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Assessing The Impact Of The Adoption Of The International Financial Reporting Standard (IFRS) On Financial Reporting Practices: Selected Commercial Banks In Nigeria

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Abstract.*A huge number of stakeholders rely on the bank's financial statements. Such financial accounts must be of the highest caliber, particularly in light of the emergence of globalization. The International Financial Reporting Standards (IFRSs) were created to provide high-quality financial reporting in addition to universal standards. Over the past 10 years, Nigerian banks' financial statements have been called into question to the point where several of these banks failed. The purpose of this study is to investigate how IFRSs have affected Nigerian banks' financial statements quality, with a focus on the relevance, comparability, and clarity of their goals. The study's conclusions were reached using a case study methodology. There is a survey involving various stakeholders, both internal and external, through the use of a questionnaire. To analyze the data, the Chi-Square method was used. The X2-calculated value of 14.96 is more than the X2-critical/table value of 5.99 at 0.05 LOS, indicating a substantial association between the adoption of IFRS and the comparability objectives of Nigerian banks, according to the results. Further research revealed that the adoption of IFRS has a significant impact on relevancy quality, as the X2-calculated value of 14.0 is higher at 0.05 LOS than the X2-critical/table value at 5.99. The implementation of IFRS has also been proven to have a considerable impact on Nigerian banks' clarity objectives, as evidenced by the fact that the X2-calculated value of 25.4 is more than the X2-critical/table value of 5.99 at 0.05 LOS. It was determined that the implementation of IFRS has an important influence on the standard of Nigerian banks' financial statements. Enforcing the use of IFRS in the preparation and publication of financial statements is advised. If the accounts meet the standards' requirements, the auditors should state so.*

Keywords: *Bank Financial Statements, International Financial Reporting Standard, Financial Reporting, Comparability, and Accounting Quality.*

1. OVERVIEW

Context of the Research

Global accounting harmony has long been a topic of significant discussion. In 1973, a group of professional accounting practitioners created the International Accounting Standards Committee (IASC). To lessen the disparities in international accounting standards and reporting procedures, the IASC was tasked with creating a global accounting standard. Regarding this, the International Accounting Standards Committee (IASC) has produced and evaluated accounting standards on a global scale. It is well known that for more than 20 years, the (IASC) has actively promoted the uniformity and standardization of accounting principles (Carlson, 2017). The International Accounting Standards Committee (IASC) was replaced in April 2001 by the International Accounting Standards Board (IASC) in charge of developing international accounting standards. The International Accounting Standards that were

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previously in place were modified by the IASB and are now known as International Financial Reporting Standards (IFRS) Iheonkhan, (2017).

On the other hand, Nigeria began implementing IFRS in September 2010 and all publicly traded companies were required to report their 2012 financial statements and to report 2011 retrospectively using those standards. All parties involved in the adoption were directed to utilize the IFRS by January 2014. Publicly traded companies and significant entities serving the public interest were to be the first to adopt the IFRS by January. By January 2012, it is anticipated that all other public interest entities will have to compel the adoption of IFRS for constitutional purposes 2013; by January 2014, small and medium-sized businesses must compel the use of IFRS Sulaiman, (2022).

Similarly, Meeks and Swann (2019) found that companies that adopted IFRS had better accounting quality during the pre-adoption era than during the post-adoption period in their study on IFRS adoption at the business level. According to Barth's (2018) analysis of financial data from companies spanning 21 nations, companies that adopted IAS/IFRS saw an increase in the quality of their accounting between the times before and following adoption. Based on information gathered from companies listed on the London Stock Exchange, Latridis (2020) concluded that the adoption of IFRS has a positive impact on financial performance (as indicated by profitability and growth potentials).

A growing body of research is also raising doubts about the applicability of IFRS in developing and emerging economies. According to Irvine and Luca (2016), the creation of an international set of accounting standards has additional advantages that are not as pertinent to poor and rising countries. It was designated as the effective date for the convergence of accounting standards in Nigeria with International Financial Reporting Standards (IFRS). This will make it possible for multinational corporations to function globally using a single, standardized standard. Despite this adoption, I discovered that few empirical studies examined the current state of IFRS-based financial report quality. However, the following queries were created to help direct the accomplishment of the research goal:

Is there any connection between the prompt recognition of losses and the introduction of IFRS?

