International Financial Reporting Standards (IFRS) Transplanting and Convergence in Nigeria: Consequences and Prospects

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Abstract
Accountancy profession across the world has been witnessing revolution for sometimes now, especially after the case of Enron and Word com and the challenges to Auditing as profession. The profession has another breaking point in Nigeria in 2012 just like many other countries, IFRS transplanting and convergence, a standard that has not yet been adopted in the United States of America. The specific of objective of the paper is to evaluate the consequences of the convergence in Nigeria with a view to pointing out what per adventure have not been done right in the transplanting, suggest what should be done to enable the country derive the full benefits of the change in the accounting regulation. The data are collected through primary data apparatus and cross sectional secondary data from the annual reports of the selected case studies. The methodology adopted is student-t distribution. We also deployed descriptive statistics. The results from the descriptive statistics portend mix reactions. Most of the variables selected have both positive and negative signs; when it is positive, it means that the amount reported in the financial statements under GAAP is higher than that of IFRS and vice versa. The student-t portends that at 5% confidence interval, there is significant difference between the figures reported under IFRS and GAAP, consequently the convergence of IFRS in Nigeria has offered invaluable benefits and significant effects. We however recommend that government should immediately review all the relevant sections in the local extant laws and review syllabus of accounting in tertiary institutions and secondary schools in order to have the unity of purpose and derive optimum benefits in the convergence of IFRS in Nigeria.
Keywords: Revolution, IFRS Transplanting, Convergence, Cross Sectional, Secondary Data, GAAP and Mix Reaction**.**

1.1 Introduction

Recently, Nigeria has converged on the use of International Financial Reporting Standards (IFRS) in the preparation of Financial Statements of Significant Public Entities. The implementation started in 2012, 2011 and 2010 are the comparative years. On convergence/adoption in Nigeria, many entities that fall under Significant Public Entities (SPEs) have converged in 2012 while some few ones, for example, Micro Finance banks are struggling to converge with the use of IFRS, perhaps because the Central Bank of Nigeria (CBN) has not given specific directives on convergence with IFRS to the Micro Finance Banks. Some African countries and other developed nations across Europe, Australian, and Asia among others have adopted the International Financial Reporting Standards (IFRS) as reporting standards. The transformation from local Generally Accepted Accounting Principles (GAAP) to IFRS represents the most crucial revolution in Accountancy profession. In the work carried out of Ogiedu and Odia (2013), more than 120 countries are reported to have converged with the use of IFRS as issued by the International Accounting Standard Board (IASB). It is believed that the adoption of IFRS will enhance comparability, universality and production of high quality Financial Statements. (Okafor and Ogiedu 2011, Collings, 2012 and Akinde, 2014). Similarly, Ball (2006) as also affirmed in Okafor and Ogiedu (2011), submit that the convergence of IFRS among several nations across the world will reduce differences in the reporting languages. However, these differences in reporting languages, cannot be eliminated. They maintained that the adoption of the IFRS, perhaps would not ensure comparability of financial statements in all countries as suggested because the country will still need to comply with he relevant local extant laws. Ball (2006), Berth, Landeman and Lang (2006), Okafor and Ogiedu (2011), Christensen,and Nikoleieu (2008) and Suche and Jindrichovska (2004)). Besides, the adoption of IFRS will reduce window dress financial statements, consequently, there will be production of high quality annual reports. (Akinde, 2014, Collings 2012).

