

Adoption of International Financial Reporting Standards in Nigeria: Concepts and Issues

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Abstract—The study was all about the concepts and issues of International Financial Reporting Standards (IFRS) adoption by corporate organisations in Nigeria. This research is based on data obtained from survey and literature in the context of worldwide convergence, compliance and adoption processes of IFRS. The article also compares the Nigerian GAAP and IFRS. There is high compliance in adoption particularly by financial institutions and other corporate bodies with little hitches. Recommendations were made amongst which are; provision of proper guidelines on implementation and introduce awareness programme to improve the degree of compliance.

Index Terms—adoption, IFRS, compliance, Nigeria.

I. INTRODUCTION

Globalisation of capital market and internationalisation has come to stay. The need for harmonisation of financial statements and single set of consistent high quality financial reporting standard gained wide spread acceptance amongst policies makers, standard setters and preparers [1]. The need for quality and uniformity in the preparation and presentation of financial statements gave birth to International Financial Reporting Standards (IFRS). Before the adoption in Nigeria, there was legal and regulatory framework of accounting in respect to preparation of financial report in Nigeria [2]. The Company and Allied Matter Act (CAMA'90) prescribe some format and content of company financial statement disclosure requirements and auditing. It requires that the financial statement of all corporate organisations comply and adhere with the Statement of Accounting Standards (SAS) issued from time to time by the Nigerian Accounting Standard Board (NASB). This also requires that audit be carried out in accordance to with the General Auditing Standards. Therefore, the adoption of IFRS in Nigeria was launched in September, 2010 by the then Minister of Commerce and Industry. The adoption was organised in such that the entire stakeholders that prepare and present financial statement use it by the beginning of 2014. the adoption was made in such a way that all the first tier companies listed on the stock exchange and are of public interest use it by 2012, all other company of

public interest but not first tier are to adopt in 2013 and all small and medium scale entity use it by January, 2014. Financial reporting standard exists because it serves as stewards to the owner of firms as ownership is divorced from controlling the activities of the business [3], [4].

II. LITERATURE REVIEW

Internationalisation and globalisation of business has given reason for harmonised financial statement preparation and presentations [5]. Companies compete globally for limited resources, shareholders, potential investor and creditors as well as multinational enterprises are required to bear the cost of adopting financial statement that are prepared using national standards [2]. It is expected that the move towards IFRS convergence will enhance capital market performance and ginger global business expansion in Nigeria. In the view of this development all corporate organisation are expected to adopt and comply with IFRS in preparation and presentation of their financial statement [6].

There is wide spread adoption and compliance by other country of the world. In a survey conducted by "Reference [7]" on Spanish stock market, on how to hedge disclosures, today firms face several financial risks in their daily business activities due to global, international trading and transactions. One way to cope with this kind of risk is to use hedging because of its lower cost and good solution to solving risks in business entity [8]. Additionally, "Reference [9]" conducted a survey on reclassifications of financial instruments in Nordic countries on the effect of reclassification amendments on Nordic banks financial statement. Quantitative survey was conducted on these Nordic banks and the results are as follows. 47% of sampled Nordic banks reclassified financial instrument in 2008 and 12% in 2009. All the banks increased their net profit as a result of reclassifying their financial instrument in 2008 and 2009. On the influence of IFRS implementation on business management, the finding of the study shows that there are positive effects from the adoption of the IFRS by Finnish companies [10]. IFRS are seen as a comprehensive information package where the management gets improved financial information easier for their decision making and judgement. In another research conducted by Reference [10] that mandatory IFRS contributes and improve business environment. The study was a survey report. He also found out that after

mandatory IFRS adoption, the quality of information in accounting and business environment increased significantly more for mandatory adopters. The impact of inclusion of IFRS in schools and colleges curriculum, this will enable the potential accountants to be well trained before joining the accounting and auditing profession [11].