The study's objectives and goals, this study's primary goal is to evaluate the connection between the Nigerian money deposit bank's financial reporting quality and the adoption of IFRS. Additional particular goals are:

(1) To investigate the connection between prompt loss recognition and Nigerian money deposit banks' adoption of IFRS.

Research Theory:

The following theories were put forth to help guide the study's goal:

- H01: Adoption of IFRS and timely loss do not significantly positively correlate acknowledgment in the money deposit banks of Nigeria

2. REVIEW OF LITERATURE

Overview

This chapter examines the pertinent research on how the International Financial Reporting Standards have affected the quality of accounting in Nigerian deposit institutions. Secondary data were used in the study.

Idea Structure

The International Financial Reporting Standards, or "IFRS," are a set of global accounting guidelines that specify how specific kinds of transactions and other occurrences must be documented in financial statements. The International Accounting Standard Board publishes IFRS (Adeyemi, 2017). Sometimes, International Accounting Standards (IAS), which are the previous standards that IFRS replaces, are mistaken with IFRS changed. As per Martins and Akpolo (2018), the IAS was issued between 1973 and 2000.

Making international comparisons as simple as feasible is the aim of IRFS. This is challenging because, primarily, every nation has its unique laws. For instance, US GAAP and Canadian GAAP are distinct. Within the international accounting community, there is a continuous effort to harmonize accounting standards worldwide. The definition of financial reporting can be found in the intended audience for the reports. The internal reports, which are meant to give managers information for decision-making, are at the other end of the spectrum from the yearly financial statements of a company, which are the primary way of demonstrating its accountability to its stakeholders. Nyor (2017) All reports must be prepared using consistent data and concepts to maintain the integrity of an organization's financial records (Cherry, 2018).

The creation of accurate, full, pertinent, and timely financial reports is one of the primary goals of financial reporting and trustworthy financial data to support decision-making, fulfill legal reporting requirements, show and uphold responsibility, and answer stakeholders about an organization's finances (Ikpefan 2017).

The goal of financial statements is "to provide information about the reporting entity's financial performance and financial position that is useful to a wide range of users for assessing the stewardship of the entity's management and for making economic decisions," according to the Nigeria Accounting Standards Board's definition in its Statement of Accounting Standards. The primary sources of data used to prepare financial statements are an organization's accounting records. The system of accounting and financial information should serve as a foundation for the production of financial reports and management information required for the daily operations of the company, and these ought to align and be in harmony with the data shown in the financial accounts (Martins and Akpolo, 2018).

Quality of Financial Accounting and IFRs

Global IFRS adoption has steadily and quickly improved reporting quality by establishing consistent, globally accepted standards for financial quality. Consequently, the legal and political framework of the country in which the company is located, as well as the firm's general institutional context, influence the quality of accounting reporting (Adeyemi, 2017). According to Iyoha (2021), there has been a global upsurge in the quality of accounting reporting since the early 1990s. This trend may be attributed to elements like globalization and the expectation of international accounting harmony. At least two conditions must be met for IFRS to be implemented; improved efficiency is predicated on the company, and these have to be in line with the idea that switching to IFRS entails changing GAAP, which improves the caliber of financial reporting. Companies that implement IFRS, for example, have less earnings management, more prompt loss recognition, and more value relevance for earnings, all of which Barth, Landsman, and Lang (2016) interpret as indicators of higher accounting reporting quality. Second, according to Irvine (2016), the country's entire institutional system complements the accounting system, which is also influenced by the financial reporting incentives offered to firms Iheonkhan, (2017).

Timely Loss Recognition and IFRS

In a related study, Iyoha (2021) evaluated how the forced implementation of IFRS will affect the capital market. They have discovered data that supports less information asymmetry about IFRS requirements adoption. They contend that rather than accounting reporting quality performance, network impacts may be the primary driver of the impact. Similarly, Cherry (2018) contended that should IFRS be mandatory, organizations in nations with the lowest quality of disclosure and the highest reliance on equity financing should benefit more from their forced implementation. Therefore, even after two years of the new accounting standards, they find no effect across these countries using the implied cost of equity capital as an indicator. The political system, ownership structure, capital structure, tax system, and growth of the capital market are additional variables linked to the quality of financial reporting Sulaiman, (2022).

