Effect of International Financial Reporting Standards (IFRS) Adoption on Income Tax Expenses of Quoted Companies in Nigeria

IDOWU, Khadijah (PhD, FCA)
Department of Accounting, Faculty of Management Science
Lagos State University, Ojo

BELLO Abass Oyeshola (MSc, FCSPS, ACA)
Department of Accountancy, School of Part Time Studies
Lagos State Polytechnic, Ikorodu

Abstract
This research work focused on the effect of International Financial Reporting Standards (IFRS) adoption on Income Tax Expenses using a cross section of listed companies in Nigeria. The study used secondary source of data which were cross sectional from Published Financial Statements of seventy-four (74) quoted companies in the Nigerian Stock Exchange (NSE) as at 2012 as samples. While simple percentage and mean were used to describe some of the properties of the data and provide insights about the data, Paired-Sample T-Test and Analysis of Variance (ANOVA) were inferentially used to test the two formulated hypotheses. Shapiro-Wilk Test and Levene Test were used to determine the normality of data and homogeneity of variances respectively. The study found and concluded that Income Tax Expenses were significantly the same for Nigerian listed firms under IFRS and the Nigerian GAAP; on the overall, IFRS has no significant effect on the carrying amounts of Income Taxes reported in the financial statements in comparison with the N-GAAP. The fact that Income Tax Expenses employed in this current study were significantly the same under IFRS and N-GAAP, suggested a high degree of convergence and comparability of the tax figures under the two financial reporting frameworks. It was recommended that relevant Authorities should encourage Nigerian companies adopt IFRS as conversion to IFRS does not affect Income Tax Expenses.

Keywords: *Income tax expense; corporate taxes; IFRS; NGAAP; quoted companies*

PAPER CLASSIFICATION: Research Paper
JEL Classification: M4, M41

1.1 Introduction

Ibanichuka & Asukwo, (2018) in their work cited that the implementation of International Financial Reporting Standard (IFRS) in several countries of the world is a subject of global significance due to pursuit for uniformity, reliability and comparability of financial statements of companies and expected improvement in the performance of corporate entity. In the past few years, many developed and developing countries have adopted IFRSs as their basis for financial reporting. The European Union (EU) was the first to adopt IFRS in 2005. Deloitte, (2014) stated that a unique set of global accounting standards has been under development for over three decades since the International Accounting Standards Committee ("IASC") was first established in 1973. Today, this suite of standards comprises International Accounting Standards ("IASs") first issued by the IASC and, subsequent to April 2001, IFRS

issued by the IASC's successor, International Accounting Standards Board ("IASB"), as well as interpretations of those standards.

The Nigerian government formally announced the adoption of IFRS in 2010. Consequently, the Financial Reporting Council of Nigeria Act was enacted in 2011 to give legal effect to the adoption of the standards. Listed and significant public entities were required to adopt the IFRS for the preparation of their financial statements for year 2012. Other public interest entities and small and medium-sized entities were to convert for the first time in 2013 and 2014 respectively. The adoption was organized in way that every stakeholder by January 2014 would have migrated to IFRS reporting standard in the presentation of accounting reports (Jubril, 2010). Currently, the world is moving towards the direction of International Financial Reporting Standards (IFRS), as some developed countries that have been using these standards for decades, Nigeria commenced the mandatory adoption in 2012, the roadmap for the implementation of IFRS was launched in September 2010, by the Honorable Minister, Federal Ministry of Commerce and Industry, Senator Jubril Martins-Kuye (OFR).

The adoption of the International Financial Reporting Standards (IFRS) by Nigeria's Federal Inland Revenue Board, (FIRS) (2013) has resulted in consequent treatment of various tax transactions in Nigeria. This has necessitated calls for authoritative guidance from the FIRS on how to proceed in the light of this development. Consequently, the FIRB issued an information circular (the Circular) on 23 April 2013 on the tax implications of the adoption of IFRS as a guide to all stakeholders.

1.2 Statement of Problem

Furthermore, IFRSs demanded that all capital and revenue (i.e. conversion costs) shall be subjected to confirmation by FIRS before it can be considered as qualifying capital or revenue expenditures. There was three (3) months extension for filling financial statements for first-time-adopters of IFRSs and related returns in order to allow sufficient time to overcome initial conversion problems. The Financial Reporting Council of Nigeria (FRC) further established that entity who has complied with IFRSs in its financial statement should include their tax returns. However, tax returns under IFRS for first-time-adopters, shall be in line with Section 55 of the Company Income Tax Act (CITA) 2011 and should encompass the statement of financial position as at the beginning of the initial comparative period when a taxpayer applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statement (i.e. a statement comparing the tax effect of IFRS adoption with GAAP), statement of reconciliations from GAAP to IFRS as well as computation of deferred tax.

The research gap for this study was that over time, all previous studies had conducted works measuring the impact or effects of IFRS on other variables such performance, quality of financial statement, position etc, e.g (Ibanichuka & Asukwo, 2018) (Demaki, 2013) although (Egbunike & Okoye, 2017) studied the tax implication of International Accounting Standards (IAS 12) adoption , evidence from deposit money banks (DMBS) in Nigeria.

Martin, Gatot, & Yunita, (2012) in their literature review adduced that with IFRS implementation, a new accounting standard, would be impacted to the taxation, the study further said that IFRS adoption impact would be more obvious for multinational corporation as they would face tax impact of IFRS implementation in more than one taxation jurisdiction. No wonder, Fakile, Faboyede, & Nwobu, (2013) alighted that IFRS adoption was a function of three elements on the assumption no changes in tax legislations in a given country are: to what extent is financial accounting connected to tax accounting in specific country, if a

country chooses to use the "full IFRS" option for annual accounts of companies and to what extent national accounting standard setters take IFRS into consideration when setting standards for national Generally Accepted Accounting Practice (GAAP) and what choices of accounting principles companies can make within national GAAP. Oyedele, (2015) also posited that changing to IFRS may impact a company's tax positions, complicate or simplify how a company's financial reporting systems and internal control systems are designed, and impact what management communicates with its external stakeholders including the tax authorities.

