

EVALUATING THE EFFECT OF IFRS ADOPTION ON THE FINANCIAL POSITION OF COMMERCIAL BANKS IN NIGERIA

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Abstract: *This study is designed to evaluate the effect of the adoption of the International Financial Reporting Standards (IFRS) on the financial position of banks in Nigeria. In order to achieve this, we adopted a quantitative research design that primarily focused on the construction of quantitative data by obtaining the required information on Total Assets, Liabilities and Equities needed for the purpose of data analysis from the annual reports and accounts of three sampled banks in Nigeria. Analysis was based on periods before and after IFRS adoption and was done using the Ordinary Least Square technique. Findings from this study show among others that IFRS adoption significantly and positively affected the financial position of the sample banks in Nigeria. On the basis of our findings, we recommend that all organizations, as a matter of urgency, should be made by law to comply with the provisions of IFRS, and the continuous training and retraining of accountants, preparers of financial statements and all stakeholders must remain a re-occurring decimal generally in corporate entities, and in banks (in particular) in Nigeria.*

Keywords: *IFRS, Corporate Financial Reporting, IAS, NGAAP, Assets, Liability, Equity.*

JEL Classification: *M41, M49, G21.*

Introduction

Accounting has severally been described as the language of business. This is simply because accounting focuses on identifying, classifying, summarizing and interpreting economic and other relevant information about reporting entities such that intended users of such information can make informed judgments. No doubt, through financial statements, the overall well being as well as the state of affairs of organizations is communicated to stakeholders of all manners and kinds. Thus, with accounting, one is expected to have the required and relevant information that would enable one to understand organizations better and be able to make comparison between and among firms, industries etc.

According to [26], investors rely on the information content of financial statements which usually is supplied by management. The implication of the above is that investors' decisions on whether or not to invest on a firm or group of firms are basically based on the available information at their disposal. This again seemed to be a function of what may have been reported by management (regarding assets and liabilities) in the annual reports and accounts of organizations. Although, there seems to be a general view that regulatory provisions (IFRS) have the tendency to positively affect financial positions of an organization [21 and 27], contrarily, there are claims that regulatory provisions may still have negative effect on the financial positions of organizations due to cross-country differentials in the implementation of such regulatory provisions. Thus, this study is designed to evaluate whether or not the adoption of International Financial Reporting Standards (IFRS) has negative or positive effect on the financial position of banks in Nigeria.

1 Problem Statement and Research Questions

For the purpose of uniformity and reliability, financial statements are usually prepared on the basis of certain provisions/regulatory standards and conventions in accounting. Such standards are sets of information system prepared by appropriate regulatory bodies through which monetized and financial information are generated for economic, social and political decisions [10, and 12]. Before now, most countries have their local or national standards designed to cater for the immediate and domestic transactions peculiar to different specific nations. Thus, in Nigeria for instance, before the adoption of the International Financial reporting Standards (IFRS), the country had in place, the Statements of Accounting Standards (SAS) which was developed and issued by the Nigerian Accounting Standards Boards (NASB) [20 and 26] and designed for use by reporting entities in Nigeria, such that a financial statement prepared in Nigeria tend to be different in terms of treatments of transactions and disclosures with those prepared under different standards in other countries of the world. It was in view of the above that [16] maintained that due to nationalistic approaches to accounting standard setting, financial statements issued in Japan under the provisions of the Japanese Accounting Standards for instance tended to be entirely different from what was obtainable in Germany especially in the area of accounting treatments to transactions and disclosure requirements.

However, owing to globalization and the attendant integration of capital markets across the globe [25 and 22], the main objectives of understandability, reliability, relevance and comparability [16] which financial statements were originally designed to achieve seemed to have been threatened. This is because in situations where various countries prepare financial statements following the requirements/provisions of different accounting standards (local GAAPs), the fact that users may be making wrong comparisons could no longer be overemphasized. Thus, with the application of different standards in various countries, accounting started communicating in different languages; thereby creating problems of understanding. This to a large extent affected the type of comparison made by investors and analysts across countries and jurisdictions. This also affected the level of reliance on the information content of financial statements. Supporting the views of [13], [27] opined that variations in the pattern of financial reporting among countries and regions stood in the way of financial reporting comparability among nations, thereby making the necessity of harmonization and standardization to be felt globally.

