TSU-International Journal of Accounting and Finance (TSUIJAF)
e-ISSN: 28811-2709, p-ISSN: 28811-2695.Volume 3, Issue 3 (Oct, 2024).

FINANCIAL REPORTING AND ACCOUNT RECEIVABLE: EVIDENCE FROM MANDATORY IFRS ADOPTION

Yahaya Alhassan[1], Murtala Yusuf Forty-Four, Ph.D[2], Aliyu Usman Shehu Ph.D[3] & Heman Dauda[4]

[1-4]Department of Accounting, Faculty of Management Sciences, Taraba State University, Jalingo, Taraba State, Nigeria.

Abstract

This study examined the influence of financial reporting on trade credit: with evidence from mandatory IFRS adoption. Reviewing the importance of the IFRS on financial adoption examined the pre- and post-adoption of IFRS on trade credit amongst quoted manufacturing firms. Data for the study was retrieved from the annual report of the Nigeria Exchange Group between 2007-2022 which represents the pre-adoption period and 2012-2022 representing the post-adoption on the trade credit of these firms. The manufacturing firms were selected for the study. Findings from the study revealed that all the adopted variables of trade credit were higher in post-IFRS than in pre-IFRS. The results also revealed that firms with lower growth and lower profit tend to extend accounts receivable. Findings further suggest that trade credits do not act as an effective financial policy for a firm's growth in Nigeria. The study recommends a continuous and consistent adoption of trade credit and adherence to the disclosure requirements and policy of IFRS.

Introduction

In today's world of business, firms usually look for better forms of innovative ways for strategy and financing. Studies have shown that trade credit is one of the traditional forms of sourcing finance for businesses. Trade credit for businesses is an important source of short-term financing for majorly all forms of businesses, most especially, those firms that have found it very difficult to acquire loans from other sources. Cuñat and Garcia-Appendini (2023) stated that trade credit transactions are short-term in nature approximately (e.g. thirty to sixty days) delayed payment of purchases of intermediate goods or services. Through this form of payment, trade credit suppliers are effectively funding their clients with short-term debt. Studies have therefore shown that trade credit is a proficient form of financing coordination where credit flows from relatively unconstrained buyers to more financially constrained suppliers (Breza & Liberman 2017 as cited in Xu, Pham,&Dao, 2020).

Li, Ng, and Saffar, (2020) define trade credit, as "as system whereby firms purchase goods from suppliers on account and pay for them at a later date, it is an important form of short-term financing in many countries." Rahman, Rozsa, and Cepel, (2018) stated that the importance of trade credit can be viewed from various perspectives as it tends to influence operating efficiencies and cost improvements, reduce cash uncertainty in the payment, and provide more flexibility to firms in response to variations in demand. While Kim, (2016) stated that "trade-credit like other working capital components, is related to short-term external finance which makes up a large share of the firm's total assets in businesses" (As cited in Li, Ng, & Saffar, 2020).

The role of trade cannot be over-emphasized as it has been an important component of corporate finance and investment in various countries of the world. As cited in the work of Ojenike and Olowoniyi, (2014); and Cuñat and Garcia-Appendini(2012), various reports (Rajan and Zingales (1995); Deloof and Jegers (1999); have shown the application of trade credit in various countries. In America, trade credit accounted for 17.8% of total assets as of the early 1990's. In the UK, 70% of total short-term debt extended to firms, and 55% of total short-term credit received by firms was in the form of trade credit. In Belgium, non-financial firms' account receivables formed 16% of total assets, and accounts payable formed 12% of total liabilities. From the Reserved Bank of India, accounts receivable accounted for 10.86% and accounts payable accounted for 11.59% of total assets/liabilities respectively.

According to Levine, Lin, and Xie (2018) in Li, Ng, and Saffar, (2020), "trade credit represents a substantial percentage of debt financing for a large sample of firms across 34 countries, accounting for 25% of the average firm's total debt liabilities. Trade credit is particularly critical to international trade. Based on the WTO's 2018 report, up to 80% of global trade is supported by trade credit". Therefore, trade credit represents a substantial component of both corporate liabilities and assets (Olusola & Olusola, 2012).

One factor that has made it look as if trade credit has been neglected is as a result of the fact that it is hidden in the firm's distribution/supply and chain activities (Nadri, 1969). Also, one other factor that could have a positive influence on trade credit is the heightened financial adoption quality and its comparability after the adoption of the International Financial Adoption Standard (IFRS). Studies have further shown that there is a need for financial institutions to examine the financial statements of firms because the risks in lending need to be ascertained and also, suppliers can further reduce their risk in their path by reviewing customers' financial reports (Hui et al. 2012; Penman 2013).