Egbunike & Okoye, (2017) looked at tax implications on International Accounting Standards 12 adoption with reference to deposit money bank in Nigeria yet no exploit on the whole sectors of Nigerian business environment. It would also be of interest to know that Federal Inland Revenue Services in a circular published in March 2013 under point 5.2 that Taxpayers should submit a re-computation of income tax and deferred tax. This implies that IFRS adoption would or might impact of affect income tax expenses and deferred tax liabilities, hence the need to inquire further. This research work was the first of its type for examining the variation in the reported income tax expense across all sectors of quoted companies in Nigeria before and after the adoption of International Financial Reporting Standards. More so the IFRS adoption effects on income tax expense, among firms across the different sectors in Nigeria.

1.3 Objectives of the Study

The aim of this research work was to investigate the effects of International Financial Reporting Standard (IFRS) adoption on income tax expenses in Nigeria while the specific objectives were to:

i. investigate if there is significant difference between income tax expense under IFRS and income tax expense under the Nigerian GAAP.

ii. determine if there is significant difference in income tax expense among firms across the different sectors in Nigeria.

1.4 Research Questions

The research questions for this work were as follows:

i. is there significant difference between income tax expense under IFRS and Income Tax Expense under the Nigerian GAAP?

ii. is there significant difference in income tax expense among firms across the different sectors in Nigeria?

1.5 Research Hypotheses

The research hypotheses for this research work were as follows:

H01: there is no significant difference between income tax expense under IFRS and income tax expense under the Nigerian GAAP

H02: there is no significant difference in income tax expense among firms across the different sectors.

2.0 Literature Review

2.1 Conceptual Review

2.1.1 Overview of International Financial Reporting Standards

IFRS which was developed by IASB, is now a global standard for preparing and publishing public entity's financial report (Zakari, 2010). The number of the International Financial Reporting Standards (IFRSs) as set out by the IFRS Foundation are 17 while accounting standards either developed or adopted by the International Accounting Standards Board

(IASB) are 41, the IFRS include :International Financial Reporting standards (IFRSs)—developed by the IASB; International Accounting Standards (IASs)—adopted by the IASB; Interpretations originated from the International Financial Reporting Interpretations Committee (IFRICs); and Standing Interpretations Committee (SICs). International Financial Reporting Standards (IFRS) are body of prescriptive rules and guidelines which provide necessary guidance and direction for the preparation and presentation of financial statements on how business enterprises in the world could achieve the goal of proper record keeping, uniformity, comparability transparency and enhancing public confidence in financial reporting (Tendeloo & Vanstraelen, 2011).

Nandakumar, Ghosh, Mehta, & Alkafaji, (2011) define IFRS as a set of standards promulgated by the International Accounting Standards Board (IASB), an international standard-setting body based in London. The IASB places emphasis on developing standards based on sound, clearly stated principles, from which interpretation is necessary (sometimes referred to as principles-based standards). According to one school of thought, since IFRS are primarily principles-based standards, the IFRS approach focuses more on the business or the economic purpose of a transaction and the underlying rights and obligations instead of providing prescriptive rules (or guidance). IFRS provides guidance in the form of principles. (Nandakumar, Ghosh, Mehta, & Alkafaji, 2011)

2.1.2 International Accounting Standards Committee (IASC)

The International Accounting Standards Committee (IASC), the predecessor of the IASB, was established in 1973 and came into being through an agreement by professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States. The objective behind setting up the IASC was to develop, in the public interest, accounting standards that would be acceptable around the world in order to improve financial reporting internationally. Over the years, the IASC saw several changes to its structure and functioning. For example, by the year 2000, IASC's sponsorship grew from the original nine sponsors to 152 accounting bodies from 112 countries, that is, all professional accountancy bodies that were members of the International Federation of Accountants (IFAC). Such fundamental changes to the IASC may have helped it achieve the objective for which it was set up: changing the perception of the global standard setters about the international nature of participation in the standard setting process.

2.1.3 IFRS Adoption in Nigerian context

The minister of Commerce and Industry – Senator Jubriel Martins Kuye announced after National Executive Council (NEC) meeting held at the Federal Capital Territory (FCT) Abuja in September 2010 that Nigeria entities should adopt IFRS with the commencement of public quoted firms in 2012 and by the end of 2014 all other entities including small and medium enterprises (SMEs) (Madawaki, 2012). Although a few companies have adopted IFRS but a good number of entities are yet to comply in Nigeria. Iyoha & Faboyede, (2011) saw this as a welcome development for developing countries most especially those countries with little or no resources to establish and craft their own financial standards. In 2002, the implementation of IFRS process took an important boost, when the European Union adopted a regulation 1606/2002 requiring all public companies in the region to adopt IFRSs beginning in 2005. As at year 2020 in Africa, the governments of Nigeria, Ghana, Sierra Leone, South Africa, Kenya, Zimbabwe and Tunisia among others have announced the adoption or declared intentions to adopt IFRS.

2.1.4 Financial Reporting Council of Nigeria (FRCN)

The Financial Reporting Council of Nigeria (FRCN), previous known as the Nigerian Accounting Standards Board (NASB), is an entity charge with setting accounting standards in Nigeria. The Board was created in 1982 as a private sector initiative closely associated with the Institute of Chartered Accountants of Nigeria (ICAN). NASB became a government agency in 1992, reporting to the federal minister of Commerce (Obazee, 2003). The NASB Act of 2003 provided the legal framework under which NASB set. FRCN is saddled with the responsibility of developing and publishing of accounting and financial reporting standards to be used in the preparation and presentation of financial reports of public interest companies in Nigeria among other functions.

2.1.5 Challenges of Adopting IFRS

According to Bewaji, (2012), the following are the major challenges to implementing IFRS:

a) Current systems may not have the functionality to handle IFRS requirements hence, changes in financial information requirements due to IFRS should be identified and the impact of these requirements on the existing data models should be assessed.

b) Changes in accounting policies and financial reporting processes can also have a significant impact on a company's financial systems and reporting infrastructure.

c) These changes may require some adjustments to financial reporting systems, existing interfaces, and underlying databases to incorporate specific data to support IFRS reporting.

d) Executives will need to collaborate with their IT counterparts to review systems implications of IFRS.

e) The conversion to IFRS can also result in changes to the number of consolidated entities, mapping structures and financial statement reporting formats, all of which will require adjustments to the consolidation system.