GAAP in Nigeria before the adoption of IFRS includes the Statement of Accounting Standards (SAS), the International Accounting Standards (IAS), Insurance Act, Bank and Other Financial Institution Act and other local extant laws, (e.g. Companies and Allied Matter Act 1990 as amended to date, Central Bank of Nigeria Regulations, Insurance Act 2014 etcetera). However, with the adoption of IFRS in Nigeria, GAAP is now re-defined as the IFRS/IAS and other extant local laws that do not contravene with the International Standards. Nigeria seems not fully ready for the adoption of these international standards. This is because the Companies and Allied Matter Act (CAMA) 1990 as amended to date still has the format and several other important laws that affect the preparation and presentation of financial statements of limited liability Company in Nigeria. Surprisingly as at today, these extant laws have not been amended to accommodate the changes made in IFRS. Amending these laws will eliminate contradictions in presentations, accommodate fair value of assets, treatment of goodwill and other intangible assets, valuation of noncurrent assets, business combination among others. Most Micro Finance banks, which should have complied fully with IFRS since 2012 under Significant Public Entities (SPEs) have not done so and no sanctions have been given for non-compliance. Financial statements some of the SPEs and Small and Medium Scale Enterprise (SMEs) are still being produced using local standards. They still file returns with Financial Statements prepared under local GAAP to the regulatory agencies like the Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), and Federal Inland Revenue Service (FIRS) among other regulatory institutions without commensurate sanctions. This contradicts IFRS that has been adopted with directives from the Federal Executive Council (FEC) in Nigeria on 28 July, 2010 that all entities under SPEs are to prepare Financial statements in 2012 by adopting the IFRS fully and Small and Medium Scale to comply in 2014. Presently, we are in the year 2015, unfortunately, many of these SPEs eg Micro Finance Banks have not converge with IFRS.

Awareness in the tertiary institutions studying Accounting, Finance and Banking Business related courses are quite low. Many lecturers are still imparting accounting knowledge to students on the premise of the local standards. The curriculums of accounting courses are not yet reviewed in the tertiary institutions in Nigeria. Certainly, if we continue this way, our accounting graduates may not be able to compete for example with graduate accountants from European tertiary institutions where the curriculum reflects current trend in the profession. In the secondary schools, it is worst possible scenarios. These levels of accounting education are not even aware of the IFRS; the West Africa Examination Council (WAEC), National Examination Council (NECO), Joint Matriculation Examination Board (JAMB) offering subjects in financial accounting related examinations are still carried out using Statement of Accounting Standard and other local extant laws.

The paper intends to investigate effect the of transition from local GAAP to IFRS in Nigeria on entities profitability, performance fundamentals, assets, liabilities and other information contained in the Financial Statements of selected entities from different industrial sectors in 2011, which is the comparative year. The relevant research question is what is the effect or impact of IFRS convergence/adoption on Financial Statements in spite of the challenges and the problem statements stated in the preceding statements? The specific objective of the paper is to evaluate the financial effect and consequences of adopting the IFRS in Nigeria. To achieve this, secondary data were collected from quoted companies in the Nigerian stock market. They were analysed using both descriptive and inferential statistics.

2.0 Literature Review

IFRS Convergence signifies the process by which standard setters across the world discuss accounting issues, using their combined experiences in accounting profession to arrive at the most appropriate solution. Gassen and Sellhorn (2006) submits that convergence could be either by adoption that is, a complete replacement of national accounting standards with IASB's standards. This was what we did in Nigeria. We transplanted IFRS without evaluating the states of preparedness of government institutions such as Federal and State Inland Revenue Service, Tertiary institutions studying accounting, West African Examination Council (WAEC), National Examination Council (NECO), Joint Admission Matriculation Board (JAMB). Convergence could also be by adaptation, which is modification of IASB's standards to suit peculiarities of local market and economy without compromising the accounting standards, disclosure requirements of the IASB's standards and the basis of reaching conclusions. Convergence was meant to bring standards of the US GAP and IFRS closer or harmonize them; to produce identical standards. According to SEC (2010), there are two approaches to IFRS adoption around the world: convergence and endorsement approaches.

There are several countries in Africa, Europe, Asia and Australia among others that have converged with IFRS as issued by the IASB. Even the United States Securities and Exchange Commission (SEC) is considering permitting US entities to prepare financial statements in conformity with the IFRS. There appears to be huge benefits for countries that have adopted the IFRS. However, Ashbaugh and Pincus (2001) maintain that it would take some time before the benefits of IFRS can be fully realized. Suche and Jindrichovska (2004) find out that at the transition period, accounting earnings had a positive small but significant relationship on total assets, total liabilities and equities of the sampled entities. It indicates that Return on Assets (ROA) is relatively higher and significant under IFRS than under local GAAP. From our study, it appears that total assets, total liabilities and accounting earnings after the adoption of IFRS are smaller in the sampled entities in Nigeria. This study takes a different queue because the performance proxies choosing from the Financial Statements have mix effects. Some of these accounting variables rose in values while some other items decreased in values after convergence with the IFRS issued by the International Accounting Standards Board (IASB). The reasons are not farfetched. They include reclassification of assets and liabilities (both current and noncurrent assets, current and noncurrent liabilities), impairments, fair values and possible window dressed Financial Statements when GAAP was used to prepare the Financial Statements.

