

International Financial Reporting Standards' and Performance of Manufacturing Firms in Nigeria, (2014 -2018)

Adesola Adebayo Akande (Ph. D)

Department of Accounting & Finance, Faculty of Management Sciences, Elizade University, Iara-mokin, Ondo State, Nigeria
Dr.adesola.akande.elizadeuniversity.edu.org
Adesolakande39 @ yahoo.com

Abstract— This study examined the rate at which International Financial Reporting Standards' disclosure requirements guaranteed performances of Manufacturing industries in South – West Geo-political zone of Nigeria using inferential statistical analysis on selected companies based on the fact that their year of first Publication of financial statement preceded 2012- the IFRS adoption ultimatum date in Nigeria. The result showed that IFRS specific template for manufacturing entities are followed in the preparation and presentation of annual financial reports which culminated to better reporting and improvement on a growing trends of the company's performance indicators. The compliance have a significant effect on manufacturing companies performances as the P-value of disclosure requirements $P = 0.04$ greater than P-value of companies performance $P = 0.005$. This indicates that compliance to IFRS disclosure requirement is a factor that assist listed firms' performance growth rate since it was established that factors like inadequate trainings (70%), unqualified Account staff (65%) and lack of standard financial reporting templates (72%) were inhibiting factors in the past as compliance rate improves success indicator of the companies also improves in developing economy. Based on the above, the study concluded that IFRS have a significant impact on Performances of manufacturing companies in Nigeria during the studied period.

Keywords— IFRS, Due diligence, GAAP, ROCE, Policy Choice, IAS.

I. INTRODUCTION

Generally, a financial report credibility, reliance and relevance depends largely on the standards upon which it is prepared. The standard and the presentation design must be suitably applicable to the global prescriptions irrespective of the country where the business entity is domiciled. Records has it that International Accounting Standards (IAS) was produced by two accounting bodies - the International Accounting Standards Committee (IASC) and the International Accounting Standards Board (IASB). The IASC came up with 41 accounting standards between 1973 and 2000. The IASC was replaced by IASB in the year 2000. The new Board embarked on series of review which resulted to drastic reduction in the number of standards from year 2000 to 2008. The standards produced by these two bodies culminated to the International Financial Reporting Standards which had by 2018 produced and issued over 200 standards. Thus, IFRS refers to the entire body of IASB pronouncements including standards and interpretations approved by IASB, IASC and their interpretations as produced by the Accounting Standards Interpretations Committee (IASIC).

The primary objective of all accounting standards is to enable corporate entities provide investors and creditors with relevant, reliable and timely information which will guide and actionize the performance of the entity. The concept of financial reporting disclosure requirement is based one IASB framework and provisions where relevance, reliability and comparability are key components. The disclosure requirements that relate to manufacturing companies as published by IASB in July, 2009 were based on general provisions which ranges from disclosure of accounting

framework structure, asset and liability, business combinations, currency in use, specialized activities and main changes in exposure drafts. The major aim of providing these as a disclosure requirement is to provide standards for entities that are not necessarily of the same size nor having the same capacity and resources to adopt full IFRS prescriptions.

Zeff (2008), Wulandari & Rahaman, (2004) emphasized on voluntary acceptance and adoption of International Financial Reporting Standards by listed firms and that such firm must be capable of been analyzed through their annual reports and the performance must be measurable as a positive development in the profession's reporting system with perceived positive cost-benefits. Manufacturing company's performances in developing economy especially those with small size, low capital base and other deficiencies are supposed to be fundamental factor if the disclosure requirements adoption of the IFRS will be effective in the field of accounting. It therefore become important that attention of accounting scholars and standards towards successful compliance to IFRS guaranteed effective performance of manufacturing companies in developing economy as opposed to mere stereotyped adoption campaign that pervaded everywhere mindless of the status of the economy where the firms operate

Theoretical Framework

According to Barth et al. (2007:2), the IASB Framework was approved by the IASC Board in April 1989 for publication in July 1989, and adopted by the IASB in April 2001. In September 2010, as part of a bigger project, the Framework was revised with key objective of general purpose financial reporting and the qualitative characteristics of useful

information to guide reporting entities to better performance.. Thus, the reporting entity provides useful information to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit. Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed (Barth et al. 2007:6; Chen 2010:226).