2.1.6 IFRS and its Impact to Taxation

A new accounting standard, will be impacted to the taxation with the implementation of IFRS, Multinational Corporation will face tax impact of IFRS implementation in more than one taxation jurisdiction. IFRS implementation will create an opportunity to decrease foreign tax. Implementation of IFRS will also create an increase of effective tax rates or more volatile effective tax rates. Although, IFRS now commonly used as reporting standard, in some countries, which still in process toward IFRS implementation, still indecisive whether they will use IFRS financial report or GAAP-financial report as a basis for calculating tax income. In some other country tax authority still required corporation to prepare financial report based on national GAAP for taxation purpose

Usage of IFRS-financial report for tax calculation will simplify reporting process and minimize compliance cost. According to Eberhartinger & Klostermann, (2007) although usage of IFRS as tax basis will increase ETR (Effective Tax Rates) in some specific industry (Haverals, 2007). Taiwo, (2016) said that changing to IFRS may impact a company's tax positions, complicate or simplify how a company's financial reporting systems and internal control systems are designed, and impact what management communicates with its external stakeholders including the tax authorities. Considering these factors, a successful conversion requires not only the commitment of the finance team, but also demands full involvement of the tax team.

2.1.7 Corporate Tax

Naomi & Sule (2015) asserted that since the enactment of Companies Income Tax Ordinance in 1939 in Nigeria, the federal government of Nigeria has been responsible for the maintenance of exclusive jurisdiction over corporation taxation. Corporation Tax is a

compulsory levy by the central government on the incomes generated by registered corporate entities in Nigeria and it is a division of an example of a direct tax because the incidence of payment and burden of tax are borne by the corporations and cannot be shifted to any third party. Naomi & Sule (2015) Company Income tax is chargeable on the income of all companies operating in the country except those specifically exempted under the Act. There are some emphases in the Act on the distinction between Nigerian and non-Nigerian companies.

2.2 Theoretical Review

2.2.1 Diffusion of Innovation Theory

The importance of this theory to this research is that the innovation of accounting reform has been communicated by IFRS thereby necessitating a assessment with the previous method to determine the extent of difference that may have arisen. Roger's theory was described as a widely used theoretical framework in the area of technology diffusion and adoption. Rogers explains diffusion as "the process in which an innovation is communicated through certain channels overtime among the members of a social system". The theory is limited to the communication of information about innovation. It does not offer explanation as to whether the innovation is positive or negative. Although, it was earlier reviewed that adoption of IFRS posit positive changes to the financial reports and this was supported by Roger's diffusion of innovation theory for the accountancy profession to be in line with the pace of development. For over 30 years, the process of adopting new innovations has been studied, and one of the most popular adoption models is described by Rogers in his book, Diffusion of Innovation (Ismail, 2006)

2.2.2 New Institutional Theory (NIS)

Ibanichuka & Asukwo, (2018) cited that in the context of IFRS convergence initiatives, institutionalization can be seen as a social process through which a nation accept that local accounting standards are engrossed in the interests of international accounting harmonization Rodrigues & Craig, (2007). Institutional theory indicates that, in order for organizations to survive, she must conform to the rules and belief systems prevailing in the environment. These institutional factors include National Accounting Standard Board, government, financial reporting council, IFRS oversight body.

2.2.3 Social Comparison Theory

The analysis and interpretation of financial performance of an organization involves comparison of ratios with similar ratios which could be the firm's own past ratios, target ratios, (projected ratios), industry or competitor ratios and this is theoretically backed up by social comparison theory from the field of psychology. Social comparisons between the self and others are a fundamentally psychological mechanism influencing people's judgments, experiences and behaviour. People are constantly engaged in social comparison whenever they are confronted with information about how others are, what others can and cannot do, or what others achieved and have failed to achieve, they relate this information to themselves. From the foregoing, the importance of social comparison theory has been highlighted as a tool used to measure the performance of individuals. With specific relevance of social comparison to this work, the ability to gain accurate evaluation of IFRS adoption and identify its strength lies in the proper evaluation and comparison with a subsisting GAAP. Therefore, as propounded by the theory, we would reduce uncertainties surrounding the IFRS adoption domain and learn how to improve on it.

2.2.4 Stakeholders' Theory

Clarkson, (1994) stated in defining "Stakeholder Theory that "the firm is a system of stakeholders operating the larger system of the host society that provides the necessary legal and market infrastructure for the firm's activities". Stakeholder theory was developed originally by (Freeman, 1984). As a managerial instrument, it has evolved into a theory of the firm with high explanatory potential. Stakeholder theory focuses explicitly on an equilibrium determinant of corporate policy. Donaldson & Preston, (1995) provided a diagrammatical representation of the stakeholder model, which reflects the number of groups with interest in (or relationship with) the firm. They explained that under this model, all persons or groups with legitimate interest participating in an enterprise do so to obtain benefits and that there is no prima facie priority of one set of interest and benefits over another. The stakeholder theory takes a broader view of the firm. According to the traditional stakeholder model, the corporation is responsible to a wider constituency of stakeholders other than shareholders. Other stakeholders may include contractual partners such as employees, suppliers, customers, distributors, creditors, and social constituents. such as members of the community in which the firm is located, environmental interests, local and national governments, and society at large (OECD, 1999).

2.2.5 Pure Impression Management Model (PIMM)

The theory of PIMM of accounting was propounded by Keppler in 1995. The PIMM holds that accountability serves as a connection construct by persistently reminding people of the need to act in tandem with the existing form and content of financial reporting and advance convincing, justification/excuses for conduct that depart from the form and content of financial reporting. In the real sense, financial reporting cannot be accepted by the general public or would-be investors if certain guidelines or standards that are in general expected are not followed and observed. In its simplest form, impression management (also called self-presentation) refers to the process by which individuals attempt to control the impressions others form of them. Since the impressions people create on others have inference for how others perceive, evaluate, and treat them, as well as for their own outlook of themselves, people sometimes conduct themselves in ways that will generate certain impressions in others' eyes (Leary, 1990)

2.3 Empirical Framework

Ibanichuka & Asukwo, (2018) statistically examined the effect of International Financial Reporting Standard (IFRS) adoption on the financial performance of petroleum marketing entities in Nigeria. The study used a comparative analysis that assesses corporate performance pre- and post-IFRS adoption in the petroleum marketing sector of Nigeria with a sample size of ten (10) Listed Petroleum Marketing companies in which their data were available on Nigerian Stock Exchange (NSE) as at December 31, 2015. A time series research design was used for the study and One-way Analysis of Variance (ANOVA) and the One Sample T Test were the statistical tools used to test the hypotheses. The test of hypotheses and other breakdown of data were empirically completed by SPSS statistic 20.0. Their findings revealed that Pre-IFRS and Post-IFRS adoption have no significant effect on Return on Asset and on Return on Equity; however, both Pre-IFRS and Post-IFRS adoption have a significant impact on Earnings Per share. It was concluded that there was no significant relationship between IFRS adoption and corporate performance of petroleum marketing entities in Nigeria.