Financial Statements of an entity provides information about performance, position and liquidity. A high quality Financial Statement is essential for users of such information to make major economic decisions. (Iyoha and Faboyede, 2011, Collings, 2012 and Akinde, 2014). Countries across the world continue to converge with IFRS. It is therefore imperative to measure the quantitative effect of convergence of IFRS in the preparation of a general purpose financial statement. The findings of Okafor and Ogiedu (2011) reveal that IFRS has been adopted in Nigeria, however a fraction of the entities have not complied. This is also corroborated in this study. Surprisingly, most private companies that fall under Significant Public Entities (SPEs) in Nigeria from the transition guidelines, have yet to complied. The study of Gassen and Sellhorn (2006). Haller and Eierle (2004), and Hung and Sabramanyam (2007) also exhaustively measure the benefit after convergence to IFRS in relation to local GAAP in Europe. However, Suche and Jindrichovska (2004) infer that consolidated financial statements of some selected entities in France are not as significant as it should have been contrary to a priori expectations. The study made by Jemakowicz (2004) in Belgium shows improved and better results and significant effect when Financial Statements produced after IFRS are compared with those statements produced employing local GAAP of Belgium. Furthermore, Suche (2004) in Australia reveal that after IFRS, total liabilities and equity of the selected firms decrease; more firms also have decrease in their earnings. In the position maintained by Haller and Eierle (2004), earnings of firms become value relevant after conversion to IFRS than before conversion; the equity book value is not value relevant as it remains at the same level when IFRS is adopted in the preparation of entity's Financial Statements.

2.1 Financial Statements Architecture after Convergence to IFRS in Nigeria

Jermkowicz (2004) submit that all accounting standards have consequences otherwise there will not be the need to issue such standards. The nature and architecture of Financial Statements have been reshaped and reorganized to take the interest of users of Financial Statements after adoption of IFRS within the short time in Nigeria. The financial statements after the transition to IFRS by the Significant Public Entities (SPEs) now run into several pages to produce invaluable information to assists users of such statements in taken major economic decisions. However, the important question to ask here is whether the users of these financial statements will really understand the bulky information contained in the statements without a financial analyst. This is a crucial question, this is because the information in such statements may mislead the users of these annual reports. The challenges after the convergence are overwhelming. They include personnel to prepare and convert the financial statements of first time adopter from the local GAAP to fully complied IFRS financial statements. In the academia, the syllabuses of accounting, finance and other business courses still remain as they were before the convergence to IFRS in 2010. In fact there has been no awareness at the secondary school level. Pupils studying accounts at basic level still continue be at the mercy of their teachers who do not have any knowledge of IFRS. The pupils in these secondary school are the major source of inputs at the tertiary levels. Thus the challenges of producing world class IFRS compliance accountants may be a mirage as efforts are not focused on both the basic and advanced level of accounting as a discipline in Nigeria. Various councils involved in the examination of financial accounting seem not to be aware of the wind of change in accounting profession consequent upon the adoption of IFRS in Nigeria. They have not responded by changing the outdated syllabus.

To this end, the findings of Suche and Jindrichovska (2004) are quite fascinating. The adoption of IFRS will produce invaluable Financial Statements that will be more useful to the auditor, analysts, standard setters and academia. To achieve these results, relevant government institutions should wake up to review syllabuses so as to develop the required personnel that will carry accounting and financial services in accordance with the tenets of IFRS as issued by the IASB from time to time. .

2.2 The Consequences, Effect and Challenges of IFRS in Relation to local GAAP

In the recent time, there is a general push towards the convergence of IFRS, the regulations issued by IASB. The basic effect of this on Financial Statements is that the convergence will ensure comparability, reliability, relevance, verifiability and that the information contained in the statements are faithfully represented. (Okafor and Ogiedu (2011),. Akinde, 2014, Trade across international boundaries continue to demonstrate a positive significant trend since the language of recording business transaction in the Financial Statements is now universal; this facilitates comprehension of the statements.