With the above in mind, the growing technological transformations worldwide along with the continuous calls for a set of global accounting standards that would guarantee a common language of business across the globe through what [16] described as a single set of accounting and financial reporting standards, led to the development of the International Financial Reporting Standards (IFRS) which is expected to be used by virtually most countries across the globe. It is in view of this that [20] opined that IFRS adoption has become a global issue resulting from the desire for companies financial statements to be uniformed, reliable and comparable.

Through financial statements, the assets, liabilities, value added, cash flows as well as changes in the equity positions of organizations could be ascertained [9]. This information according to [20] tends to be useful to a wide range of users in the area of informed judgment and economic decision making. Since there is this argument that the availability of accounting information in the financial reports and accounts of firms

to a large extent reduces dissemination of information asymmetry in addition to improving pricing of securities thereby guaranteeing efficiency in the allocation of the scarce resources of investors firms and others [24, 20, and 27], the adoption and implementation of IFRS is therefore believed to have the capacity of reducing moral hazards in financial statements which according to [3] results from earnings management through accrual policy.

Inherent in IFRS adoption is the implementation of the principles of fair value accounting [18], a topic that has also attracted series of academic debates over the years [15]. By fair value accounting, transactions with respect to assets and liabilities according to [19] are assumed to have taken place in the principal or most advantageous market. Thus, fair values reflect the most current and complete expectations and estimations of the values of assets or obligations for entities at a given point in time [8].

It is therefore expected that with the move by Nigeria and other countries of the world to adopt IFRS, issues on accounting treatments and disclosures needed to be closely and empirically evaluated to ascertain the extent to which IFRS adoption had affected the fair values of assets or liabilities recorded in the accounts of quoted firms in Nigeria. It is on this ground that this study is designed to evaluate the effect of the adoption of IFRS on the financial position of reporting entities in Nigeria. This is because with this, one could empirically ascertain whether or not the adoption of IFRS would have any impact on the fair values of assets, liabilities and equities of Nigerian banks – the major items disclosed in the statement of financial positions of reporting entities. Our focus in this study as mentioned above is on banks since this sector constitute the first set of reporting entities that complied with the provisions of IFRS in Nigeria.

Research Question

In light of the above, we seek to find answers to the following research questions which have been formulated to guide this study:

1. *What is the statistical association between IFRS adoption and the assets of Banks in Nigeria?*
2. *What is the relationship between IFRS adoption and the equities of banks in Nigeria*
3. *How does the adoption of IFRS affect the liabilities of banks in Nigeria?*

Conceptual Underpinning and Literature Review

The IFRS are sets of high quality principles based standards designed by the International Accounting Standards Board (IASB) for general purpose financial reporting and is currently meeting the aspirations of the world's increasingly integrated markets [16; 20; 17; 2; 23 and 1]. To date, several studies both in developed and developing economies have been conducted to ascertain or evaluate the impact of the adoption of IFRS on multi-faceted issues. For instance, [5] carried out a study to find out the effects of IFRS adoption on the quality of financial reporting among European banks. In this study, emphasis was placed on analyzing how changes in the measurement and recognition of loan loss provision, which according to [5] is the main operating accrual item among the sampled banks, affects income smoothing behaviour as well as timely loss recognition among banks. The study however found that IFRS adoption significantly reduced the ability of banks to reduce income smoothing. In a different study, [4] examined the impact of IFRS on the Indian banking industry by critically analyzing selected variables in the financial statements of banks in India. The study concluded that IFRS adoption would have major impact on the

selected variables for the study in addition to an expected wide range effects at various levels of the IT systems and architecture in India [4].

Following the adoption of IFRS in Nigeria, [18] examined the perception of financial auditors on fair value accounting in the country. The study however found that with the adoption of IFRS, financial statements prepared under fair value accounting tend to be more relevant than those prepared under the historical cost accounting approach which was the focus of the Nigerian GAAP (Statement of Accounting Standards) previously in operation in Nigeria before the adoption of IFRS.

In another study, [7] examined the insights of academics and practitioners on the adoption of IFRS in Nigeria and found that despite the fact that the respondents used in the study believed that Nigeria was yet to be ready for the adoption and implementation of IFRS, the fact that IFRS cannot be overlooked or rejected was clearly evident in the views of the respondents, as such, the study recommended the immediate review or accounting curriculum in tertiary institutions in the country to incorporate IFRS and its implementation dimensions [7]. Similarly, in a study that examined the implications of IFRS adoption on SMEs in Nigeria, [17] chronicled the challenges imminent in the adoption and implementation decision to include people, systems, process, business and reporting. Following the findings of their study, [17] recommended among others that apart from including IFRS courses in the curriculum of higher institutions of learning in the country, SMEs should be ready to always be up to date with the pronouncements, reviews and updates published by the international Accounting Standards Board (IASB) and comply accordingly from time to time.