In various countries, the adoption of IFRS has played a significant role in accounting policies, in the preparation of financial reports, and in improving quality of accounting information. The adoption of IFRS standards today by countries represents the highest change in the history of accounting. Research has further shown the importance of IFRS on the financial report of organizations and individual firms which has helped for easy comparability and transparency across the world. A key feature of the IFRS adoption is its systemic change in the adoption system across countries, as opposed to, for example, discretionary accounting choices about certain accounting numbers (e.g., accruals) within a single country (Li, Ng, & Saffar, 2020).

According to Păúcana, (2015), the IFRS framework defines the accounting quality of a financial report. The qualitative characteristics of the information embedded in the financial report reveals the information that can be useful of various users for probable decision making. The information is useful when it is relevant and faithfully represented while on the other hand, the usefulness of the financial information lies on the level of its comparability, verifiability, timeliness and understandability. The essence of the financial report is to ensure that companies voluntarily expand the scope and quality of the information they disclose to ensure that users can be make proper investment decision with the information disclosed.

Various researchers have examined trade credit and other variables; Kim, (2020); Martínez-Solaa, García-Teruelb, and Martínez-Solanoc (2013); Collis, Jarvis and Page (2013); Li, Ng, and Saffar, (2020); Huang, Ying, Yang and Hassan, (2019); Xu, Pham, and Dao, (2020). Irrespective of these

studies, there exist limited studies in ascertaining the relationship between financial adoption and trade credit after adoption of IFRS. Also studies on financial adoption have only examined the post-IFRS adoption on financial adoption leaving the pre-IFRS out of studies. Based on the gaps in literature, this study intends to ascertain the relationship between financial adoption (pre and post-IFRS adoption) and trade credit.

Research Hypotheses

Ho_1: There is no significant relationship between pre-adoption of IFRS and trade credit.

Ho_2: There is no significant relationship between post-adoption of IFRS and trade credit.

Literature Review

Theoretical Framework

Transaction Theory

Ferris (1981), Schwartz (1974) and Emery (1984) developed the transaction theory, Schwartz (1974) and Emery (1984) later abandoned the transaction theory in favour of financing theory. According to the transaction cost theory, using trade credit can improve operational efficiency and economize on transaction costs for all transacting parties (Schwartz, 1974; Ferris, 1981 as cited in Dary & James, 2020).

Petersen and Rajan (1997) argue that information acquisition is the main source of trade credit cost advantages. In fact, suppliers have a better capacity to get information about buyers than traditional lenders (Schwartz, 1974). The occurrence and the number of the buyers' orders give suppliers information on the credit worthiness of their clients (Bellouma, 2011).

By granting trade credit, both transacting parties can economize on transaction costs by allowing payments to be accumulated and paid periodically. In so doing, both parties can avoid the number of trips they make to the bank and reduce other transaction costs such as frequent transportation costs and bank charges (Schwartz, 1974). The level of transaction costs savings that can be realized is dependent on transaction frequency, uncertainty and the degree to which investments are transaction specific (Williamson, 1979). There can be cost savings by employing trade credit where transactions are frequent (Petersen & Rajan, 1997). For goods that are highly specific, prepayment or advance payment type of trade credit may be crucial in managing risks (Cuevas et al., 1993). Trade credit gives a buyer notice of when payment is required and thus allows them to them to keep reduced precautionary balances and to plan movements from liquid assets to cash most cost-effectively. This is the cash management motive for credit demand (Summers & Wilson, 1999; Dary & James, 2020).

According to the transaction cost theory, trade credit exists in order to reduce costs related to the exchange relationship between the buyer and the seller. Then, as Ferris (1981) supports the improvement in transaction technologies may reduce the level of trade credit. Conversely, this decline has not been detected in recent years.

International Financial Reporting Standard (IFRS)Adoption on Financial Adoption

The adoption of the International Financial Standards (IFRS) has become paramount globally. This is a result of the need for standardization, and uniformity ss of financial statements of organizations. The quality of information made available in the financial report that is used by both internal and external users is determined by the qualitative characteristic of the adoption standard (Mensah, 2020).

To achieve the harmonization of accounting standard-setting strategy through the adoption of IFRS, two assumptions were deduced. Firstly, the harmonization of accounting implies that economic events, transactions, and systems are universal and are generally acceptable around the world while the second assumption is that accounting which is referred to as the language of business should be recognized worldwide to serve the international community. This therefore explains the objectives of IFRS which is aimed at harmonizing financial adoption worldwide and ease in financial statement comparability (Mbotor, & Bassey, 2017).