There are abundant literatures and evidences in international accounting on the quality and economic consequences of adopting IFRS. Okafor and Ogiedu (2011), , Young and Guenther (2002), Land and Lang (2002), Watts(1998 a and b), Ball(2006), Suche and Jindrichovska (2004) reveal consequences such as decrease in cost of funds, optimal equity deployment, improved mobility of capital across international boundaries and decrease in information asymmetry as only necessary information are provided to users of Financial Statements. Also, quality information to equity holders will improve; results of entities will be more transparent, reduction in window dress Financial Statements efficient management of international business operations, and positive effect on business performance management.

However, there are challenges of adopting IFRS. These include huge conversion costs, training and retraining costs and human capital development, cost of upgrading accounting software, cost of producing voluminous IFRS financial statements especially if they are in hard copies. Similarly, most of the Small Scale and Medium term enterprises cannot afford cost of producing IFRS complied Financial Statements. However, no matter what these challenges are, Iyoha and Faboyede (2011) conclude that the benefit will always greater than the costs

3.0 Empiricism, Instrumentation and Methodology

This paper investigates the effect and consequences of change from local GAAP in the preparation of Financial Statements to IFRS in Nigeria using entities' Properties, Plant and Equipment (PPE), Inventory, Trade Receivables, Other Receivables, Total Assets and items of Equity, Liabilities and Earnings. We compared the figures before and after the adoption of IFRS with a view to measuring deviation from the reported figures in 2011 and 2012. The instrument adopted is descriptive statistics and inferential statistics using student-t distribution. Panel data for the year 2012 and 2011 were collated from the annual reports of ten (10) quoted companies from the Nigeria Capital Market are collated. Six (6) of these companies are in the real sector, that is manufacturing entities, one(1) company from the construction and three(3) from the food and beverages. This is used to compute the percentages in table 1. These ten (10) companies have converged with IFRS in 2012 and their comparative years are 2011. The paper found out that there were differential in the figures reported in the Financial Statements prepared using the local Generally Accepted Accounting Principles (GAAP) and the Financial Statements prepared under the newly adopted IFRS. This was measured in percentages. The base year is represented with amount reported in the Financial Statements of 2011 prepared using the local GAAP. The percentage is defined as GAAP figures in 2011 minus IFRS figures in 2012 divided GAAP figure in 2011 (i.e, the base year figures) multiply by 100. From the table 1 below, the manufacturing company is represented with MAN, (i.e. manufacturing), transaction is represented with TRANS. Thirteen (13) items were selected for each of the ten companies in three (3) different sectors. We also collated data from the Annual Reports of fifteen (15) companies from the Financial Statements of financial institution, thirteen (13) from the banking sector and two (2) from the insurance sector. This is used in table 2 to 6 to measure the mean and standard deviation, which are used to calculate student-t distribution of the empirical models.

Interpretations and Discussion of Findings

In table 1, PPE, other assets, equity, liabilities and profit after taxation are compared employing descriptive statistical apparatus in form of percentages. The table gives credence to the trend in the rate of increase or decrease of the value of items selected. It shows at a glance whether there is an increase or decrease in the figures reported in the financial statements of the selected companies under GAAP and IFRS. The positive signs indicate that GAAP figures are higher than IFRS figure. Whereas the negative signs imply that the amount reported under IFRS is higher. The table portends that there is a mix effect, some items increase in value while others reduce in value. For example, Property, Plant and Equipment (PPE) of the Company in item 1, 2, 4, 6, 7, 9 and 10, we have positive signs, which imply that the figures of PPE reported under GAAP are greater than figures reported under the IFRS; in 3, 5 and 8 they are negatives, which means that the amount stated in IFRS Financial Statements are more than the amount stated using the local GAAP. This shows that the adoption of IFRS in Nigeria has great consequences on the amount reported in the Financial Statements. The possible reasons for this are impairments as contained in IAS 36 and valuation model as stipulated in IAS 16 on PPE, which were not in the previous local Statement of Accounting Standards. All items in the financial statements are reclassified on convergence to IFRS. This further explains the change in the values of the items stated in the financial statements prepared after the convergence to the standards issued by the International Accounting Standard Board (IASB).