Adelusi & Ibigbami, (2017) carried out a study to examine the effect that IFRS adoption have on the profitability of selected quoted oil and gas companies in Nigeria. The area of focus is the liquidity, profitability and leverage, of these companies when using the Nigerian GAAP and IFRS. To assess whether there was any significant difference on performance

measurement. The work employed secondary source of data using the financial report of fire (5) selected quoted oil and gas companies. The analysis of data was done by using pair sample test statistics to compare the period when NG-GAAP was in use and the period the companies moved to International Financial Reporting Standard. The period covered by the study was from 2009- 2014. 2009-2011 the period when the companies use the Nigerian Generally Accepted Accounting Principles (NG-GAAP) and 2012-2014 is the period when IFRS was used to present these financial statements. The findings revealed that there was no significant statistical difference in report of the key performance indicators (KPIs) that was used in assessing the company's performance.

Egbunike & Okoye, (2017) in their study depicted that the International Financial Accounting Standards (IFRSs) came into being principally to meet the information necessity of users (internal/external). The study was geared towards investigating the tax implications of international accounting standards (IAS 12) adoption among selected deposit money banks (DMBs) in Nigeria, where expo-facto design, adopted with a sample size of thirteen (13) quoted DMBs. Their study relied solely on secondary data obtained from the annual reports and accounts of the selected DMBs. The data comprised of profit after tax, income tax, deferred tax assets and deferred tax liabilities. Consequently, the hypotheses developed were tested using mean comparison and T-Test statistical tool. It was discovered that a significant variation between the reported tax figures before and after IFRSs adoption as well as income tax rates of DMBs. In addition, their findings indicated that IFRSs adoption has no significant effect on the level of profitability among the studied DMBs. On this note, the study recommended among others that standards setters and DMBs should consider the tax implication of applying any particular standard, more especially as tax laws is at variance across the globe. Furthermore, banks and accounting regulatory bodies should be trained and retrained on the application of IAS 12 standards in order to keep them abreast with recent trends on tax-related matters.

Matthias & Obiamaka, (2016) examined that stock market reaction and the impact of IFRS adoption on the Nigerian stock market, evaluated the effect of the Central Bank of Nigeria (CBN) reforms on earnings management of Nigerian banks. The result indicates no evidence of any significant effect on the market but a negative stock reaction in the medium term. Their finding highlights mixed impact of IFRS adoption on earnings management; but a significant decrease in earnings management in the post CBN reforms which shows that adoption of IFRS was wrongly timed in Nigeria as the fragile investors' sentiment which was just recovering from the shock of the global financial crisis could have been weakened by the negative market returns.

Abata, (2015)studied the impact of International Financial Reporting Standard (IFRS) on financial reporting practices of corporate establishments in Nigeria in which data were collected from 50 employees of KPMG one of the leading professional financial services provider through the use of structured questionnaire and analysed using mean scores, standard deviation and Pearson Chi-square analysis. The findings of the study revealed that IFRS provides better information for regulators than GAAP. It was also found out that IFRS directly affects how earnings and other key aspect of the business are accounted and reported for. However, the results of the study showed that changes in business processes and operations, financial position of companies and reduction in cost of finance were the least contributions of IFRS to financial reporting practices of KPMG. The results of Pearson Chi-square analysis showed that financial reports prepared under IFRSs enhanced best practices in a corporate organization; financial statements prepared in line with IFRS provides greater benefits than the former GAAP (SAS); the compliance with IFRS promotes cross border

investment and access to; and compliance with IFRS will relatively improve the performance of companies. The study recommended that regulatory body should embarked upon enlightenment campaigns on the potential impacts of adopting IFRS in Nigeria. It also point out that government should support the Nigeria's adoption of IFRS especially in the area of enforcement to compliance as a matter of urgency to enable full attainment of the country's economic potential.

Abata, (2015) in his second study evaluates the impact of IFRS on Financial Reporting Practices with focus on the Nigerian Banking Sector with specific objective to determine whether the quantitative differences in the financial reports prepared by Nigerian listed banks under NGAAP and IAS/IFRS are statistically significant or not. Secondary data were employed in his study. These data were gleaned from the annual reports of fourteen Nigerian listed banks. One hypothesis was developed and tested at five (5) per cent level of significance. Findings revealed that the quantitative differences in the financial reports prepared under NGAAP and IAS/IFRS are statistically significant. The study therefore concluded that IFRS have impacted on financial reporting in the Nigerian Banking sector.

3.0 Research Methodology

The research design adopted for this study was the quasi-experimental design. The reason for selecting this research design was that it allowed references and data to be made to the "before-and-after effects" of a condition on different experimental comparison group (s) under review. More specifically, this current study is aimed at examining the pre-and-post effects of the International Financial Reporting Standards (IFRS) adoption on income tax expense, while the population of this research work were 169 in as at December 2019 with eleven (11) sector classifications in this order: Agriculture, Conglomerates, Construction/Real Estate, Consumer Goods, Financial Services, Healthcare, Information and Communication Technology, Industrial Goods, Natural Resources, Oil and Gas and Services. From the 169 listed firms indicated, (118) firms were selected using (Sekaran & Bougie, 2013) sampling table and (Yamane, 1967) sample size determination model. However, forty four (44) firms were dropped from the sampling frame after applying filter based on non-availability of complete data set, resulting in effective sample size of Seventy Four (74). It is also instructive to add that, on the ground of computational expediency such as taking the logarithm of the data to ensure normality of distribution, the seventy-four firms were further scaled down to fifty seven (57) firms for income tax expense variable.