In a cross country analysis, [21] investigated the effects which changes in accounting standards would have on earnings management by modifying the Jones [11] model and obtaining data from banks both in Nigeria (15 banks) and Malaysia (8 banks) for a period of four years. The study found that the new standards impacted more significantly and positively on the quality of accounting information of banks when compared to previous local standards used respectively by both countries.

[23] assessed the extent to which quoted banks in Nigeria complied with the IFRS framework on its first time adoption by adopting the ex-post facto and survey research designs. In addition to the multivariate regression and the chi-square techniques, the study also employed the qualitative grading system to determine the degree to which sampled banks have complied as well as the effect of the factors responsible for the compliance with IFRS 1. Empirical evidence from this study showed that despite the fact that Nigerian banks complied with the provisions of the IFRS framework on first time adoption (to some extent), the exercise of switching from the Nigerian GAAP to IFRS still faced multifaceted challenges.

In a more recent study, [25], examined the impact of IFRS on the market performance of food and beverages manufacturing firms in Nigeria. The performance variables selected for this study included Price Earnings Ratio, Earnings Per Share, and Dividend Yield. The findings from this study based on the comparative analysis of the pre and post IFRS era using the t-test indicated that the difference between market performance of the pre and post IFRS periods were not significant. This according to [25] is a suggestion that a weak correlation exist between IFRS adoption and the market performance of beverage manufacturing firms in Nigeria. Contrary to this finding, the study of [1] on the impact of IFRS adoption on the financial reporting practices in Nigeria found that the adoption

of IFRS brought about increased comparability and better decision making among banks in the country since quantitative difference in the financial reports prepared under the Nigerian GAAP and the IAS/IFRS were found to be statistically significant.

Motivated by the results from prior studies on the impact of IFRS on the financial statements of banks, [27], examined the effect of IFRS adoption on the financial statements of banks. Focus in this study was basically on the income statement. Findings from this study according to [27], revealed that IFRS adoption had positively impacted on profitability and growth potential of Nigerian banks in addition to bringing instability in income statement figures.

The result of the literature review suggests that prior studies on IFRS adoption produced mixed findings/results and that to date, empirical evidence on the impact of IFRS adoption on the financial position of reporting entities tend to be scanty or near non-existence in Nigeria, an empirical gap tend to have been created, hence, this study.

2 Methods

This paper adopted a quantitative research design which focuses primarily on the construction of quantitative data. Quantitative design employs measurement that can be quantifiable [14]. However, amidst the twenty-three (23) commercial banks as at 31st July, 2015, three (3) banks namely First Bank of Nigeria Plc, Access Bank Plc and Guaranty Trust Bank Plc were chosen.

2.1 Reasons For Choice of Sampled Banks

The rationale for choosing the sampled banks of this study was based on the fact that they were among the first set of banks that transited from Nigerian GAAP (SAS) to IFRS. Thus, they have more years/data for which their financial reports were prepared in compliance with the provisions of IFRS for the periods under investigation (Four years before IFRS adoption, and Four years after IFRS adoption). In view of the above, we obtained data from the Annual Reports and Accounts of the sampled banks of this study.

2.2 Model Specification and Data Choice

Data on Total Assets, Liabilities and Equities were obtained from the Annual Reports and Accounts of the sampled banks for the period before and after IFRS adoption. Assets, liabilities and equities are of paramount concern not just to the organizations, but also, to investors, as they constitute part of the basis for assessing the financial health or position of an organization. Owing to the above assertion, we specified a model that expressed total asset as a function of total liabilities and equities. The model specification was written mathematically as:

$$TASSET = F(TLIAB, TEQUITY, IFRS_{dum}) \quad Eq. 1$$

Assuming a linear relationship between the variables in Eq. 1 above, the explicit form can be rewritten as follows:

$$TASSET = \alpha_0 + \alpha_1 TLIAB + \alpha_2 TEQUITY + \alpha_3 IFRS_{dum} + \varepsilon_t \quad Eq. 2$$

Where:

TASSETS = Total Assets (this represents the addition of the current and non-current assets of sampled firms at time t)

TLIAB = Total Liabilities (this represents the addition of current and non-current liabilities of sampled firms at time t)

TEQUITY	=	Total Equities (this represents the equities of sampled firms at time t)
IFRS _{dum}	=	(Proxied by 1 for periods after adoption, otherwise 0)
$\alpha_1, \alpha_2, \alpha_3$	=	Regression Coefficients
ε_t	=	Error term

The regression analysis was observed for the period before (2007 – 2010) and period after (2011-2014) IFRS adoption. The Ordinary Least Square statistical tool was used in our analysis through the Statistical Package for Social Sciences (SPSS).