Analytical Review

Global stakeholders have contributed to the increasing concerns regarding the implementation of the provisions of the Financial Reporting Standards International. The financial position of the sample banks in Nigeria was significantly and favorably impacted by the adoption of IFRS, according to Edirin & Okoro's (2016) study on the impact of IFRS on the financial statements of Nigerian banks, which looked into the period before and after IFRS adoption. The authors urge immediate adherence to IFRS provisions and ongoing training and refresher courses for bankers, accountants, and financial statement preparers Yahaya, Fagbemi, and Oyeniyi (2015) examined how IFRS affected Nigerian banks' financial statements and found that the switch to the new standard caused some disruption for those who utilize financial statements. Because of the discrepancies between local generally accepted accounting practices and IFRS, comparability and trend analysis were compromised Sulaiman, (2022).

The financial statement's use of the Principles (GAAP) figure causes differences in the financial ratios calculated under the two regimes. The results showed that the financial statements of Nigerian banks have been significantly impacted by the adoption of IFRS. It was recommended that when comparing the period before and after the adoption of IFRS, consideration be given to the trend analysis. To prevent or lessen these financial reporting violations, Abata (2015) made a compelling case for the internationalization of IFRS adoption. The study concluded that IFRS has had an impact on financial reporting in the banking industry and that the quantitative differences between financial reports issued under GAAP and IFRS are statistically significant Iheonkhan, (2017).

Fashina and Adegbite (2024) believed that the full adoption of IFRS in a gradual transition with effect would be in the best interests of the Nigerian economy for reporting entities in Nigeria on internationally recognized, high-quality Accounting Standards was also chosen as the compliance date by the Securities and Exchange Commission (SEC) and the Central Bank of Nigeria (CBN). As of January 2014, SMEs must embrace IFRS by mandatory. Many of the accounting standards used in the preparation of financial statements were actually out of date in comparison to their International Accounting Standards (lASs) and International Financial Reporting Standards equivalents, according to Akinyemi (2017) in his work The Impact of International Financial Reporting Standard Adoption on Financial Statements.

Accounting data is used internationally when shared benchmarks are used in preparing financial accounts.

In his study "Challenges of Converging to IFRS in Nigeria," Nyor (2017) made the argument that adopting IFRS would benefit Nigerian businesses by improving reporting quality and fostering greater accountability and openness. The study he conducted concluded that Nigeria should only adopt IFRS for group accounts of listed companies due to its burdensome nature and the early issues that were expected. Nigerian GAAP should still be required for individual company accounts of listed companies and optional for group accounts of non-listed companies, as is currently the case with Germany Sulaiman, (2022).

According to Ikpefan and Akande (2017), there were initially discrepancies between IFRS and local regulations in many nations. In Nigeria, the legislative the Companies and Allied Matters Act Cap C20, Laws of the Federation of Nigeria, are the guidelines for creating financial statements. The Banks and Other Financial Institutions Act (BOFIA) and the Insurance Act, respectively, govern businesses engaged in banking and insurance, as of 2004. These local laws are not recognized by the IFRS rules. If Nigeria were to fully implement IFRS, these laws must be changed. The cultural setting is another issue that needs to be addressed. It is necessary to make provisions for Islamic banking, which excludes interest from all banking activities and requires depositors to provide a fixed percentage of their assets each year as an alms tax to support the less fortunate in society.

Muhammad (2017) feels as though External auditors are essential in guaranteeing that the standards' provisions are strictly adhered to. It was discovered that companies acknowledged losses more frequently in the post-adoption period than they did in the pre-adoption period after he evaluated a few particular Nigerian banks that are mentioned on the Nigerian stock market. As a result, he concluded that the adoption of IFRS enhances accounting quality. Companies are now compelled by law to provide more information about the financial accounts they report on as a result of the implementation of IFRS. The IFRS requirements, which may seem foreign to certain nations with their unique GAAPs, must now be followed Sulaiman, (2022).

3. METHODOLOGY

Both tables and diagrams are used to present the data in this study. Easy, there were frequency distribution tables for complex and compound complexes. These are further displayed as line graphs, pie charts, and simple and multiple bar charts. Chi-valued inferential statistics are employed to examine the correlation between decision-making and the accounting information system.

Where:

X^2= Chi-square calculated

= Sigma notation, which is called summation i.e. sum of

O = Observed frequency from field survey

E Expected frequency, which is the average of observed frequencies.

