences various constraints. The constraints such as pay taxes more if the market value is greater than the book value of assets and the additional costs incurred for the services of assets appraisers causing a reluctance of companies in doing the revaluation. The value relevance after adoption is not increasing to the maximum.

Chebaane and Othman (2014) study the impact of IFRS adoption on value relevance of earnings and book value of equity: the case of emerging markets in African and Asian regions. The evidence derived from the study suggested that despite the strength in the overall explanatory power of the model during the two periods, the role of earnings per share (EPS) became observable in the post-adoption period. By conducting further analysis, the results highlighted that the increase of the value level are positively influenced by a common law legal system, a high level of external economic openness, a strong investor protection, a full protection of minority shareholders and by a sophisticated capital market.

For European sample, Horton, Serafeim, and Serafeim, (2013) and for international sample, Tan, Josua, Lazarus, and Luk (2011), found an improvement in the information environment during the mandatory transition period to IFRS. More specifically, investor can be better at detecting earnings management as a result of a change in the information environment following IFRS adoption that is more financial analysts following a firm and lower forecast errors. Prior findings in the UK suggest that IFRS adoption has increased the amount of information available to investor but at the same time, has created more uncertainty among financial analysts about earnings forecasts. In this vein, latridis (2010) shows that due to the fair value orientation of IFRS, the transition appeared to introduce volatility in British earnings figures. Prior research suggests that the benefit of IFRS adoption primarily accrue to countries with strong enforcement, being a key component of success in the implementation of a new reporting regime.

According to Horton and Serafeim (2012), in the UK at the transition to IFRS, firms reporting IFRS earnings lower than earnings computed according to UK GAAP were penalized by the stock market. Also, Armstrong et al. (2012) studied European stock market reactions to specific events associated with the adoption of IFRS by 18 countries. They found an incrementally positive reaction for firms with lower pre-adoption accounting disclosure quality and with higher pre-adoption information asymmetry using a 3-day market adjusted return centered on 16 events.

Vijitha and Nimalathasan (2014) conducted a research on Value relevance of accounting information and share Price. Quantitative approaches were used in this study. For conducting this research, data were collected from secondary sources mainly from financial report of the selected companies, which were published by CSE in Sri Lanka. Findings of this research revealed that the value relevance of accounting information has the significant impact on share price and value relevance of accounting information is significantly correlated with share price.

The adoption of IFRS by Nigeria is part of the economic reform programmes by government and standard setters to improve the quality of accounting information in the area of value relevance. This is why it is necessary to research whether IFRS has yielded positive result in relation to the value relevance of accounting information on companies that adopted it in Nigeria. Based on the empirical review, with regard to the effect of the adoption of IFRS on the value relevance of accounting information lead to the following hypotheses that:
Ho: there is no significant relationship between the adoption of IFRS and value relevance of accounting information of pre and post IFRS adoption era in the Nigerian oil and gas industry.

The theory that underpins this study centers on agency theory. This theory was adopted by Kipchoge (2015) on the ground that managers (agents) have better access to company's accounting information and can communicate to the market in order to enhance the value of the firm. Through financial reporting, managers as agents communicate to the users of financial reports information that is useful in making economic decision. This study, therefore adopts the agency theory as the financial information disclosure shows the function of an agent (manager) to his principal leading to communication of information to users.

Methodology

The research design adopted for the study is ex post-factor. The periods cover for the study range from 2009 to 2014, (i.e. 2009-2011 for GAAP and 2012- 2014 for IFRS re started financial statement). The population of this study covers all the 15 oil and gas companies quoted on the Nigerian Stock Exchange as at 31st December 2014. For convenience, 8 companies were picked based on a filter used. Among the filters are: the company must remain listed on the floor of Nigerian Stock Exchange for the full period under consideration (from 1st January 2009 to 31st December 2014) and the company must have published it financial statement for each of the year within the period under consideration. The tools for analysis are adopted are multiple regressions regression. Also linearity and normality diagnostic tests were conducted. The data were divided into two, Pre-IFRS and Post-IFRS; this will reveal the impact of Pre and post adoption of IFRS.
The model specification can be deduced as follows based on the previous work of Ohlson (1991) and Feltham and Ohlson (1995) with some modifications:

$$\boldsymbol{P = f\,(BVPS,\ EPS)} \quad - \quad - \quad - \quad - \quad - \quad - \quad - \; (i)$$