3 Problem Solving/Discussion of Findings

This section dealt with the presentation and analysis of data alongside with the discussion or the results. In our analysis, we presented the descriptive statistics of the variables, which was followed by the regression results. Nevertheless, the descriptive statistics (mean, standard deviation and standard error mean) and the Pearson correlation result for both periods (before and after IFRS adoption) were used to find answers to the research questions earlier formulated. For the purpose of clarity, the research questions have been restated and the results are presented in Tables 1-3.

a. Research Question 1: *What is the statistical association between IFRS adoption and the assets of Banks in Nigeria?*

To answer this research question, the Pearson correlation was conducted.

Tab. 1: Pearson correlation of the association between IFRS adoption and the assets of banks in Nigeria

Variable	N	R	P	Remark
IFRS Adoption*Assets Association	12	0.221	0.002	Associated

Source: SPSS Output, 2015

Table 1 above shows the Pearson correlation result which reveals the statistical association between IFRS adoption and the total assets of banks in Nigeria. As indicated above, the Pearson R (0.221) is greater than the p-value (0.002). The implication of the above is that there is statistical association between IFRS adoption and the assets of banks in Nigeria.

b. Research Question 2: *What is the relationship between IFRS adoption and the equities of banks in Nigeria?*

To answer this research question, Pearson correlation was also conducted.

Tab. 2: Pearson correlation of the association between IFRS adoption and the equities of banks in Nigeria

Variable	N	R	P	Remark
IFRS Adoption*Equities Relationship	12	0.015	0.002	Associated

Source: SPSS Output, 2015

Table 2 above presents the Pearson correlation result which brings to light, the statistical association between IFRS adoption and the equities of banks in Nigeria. As indicated above, the Pearson R (0.015) is greater than the p-value (0.002). This empirical evidence thus suggests that there is significant relationship between IFRS adoption and the equities of banks in Nigeria.

c. Research Question 3: How does the adoption of IFRS affect the liabilities of banks in Nigeria?

To answer this research question, a descriptive statistics was conducted. The mean score for acceptability or comparability is based on size of the mean for each period (before and after IFRS adoption).

Tab. 3: Descriptive Statistics for Total Liabilities for the sampled Banks

	N	Mean	Std. Dev.	Std. Error Mean
Liabilities*Before IFRS Adoption	12	51723379.5	78634689.9	229846.0
Liabilities*After IFRS Adoption	12	117347031.6	151135964.4	266018.7

Source: SPSS Output, 2015

Table 3 shows the descriptive statistics for total liabilities for the sampled banks. From Table 3, the mean is ₦51,723,379.5 and ₦117,347,031 for the period before and after IFRS adoption for the sampled banks. The mean value suggests that total liabilities under IFRS are greater than that reported by the sampled banks in periods before IFRS adoption in Nigeria. This situation is further depicted by the standard deviation and standard error mean of 151135964.4 and 266018.7 respectively for the period after IFRS adoption and 78634689.9 and 229846.0 respectively for the period before IFRS adoption. It therefore means that liabilities of banks have been affected in an incremental magnitude especially after IFRS adoption.

3.1 Regression Results

In this section, we presented the results of the coefficients for the period before and after IFRS adoption for the sampled banks.