To compare the estimated Chi-square with the Chi-square critical table value at the 0.05 level of significance and (n-1) degree of freedom. Therefore, if the computed X2 exceeds the X2 critical value. We accept the alternative hypothesis and reject the null hypothesis since X2 is significant; But we accept the null hypothesis if the computed X2 is smaller than the X2 critical value Sulaiman, (2022).

Data analysis

H01: The comparability goal of Nigerian banks and the implementation of IFRS do not significantly correlate.

H02: The adoption of IFRS and the relevance principle of Nigerian banks do not significantly correlate.

H03: The implementation of IFRS and the clarity and quality standards of Nigerian banks do not significantly correlate.

Data Analysis for Hypothesis 1

HYPOTHESIS 1: There is no significant relationship

comparability objective of Nigerian banks

Dependent Variable: comparability objective

Independent Variable: IFRS adoption

Test

Results

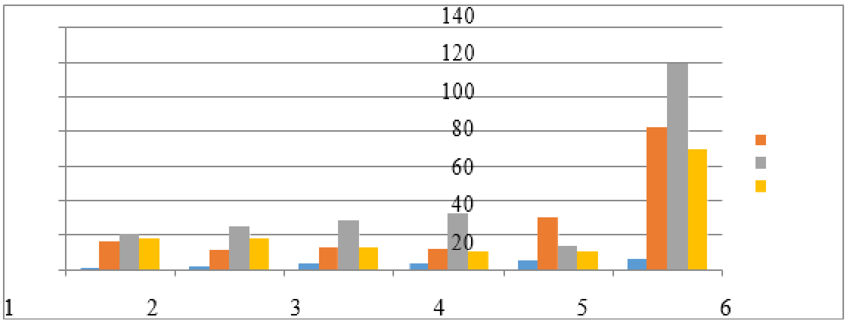
N	**5**		
DF	**2**		
X2Cal	**14.96**		
LOS	**0.05**	**i.e. 5% X2Tab**	**5.99**

Table 1: Frequency Table for Hypothesis 1

ITEMS	A	B	C
1	16	20	18
2	11	25	18
3	13	28	13
4	12	32	10
5	30	14	10
	82	119	69

Source: ***Field survey, 2016***

Figure. 1. Multiple bar chart for hypothesis 1



ITEMS AB

Analysis of the test results of Hypothesis 1

The fact that the X2-calculated value of 14.96 is higher than the X2-critical/table value of 5.99 at 0.05 LOS indicates that the dependent variable (comparability objective) is influenced by the independent variable (IFRS). As a result, we accept the alternative hypothesis, which contends that there is a significant relationship between IFRS adoption and Nigerian banks' comparability objectives, and reject the null hypothesis, which claims that there is no significant relationship between IFRS adoption and that goal Sulaiman, (2022).

This seems to be directly related to. (Wright, Evans, and Cheung 2010). that comparability enables users to assess an entity's financial situation, cash flow, and performance by comparing financial statements. It also enables users to the state of other companies' finances during the same period (Cheung, Evans, & Wright, 2010). For two situations to be considered comparable, the same event must be recorded by the same accounting facts and figures in both cases Iheonkhan, (2017).

Table 2 Data analysis for Hypothesis 2

HYPOTHESIS 2: There is no significant relationship between IFRS adoption and the relevance principle of Nigerian banks

Dependent Variable: Relevance objective

***Independent Variable**:* IFRS adoption

<u>Test Results</u>

N 5

DF 2

X2 Cal 14.0

LOS 0.05 i.e. 5% X2 Tab 5.99

Table 2: Frequency Table for Hypothesis 2

ITEMS	**A**	**B**	**C**
1	18	20	16
2	10	33	11
3	16	23	15
4	18	18	18
5	22	18	14
	84	**112**	**74**

Source: ***Field survey, 2016***

Multiple bar chart for Hypothesis 2

a. Interpretation of test result on Hypothesis 2

H02: The adoption of IFRS and the relevance principle of Nigerian banks do not significantly correlate. Given that the X2-calculated value of 14.0 is higher than the X2-critical/table value of 5.99 at 0.05 LOS, significance, the dependent variable (Relevance), and the independent variable (IFRS adoption), are related. Therefore, we accept the alternate hypothesis, which claims that there is a significant relationship between IFRS adoption and the relevance principle of Nigerian banks, and reject the null hypothesis, which claims that there is no significant relationship between IFRS adoption and that principle. Relevance assesses usefulness and materiality, according to (Cheung, Evans, & Wright 2020), and this directly affects them. demonstrates how users can make decisions and have an impact on those decisions creating and supporting users in assessing, adjusting, and verifying recent and historical occurrences Sulaiman, (2022). The value of decision-making is a crucial component of relevance in keeping with the theoretical framework Annual reports are essential for figuring out the degree of relevance by sharing information that looks forward and offers feedback Braam, Beest, and Boelens (2019).