Where:
P= share price,
BVPS= book value of equity per share,
EPS =earnings per share
f =is a sign of a function
This can further be re-specified in regression form as;

$$\boldsymbol{P_{c,\,t} = a_{it} + \beta_0 BVPS_{c,\,t} + \beta_1 EPS_{c,\,t} + \acute{\varepsilon}_{c,\,t}} \quad - \quad - \quad - \; (ii)$$

Where:

$P_{c,t}$:=is Share Price Of Company, C, At Time T
$BVPS_{c,t}$= is the Book Value of Equity per share of Company C, At Time T
$EPS_{c,t}$ = is the Earnings after Tax per share Of Company C, At Time T
β: unknown parameter or coefficient of the independent variables.
$\acute{\varepsilon}_{c,t}$: Error term with zero mean and standard deviation of Company C, At Time T.

Data Analysis and Discussion of Results

This section presents the results of the analysis of the collected data from the Annual Report and Accounts of the sampled firms. The descriptive statistics, correlation and regression are presented below.

Tests for Model Validation and Fitness

For a regression results to be accurate, valid and relied upon, the results obtained must be free from an abnormality, heteroscedasticity and multi-collinearity. To attain this, the following tests were carried out to ensure robustness.

Normality Test

Normality Test was conducted to check for data distribution patterns of the research data and Shapiro-Wilk W test for normal data was used for this purpose. The P-value is not statistically significant as 0.3496 and 0.3291 for pre and post IFRS adoption; the tests therefore suggest that the data is normally distributed.

Heteroscedasticity Test

To check for variability of error term among the independent variable of the model, heteroscedasticity test was carried out, so as to know whether the variability is constant or not. The test is necessary to ensure that the regression fits all the values of the independent variables and this is possible only if the error terms do not vary with the independent variable and therefore are random in nature. A significant P-value of less than 5% signifies presence of heteroscedasticity meaning that the variation of the term errors is not constant which would affect inferences in respect of beta coefficient, coefficient of determination (R^2), t-statistics and F-statistics of the study. While a P-value of greater than 5% indicates absence of heteroscedasticity and existence of homescedasticity meaning that variance of the error term is constant for all values of independent variable (Samaila, 2014). The tests therefore suggested absence of heteroscedasticity with P-value of 0.4308 Pre IFRS and 0.3312 post adoption which is greater than 5%.

Multicollinearity Test

These tests assist in checking the validity of the study model. Multicollinearity is a statistical marvel in which two or more independent variables in a Multiple Regression Model are highly interrelated which is capable of misleading the outcome of the study. In this situation, the coefficient estimates may change erratically in response to small changes in the model or the data. Therefore, the commonly used technique in determining the presence of multicollinearity is Variance Inflation Factor (VIF). The rule is that VIF of more than 10 indicates the presences of Multicollinearity (Kurawa & Kabara, 2014). The result from the Regression Model showed that the Variance Inflation Factor (VIF) of pre and post IFRS adoption is less than 10 which indicates absence of serious Multicollinearity.

Descriptive Statistics Result:

Table 4.1 below summarizes the descriptive statistics of the variables included in the Regression Models as presented. It represents the variables of the 8 firms operating in Nigeria oil and gas Industry for the period 2009-2011 (Pre IFRS) and 2012-2014 (Post IFRS)

Table 4.1: Descriptive statistics result

Variables	Obs	Mean	Std. Dev.	Min	Max
	PRE	IFRS	ADOPTION		
SP	24	3.401924	1.82395	-0.6539265	5.348583
BVPS	24	7.248426	1.46599	4.369195	9.612629
EPS	24	5.643651	1.711154	1.791759	7.601902
	POST	IFRS	ADOPTION		
SP	24	3.521498	1.891903	-0.6931472	5.184309
BVPS	24	7.524236	1.768494	3.091043	9.645802
EPS	24	5.995929	1.676065	1.386294	7.881443

Source: Generated by the researcher from the Annual Reports and Account of the sample using STATA 11

The general characteristics of the Share price, earnings per share and book value of equity per share pre-IFRS and post-IFRS are as presented in Table 4.1. For the pre-IFRS period, the share price has a minimum of (N0.65) and a maximum of N5.35 with a mean of N3.40 and a standard deviation of N1.82. The book value of equity per share ranged from N4.37 to N9.61 with a mean of N7.25 and a standard deviation of N1.47, while the earnings per share varies from N1.79 to N7.60, with a mean of N5.64 and a standard deviation of N1.71.