In Table 3, we reported the descriptive Statistics. In Table 2 and 4, we measure the relationship between GAAP and IFRS with the use of Student-t test correlation. This portends that there is mean differential of 3134755.170 and standard deviation of 13140478.712. The probability value calculated is 0.04. It should be noted that the p value of 0.04 is smaller than α level (0.05), therefore we reject the null hypothesis and accept alternative hypothesis. We can therefore infer that there is significant differences between the mean and the standard deviation for the amount reported in financial statements prepared under IFRS and GAAP. In table 2 reported above, the mean of GAAP is 100332046.28 with standard deviation of 17950264.882; that of IFRS is 7909324.22 with standard deviation of 15313222.758 It means that there is a small alteration from GAAP to

IFRS. Consequently, the alternative hypothesis is accepted, we deduce that IFRS provides smaller advantages than existing GAAP in Nigeria. Also, from table 4 reported above, there is correlation of 0.778 between GAAP and IFRS, we can therefore infer a strong positive relationship between GAAP and IFRS. Similarly, the student-t test correlation shows that there is significance relationship between the GAAP and IFRS with the mean difference of 3134755.170, p value of 0.02 and α level of 0.05. Since 0.02 is less than 0.05, the alternative hypothesis is accepted, it therefore means that there is strong positive association between the GAAP and IFRS. The analysis gives credence to the fact that both IFRS and GAAP provide Greater benefit in Nigeria, but for the slight variation in the figures reported using IFRS, we can deduce that the adoption of IFRS has great effect and consequences in taking major economic decision about an entity.

Table 1:

The Effect of adopting International Financial Reporting Standards in the Real Sector: Comparative Year 2011

Assets											
	TRANS	**MAN**	**MAN**	**MAN**	**MAN**	**MAN**	**MAN**	**CONS**	**FOOD**	**FOOD**	**FOOD**
		1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Noncurrent Assets		%	%	%	%	%	%	%	%	%	%
Prop. Plant & Equip. (PPE)	1	2	2	-1	2	-1	3	3	-3	2	1
Inventory	2	1	2	4	-2	-2	-2	-2	2	-2	-2
Trade receivables	3	3	3	-2	4	1	-1	-1	-1	3	1
Other receivable & prep.	4	2	2	3	4	4	4	0	3	2	2
Total current assets	5	2	3	4	3	4	1	2	4	3	2
Total assets	**6**	**10**	**12**	**8**	**11**	**6**	**5**	**2**	**5**	**8**	**4**
Equities and liabilities											
Equity	7	0	0	0	0	0	0	0	0	0	0
Retained earnings	8	4	2	2	3	6	2	1	-2	-2	1
Other comp. of equity	9	0	0	0	0	0	0	0	0	0	0
Total equity	10	4	2	2	3	6	2	1	-2	-2	1
Total Non-current liabilities	11	4	5	2	4	-4	-1	-1	4	5	-1
Total current liabilities	12	2	5	4	4	4	4	2	3	5	4
Total equity and liabilities.	**13**	**10**	**12**	**8**	**11**	**6**	**5**	**2**	**5**	**8**	**4**
Profit after income tax	**14**	**3.91**	**2.82**	**-3.83**	**-1.52**	**2.33**	**2.01**	**-1.56**	**3.41**	**2.66**	**-1.02**

Sources: Compile by the researchers from the annual reports of selected companies in 2011 and 2012

Table 2: Descriptive Statistics

Pair	Average/ Mean	Standard Deviation
GAAP	10032046.48	17950264.882
IFRS	7909324.22	15313222.758

Table 3: Standard Deviation and Variation in Mean

Pair	Mean Difference	Standard Deviation Difference	T	Df	P Value	α Level
GAAP – IFRS	3134755.170	13140478.712	2.021	121	0.002	0.05