Secondary data were collected from the audited financial statements of the sampled firms. The data were cross-sectionally gathered for year 2011 under the IFRS and NGAAP. Simple percentage, mean, paired-sample T, test correlation, and analysis of variance (ANOVA). While simple percentage and mean were used to describe some of the properties of the data and provide insights about the data, paired-sample T-test, correlation and analysis of variance (ANOVA) were inferentially used to test the two formulated hypotheses. Shapiro-Wilk test and Levene's test were used to determine the normality of data and homogeneity of variances respectively.

4.0 Data Presentation, Analyses and Interpretation

4.1 Descriptive Statistics

4.1.1 Sector Descriptive Statistics on Income Tax Expense

Table 4.1.1:

Average Sector Percentage Change between Income Tax Expense under IFRS and under N-GAAP

S/N	Sectors	IT_IFRS (N'million)	IT_N-GAAP (N'million)	% Change
1	Agriculture	587.82	558.59	5.23
2	Conglomerates	519.94	370.75	40.24
3	Construction/Real Est.	3,123.67	3,090.61	1.07
4	Consumer Goods	3,118.16	3,152.26	(1.08)
5	Financial Services	309.58	(541.63)	157.16
6	Healthcare	465.02	432.36	32.97
7	ICT	30.62	36.34	(15.74)
8	Industrial Goods	74.99	68.22	1.86
9	Natural Resources	2.46	1.23	99.72
10	Oil & Gas	626.20	248.94	151.55
11	Services	121.77	125.47	(2.96)

(Source: *IFRS & GAAP Annual Reports for 2011 &2012, Author's Computation aided by Ms-Excel, 2021)*
(IT_IFRS stands for Income Tax Expense under IFRS, while IT_N-GAAP defines Income Tax Expense under Nigerian GAAP)

Results in table 4.1.1 showed average sector percentage change between Income Tax Expense under IFRS and under the Nigerian GAAP. From the table, it can be seen that the adoption of IFRS increased income tax expense of firms in the financial services sector by about 157%, which happens to be the highest for all the sectors considered in this study; followed by Oil and Gas, and then Natural Resources sectors, which rose by 151.55% and 99.7% respectively. The considerable percentage increase of 157% noted for financial services' sector was largely due to the 1,867% increase in income tax expense between N-GAAP and IFRS in respect of Guinea Insurance Plc (See appendix 1). The 1,867% was due to an increase from N12.5 million to N246.3 million in income tax expense, necessitated by IFRS. Forte Oil & Gas, on its part, contributed the highest to the 151.6% increase in income tax expense from N-GAAP to IFRS.

However, the new global accounting standard resulted in a decrease in income tax expense of firms in ICT, Consumer Goods and Services by 15.74%, 2.96% and 1.08% respectively. The sector with the least percentage change in income tax under the two accounting standards was Construction and Real Estate which had a marginal increase of 1.08%. It is worthy of note that, while IFRS increased Income Tax for listed firms in eight (8) sectors, the change, however, was a decreasing one for three (3) firms. This implies that the adoption of the accounting standard on income tax expense appears to have more increasing change than a decreasing one. Graphically, figure 1 supports the above findings and deductions that Income Tax Expense increased the most from N-GAAP to IFRS for the financial services as the bar towers far higher than that of others.

Sectoral Percentage Change Between Income Tax Expense Under IFRS and Under N-GAAP

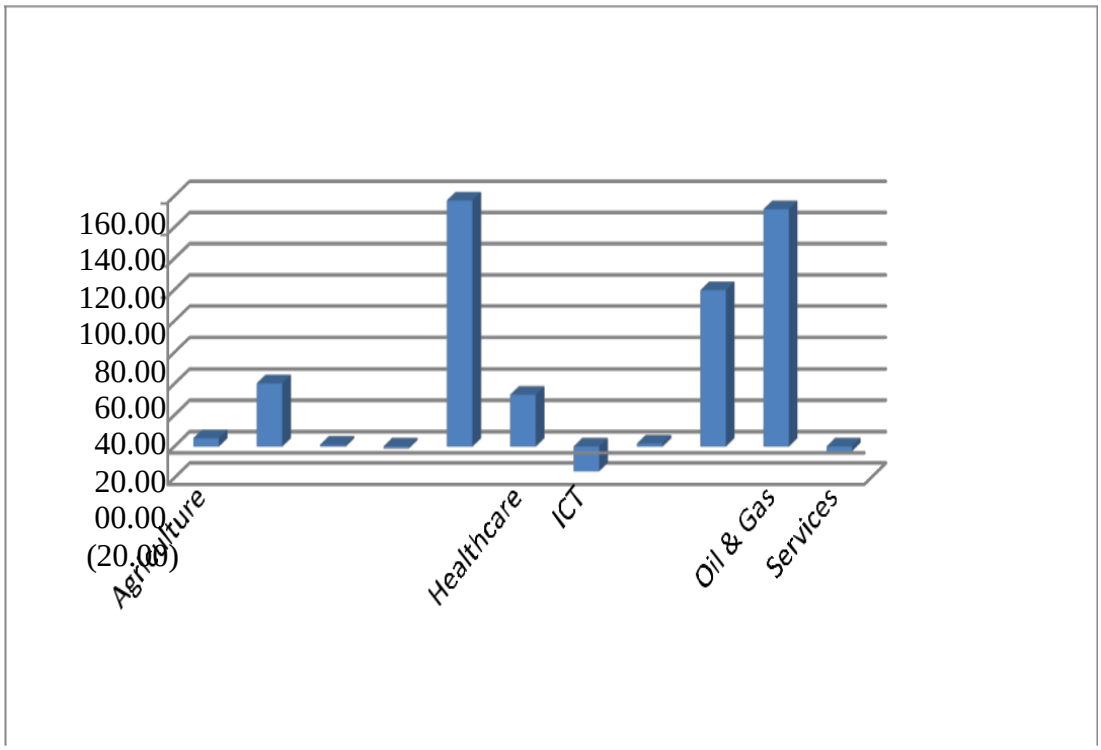

Figure 1: Sector Percentage Change between Income Tax Expense under IFRS and under N-GAAP

4.2 Test of Independence of Data, Normality & Homogeneity of Variances

The data collected were analysed using *paired sample T test* and *analysis of variance*, the appropriateness of the use of which depends on satisfying certain assumptions. To use paired sample T test, the independence of the data collected, as well as normality is fundamental assumptions that must be satisfied. However, to use one-way analysis of variance, normality assumption and homogeneity of variance assumptions must hold. These diagnostic tests were conducted and the results there from were presented as for independence of data, the data were collected from different annual reports, although for the same financial year 2011. From the results in table 4.2.1, the normality of the data for the income tax expenses, under the IFRS reporting framework and the Nigerian Generally Accepted Accounting Principles, across the sectors is firmly demonstrated. This is because the *p*-values from the Shapiro-Wilk test statistics for income tax expenses, were greater than the assumed level of significance of 5%. Therefore, the data for the variable is adjudged symmetric. Hence, they are considered

suitable for the statistical techniques of paired-samples T test and one-way analysis of variance.