IFRS is described as a set of standards that prescribes different forms of transactions and other properties that are seen in the financial report. These standards are issued by the International Accounting Standard Committee (IASC) and the International Accounting Standard Board (IASB). The essence of the standard is to ensure that organizations can make investment decisions with relevant, reliable, and timely information which is found in the preparation and presentation of the financial report (Mbotor, & Bassey, 2017).

According to Outa, (2010), the objective of IFRS is to ensure that a global framework is adopted to show how companies prepare and disclose their financial statements. IFRS provides general guidance for the preparation of financial reports, rather than setting rules. Therefore, the adoption of IFRS by various countries of the world possesses the likelihood of improving the financial adoption quality and its comparability of firms. This has therefore shown that IFRS when compared to local accounting standards tends to improve the quality of a financial Report (Li et al., 2018).

The quality of financial reports is very important to both external and internal users which helps them to make proper investment and economic decisions. The financial report can only be referred to as useful when it represents the “economic substance” of an organization in terms of reliance, reliability, comparability, understandability, and timeliness and simplifies interpretation of accounting (Kenneth, 2012). Therefore, the actualization of the adoption of the IFRS is geared towards the actualization of the economic substance of financial statements (Mbotor, & Bassey, 2017).

Trade Credit

Account receivable as often used interchangeably, ‘credit’, ‘loan’, ‘borrow’, they are referred to as the process of taking charge of money for the purchase of goods and services. Credit in most occasion are issued to individuals or firms who are financially handicapped this means that firms issues credit to their customers based on agreement most time on an agreed date to pay. Irrespective of the nature of credit, it cannot be replaced with money which acts as a unit of account but credit can act as a medium of exchange which a times depending on the form of credit, it can be referred

to as money. Therefore, in the case of trade or commercial activities, trade credit can be defined to as the purchase of goods and services to pay at a later date (Olusola & Olusola, 2012).

Trade credit takes various forms. When a firm sells goods to a buyer and no immediate cash payment is received, it is extending credit to the buyer (accounts receivable or supplier credit). When a firm buys goods from a supplier and payment is deferred to a later period, it is receiving credit from the supplier (accounts payable) (Emery, 1984; Ng et al., 1999; Carvalho & Schiozer, 2015). Additionally, when a buyer pays for goods ahead of delivery, as an advanced or pre-payment, the buyer is extending credit to the supplier (Schwartz, 1974; Ferris, 1981; Ng et al., 1999); sometimes this is described in the literature as reverse trade credit (Daripa & Nilsen, 2011; Mateut, 2014). However, the advanced payment type of trade credit is rare (Schwartz, 1974; Ferris, 1981; Ng et al., 1999; Cuevas et al., 1993).

Trade credit also referred to as merchant credit or open account which is seen as "the delivery of goods and services under transactions between companies, with deferred terms of payment". It is a short-term form of finance for business owners i.e accounts receivable on one, while being our own credit from suppliers, i.e. our account payable on the other hand (Białek-Jaworska & Nehrebecka, 2016).

According to Martínez-Solaa, García-Teruelb, & Martínez-Solanoc, (2013),it is mostly issued when a seller does not need an immediate payment for products that was supplied. As referred to as short-term loan earlier, it is usually associated with timing and value of goods and services. From one angle, the seller considers accounts receivable as an important component in the financial report.

Generally, the supplier makes available the trade credit to specific business counterparts who intend to extend their payment period for goods and services that have been received by the customer. Atimes, the payments are made immediately it elapses but majorly because of the nature of business, the payment time is extended for purpose of doing more businesses. Therefore the relationship that exists between the borrower and the supplier of trade credit can be considered as a long-term relationship (Rahman, Rozsa, & Cepel, 2018). While Paul and Boden, (2014) stated that "trade credit is the agreed deferral of payment until some (usually agreed) point in the future"

Paul and Boden, (2014), asserted that trade credit act as a means of cash management which involves situation were cash holding cash can be reduced. The essence of this is that firms keeps cash for contingency sake against cash oscillations, unexpected events, and short-term emergencies. It further gives room for payment flexibility for both the supplier and the customer. Ideally, businesses keep a cash buffer as a contingency reserve against unplanned cash fluctuations, unforeseen expenses and for short-term emergencies. This is referred to in the cash management which helps them to not maintain precautionary cash balance. If for instance, they gather invoices of a supplier, it helps to make payment easier and cheaper. Such method is in favour of the buyer whereby he has a better cash management and to the seller, it reduces banking cost.

