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# IMPACT OF INTERNATIONAL FINANCIAL REPORTING STANDARD ON FINANCIAL STATEMENTS IN QUOTED COMPANIES IN NIGERIA

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***Abstract***

*This study examined the impact of International Financial Reporting Standards (IFRS) on financial statements in quoted companies in Nigeria using a cross sectional and longitudinal research designs. The study used secondary source of data which were cross sectional from Published Financial Statements of twelve (12) quoted companies in the Nigerian Stock Exchange (NSE) as at 2021 as samples. The result of the panel data shows positive and significant relationship between return on asset and earning as per shares stated in IFRS, while dividend per shares have a positive and insignificant relationship with return on asset, the study recommended that management of companies should give attention to the large earning per shares due to their influence on the survival of the company, The fact that financial statement employed in this current study were significantly the same under IFRS, suggested a high degree of convergence and comparability of the financial statement figures under the financial reporting frameworks. It was recommended that relevant Authorities should encourage management should be encouraged to have more interest through shares in the organization as it enables them to have more sense of belonging.*

## 1. Introduction

International Financial Reporting Standards (IFRS) is the new dominant set of accounting standards developed under a rigorous due diligence process and now used in more than 120 countries around the world, including Australia, Brazil, Canada, the European Union, South Africa, Nigeria and many others (Deloitte Touché Tohmastu, 2019). Each country adopting IFRS undergoes a transition process in the year of adoption. This process may be fairly disruptive for users of financial statements as accounting treatments of analogous items may vary, and impair comparability and trend analyses. Since the quality of financial statements is influenced by the quality of the underlying accounting standards, users may benefit from understanding the impact of a shift from local generally accepted accounting principles (GAAP) to IFRS. Also, economic changes are likely to have similar consequences as Land and Lang (2020) document that accounting quality has improved worldwide since the beginning of the 1990s, and suggest that this could be due to factors such as globalization and anticipation of international accounting harmonization.

International financial standards with diverse modifications in rules and reporting practices exacerbate the need to evaluate its influence on financial accounting manipulations. The adoption of a single set of standards across international boundaries (IFRS) has the merit of enhancing comparability of different financial statements across firms and countries. It is argued that IFRS increase firms‟ access to global capital with resultant reduction in cost. This viewpoint resulted in a quest for global standards by regulators, professional accountancy bodies as well as preparers of financial statements. In less developed countries, the advantage of comparability of local financial statements with that of advanced countries promotes sound cross border investment decision and improves the ability to attract investment capital across international boundaries is overwhelming

Information emanating from financial reporting is regarded as useful when it faithfully represents the economic substance of an organization in terms of relevance, reliability, and comparability (Spiceland, Sepe & Tomassini, 2011). High quality accounting information is essential for well-functioning capital markets and economy as a whole and as such should be of importance to investors, companies and accounting standard setters (Hellstron, 2020).

Financial statements still remain the most important source of externally beneficial information in companies; it serves as a mirror to the investor. Investors are not in a position to directly access the performance of the company in which they are intended to invest, they usually depend on the financial statements prepared by the management of the company. Rational investors use those financial reports and disclosures, among other publicly available information to assess the risk and the value of the firm. Accounting data, such as earnings per share, is termed value relevant if it is significantly related to the dependent variable, which may be expressed by price, return or abnormal return (Gjerde, Knivsfla & Saettem, 2017).

Nevertheless, financial statement is to provide information about a company in order to make better decisions for users particularly the investors (Germon and Meek, 2001). It should also increase the knowledge of the users and give a decision maker the capacity to predict future actions.

This study examined the impact of IFRS on financial statement in quoted companies in Nigeria under the Nigerian stock exchange for over a period of 11 years in the pre and post financial periods of IFRS application from 2011 to 2021.

The major purpose of carrying out the research work is to examine the impact of IFRS on financial statements in quoted companies in Nigeria. To achieve this, the following objectives was examined:

i. To determine if the adoption of IFRS has impact on quoted companies in Nigeria.

ii. To identify the most significant impact of IFRS adoption on financial statement.

The research question gave rise to the following hypothesis;

**$H_{01}$:** IFRS adoption has no significate impact on quoted companies in Nigeria.

**$H_{02}$:** There is no significant impact of IFRS adoption on financial statement in Nigeria.

## 2. Literature Review

### 2.0. Conceptual Framework

From past experience, it is known that investors may temporarily pull financial price away from their long-term trend level. Over reactions may occur, so that excessive optimism (euphoria) may drive prices unduly high or excessive pessimism may drive prices unduly low. New theoretical and empirical arguments have been put forward against the notion that financial markets are efficient. Market efficiency depends on the ability of traders to devote time and resources to gathering and disseminating information. Markets that are more efficient attract more investors, which translate into increased market liquidity (Osei, 1998).