Data Interpretation of Hypothesis 3

HYPOTHESIS 3: There is no significant relationship between IFRS adoption and clarity quality requirements of Nigerian banks Sulaiman, (2022).

Dependent Variable: Clarity ***Independent Variable:*** IFRS adoption **<u>Test Results</u>**

N 5

DF 2

X2 Cal 25.4

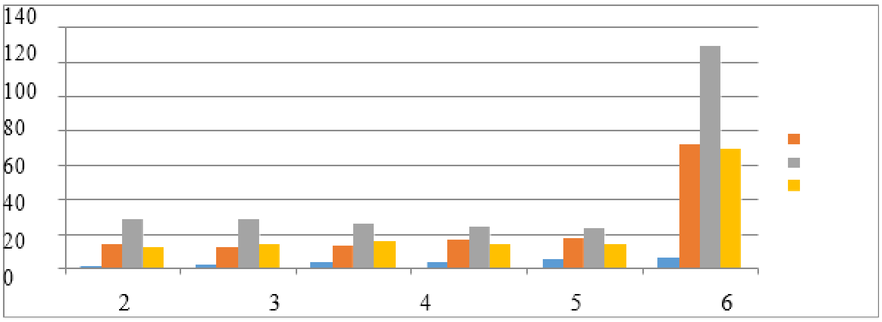
LOS 0.05 i.e. 5% X2 Tab 5.99

Table 3: Frequency Table for Hypothesis 2

ITEM	**A**	**B**	**C**
1	*14*	28	12
2	12	28	14
3	13	26	15
4	16	24	14
5	17	23	14
	72	**129**	**69**

Source: ***Field survey, 2016***

Figure 2. Multiple bar chart for Hypothesis 3



ITEMS AB

Analyzing test results about the hypothesis

Since the dependent variable (clarity) is influenced by the independent variable (IFRS adoption), the X2-calculated of 25.4 is more than the X2-critical/table value of 5.99 at 0.05 LOS. Consequently, we accept the alternative hypothesis, which contends that there is a significant relationship between IFRS adoption and Nigerian banks' clarity principles, and reject the null hypothesis, which contends that there is no significant relationship between IFRS adoption and the principle of clarity Sulaiman, (2022).

This relates to the research of Beest, Braam, and Boelens (2019), who state that comprehension is a necessary component of information in financial reports. The better the comprehension using excellent communication, the better the users, the better the final product will be. When yearly reports are arranged clearly, readers may understand what is required of them Iheonkhan, (2017).

4. CONCLUDING REMARKS AND SUGGESTIONS

Based on the results of this investigation, the subsequent deductions were made:

i. The adoption of IFRS and the comparability quality of Nigerian banks' financial reports are significantly correlated.
ii. Users of Nigerian banks' financial reports make decisions based in large part on the relevance principle, which is significantly impacted by the adoption of IFRS.
iii. In Nigerian banks, there is a favorable correlation between IFRS and clarity quality through efficient communication.

Thus, among other things, it is advised that:

trend analysis, to improve the users' comprehension of financial statements. Give up using cryptic language so that the user may compare the financial statements to ascertain changes and the financial statements are simply comprehended and analyzed.

a. Clear communication is necessary to improve users' comprehension of financial information, which will lead to improved comprehension.
b. Auditors shall state whether the accounts meet the standards' requirements and advise against using creative accounting or window dressing the preparing the financial statements.
c. To lessen the complexity of the financial statements of the banks, all relevant information should be accurately and promptly reported in the notes to the accounts, directors' reports, and chairman's reports.
d. The banks should work to enhance the presentation of their financial statements to increase the comparability of those statements.
e. To enhance the quality and public trust of the financial statements, banks should compile their financial statements in compliance with IFRS.

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