Accrual accounting depicts the effects of transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period. This is important because information about a reporting entity's economic resources, claims and changes in its economic resources during a period provides a better basis for assessing the entity's past and future performance than information solely about cash receipts and payments during that period, Daske et al. (2007:16)..

The elements of income and expenses are crucial in business undertaken. Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants while expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence's of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. An item that meets the definition of an element should be recognized and be disclosed for better understanding and proper comprehension of all the stakeholders in a business entity. It is probable that any future economic benefit associated with the item will flow to or from the entity; and the item has a cost or value that can be measured with reliability.

Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the balance sheet and income statement. This involves the selection of the particular basis of measurement. The concept of capital maintenance is concerned with how an entity defines the capital that it seeks to maintain. It provides the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured; it is a prerequisite for distinguishing between an entities' return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital may be regarded as profit and therefore as a return on capital. Hence, profit is the residual amount that remains after expenses (including capital maintenance adjustments, where appropriate) have been deducted from income. If expenses exceed income the residual amount is a loss.

Company's Performance Indicators and IFRS

The major aim a disclosure requirement is to provide standards for entities that are not of the same size nor having capacity and same resources to adopt full IFRS so that the authority of entities in each territory could decide which class of entities are permitted to apply one standard or the other with all objectivity.

Zeff (2008), Wulandari & Rahaman, (2004) emphasized on voluntary acceptance and adoption of International Financial Reporting Standards by listed firms. Such firms financial statements must be capable of been analyzed through their annual reports. Other revelation that contained vital elements are observed as the determinants of voluntary acceptance and adoption of the IFRS by listed firms In the same vein, Dholakia, (2013) stated that, the shift to IFRS by some countries in the recent period is considered to be a giant stride towards achieving global accounts harmonization.

But this position contradicts the finding of the survey carried out by Jermakowicz & Gornik-Tomaszewski (2006). They attempted to determine the level of acceptability of IFRS and its application as well as determining how well-informed and appreciative investment funds administrators and managers were in 41 European Union Countries.

The position of accepting the adoption of IFRS in these countries showed a low level of acceptability among the fund supervisors since most of them still expressed their preferences of local Generally Accepted Accounting Practices to IFRS in achieving quality reporting system. Majority of the fund managers preferred using the domestic GAAP to IFRS while managers that have already incorporated both the IFRS and the local GAAP in their reporting system express no intention of total switch to IFRS.

IFRS Operationalization

The economic success of any country depends largely on proper management and adequate investment in different business sectors-the small scale business, the medium scale business and the large scale business (Soludo, 2006). Akande (2010) opined that SMEs has been identified as the major source of economic development in developing economy, an accelerating force that is used in achieving socio- economic goals of a nation, a strong stimulant to economic growth of various forms and a strong provider of economic leeway to hitherto improvised families in the cities of developing countries. In South - West Geo-political zones of Nigeria, manufacturing companies takes predominant roles in engaging most households because of less stringency of laws and regulations which are often seen in listed companies of developing Nations.

Series of events have emerged in the study of manufacturing companies especially those that are listed on the stock exchange markets the world over. Most of the empirical literature emphasis on the factors that hamper the growth and expansion of industries such as limited source of finance, lack of skills, competence, lackadaisical altitude of management and improper record / book-keeping of their businesses.

Generally for a sector of economy to grow, there must be a favourable and amiable atmosphere for proper record

preparation and presentation based on the new rules that are acceptable globally.

Revenue Recognition Rules in Manufacturing Companies

In line with the International Financial Reporting Standard 15, a revenue is the gross inflow of cash, receivables and other considerations arising in the course of ordinary activities of an organization. This position has a lot of influence on statement of comprehensive income preparation which is the utmost basis of which manufacturing companies operates. Thus, from sales of goods, rendering of services and use of other enterprises resources that yield interest, companies are expected to make its ways without jeopardizing the position of IFRS which emphasis on the revenue recognition as concerning the revenue that should be recognized. There are many theories that explain the underpinning adoption of IFRS to financial reporting crisis and manufacturing companies adoption and implementation predicaments in Nigeria. Relevant accounting theories examined includes relativity impact theory, contingency theory, convergence theory, stakeholders’ theory, behavioural finance theory, the institutional theory and the financial

contagion theory coupled with relevant disclosure requirements and compliance records in Nigeria,

The Behavioural Theory was initiated by Bondt and Summer (1985), Sheifer and Summer (1990), Sheifer and Vishng (1997) and Shiller (1999). The theory was based on the three main motives of money – precautionary motive transactions motive and investing motive which often served as a guidance business entities performance.