The post-IFRS The share price shows a range between (N0.69) and N5.18, with a mean of N3.52 and standard deviation of N1.89, book value of equity ranged from N3.09 to N9.65, with a mean of N7.51 and a standard deviation of N1.77 and earnings per share gives a minimum of N1.39 and a maximum of N7.88. The mean of share price, book value per share and earnings per share show an increase from the pre-adoption to the post-adoption period. This may indicate a growing economy and capital market between the pre-IFRS and post-IFRS periods.

Regression Results (Pre IFRS adoption period)

Table 4.2 shows the Regression result (Pre IFRS adoption) to examine the impact of Value Relevance of accounting information of Nigerian quoted oil and gas companies

Table 4.2 Computed using Stata 11.0 from Annual Reports and Accounts of the sampled Firms 2009-2011

SP	Coefficients	Std. Errors	t	P> ItI
BVPS	0.001739	0.0026772	0.65	0.523
EPS	0.536806	0.0134309	4.00	0.001
Constant	51.75566	13.35066	3.88	0.001
R-square	0.4496			
Adj. R-square	0.3971			
Probability	0.0019			

Table 4.2 revealed that the coefficient of determination (R2) stood at approximately 0.4496. This implies that 44.96% of Share price is explained by book value of share price and earnings per share while 55.04% is also explained by the disturbance error term which is unobservable in the model. The findings also revealed that the p-value of the t-statistic of book value of equity per share is greater than 5% significant level; this implies the insignificant effect of the variable while earning per share affect share price significantly and the overall test of significance, the F-statistic, revealed p-value as being less than 0.05.

Regression Results (Post IFRS adoption period)

Table 4.3 shows the Regression result (Post IFRS adoption) to examine the impact of Value Relevance of accounting information of Nigerian quoted oil and gas companies

Table 4.3 Computed using Stata 11.0 from Annual Reports and Accounts of the sampled Firms 2012-2014

SP	Coefficients	Std. Errors	t	P> ItI
BVPS	0.4957813	0.1569029	3.16	0.005
EPS	0.5522465	0.1655556	3.34	0.003
Constant	-3.5456730	0.8175362	-4.34	0.000
R-square	0.7764			
Adj. R-square	0.7551			
Probability	0.0000			

Tables 4.2 and 4.3 show the result of the regression for pre and post IFRS periods. The results reveal an increase in adjusted R^2 between the pre-IFRS and post-IFRS period from 39.7% to 75.9%. This implies that the book value of equity per share and earnings reported under IFRS explains more about share prices as compared to the amounts being reported under Nigerian SAS. This implies that the value relevance of IFRS is significantly high compared to the Nigerian SAS. The coefficients of earning per share increased considerably from 0.5368 to 0.5522 and book value of equity also increases from 0.002 to 0.4958 from the pre and post period respectively. This suggests that there is a considerable improvement during the post IFRS periods.

The results can also be interpreted as the value relevance of book value per share and earning per share has increased after implementation of IFRS for the selected firms in Oil and Gas Industry. Since the P-value of book value per share and earning per share is statistically significant. The result is consistent with the findings of Uthman and Abdul-Baki (2014), Muhibudeen (2015), Umoren and Enang (2015), Horton and Serafeim (2012) and Vijitha and Nimalathasan (2014).

DECISION: Based on the result it was revealed a positive and statistical significance between the adoption of IFRS and value relevance of accounting information in Nigeria. This will increase the confidence of equity investors and help them to have assurances on the value of companies following IFRS. Therefore, lead to rejection of the null hypothesis (Ho), and conclude that the value relevance in post IFRS adoption is more statistically significant than pre IFRS adoption period. This significant effect enhances economic development of quoted companies that adopted IFRS in Nigeria. The overall evidence strongly suggests that the adoption of IFRS led to a significant increase in value relevance of accounting information

Conclusion and Recommendations

This study examined the value relevance of financial information in pre- and post- financial periods of International Financial Reporting Standards (IFRS) adoption of listed oil and gas companies in Nigeria. The overall results indicates that the share prices, book value of equity and earning per share of oil and gas companies have significantly improved following IFRS adoption. The study further found that earnings per share and book value of equity are relevant in determining the value of shares in Nigerian oil and gas companies in the post IFRS era. Furthermore, results indicate that book value of equity per share and earnings per share are incrementally value relevant during post-IFRS period. It is therefore recommended that Financial Reporting Council and other accounting standards setters should incorporate more measures to enhance the quality of the financial reporting in order to increase the value relevance of financial statements

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