Investors care about market efficiency because stock price movements affect their wealth. More generally, stock market inefficiency may affect consumption and investment spending and therefore influence the overall performance of the economy (Adelegan, 2009). A market is efficient with respect to publicly available information if it is impossible to make an economic profit by trading on the basis of the information set (Jensen, 1978). The efficiency tests, therefore, consist of measuring the ability of the market to anticipate new information and the speed with which it adjusts to such data. The efficient market hypothesis (EMH) has been the subject of consideration. Most evidence in Nigeria, however, indicates that the Nigerian capital market is efficient in the weak form efficient (Adelegan, 2004).

The success or failure of management decision can be evaluated only in the light of the impact of firm stock prices (Remi, 2005). Moreover, Shiller (2020) supports that stock prices are very much uncertain and this may not be true because firm's fundamentals may to a great extent influence stock price. This argument is supported by early rejection of a random walk theory by Porterba and Summer (2000) who argue that there is little theoretical basis for strong attachment to the null hypothesis that stock prices follow a random walk.

### 2.1.1 Share Price and Return on Equity (ROE)

Shareholders are concerned about their return on investment. Return on equity is the company's profit after tax divided by the percentage rate of net assets. The indicators reflect the level of shareholders' equity income, measuring the shareholders into the company's unit capital receive profits, which companies create value for shareholders, to measure the efficiency of the companies using its own capital. In theory, the higher the modified index values, the better the performance of the company will be.

However, Pratomo and Ismail (2016) stated that management that has the knowledge to make a company profitable also has the knowledge and understanding of financial reporting, which leads to more market share price. Galani, Gravas and Stavropoulos (2011) also stated that when performance is high and the company achieves a high margin of profit, the managerial groups are motivated to report more information in order to show off good reputation to the consumers, shareholders, investors and other stakeholders' stock prices. Similarly, the study of Azeem and Kouser (2011) showed significant positive relation with stock price and return on equity. Also, Liu and Hu (2005) study found that return on equity is positively related with stock prices of the firms. They further explained that when management are performing efficiently and utilizing the resource powerfully and gives good returns on investment it will affect stock price positively otherwise it has negative effect on stock price. Zhao,(2013) revealed that in developed stock markets, investors fully obtain enterprise value on the basis of relevant information to invest in listed companies. In pursuit of maximization of investment wealth, the investors are driven by their preference for the good performance.

### 2.1.2 Earnings per Share on Return on Equity (EPS)

The term earnings per share (EPS) represents the portion of a company's earnings, net of taxes and preferred share dividends, which is allocated to each ordinary share holder. Earnings per share (EPS) is widely considered to be the most popular method of quantifying a firm's profitability and is the industry standard in determining corporate profitability for shareholders. EPS is a carefully scrutinized metric that is often used as a barometer to gauge a company's profitability per unit of shareholder ownership. As such, EPS is a key driver of share prices. The firm stock prices have direct purview in the managerial efficiency which is one of the signals of firm performances (Remi 2005).

One of the components of this firm performance is earning per share (EPS). EPS is one of the measures of managerial efficiency as well as firm performance. Shiller (2000) argued that stock prices can be viewed as a prediction of investors earnings, therefore, it is reasonable that the variation in prices should be no greater than variation in firm EPS. Ball and Brown (2001) conducted a study to investigate the annual association between annual change in stock prices and annual changes in firms EPS. The result obtained shows that annual changes in stock prices cause firm EPS to change in the following year. Chang and Wang (2008) conducted a study using Ohlson (1995) model on Taiwan firms in 2004. The result indicates that firms' stock prices movement has a positive significant relationship with firm EPS. In the same vein, Chetty, Rosenberg and Saez (2007) explained that stock prices change behavior when firms' EPS are announced.

### 2.3.4 Dividend per Share and Return on Asset (ROE)

Dividend is a widely researched area but still its fathom has to be explored as numerous questions remain unanswered. The question of "Why do corporations pay dividends?" has puzzled researchers for many years. Despite the extensive research devoted to solve the dividend puzzle, a complete understanding of the factors that influence dividend policy and the manner in which these factors interact is yet to be established. Allen, Bernardo and Welch (2000) stated that although a number of theories have been put forward in the literature to explain their pervasive presence, dividends remain one of the thorniest puzzles in corporate finance.