Most time banks are unable to give business owners loans; they therefore seek for credit loans. This means that trade credit helps firms business to meet their financing needs. In the work of Biais and Gollier (2007), their model shows funds can be raised to purchase goods from a seller when he or she extends his trade credit. Studies have shown that Small and medium scale

enterprises (SME's) are mostly involved in trade credit most especially when banks increases their interest rates (Xu, Pham, & Dao, 2020).

IFRS Adoption and Account Receivable

IFRS has been predicted to have an impact on the financial adoption. This is as a result of more extensive and informative disclosure, better measurement and recognition rules, and enhanced comparability (Hail et al. 2010). The rate at which the financial report discloses information couples with the improved quality report could provide suppliers with information that are useful to them about their customers. Therefore, the extent to which IFRS adoption affects trade credit is dependent on two perspectives which are: do suppliers rely on financial adoption and if they actually do rely on the financial report for information, how do the IFRS affects the usefulness of financial adoption for trade credit analysis (Li et al., 2018).

Factors that are economically and fundamentally important to trade credit suppliers include the firm's ability to generate cash to meet its short-term obligations and the continuing demand for a product or service. We expect the credit relevance effects of IFRS to derive primarily from improved recognition and measurement and enhanced accounting comparability. The economic fundamentals that are important to trade credit suppliers include the firm's ability to generate cash to meet its short-term obligations and the continuing demand for a product or service (Bowen et al. 1995 in Li et al., 2018).

Enomoto, (2020) asserted that the quality of accounting may either have a positive or negative effect on the trade credit. Information disclosed in the financial report is used to facilitate transactions between the suppliers and the customers. Therefore, it has become a major source of credit rating that suppliers can usually rely on for offering trade credit.

Therefore, the basis upon which this study laid upon is to report the role of IFRS based financial report in enhancing information (e.g., availability of cash flow statements) which can be used by suppliers to monitor their customers' ability to generate in the nearest future to satisfy their short-term trade credit obligations, as well as to evaluate the continuing demand for customers' products or services. While Li et al. (2018) assume that mandatory adoption of IFRS improves financial adoption transparency and find that IFRS adoption increases trade credit.

Empirical Studies

Fisman and Love (2003) examined trade credit, financial intermediary development, and industry growth. Data were drawn from Rajan and Zingales (1998) (referred to below as RZ). Our primary outcome variable is real growth in valued added, estimated for each of 37 industries in 43 countries, using data obtained from the General Industrial Statistics collected by the United Nations Statistical Division.7. Findings show that firms in countries with less developed financial markets appear to substitute informal credit provided by their suppliers to finance growth. We also found out that trade credit usage affects growth in the average size of firms rather than the growth in the number of firms. This is consistent with "reputation-based" theories of trade credit, which argue that new firms will have greater difficulties in obtaining trade credit.

Olusola and Olusola (2012) examined the trends in the use of trade credits amongst quoted firms In Nigeria. The financial report of Quoted firms within Nigeria was examined from period 2000-

2009. This analysis was examined descriptively. Findings from the study showed that firms within Nigeria showed a low financial status hence there is need for them to source for source of finance. Therefore, there is need for stakeholders to encourage firms to use trade credit as an alternative source of finance.

Martínez-Solaa, García-Teruel and Martínez-Solanoc (2013) investigated trade credit policy and firm value. The essence of the study is to ascertain the relationship between firm value and trade credit. Sample for the study comprise of for Spanish listed firms with their financial report within the period 2001 to 2007. The Tobin's Q was used to measure the dependent variable. The results obtained show a positive relationship between firm value and trade credit at low levels of receivables and a negative one at high levels. To give robustness to the results, we analyze whether deviation from target accounts receivable level reduces firm value.

Collis, Jarvis, Page, Ojala, Holt, Fatoki and Aregbeshola (2013) investigate the role of financial and other information in trade credit decisions in SMEs: An international study. This study investigates the use of the financial statements and other information in making trade credit decisions in smaller entities in Finland, the UK, USA and South Africa. In-depth, semi-structured interviews in each country were used to collect data from the owner-managers of SMEs and from credit rating agencies and credit insurers. The findings provide insights into similarities and differences between countries and between developed and developing economies. The evidence suggests that there are three main influences on the trade credit decision: formal and report-based information, soft information relating to social capital and contingency factors.

In examining empirical works, Martínez-Sola, García-Teruel, and Martínez-Solano (2014) examined the relationship between trade credit and SME profitability. We examine the profitability implications of providing financing to customers for a sample of 11,337 Spanish manufacturing SMEs during the period 2000-2007. This paper also explains the differences in the profitability of trade credit according to financial, operational, and commercial motives. The findings suggest that managers can improve firm profitability by increasing their investment in receivables, and that effect is greater for larger, more liquid firms, firms with volatile demand, and for firms with more market share.