III. METHODOLOGY

To address the convergence and adoption of IFRS in the context of the transformation of financial reporting, the paper adopts review approach. The research presented here holds on an analysis of discourses within the range of documentary evidence and is based upon an examination of major publications and materials emanating from the professional accounting bodies and academic research carried out in the past. This paper is purely a conceptual review [12], [13].

IV. REGULATORY FRAME WORK OF ACCOUNTING PROFESSION IN NIGERIA

The preparation of financial statement by corporate organisation must follow certain rules, principles and guideline Nigeria before the introduction of IFRS. The rules are stated in the Company and Allied Matter Act (CAMA) 1990. The act prescribes some format and content of what must be included in the company's financial statements disclosure requirements and auditing. It requires that financial statement of companies must comply with the Statement of Accounting Standards (SAS) issued from time to time by the Nigerian Accounting Standard Board (NASB) and audit carried out in accordance with generally accepted auditing guidelines and standards. The NASB Act No22 of 2003 formerly created the NASB and established for it an inspectorate unit. The NASB came into being on September 9, 1982. It is the only recognised independent body in Nigeria responsible for the development and issuance of statement of accounting standards for users and preparers of financial statements, investors, commercial entities and regulatory agencies of government [14]. Other laws include the Bank and other Financial Act (BOFIA) 2004 and the Small and Medium Scale Entities are to adhere strictly to the presentation of their information using relevant sections of SAS.

V. THE EFFECT OF IFRS ADOPTION IN NIGERIA

The following theoretical argument explains how IFRS could potentially affect accounting quality and comparability. The effect is in two different steps, the effect into first order effect and second order effect [11]. Harmonising accounting standards by establishing one uniform set of standards has direct effects on the property of the firm financial statement information. "Reference [15]-[16]" relates IFRS quality reporting than the local (GAAP) accounting. He suggests that Quality reporting

should increase and lead to better informed valuations in equity markets, thereby lowering investor's risks.

TABLE I. DIFFERENCES BETWEEN IFRS AND NIGERIAN GAAP

AREAS	NG-GAAP	IFRS
Financial statement presentation	Income statement Balance sheet Cash flow statement Value added statement Accounting policies Note to account Directors report	Statement of comprehensive income Statement of financial position (balance sheet) Statement of changes in equity Statement of cash flows Accounting policies Notes Significant management estimates and judgement
Property, plant and equipment	Measured using cost model	Measured using cost model with detailed guidance regarding; Componentisation Useful life Residual value Impairment calculations and identifying cash generating unit
Related parties	Limited disclosure but expected	Detailed guidance on identification of related parties and detailed disclosure of related parties and transactions.
.Segment reporting	More on geography	operation segment based on management view Threshold for reportable segments is result or assets of an individual segment should be 10% or more of all segment. If the aggregate revenue of all reported segments on this basis is less than 75% of total, then more segment required until 75% threshold is reached.
IFRS- first time adoption	Not applicable	Provide guidance and requirements on the transition to IFRS. Also provides relief for certain items in the preparation for opening balance sheet
Financial guarantees	Disclosed as contingent liabilities	Requires financial guarantees to be recognised at their fair value
Scope of consolidation	General principles	Investment under control is consolidated.
Employees benefits	General expenses and disclosure on pension	Complex criteria of accounting Recognise the undiscounted amount of short term employee's benefit.
Risk management disclosure	Limited disclosure on foreign exchange and credit risk.	Credit risk Liquidity risk Price risk Capital risk management Risk management
Leases	Based on general guideline, operating and finance lease	Fair value and amortised cost are used in valuation. Certain transactions/contracts containing hidden leases which needed to be accounted for.
Impairment	No specific standard	Carry out impairment test based on trigger vent IFRS 36 impairment on non-financial assets IAS 39 impairments on financial assets
Financial assets classification and valuation	Classification includes; cost and amortised cost	Classification included; amortised cost, fair value cost. This is driven by the business model and the nature of instrument.