Table 4.2.1:
Results from Shapiro-Wilk Test on Income Tax Expense under IFRS

Sectors	Statistic	df	Sig.
Agriculture	0.793	3	0.099
Conglomerates	0.963	4	0.796
Construction/Real Est.		2	
Consumer Goods	0.971	11	0.893
Financial Services	0.885	15	0.057
Healthcare		2	
ICT	0.997	3	0.889
Industrial Goods	0.956	4	0.752
Oil & Gas	0.775	3	0.057
Services	0.926	9	0.448

(Source*: IFRS & GAAP Annual Reports, 2011 &2012, Author's Computation aided SPSS, 2021)*
*** *p*-value <0.01; ** *p*-value <0.05

Table 4.2.2: Results from Shapiro-Wilk Test on Income Tax Expense under N-GAAP

Sectors	Statistic	df	Sig.
Agriculture	0.800	3	0.115
Conglomerates	0.864	4	0.276
Construction/Real Est.		2	
Consumer Goods	0.969	11	0.874
Financial Services	0.925	15	0.226
Healthcare		2	
ICT	0.997	3	0.889
Industrial Goods	0.958	4	0.766
Oil & Gas	0.994	3	0.853

Services	0.964	9	0.839

(Source*: IFRS & GAAP Annual Reports, 2011 &2012, Author's Computation Aided SPSS, 2021)*

*** *p*-value <0.01; ** *p*-value <0.05

4.2.3 Homogeneity of Variances

Results in table 4.2.3 revealed that the Levene's statistics based on means of 1.346 (with *p*-value =.240), was not statistically significance as their *p*-values were greater than the assumed 5% level of significance. This infers that the null hypotheses of homogeneity of variances for the current income tax are accepted, while the alternative hypotheses are rejected. With these results, the use of one-way analysis of variance is found to be fit and proper for the purpose of this research work.

Table 4.2.3: Results from Levene's Test of Homogeneity of Variances on Income Tax Liabilities

		Levene Statistic	df1	df2	Sig.
Income Tax Under IFRS	Based on Mean	1.346	9	46	.240
	Based on Median	.773	9	46	.642
	Based on Median and with adjusted df	.773	9	28.699	.642
	Based on trimmed mean	1.390	9	46	.220

(Source*: IFRS & GAAP Annual Reports, 2011 &2012, Author's Computation aided SPSS, 2021)*

*** *p*-value <0.01; ** *p*-value <0.05

4.3 Test of Hypotheses

H01: *There is no significant difference between Income Tax Expense under IFRS and Income Tax Expense under the Nigerian GAAP*

Table 4.3.1: Paired Samples Statistics on Income Tax Expense under IFRS & Nigerian GAAP

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Income Tax IFRS	5.636433	57	.8249512	.1092675
	Income Tax GAAP	5.590514	57	.8022220	.1062569

(Source*: IFRS & GAAP Annual Reports, 2011 &2012, Author's Computation aided SPSS, 2021)*

Table 4.3.2: Paired Samples Correlations between Income Tax Expense under IFRS & Nigerian GAAP

		N	Correlation	Sig.
Pair 1	Income Tax IFRS & Income Tax GAAP	57	.942	.000***

(Source*: IFRS & GAAP Annual Reports, 2011 &2012, Author's Computation aided SPSS, 2021)*
*** *p*-value <0.01; ** *p*-value <0.05

Table 4.3.3: Paired Samples T Test between Income Tax Expense under IFRS & Nigerian GAAP

		Mean	Std. Deviation	Std. Error Mean	T	df	Sig. (2-tailed)
Pair 1	Income Tax IFRS-Income Tax GAAP	.0459187	.2786357	.0369062	1.244	56	.219

(Source*: IFRS & GAAP Annual Reports, 2011 &2012, Author's Computation aided SPSS, 2021)*
*** *p*-value <0.01; ** *p*-value <0.05

Results in table 4.3.1 showed the paired samples statistics on income tax expense under IFRS and under the Nigerian GAAP, from which it can be seen that the average income tax income under IFRS for the fifty-seven (57) companies was 5.636433 in log 10 (equivalent to N432.9 million), while that of GAAP was 5.590514 in log 10 (equivalent to N389.5 million). Also, there is a strong, positive and statistically significant relationship between income tax expense under IFRS and N-GAAP at 5% *level* (r=.942; *p*-value < 0.05) as shown in the results in table 4.3.2. Furthermore, table 4.3.3 revealed results from paired samples T test between income tax expense under IFRS & the Nigerian GAAP, from which it can be inferred that there was no significant mean difference between income tax expense under IFRS and under the N-GAAP (t57= 1.244, *p*-value 0.05), implying an acceptance of the null hypothesis that there is no significant difference between income tax expense under IFRS and income tax expense under Nigerian GAAP.

H02: *There is no significant difference in Income Tax Expense among firms across the different sectors.*

Table 4.3.4: Results from Analysis of Variance on significant difference in Income Tax Expense among firms in different sectors

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	15.915	10	1.592	3.298	.003***
Within Groups	22.195	46	.483		
Total	38.110	56			

Source*: IFRS & GAAP Annual Reports, 2011 &2012, Author's Computation aided SPSS, 2021)*
*** p-value <0.01; ** p-value <0.05*

Table 4.3.4 contains the results from analysis of variance on significant difference in income tax expense among firms in different sectors, from which it could well be deduced that the part of total variability in the income tax expense accounted for by the differences among the firms across the different sector (1.592) is bigger than the part of the total variability in the same variable due to error (0.483). This then reflects in the *F*-statistics of 3.298, resulting in a *p*-value of 0.003, a figure less than the level of significance of 5%. Based on these results, the study is strongly persuaded to reject the null hypothesis there is no significant difference in income tax expense among firms across the different sectors, while the alternative hypothesis is accepted. The inference, therefore, is that income tax expenses were significantly different amongst all the firms and across the different sectors ($F(10, 46) = 3.298$, $p = 0.003$).