Ojenike and Olowoniyi1 (2014) examined the determinants of trade credit: Evidence from Nigeria.The study employed secondary data from annual financial statements of the sample listed companies in the Nigerian Stock Exchange, Central Bank of Nigeria, Nigerian Deposit and Insurance Corporation and Security and Exchange Commission. A total number of eighty three (83) non-financial firms were purposively sampled for the study. The econometric analysis showed that high level of operating income, retained earnings, depreciation provision gives the firms a strong leverage hence would not switch on to trade credit financing

Białek-Jaworska, and Nehrebecka, (2016) examined the role of trade credit in business operations. The paper aims to analyze the importance of trade credit in the financing of enterprises in Poland and to identify the determinants of the use by Polish companies trade credit. Analysis was based on Central Statistical Office panel data: annual reports F-02 for the years 1995−2011. System GMM (robust) estimator was used to estimate coefficients of the model. It has been shown that the low profitability of sales, a long days payable (outstanding), a low debt capacity and a long cycle funds are good predictors of the use of trade credit. Higher growth opportunities and greater ability to generate cash surpluses increase the trade credit extended. With the increase in size of

the company increases the tendency to the trade credit extended and volume of to the trade credit extended, and decreases the propensity to received net trade credit and volume of received net trade credit. Monetary policy reduces companies' inclination to extend trade credit and increases the volume of trade credit provision in the category of medium and large firms, but the interest rate channel increases the companies' inclination to contract net trade credit and increases the volume of trade credit contracted.

Kim (2016) examined the determinants of corporate trade credit: An empirical study on Korean Firms. Data for the study was retrieved from 14,660 firms with their annual report examined from 1992-2011. A t-test was used to analyze some specifics firms and their industry characteristics based on trade credit. Also, the panel regression model was used to test the hypotheses. The principal result is that older firms with larger size, lower growth, and higher profits tend to extend accounts receivable. This evidence, while consistent with the access to financing hypothesis, is difficult to reconcile with the growth hypothesis and price discrimination hypothesis.

Hoxha, (2018) ascertain the role of the financial statements in the access to trade credit. Data for this research was collected from the May 2018 version of the Orbis Europe, a Bureau Van Dijk database. 250 employees were selected from small and medium enterprises. The regression model was used to test the hypotheses. Findings in this research suggest that European SMEs that provide high quality accounting information demand less trade credit as they have access to cheaper forms of financing, i.e. bank credit. Firms with high accounting quality are considered to have less information asymmetry and consequently, are more creditworthy. Trade suppliers are more likely to extend credit to SMEs with poor accounting quality since they obtain the information needed in the normal course of their business. However, the negative relationship between trade credit and accounting quality is not applicable in the Spanish context. In conclusion, accounting quality plays an important role in mitigating information asymmetry between creditors and SMEs. By providing higher quality of accounting information, SMEs gain access to different forms of financing, i.e. trade credit and bank credit. Financial institutions and trade suppliers are more willing to extend credit to firms with high accounting quality.

Rahman, Rozsa, and Cepel (2018) in their studies trade credit and bank finance – evidence from the Visegrad group ascertained if trade credit can be an alternative form of finance to bank finance for SME's. Data were made available from Business Environment and Enterprise Performance Survey that was conducted by the European Bank for Reconstruction and Development and the World Bank during the period from 2012 to 2014 using a sample size of 1140 firms. Findings suggest that service-oriented firms use less of trade credit when compared to manufacturing firms.

Furthermore, Huang, Ying, Yang and Hassan (2019) examined trade credit financing and sustainable growth of firms: Empirical evidence from China. Using the financial statementdataof20,089ChineseA-sharelistedfirmsovertheperiod2003 to 2017, running a regression using the cross-section regression method and employing the two-stage instrumental-variable regression method in the endogeneity test, the study finds that trade credit has an overall positive and significant impact on the sustainable growth of Chinese firms, especially for firms with higher internal control ability, trade credit financing contributes more to sustainable growth, and the same way with private enterprises, whose growth depends more on trade credit compared to state-owned firms.

In another study, annual report readability and trade credit was examined by Xu, Pham and Dao (2020). The essence of the study was to examine the influence of the readability of annual reports on firms' ability to obtain trade credit from suppliers. 4754 firms was selected for the study with their annual report examined from 2004-2016. Findings indicate that within this period, suppliers extend more trade credit to firms with more readable financial reports. A further test shows that the level of trade credit is higher for firms in business service industries and that this relation is weakened when firms disclose less readable 10-K filings.