The dividend decision is taken after due considerations to number of factors like legal as well as financial. Garuba (2014), investigated the impact of dividend per share on common stock returns of some selected manufacturing firms listed on the Nigerian Stock Exchange (NSE), using linear regression model. The finding reveals that dividend-per-share affects the stock returns of the selected manufacturing firms listed on the NSE. He further explained that the powers for evaluating the impact of dividend-per-share on the stock returns of the manufacturing firms listed on the NSE relies on the appropriate linear and quadratic stock returns pricing models.

Jirapon and Ning (2006) also find inverse association between dividends payout and shareholders' right, indicating that firms pay higher (lower) dividends where shareholders' rights are weak (strong). Firth (1996) examines the effect of relatively large dividend changes on the stock market reactions and earnings forecast revisions of announcing companies and their rivals. His results show that dividend increase, produce a significant positive effect on stock prices while dividend reductions, produce negative effects on stock prices and forecast revisions of both the announcing companies and their rivals. While La Porta, Lopez-de-Silanes, Shleifer and Vishny (2000) explained that firms with weak shareholders' rights need to establish a reputation for not exploiting shareholders.

**2.4 Theoretical Differences between NGAAP and IFRS**

The Nigerian Statement of Accounting Standards (SAS) or Nigerian GAAP, the UK GAAP and IFRS are in many ways different in terms of guidance and application of the standards, although, some of these standards are similar or comparable in certain areas. Most of the SAS under NG-GAAP are found to be similar to Financial Reporting Standards (FRS) and Statement of Standard Accounting Practice (SSAP) under UK-GAAP. This could be attributed to the strong inter relationships in terms of accounting education, business, finance, banking as well as the colonial relationship between the UK and Nigeria. The two sets of standards are considered as principle-based and subject to similar conceptual foundations (CICA, 2009).

Most of the IASs issued by IASB have equivalent SASs issued by NASB. However certain standards issued by the NASB do not have equivalent IAS and vice versa. Certain elements of application diverge and a number of individual standards are fundamentally different. One major difference, that addresses investors' needs, is the greater reliance of IFRS on fair value accounting (Blanchette and Desfleurs, 2011; Chua and Taylor, 2008). Another key difference lies in the conceptual framework underlying consolidation: in IFRS, non-controlling interests are considered as owners and presented inside equity, whereas in NGAAP they are reported outside of equity. Other instances where IAS where no equivalent SAS exist are framework for preparation of financial statements; IAS 14, Segment Reporting; IAS 18, Revenue; IAS 20, Accounting for Government Grants and Disclosure of Government Assistance; IAS 22, Business Combinations; IAS 23, Borrowing Costs; IAS 24, Related Party Disclosures; IAS 27, Consolidated Financial Statements and Accounting for Investment in Subsidiaries; IAS 32, IFRS 7, Financial Instruments: Disclosure And Presentation; IAS 39, Financial instruments: Recognition and Measurement, IAS 36 Impairment of Assets and IAS 41: Agriculture, despite agriculture being the second major source of income in Nigeria.

## 3.0. Methodology

The researchers made use of the cross sectional and longitudinal research designs this entails the comparison of the pre-IFRS and post-IFRS performance valuation in order to sort out the existence of casual effects of one or more independent variables upon a dependent variable of various companies at a given point of time. This design is best suitable for this study as a cross section of Nigerian listed companies will be selected for the analysis over a period of time.

The population of the study consists of all quoted company on the floor of the Nigerian stock exchange. The researchers were able to collect complete data for 12 quoted companies for the periods of interest. The variables obtained includes earnings per share, dividend per share, return on Equity from 2011-2021.

Model 1: Value relevance of IFRS financial statement

$ROEjt = \alpha0 + \alpha1EPSjt + \alpha2DPSjt+ejt$- ------------- (1)

Where

ROEjt = return on equity of firm j at year t

$\alpha 0$ = Constant or intercept.
EPSjt = Earnings per shares of firm j at year t
DPSjt=dividend per share of firm j at year t
$\varepsilon$jt = Error term

**4. Descriptive Statistics**

| VAR | MEAN | SD | MIN | MAX | SKEW | KURT | N |
|---|---|---|---|---|---|---|---|
| ROE | 0.0865 | 0.2148 | 0.0124 | 0.3700 | -3.9413 | 8.0575 | 60 |
| EPS | 0.5666 | 0.1020 | 0.0023 | 1.0120 | -4.9469 | 2.0348 | 60 |
| DPS | 0.4670 | 0.3203 | 0.0022 | 1.1011 | -5.9469 | 8.0632 | 60 |