4.4 Discussion of Findings

For research question and hypothesis one, it was revealed that there is no significant difference between income tax expense under IFRS and the Nigerian GAAP. Put differently, the inferences from the above findings are that income tax expenses under IFRS and Nigerian GAAP were significantly the same; implying that IFRS has no significant impact on the carrying amounts of taxes reported in the financial statements.

These finding were in sharp contrast with that of Egbunike & Okoye, (2017), who in their study on "Tax Implication of International Accounting Standards (IAS 12) Adoption: Evidence from Deposit Money Banks (DMBS) in Nigeria" discovered a significant variation between the reported tax figures before and after IFRSs adoption as well as income tax rates of Deposit Money Banks in Nigeria. This difference in findings might be due to the fact that the study of (Egbunike & Okoye, 2017) suffers from the problem of small sample size, the use of one sub-sector of Deposit Money Banks, misspecification of methodology and fundamentally flawed research design. For instance, their study compared the tax figures pre and post IFRS adoption period without taking cognizance of other key variables that drive tax figures apart from accounting standards such as IFRS and GAAP.

The findings of this current study also differ from that of Abata, (2015)who in a study on "the impact of international financial reporting standards (IFRS) adoption on financial reporting practice in the Nigerian banking sector" found that quantitative differences which were statistically significant existed in the financial reports prepared under NGAAP and IAS/IFRS and thus, concluded that IFRS have impact on financial reporting in the Nigerian Banking sector. Abata, (2015) study had different focus that appears to be sharply different from that of the current study. This might the reason for the difference in findings. For instance, his study was not specifically delimitated on the impact of IFRS on tax reporting in Nigeria, especially in relation to the Nigerian GAAP. Abata, (2015) study, just like that of Egbunike & Okoye, (2017) also focused on one sector. The findings of this current study also contrast with that of Ishola, (2006) whose study concluded that IFRS adoption has a significant effect on the financial ratios of Nigerian banks and consequently on their reporting performance. The rationales for the difference in results are similar to that of (Abata, 2015) as well as (Egbunike & Okoye, 2017).

Furthermore, for research questions and hypothesis two, results demonstrably revealed that income tax expense, were significantly not the same for the selected firms, across the different sectors of the Nigerian economy. These findings imply that income tax expenses vary significantly across agriculture, conglomerates, construction and real estate, consumer goods, financial services, healthcare, ICT, industrial goods, natural resources, oil and gas and services sectors.

5.0 Conclusion and Recommendations

5.1 Conclusion

From the findings above, the study concluded that income tax expenses were significantly the same for Nigerian listed firms under IFRS and the Nigerian GAAP; overall, IFRS has no significant impact on the carrying amounts of the afore-mentioned taxes reported in the financial statements in comparison with the Nigerian GAAP.; the fact that the income tax expenses employed in this current study were significantly the same under IFRS and N-GAAP, suggested a high degree of convergence and comparability of the tax figures under the two financial reporting framework; while there were cases of under-reporting and over-reporting of taxes between the two accounting standards for some firms, these situations, on the average, were not statistically significant and income tax expenses were significantly not the same for the selected firms, across the different sectors.

5.2 Recommendations

Based on the above findings of this research, this research offers the following recommendations: Federal Inland Revenue Services (FIRS) should encourage corporate tax payers to pay corporate taxes as there is no significant relationship between reported taxes pre and post IFRS in Nigeria. The Financial Reporting Council of Nigeria should work more in synergy with the International Accounting Standard Board to achieve greater convergence in the strictures of accounting standards for that would engender more comparable financial statements; Nigerian tax laws should be reviewed at regular intervals to ensure more currency in order to make Nigerian firms internationally competitive. The Financial Reporting Council of Nigeria should also seek further ways of collaborating with tax authorities such as the Federal Inland Revenue Service, States Internal Revenue Service, Joint Tax Board in order to entrench practices that discourage tax evasion, avoidance, aggressive tax planning and tax inversion. Tax education and enlightenment should be vigorously pursued by the relevant tax authorities concerned. Professional bodies such as the Chartered Institute of Taxation of Nigeria (CITN) and the Institute of Chartered Accountants of Nigeria (ICAN) should benchmark their professional trainings with those in other climes in order to continually produce tax practitioners that will accurately apply the provisions of the accounting standards to tax reporting to avoid unnecessary tax reviews, over-reporting and under-reporting.

5.3 Implications of Findings of the Study

The findings of this research work have implications for managers of firms listed on the Nigeria Stock Exchange, the Financial Reporting Council of Nigeria, the tax authorities such as the Federal Inland Revenue Service and the States Internal Revenue Service, the International Accounting Standard Board as well as participants in the Nigerian capital markets. These stakeholders from the managers who are the handlers of these listed firms and preparers of financial statements, through the Financial Reporting Council of Nigeria to the participants in the Nigerian capital markets, the implications of the findings of this study is that they are made aware that the income tax expenses they report in these financial statements are not determined by whether the accounts of stewardships were prepared under the Nigerian Generally Accepted Accounting Principles or the International Financial Reporting Standards. There may be other determinants but not the type of financial reporting frameworks used.