Similarly, another study was examined by Enomoto (2020) on the effect of corporate governance on the relationship between accounting quality and trade credit: Evidence from Japan. It focuses on cross- and stable shareholdings, which are well-known features of Japanese corporate governance, as a private information sharing system. The results reveal that trade credit of customers without either cross- or stable shareholdings increases with accounting quality and that such shareholdings weaken the relationship between accounting quality and trade credit. The findings suggest that a close tie to cross- and stable shareholders results in reducing the importance of accounting information through sharing private information.

Li, Ng, and Saffar (2020) examined the study on financial adoption and trade credit: Evidence from mandatory IFRS adoption. Following prior IFRS literature, we test the effect of mandatory IFRS adoption on trade credit using difference-in-differences tests. Sample was obtained from publicly listed firms from Compustat Global Vintage. The analysis focused on manufacturing firms. The results suggest that the conditions under which higher quality information is made publicly available affect suppliers' decisions to provide trade credit. This increase is also larger for firms with greater exposure to foreign markets, a finding that highlights the importance of more comparable international financial adoption standards in facilitating cross-country trade credit. Findings also show that IFRS adoption has a stronger positive effect on trade credit for firms with greater liquidity needs. Finally, findings show that firms in countries that adopt IFRS also extend more trade credit to their customers. Overall, our results support the notion that financial adoption can have a causal effect on trade credit.

Another study by Kwon, Han, and Lee (2020) examined SME Profitability of Trade Credit during and after a Financial Crisis: Evidence from Korea. This study aims to determine whether trade credit is profitable for the buyer and supplier firms during and after a financial crisis. We use panel data consisting of all trade credit transactions and financial statements of 5,751 Korean firms during the period 2008–2012. It shows that trade credit is more profitable for both buyers and suppliers in the post-crisis period than during the crisis. Moreover, trade payable is more effective for unconstrained buyers than for constrained buyers. Finally, a mixed strategy is superior to an aggressive or passive strategy of SMEs. The results suggest less profitability of trade credit during a period of contraction and greater sensitivity of the buyer SMEs, emphasizing the idiosyncratic liquidity strategy of each firm.

Li, Ng, and Saffar (2020) investigated the effect of accounting for expected credit losses on trade credit: Evidence from IFRS 9 Adoption. The study examined whether the higher cost of accounting for the supply of trade credit affects the trade credit that firms provide to their customers. Relying on an exogenous increase in accounting costs arising from the switch from the incurred credit loss model to the expected credit loss model with the adoption of IFRS 9, the study found out that firms reduce the provision of trade credit after adoption. This finding is consistent with higher

accounting costs having a real effect on corporate financing decisions in supplier-customer relationships. We further found out that the reduction in trade credit after IFRS 9 adoption is more pronounced when the accounting costs of the switch to the expected credit loss model are likely to be higher: for firms in low trust countries, for those that face more stringent auditing and for firms that operate in an environment where it is more difficult to estimate expected credit losses.

Saerens and Ceustermans (2021) investigated abbreviated or micro-entity accounts? effect of financial adoption format on the availability of trade credit. To test this relationship, we used a sample of 76,490 company-year observations of small companies in Belgium over the period of 2017–2019. We found that micro-entity accounts are negatively associated with the level of trade credit. In addition, we found that the effect of filing micro-entity accounts, relative to filing abbreviated accounts, is weaker for companies with higher inventory levels. Contrary to expectations, no support was found for the hypothesis regarding the moderating role of age.

Methodology

Data for this study were secondarily sourced. This means that data were retrieved from the financial report of the selected firms from the Nigeria Exchange Group (NGX) for the period before the adoption of IFRS (2007-2011) and after the adoption of IFRS (2012-2022). Four quoted manufacturing firms were selected for the study. Data for the study were descriptively analyzed.

Model Specification

$$Trade\ Credit = \beta 0 + \beta 1 LnSaleit + \beta 3 Grit + \beta 4 Profitit + \beta 5 Leverageit + ui + \lambda t + eit$$

Ln sales = AR+AP (AR IS account receivable while AP is account payable)

Gr = Growth

Profit = (Return on Assets and Return on Equity)

Table 4.1 Descriptive Statistics of Selected Performance indicators (Pre-& Post-IFRS)

Panel A: Post IFRS (2012-2022)