*Source: Adekoya, (2011) in Abdulkadir (2013)

VI. THE IMPACT OF IFRS ON TAX IN NIGERIA

IFRS berth Nigeria, its implementation posse's major challenges for tax practice in Nigeria. IFRS is a whole body of literature adopted and published by the International accounting Standard Board (IASB). It includes standards interpretations and framework which are continuously evolving, and affects financial statement in four conceptual areas, namely; presentation, disclosure, recognition and measurement. For example, capital expenditure incurred is not tax deductible under Company Income Tax Act (CITA) in lieu of this CITA grant capital allowances to deserving tax payers which in some cases may be higher than depreciation expenses (KPMG 2013) instead, IFRS decide to prescribe a tax depreciation rate for repair of plant and machineries. This will significantly affect the income statement and balances sheet as there will be increase in net worth and increase in profit which may not be the true state of the financial statement. There is need for amendment of CITA in order to go in line with the new financial reporting standards.

VII. OTHER RELEVANT LAWS

A. Central Bank of Nigeria ACT (CBN) 1991

This ACT of CBN stipulates supervision framework, the frame work is in respect of banking supervision in Nigeria. The functions of CBN in respect to banking services includes; conduct off-site surveillance, on site control of money deposited, specialised registry credit bureau and related institution, development of standards and consolidated supervision and finally forming policies of government. All these are aimed at effective financial services to financial sector of the economy

B. Company and Allied Matter ACT (CAMA) 1990

This is the central of business law in Nigeria. The trend and history of this ACT started in 1720 when the Bubble ACT was enacted. It was later called Joint Stock ACT of 1844 and later renamed to Company Ordinance of 1922 and later became the company ACT of 1958 and was later changed to Business ACT of 1968. This law existed until the law was later changed to CAMA in 1990. One of the basic structures of this ACT is preparation and presentation of financial statement and report.

C. National Insurance ACT (NIA) 2003

The ACT stipulates that insurance companies shall abide by rules and regulation that guides preparation and presentation of financial statement to ensure conformity and transparency.

D. Investment and Security Exchange ACT (ISE) 2007

The ACT stipulates corporate responsibilities of public companies. These are filling of annual report and period report with Security and Exchange Commission (SEC), disclosure of internal control system and registration of public company auditors with the commission. They also ensure financial statement is prepared using the prescribed format by NASB.

E. Nigerian Stock Exchange ACT (NSE) 1961

The NSE started operation in 1961. The ACT states that for any company to be listed on the floor of the Nigerian Stock Exchange that firm must comply with the accounting standards as issued by NASB.

F. Company Income Tax ACT (CITA) 2004

This ACT requires the way and manner of presentation of financial statement as requires by law for taxation reasons. It is mandatory for companies to comply with provision of CITA in presentation their financial statement to tax authorities.

VIII. DIFFERENCES BETWEEN NIGERIAN GAAP AND IFRS

The International Accounting Standard Board (IASB) developed the IFRS and the Nigerian GAAP was developed by NASB called Statement of Accounting Standard (SAS). There are some significant differences that exist between the two. The Table I explains the details of the differences [2], [16], [17].

IX. CONCLUSION AND RECOMMENDATIONS

The purpose of this paper is to bring out issues and concepts of IFRS in general and its relationship to corporate business. There is high degree of compliance and adoption by financial institutions and other corporate body in Nigeria. In a survey conducted by "Reference [18]" states that companies are complying because of penalty prescribed by the regulatory body for non-implementation. "Reference [19]" Identifies that there will be more multinational participation in the country that has adopted. There will be standardisation of accounting information and uniformity all over [20]. Although, the challenges of adoption in Nigeria is the high cost, where personnel need to be trained and even the effect on taxation and profit level as a result of adoption in Nigeria. Meanwhile, the following recommendations are essentials;

- Introduce awareness programme for improving the degree of compliance with IFRS requirements
- Provide guidelines on proper implementation of IFAC code of ethics for professional accountants and practitioners
- The government should amend the company ACT in Nigeria for improving compliance culture
- Academic, professional, and education curriculum should inculcate IFRS

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