Tab. 4: Coefficients for the period before IFRS Adoption for sampled Banks

Variables	Coefficients	t-statistic	Prob.
Constant	1881424.544	1.895	0.095
TLIAB	-0.006	-0.449	0.665
TEQUITY	0.004	1.479	0.177
IFRS _{dum}	-130068.154	-0.079	0.939

Dw = 1.003

Source: SPSS Output, 2015

The t-ratio is also used to test the statistical significance of the independent variables and to show the predictive power of the independent variables. [6] noted that t-ratio is a complementary approach to the confidence interval method of ascertaining the test -of-significance of variables. The t-test rule is that if the p-value is greater than the level of significance (0.05), it suggests that the particular independent variable is not statistically significant while the opposite is the case if the p-value is lesser than the level of significance. As shown in Table 4, of the three explanatory variables tested in this study during the period before IFRS Adoption, Total Liability (p-value= 0.665), Total Equity (p-value= 0.177) and IFRS_{dum} (p-value= 0.939), were statistically flawed at 5 percent or lower. This implies that there is no significant relationship between all the independent and dependent variables. In addition to the above, a negative sign was attached to TLIAB and IFRS_{dum}. The inference is that liabilities of banks had been negatively affected in periods before the adoption of IFRS in Nigeria. The Durbin Watson (Dw) statistics

(1.003) revealed the existence of autocorrelation of residual in the model for period before IFRS adoption.

Tab. 5: Coefficients for the period after IFRS Adoption for sampled Banks

Variables	Coefficients	t-statistic	Prob.
Constant	682207.801	4.545	.002
TLIAB	.1930	9.263	.009
TEQUITY	1.0785	7.103	.002
IFRS _{dum}	180844.356	10.032	.013

$Dw = 1.983$

Source: SPSS Output, 2015

The t-ratio is also used to test the statistical significance of the independent variables and to show the predictive power of the independent variables. Recall also that according to [6], t-ratio is a complementary approach to the confidence interval method of ascertaining the test-of-significance of variables. Hence the rule applicable to the t-test is that where the p-value is greater than the level of significance (0.05), it is an indication that the particular independent variable is not statistically significant while the reverse is the case where the p-value is lesser than the level of significance. As shown in the Table 5, of the three explanatory variables tested in this study during the period after IFRS Adoption, Total Liability (p-value= 0.009), Total Equity (p-value= 0.002) and IFRS_{dum} (p-value= 0.013), were statistically significant at 5 percent or lower. This implies that there is significant and positive relationship between the dependent variable and all the independent variables. The above position further proves that total liabilities and equities of banks have been influenced by the adoption of IFRS in Nigeria. The result of Dw revealed a different result during the period after IFRS adoption. Dw statistics (1.983) showed non-existence of autocorrelation of residual in the model after IFRS adoption.

Conclusion & Recommendations

Financial statements are generally believed to provide means of showcasing the financial position or the overall well being/state of affairs of organizations at any given point in time. Thus, the statement of financial position prepared under IFRS tends to be very useful in this regards. This study therefore seeks to evaluate the effect of IFRS adoption on the financial position of commercial banks in Nigeria. The banks used in this study are First Bank of Nigeria Plc, Access Bank Plc and Guaranty Trust Bank Plc. Analysis was done for periods before and after the mandatory adoption of IFRS in the country based on the data obtained with respect to total assets, total liabilities and equities from the records of the sampled banks used in this study. In a bid to determine whether IFRS significantly impacted on the financial position of the banks selected in this study, we employed both the Pearson correlation coefficients and the Ordinary Least Square (OLS) estimation technique. The outcome from the analysis of results with respect to research questions 1 and 2 provide evidences that there is statistical association between IFRS adoption and the assets and equities of banks in Nigeria. In addition to this, the results from the analysis done with respect to Research question 3 suggests that liabilities of banks have been affected in an incremental magnitude especially after IFRS adoption. The conclusion reached in this paper is that IFRS adoption significantly impacted on the financial position of banks in Nigeria.

Based on the above, the following recommendations were proffered:

1. The decision of the Financial Reporting Council of Nigeria that reporting entities must mandatorily transit to the International Financial Reporting Standards must be sustained.
2. By law, all organizations, as a matter of urgency, must compulsorily be made to comply with the provisions of IFRS since from our results, transiting to IFRS has significant impact on the financial position of banks in the country.
3. Continuous training and retraining of accountants, preparers of financial statements and all stakeholders on IFRS implementation must remain a re-occurring decimal in corporate entities generally and banks in particular in Nigeria.
4. Organizations that fail to comply with the provisions and updates of IFRS should be sanctioned by the appropriate regulatory authorities/bodies/agencies in Nigeria.
5. To further encourage stakeholders' awareness and education on IFRS due to its significant and positive impact on reporting entities, professional accounting bodies as well as tertiary institutions in the country should be closely monitored to guarantee the inclusion of topics on IFRS in the accounting curricula in Nigeria. Failure of which, should also be sanctioned by the appropriate regulatory authorities.

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