	AP	AR01	LEV	GR	ROA	ROE
Mean	-1.872580	0.131431	0.151669	0.978434	0.068137	0.060936
Median	0.108061	0.100725	0.149931	1.068869	0.068885	0.094662
Maximum	0.459570	1.030920	0.371799	2.285325	0.314870	0.544936
Minimum	-37.98740	-0.440700	0.000000	-0.389440	-0.188100	-0.495410
Std. Dev.	8.508137	0.339612	0.116847	0.709186	0.113028	0.215295
Skewness	-4.117367	0.607419	0.276503	-0.329760	0.120285	-0.844509
Kurtosis	17.98874	3.813607	2.036459	2.531905	4.436817	5.422568
Jarque-Bera	243.7276	1.781487	1.028524	0.545065	1.768598	7.268016
Probability	0.000000	0.410350	0.597942	0.761449	0.413004	0.026410
Sum	-37.45159	2.628620	3.033382	19.56868	1.362730	1.218726
Sum Sq. Dev.	1375.380	2.191395	0.259411	9.555950	0.242731	0.880687

Observations	20	20	20	20	20	20

Panel B: Pre IFRS (2007-2011)

	AP2	AR1	LEV1	GR2	ROA1	ROE1
Mean	0.334527	-0.001441	0.148278	0.959013	0.004846	0.009880
Median	0.046640	0.024287	0.111251	1.043427	0.023180	0.044172
Maximum	29.05260	0.646954	0.437622	1.620963	0.109880	0.215666
Minimum	-28.33600	-0.527540	0.007304	0.122378	-0.159730	-0.391900
Std. Dev.	10.96183	0.270804	0.121293	0.373715	0.082143	0.149840
Skewness	0.131960	0.438024	1.403583	-0.788636	-0.956895	-1.613701
Kurtosis	6.001750	3.480971	3.984126	3.146266	2.816041	5.170497
Jarque-Bera	7.566798	0.832328	7.373908	2.090982	3.080360	12.60599
Probability	0.022745	0.659572	0.025048	0.351519	0.214342	0.001831
Sum	6.690540	-0.028823	2.965566	19.18025	0.096917	0.197609
Sum Sq. Dev.	2283.072	1.393360	0.279530	2.653599	0.128202	0.426589
Observations	20	20	20	20	20	20

In Panel A and B, the study correlates the industry characteristics of some selected manufacturing firm before and after adoption of IFRS. The results reveal that there are significant differences in mean values between the two groups for all variables. This is especially valid for the mean values of *AR, ROA, ROE and AP,* which are substantially higher during the post IFRS period than during the pre IFRS period except for the mean value of AP which was bigger during the pre IFRS period. The mean values of *Leverage, account receivable, return on assets, return on equity, liquidity and leverage are* considerably higher in post IFRS than in pre IFRS. Additionally, the mean values of *profitability which is measured by return on assets and return on equity* are way higher in post IFRS than in pre IFRS.

T-Test Statistics

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	AR	.1314310	20	.33961243	.07593965
	AR1	-.00144115	20	.270803829	.060553577
Pair 2	ROA	.0681365	20	.11302805	.02527384
	ROA1	.00484585	20	.082143016	.018367737
Pair 3	ROE	.06093630	20	.215295043	.048141435
	ROE1	.00988045	20	.149840123	.033505270
Pair 4	Lig	.97843410	20	.709185974	.158578805
	LIQ2	.95901260	20	.373715306	.083565283
Pair 5	AP	-1.87257960	20	8.508137208	1.902477316
	AP2	.3345270	20	10.96182767	2.45113918
Pair 6	Lev	.15166910	20	.116846959	.026127774

LEV1	.14827830	20	.121293452	.027122040

Paired Samples Test

	Paired Differences					T	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference			
				Lower	Upper		
AR - AR1	.132872150	.316789518	.070836290	-.015389908	.281134208	1.876	.076
ROA - ROA1	.063290650	.132092772	.029536842	.001469330	.125111970	2.143	.045
ROE - ROE1	.051055850	.270056561	.060386483	-.075334511	.177446211	.845	.408
Lig - LIQ2	.019421500	.657265316	.146968993	-.288188137	.327031137	.132	.896
AP - AP2	-2.207106600	13.848041246	3.096516158	-8.688189404	4.273976204	-.713	.485
Lev - LEV1	.003390800	.190771786	.042657868	-.085893144	.092674744	.079	.937

From the table above, the mean difference between both periods indicated a lower mean from the pre-adoption periods except AP. However, the t-statistics for the periods show a t-value of 0.845 with a p-value of 0.408, indicating that there is no significant difference between the trade credit of firms in the manufacturing sector in Nigeria in both pre and post IFRS era except ROA which shows significant difference. Essentially, the performance in trade credit after adoption does not differ significantly from the performance before adoption. Hence, we concluded that trade credit performance in post IFRS adoption periods does not significantly differ from the performance in the pre adoption periods. In essence, the performance in both periods are essentially the same and do not differ significantly.