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Appendix 1 - Income Tax Expense

S/N	Sectors	Company	IT_IFRS (N'million)	IT_GAAP (N'million)	% Change
1	Agriculture	Livestock Feeds	54.36	53.21	2.16
2	Agriculture	Okomu Oil	784.43	734.68	6.77
3	Agriculture	Presco	924.68	887.88	4.14
	Mean		587.82	558.59	5.23

S/N	Sectors	Company	IT_IFRS (N'million)	IT_GAAP (N'million)	% Change
1	Conglomerates	A.G. Leventis	420.09	413.80	1.52
2	Conglomerates	Chellarams	95.30	96.85	(1.60)
3	Conglomerates	Transnational Corp.	361.52	361.52	-
4	Conglomerates	UACN	1,202.87	610.85	96.92
	Mean		519.94	370.75	40.24

S/N	Sectors	Company	IT_IFRS (N'million)	IT_GAAP (N'million)	% Change
1	Construction/Real Est.	Julius Berger	5,461.82	5,461.82	-
2	Construction/Real Est.	UACN	785.53	719.41	9.19
	Mean		3,123.67	3,090.61	1.07

S/N	Sectors	Company	IT_IFRS (N'million)	IT_GAAP (N'million)	% Change
1	Consumer Goods	Champions Brew.	(576.22)	(94.98)	506.70
2	Consumer Goods	Dangote Flour	109.67	261.71	(58.10)
3	Consumer Goods	Dangote Sugar	3,517.63	3,442.55	2.18
4	Consumer Goods	Flour Mills	3,259.08	2,480.42	31.39
5	Consumer Goods	Guinness Nig.	6,168.54	6,403.76	(3.67)
6	Consumer Goods	Honeywell	970.96	960.70	1.07

7	Consumer Goods	National Salt	934.90	960.09	(2.62)
8	Consumer Goods	Nestle Nig.	1,702.80	1,730.91	(1.62)
9	Consumer Goods	Nigerian Brew.	18,347.12	18,709.20	(1.94)
10	Consumer Goods	PZ	169.38	169.38	-
11	Consumer Goods	Unilever	2,502.90	2,492.24	0.43
12	Consumer Goods	VitaFoam Nig.	311.14	311.14	-
	Mean		3,118.16	3,152.26	(1.08)

S/N	Sectors	Company	IT_IFRS (N'million)	IT_GAAP (N'million)	% Change
1	Financial Services	Abbey Mortgage	310.54	111.09	179.54
2	Financial Services	Access Bank	6,892.60	2,356.31	192.52
3	Financial Services	African Alliance	(79.72)	(179.13)	(55.50)
4	Financial Services	AIICO	451.76	185.49	143.55
5	Financial Services	Consolidated Hall.	(6.39)	(6.48)	(1.39)
6	Financial Services	Continental Re.	387.15	363.74	6.44
7	Financial Services	Cornerstone	1,845.88	(41.91)	(4,504.92)
8	Financial Services	Custodian	112.29	112.18	0.09
9	Financial Services	FBN Holdings	17,227.00	5,066.00	240.05
10	Financial Services	FCMB	(2,368.22)	(2,368.22)	-
11	Financial Services	Fidelity	(2,437.00)	2,262.00	(207.74)
12	Financial Services	Goldlink Insurance	257.17	257.17	-
13	Financial Services	GTB	13,091.85	14,098.11	(7.14)
14	Financial Services	Guinea Insurance	246.27	12.52	1,867.49
15	Financial Services	Royal Exchange	90.32	84.04	7.47
16	Financial Services	Skye	350.00	1,382.00	(74.67)
17	Financial Services	Sterling			

			(1,268.29)	(1,184.48)	7.08
18	Financial Services	UBA	(18,502.00)	(20,907.00)	(11.50)
19	Financial Services	UNIC	11.75	11.75	-
20	Financial Services	Union Bank	(25,922.00)	(28,322.00)	(8.47)
21	Financial Services	Wapic	127.44	123.64	3.08
22	Financial Services	Wema	458.91	125.66	265.20
23	Financial Services	Zenith	15,843.00	14,000.00	13.16
	Mean		309.58	(541.63)	157.16

S/N	Sectors	Company	IT_IFRS (N'million)	IT_GAAP (N'million)	% Change
1	Healthcare	Fidson	158.67	160.19	(0.95)
2	Healthcare	GSK	1,135.41	1,136.89	(0.13)
3	Healthcare	May & Baker	100.97	-	100.00
	Mean		465.02	432.36	32.97

S/N	Sectors	Company	IT_IFRS (N'million)	IT_GAAP (N'million)	% Change
1	ICT	Chams	36.05	36.05	-
2	ICT	Courteville	58.28	58.28	-
3	ICT	CWG	(16.62)	6.26	(365.67)
4	ICT	E-tranzact	44.75	44.75	-
	Mean		30.62	36.34	(15.74)

S/N	Sectors	Company	IT_IFRS (N'million)	IT_GAAP (N'million)	% Change
1	Industrial Goods	Berger Paints	5,461.82	5,461.82	-
2	Industrial Goods	Beta Glass	525.70	510.32	3.01
3	Industrial Goods	CAP Plc	313.52	295.04	6.26
4	Industrial Goods	Dangote Cement			-

			(7,635.96)	(7,635.96)	
5	Industrial Goods	Lafarge	1,709.89	1,709.89	-
	Mean		74.99	68.22	1.86

S/N	Sectors	Company	IT_IFRS (N'million)	IT_GAAP (N'million)	% Change
1	Natural Resources	Multiverse Mining	3.70	3.70	-
2	Natural Resources	Thomas Wyatt	1.23	(1.23)	(199.92)
			2.46	1.23	99.72

S/N	Sectors	Company	IT_IFRS (N'million)	IT_GAAP (N'million)	% Change
1	Oil & Gas	Eterna	771.92	570.23	35.37
2	Oil & Gas	Forte Oil	(473.94)	(2,436.38)	119.45
3	Oil & Gas	MRS Oil	797.62	991.94	(19.59)
4	Oil & Gas	Oando	(10.01)	73.51	(113.62)
5	Oil & Gas	Total Nigeria	2,045.41	2,045.41	-
	Mean		626.20	248.94	151.55

S/N	Sectors	Company	IT_IFRS (N'million)	IT_GAAP (N'million)	% Change
1	Services	ABC Transport	33.28	141.15	(76.42)
2	Services	Academy Press	26.92	58.42	(53.92)
3	Services	Afromedia	13.41	41.30	(67.54)
4	Services	C& I Leasing	(96.14)	45.28	(312.33)
5	Services	Capital Hotel	293.09	122.03	140.18
6	Services	Caverton	121.52	121.52	-
7	Services	Nigeria Aviation	434.05	421.05	3.09
8	Services	RT Briscoe	160.75	76.94	108.95
9	Services	Tantalizers			-

			(18.28)	(18.28)	
10	Services	Tourist	254.73	254.73	-
11	Services	University Press	116.09	116.09	-
	Mean		121.77	125.47	(2.96)