The Precautionary Motive Theory: This theory was developed by Meyer and Rowan (1997). The theory was on the roles of institutions participating in the regulating the affair of economic entities for better performance especially to act as the regulating bodies. The Nigeria Accounting Regulatory Council that took over the affair of Nigeria Accounting Standard Board has hitherto key in into IFRS and as such expect all registered manufacturing entities in the country to adopt the institutional prescribed disclosures without jeopardizing stakeholders benefits which can only be through profit reporting, proper asset management and other performance indicators.

II. DATA ANALYSES AND RESULTS

TABLE 1. IFRS Versus GAAP (Standards Provisions – key changes)

Basis of Comparison	IFRS Provisions	GAAP Provisions	Basic Differences
Financial State	Income Statement, Balance Sheet, cash flow statement, value added statements, accounting policies and notes to the account.	Statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash-flow, accounting policies, notes and significant management estimates and judgement.	Title of major items of Financial statements has changed
Property, Plant & Equipment	Measured with cost model	Measured with cost model but with details such as useful life, impairment calculation and identification of cash generating units	Breakdown of complexities are achieved
Segment reporting	More of geographical	Operational segment is based on Mgt. view. If the aggregate revenue is less than 75%, then more segment is required until 75% threshold is reached.	Segmental reporting is eventually abolished
First time adoption	Not applicable	Provides guidance and requirements on the transition to IFRS. It also provides relief for certain items in determination of opening balances.	This is the beginning of change into era of reporting financial statement in uniform form globally
Financial guarantees	Disclosed as contingent liabilities	Requires financial guarantees to be recognized at their fair value.	Fair value recognition is emphasized
Scope of Consolidation	General principles	Investments under control is consolidated	Control and exercise of significant influence is ascertained
Employees benefits	General expenses and disclosure as pensions	Recognize the undiscounted amount as benefits	Interest is generated as additional benefits to employees at retirement
Risk Management	Limited disclosure of foreign exchange	Disclosure is required for foreign risk.	Other risk items are disclosed

Source: IFRS prospectus, 2018

TABLE 2. Number of Year in Operation.

Number of Year	Number of Respondents	Percentage (%)
1-3	80	13.33
3-5	20	3.33
5-7	200	33.33
8-10	150	25
10-Above	150	25
Total	600	100

Source: Field Study, 2018.

From table one, salient areas of differences between old ways of presenting financial reports and the provision made by the new standards (IFRS) and the former General Accepted

Accounting Standards showed the areas where preparers of account need to focus for training purposes so as to enable manufacturing companies derived the desired benefits from the

new provisions. Benefits derivable if the provisions are properly keyed into will includes decrease in cost of capital, efficiency in capital allocation, international capital mobility, increased market liquidity and value, comparability enhancement and improved transparency of results of operations. Thus the adoption of IFRS in developing economy will avail manufacturing companies the benefits that ranges from promotion of provision of meaningful data on their performance thereby encouraging comparability, transparency and lower cost for potential investors.

Performance indices showing the effect of IFRS (Profitability, liquidity and investors activities ratios) in line with compliance with the requirements of IFRS showing mean and median comparison of the collected variables from 2012 to 2018 of the selected firms were as presented below:

TABLE 3. Descriptive Statistics of impart of IFRS on performance of selected manufacturing firms from 20012-2018 (n=50)

Variable	Mean	Std. Deviation	Skewness	Kurtosis
B12	2.980	1.921	- .007	-2.00
B13	3.880	1.136	-.702	-.552
B14	4.100	0.650	-.600	1.37
B15	4.600	1.800	0.25	7.18
B16	2.710	0.570	-1.97	-1.819
B17	4.720	0.810	-2.70	2.94
B18	4.580	1.53	-.070	8.43

Source: Field Survey

Table below shows the descriptive statistics of the impact of IFRS on the performance indices of selected manufacturing firms from the date of ultimatum compliance (2012) to 2018. From the analysis table, variable B17 with a mean value of 4.72

and the highest signify a very high impact. It shows that 94% of the respondents to a large extent agreed that IFRS provides better information than GAAP. The second highest B15 mean value of 4.60 signify that the respondents believed that IFRS directly affects how earnings, profitability and other key performance indices of business of manufacturing firms are accounted and reported and therefore IFRS has significant effects on performance of the firms. Other next ranked values of B18, B14, B13, B12 and B16 with mean values of 4.580, 4.10, 3.88, 2.98 and 2.710 implies that adoption of IFRS will improve transparency of the firms as well as provide greater opportunities that will further enhance performances of manufacturing firms in Nigeria.