Discussions of Findings

The general state of the determinants of corporate trade credit is still unresolved. The current paper examines the determinants of corporate trade credit in some selected conglomerates in Nigeria. Based on a panel data set from 3 firms in Nigeria, this study provides strong evidence that financial adoption affects trade credit policy. More specifically, it compares industry characteristics of pre IFRS adoption and post IFRS adoption. The results indicate that *all the adopted variables of trade credit* are higher in post IFRS than in pre IFRS, proving that firms requiring more time to observe product quality extend more trade credit that those where product quality is easy to observe (Long et al., 1993).This outcome is consistent with the findings of Rahman, Rozsa, and Cepel, (2018) who suggested that service-oriented firms use less of trade credit when compared to manufacturing firms. Li, Ng, and Saffar, (2020) result also shows that firms in countries that adopt IFRS also extend more trade credit to their customers.

Overall, our results support the notion that financial adoption can have a causal effect on trade credit. This evidence implies that trade credit can reduce information asymmetry concerning product quality by allowing buyers to assess the quality of goods before remitting payment. It also correlates the industry characteristics of manufacturing firms to those of service firms. The outcome shows that *AR* is higher in post-IFRS than in pre-IFRS. This result is also consistent with the studies of Collis, Jarvis, Page, Ojala, Holt, Fatoki and Aregbeshola (2013); Hoxha, (2018); Li, Ng, and Saffar, (2020). Hoxha, (2018) in his findings concluded that accounting quality plays an important role in mitigating information asymmetry between creditors and SMEs. By providing higher-quality accounting information, SMEs gain access to different forms of financing, i.e. trade credit and bank credit. Financial institutions and trade suppliers are more willing to extend credit to firms with high accounting quality.

Furthermore, results show that firms with lower growth and lower profit tend to extend *AR*. This evidence, while consistent with the access to financing hypothesis, is difficult to reconcile with the growth hypothesis and price discrimination hypothesis. This outcome is consistent with the findings from Kim (2016) who stated that older firms with larger size, lower growth, and higher profits tend to extend accounts receivable. Secondly, this paper provides evidence that firms with higher leverage and higher profit appear to use *AP*. This finding, while consistent with the financial constraint hypothesis, does not correspond to the financing and growth hypothesis. This finding suggests that trade credits do not act as an effective financial policy to firm growth in Nigeria as highlighted otherwise in the studies of Martínez-Solaa, García-Teruel and Martínez-Solanoc (2013). Moreover, these results indicate that trade credit is used as an alternative source of financing as well as an operational vehicle for marketing. Olusola and Olusola (2012) in their studies stated that there is need for stakeholders to encourage firms to use trade credit as an alternative source of finance.

Lastly, the study revealed the t-statistics for the periods which shows a t-value of 0.683 with a p-value of 0.500, indicating that there is no significant difference between the trade credit of firms in the manufacturing firms and adoption of IFRS either pre or post era. This means that the adoption of IFRS does not significantly influence trade credit. This study is consistent with the studies of Li, Ng, and Saffar, (2020) who in their study revealed that for non-adopters of IFRS, there is an insignificant influence of IFRS on trade credit. Also, consistent with our result is the study of Chen, Liu, Ma, and Martin, (2017who stated that the quality of accounting information within European SMEs provides less trade credit. This is as a result of other form of financing. Firms with high accounting quality are considered to have less information asymmetry and consequently, are more creditworthy. Lastly, this study is also consistent with the study of Hoxha, (2018).

Conclusions

This study examined the effect of IFRS mandatory adoption on account receivable. The study examined the pre and post IFRS adoption and the effect it has on account receivable. Findings from the study show an insignificant relationship between the pre and post adoption of IFRS on trade credit within the period of study. It further shows that be it before and after the adoption of IFRS on the financial report, they do not significantly influence trade credit. The result could be as a result of non-utilization of trade credit as a source of financing for firms. Therefore, mandatory

adoptions of IFRS have an important role to play in disclosing quality accounting information. Hence the information helps firms in gaining access to other source of financing.

Recommendations

Based on the conclusion of this study, the researcher recommends that:

i. Irrespective of the insignificant difference between the variables, it is important that firms adopt trade credit as a source of financing for their businesses.
ii. Since bank loans is becoming difficult to get and the interest rate on them is becoming high, it is important that management of manufacturing firms should ensure the trade credit is adopted as financing policy for manufacturing firms, this will help in improving the growth rate of these firms.
iii. As studies have shown better performance of manufacturing firms during post-IFRS adoption, it is important that manufacturing firms continue to adhere to the disclosure requirement and policy of the IFRS. This will help to disclose the accounts payables and receivables of their customers and suppliers.

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