Table 4: Pair Sample Correlation

Pair	N	Correlation	Sig.
GAAP & IFRS	144	.778	.000

4.5 Specification of Empirical Model:

1. $$t = \frac{\hat{\alpha}}{Se\left(\hat{\alpha}\right)}$$

$$= \frac{7909324.22}{15313222.758} = 0.5165029168$$

2. $$t = \frac{\hat{\beta}}{Se\left(\hat{\beta}\right)}$$

$$= \frac{10032046.48}{17950264.88}$$

$$= 0.5588801361$$

Hypothesis 1:
Ho_1: There is no significance difference between IFRS and existing GAAP figures stated in the financial statements of the selected companies.
Condition: we reject Ho_1, if p value is less than α level (0.05)
Hypothesis 2:
Ho_2: IFRS convergence did not provide significant benefit than existing GAAP in Nigeria.
Condition: we reject Ho_2 if the mean and standard deviation value of GAAP is less than IFRS value.

Table 5: Summary of live Presentation of the Empirical Model

Hypothesis Testing	Condition	Decision
There is no significance difference between IFRS and existing GAAP figures stated in the financial statements of the selected companies.	Reject H_0, if p value is less than α level (0.05).	Reject the null hypothesis and we therefore accept the alternative hypothesis.
IFRS convergence did not provide significant benefit than existing GAAP in Nigeria	Reject H_0, if the mean and standard deviation value of GAAP is less than IFRS value.	Reject the null hypothesis and we therefore accept alternative hypothesis.

Source: model live result for the study.

4.0 Conclusion
From the descriptive analyses made in section 3 of the paper, it is apparent that assets, liabilities and earnings of the entities selected rose in some companies and it reduced in the other entities. Thus, there is both positive and negative effect on financial statements after convergence to IFRS by the Significant Public Entities (SPEs) within the shortest possible time of conversion. However, the trends should be further examined after some years using some robust inferential statistics. From t-statistics computed from the panel data, the hypotheses reveal that IFRS adoption in the preparation of Financial Statements in Nigeria have great effects and consequences., These have effects on major balances reported in the financial statements, therefore it may influence major economic decisions taken by both existing and potential investors of an entity in Nigeria.

5.0 Policy Recommendations
a. It is recommended that all entities under SPEs should as a matter of urgency converge with IFRS so that they can fully reap the benefits of using IFRS. The Central Bank of Nigeria should as a matter of urgency directs Micro Finance Banks to converge with IFRS since they are within the definition of SPEs and the account of the Small and Medium Enterprises should also be converged with IFRS in 2014.
b. Relevant government institutions for example, the Federal Inland Revenue Service (IFRS), State Inland Revenue Service (SIRS), Corporate Affairs Commission (CAC), Central Bank of Nigeria (CBN) etcetera should be well trained and retrained. Henceforth, these institutions should not accept financial statements prepared under local GAAP. This is to ensure that entities are obliged to prepare financial statements under IFRS.
c. More attention should be given to the development of accounting profession from the grass root. The National Universities Commission (NUC), National Board for Technical Education (NBTE) and their counterparts in Colleges of Education including West African Examination Council (WAEC), National Examination Council (NEC), Joint Admission Matriculation Board (JAMB) and relevant professional bodies should as a matter of

urgency review curriculum of Accounting, Finance and other related business courses to be in line with the IFRS.

c. The Financial reporting Council (FRC) should as a matter of fact organise training for academic and non teaching staff of the Universities, Polytechnic and Colleges of Education and teachers of Account, Commerce and Business Studies in Secondary school. This will facilitates production of a world class accountant that will be able to practice anywhere in the world. Besides, it will enhance Human capital development in the discipline.

d. The Small and Medium Scale Enterprises are to converge with IFRS in the accounting year end 2014, more efforts should be made by the FRC to create more awareness and sensitization programme on full adoption of IFRS and IFRS for SMEs. This becomes necessary to reduce conversion cost as many SMEs cannot afford cost of conversion using full IFRS.

e. Sensitization and awareness programme should be carried out by the Manufacturer Association of Nigeria (MAN) to all quoted companies, Small and Medium Scale Enterprises (SMEs) on the importance and the to prepare IFRS complied Financial Statements.

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