The results of OLS shows the impact of IFRS on the profitability of the firms based on fixed effect Model.

$$MV_{i,t} = 0.49 - 0.24(EPC) + 0.70(BK>) - 0.27(WSM) + 0.03(AWR) + 0.10(ENP) - 0.13(CEL) + 0.31(ERD) + 0.06(SIZ) + \mu$$

Table relates IFRS disclosure requirements variables to the profitability of the selected firms. The result of CED has a positive significant impact on profitability (t = 1.97, p = 0.04) at 5% level of significance. Firm size has no significant effect on the profitability The overall impact of IFRS on market value of quoted companies is significant as (F = 0.0000). The result of model 1 showed a significant effect of IFRS on the market value which invariably brought about improvement in the earnings of the companies as reflected by growth in profitability of the firms. As opposed to those firms that do not complied as obtained from the study.

TABLE 4. Mean and Median Values Relationship of profitability indices and IFRS compliance between 2012 -2018.

	MV	EPC	ENP	BIO	WSM	AWR	ERD	CEL	SIZ
Mean	1.4732	0.7554	0.2832	0.6537	0.6392	0.1283	0.3849	0.0314	1949774
Median	1.1600	1.0000	0.00000	0.0000	0.0000	0.0000	0.0000	0.0000	4896443.
Maximum	12.570	3.0000	3.00000	3.0000	3.0000	3.0000	3.0000	3.0000	2.15E+0
Minimum	0.1200	0.0000	0.00000	0.0000	0.0000	0.0000	0.0000	0.0000	99836.00
Std. Dev.	1.0570	0.7794	0.63063	0.9772	0.9644	0.4520	0.7628	0.2341	3261639
Skewness	4.2503	0.7322	2.25131	1.22	1.2275	3.6749	2.0496	8.8679	2.7048
Kurtosis	35.938	2.8430	7.32435	3.1352	3.1512	16.011	6.4214	91.4183	11.111
Beta-value	19913.8	37.326	670.671	102.89	104.11	3843.0	490.61	139945.3	1635.97
Probability	0.0000	0.0000	0.00000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sum	608.46	312.00	117.000	270.00	264.00	53.000	159.00	13.000	8.05
Sum Sq.	460.33	250.30	163.854	393.48	383.24	84.198	239.78	22.590	4.38E+1
Observation	413	413	413	413	413	413	413	413	413
Cross secti	50	50	50	50	50	50	50	50	50

TABLE 5. OLS Regression Result of compliance and profitability of manufacturing firms.

Variables	Estimated coefficient	Standard error	T statistics 1.97	P value 0.04
R	R^2	Adjusted R squared	Standard Estimate of regression	
0.93	0.86	0.73	0.8183	

Source: Researchers computation with E-views Software, 2018

III. CONCLUSION AND RECOMMENDATIONS

The study showed that total compliance with the rules set in the standards guaranteed effective performances of manufacturing companies as stakeholders' have access to adequate information which further boost their returns, there are clear distinction between the GAAP and the IFRS

basically on the title of financial statement items and the treatment of cogent accounting factors which tends to improves firms' opportunities as well as providing the shareholders needed and necessary information, In agreement with the basic problems and findings of this study the following recommendations are made that there should be a continuous enlighten campaigns on the impacts of adopting

IFRS by the regulatory bodies, companies should prepare adequately on all fronts of the implementation of IFRS. Companies should endeavor to use the opportunity presented by the adoption of IFRS to improve their business processes and procedures, Companies that are required to adopt IFRS should be involved in capacity building by organizing, major institutions connected with the implementation of the new standard should be urgently considered and training institutions yet to fully include IFRS in their syllabus should do so urgently.

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