**Sources:** STATA output (see Appendix 1)

Table 4.1 shows that the mean for ROE of the sampled companies during the period of the study was 0.0865 with a standard deviation (SD) OF 0.2148. This indication that the data for ROE deviate for both sides of the mean by 21.48⁰/₀ which means that the data is widely spread from its means. The ROE also has a minimum and maximum value of 0.0124 and 0.3700 respectively. The data for ROE is negatively skewed with a coefficient of -3.9413, meaning that most of the data fall on the left side of the normal curve. The kurtosis coefficient of 8.0575 has shown that the data is abnormally distributed, which is explained by that range. The table also shown that the mean of the companies for the period was 0.5666 with an SD of 0.1020. This shows that the data for EPS deviated from both sides of the mean by 10%, meaning that the data is widely spread from the mean. In addition, EPS also has a minimum and maximum value of 0.0023 and 1.3700 respectively.

Similarly, the data for EPS is negatively skewed with a coefficient of -4.9469, meaning that most of the data fall on the left side of the normal curve. The kurtosis coefficient of 2.0348 shows that, data for EPS is abnormally distributed. This is similar with the data for DPS during the period, which have an average of 0.4670 and an SD of 0.3203, a minimum and maximum value of 0.0011 and 0.00 respectively, negatively skewed at a coefficient of -5.199469 and has a kurtosis coefficient of 28.03448. Moreover, the data for DPS has an average of 0.2502 and an SD of 0.2842, which implies that data for DPS deviate from both side of the mean by 28.42% a minimum and maximum value of 0. and 1.00 respectively; sleekness coefficient of -4.129483, which is an indication that most of the data fall on the left side of the normal curve; and a kurtosis coefficient of 18.05263, which shows that data is not normally distributed.

**Regression Analysis and Test of Hypotheses**

**Table 4.4: Result of Multiple Regression Analysis for fitted valves of ROE**

| ROE | COEFFICIENT | T- VALUE | P- VALUE |
|---|---|---|---|
| EPS | 0.4364 | 6.22 | 0. 001 |
| DPS | 0.3702 | 3.27 | 0.071 |
| CONST | -5.1664 | -4.82 | 0.012 |
| R square: | 0.9415 | | |
| Adj R Square | 0.9211 | | |

SOURCE: STATA Output (see Appendix)

Table 4.6 contains the result of GLS regression for fitted values of ROE. It has shown that the coefficient of CONST is -5.1664. This defines ROE when there is an increase or decrease in any of the independent variables by 1 unit, while all others are held constant. The t – value of the CONST is -5.1664, which is significant at 1.2% (p-value = 0.012). EPS has a coefficient of 0.4364, a t-value of 6.22 and p-value of 0.001. This implies that, ceteris paribus, EPS significantly and positively affects ROE at 94.2% confidence level, such that improving the Earning per shares contribute to ROE of the sampled companies in Nigeria by 0.4364 EPS after the introduction of financial Reporting Standard (IFRS). Similarly, DPS efficient of 0.3702 at the t-value of 3.27 and p-value of 0.071. This means that all things been equal, DPS will not significant and also negatively affect ROE at 95% confidence level by 0.3702 ROE after the introduction of IFRS, which means the introduction of IFRS does not have any significant impact of Dividend per shares on return on Equity in the quoted companies.

## 4.0 Discussion of the findings

The study empirically examined Thus, it shows there is positive and significant relationship between Earning per shares and Return of Equity in floor companies in Nigeria as result of adoptions of IFRS, high value of earning per shares is instrumental to the Return on Equity. As a result of this, we will reject our null hypothesis which stated that earning per shares has a significant impact on Return on Equity. The result agrees with the outcome recorded by Flix and luca (2018).

The Dividend per shares within a long run period shows a negative significant and a positive relationship with Return on Equity, as the t statistic value is 3.27 while the p value is 0.071(more than 5% level of significant), this implies that for every one percent increase in Dividend per shares the Return on Equity will decrease by 43 percent but not significant to the shareholders.

## 5.0 Conclusion

The findings of this study contribute towards a better understanding of the impact of IFRS on financial statements in quoted companies in Nigeria. ROE and two other variables that represent the financial statement such, earning per shares and Dividend per shares variable were developed to test which factors best describes Return on Equity in this samples quoted companies.

The result shows that Earning per shares is significant variables in explaining the return on equity. Out of all the two independents' variables, it is only dividend per shares that shows a positive relationship but significant to ROE which implies that they are both moving in inverse direction. The other independent variables show a positive relationship with Return of equity, also have significant influence on
Our analysis has thrown some light on the impact of adoption of IFRS on financial statement of the quoted floor companies in Nigeria. It is glaring that the introduction of IFRS has a significant impact on Return on Equity.

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