Chapter 16
The Determinants and Financial Statement Effects of IFRS Adoption in Nigeria

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ABSTRACT

The chapter examines the determinants and financial statement effects of IFRS adoption in Nigeria. It also investigates the impact of the adoption of IFRS on accounting figures and ratios in the financial statements of 50 companies quoted in the Nigerian Stock Exchange. The determinants considered include firm's characteristics (firm size, operating cash flow, leverage, turnover, growth in turnover, profitability, liquidity and earnings quality) and corporate governance variables (board size, board independence and audit type). The data were obtained from the annual reports of companies listed in the Nigerian Stock Exchange between 2011 and 2013 and was analyzed using the ordinary least square (OLS) and logistic regression which were used to test for determinants of IFRS adoption while the independent t-test was used to examine the financial statement effects. With regard to the determinants, the empirical result indicates only profitability and earnings quality have significant but negative association with IFRS adoption. Moreover, IFRS adoption has significant effect on the return on equity.

1. INTRODUCTION

In line with the adoption of IFRS by the European Union and many other countries, Nigeria adopted IFRS on 1st January 2012 under a three-year road map (between 2012 and 2014) for the adoption of IFRS by all companies. The Federal Executive Council in Nigeria approved 1st January 2012 as the effective date for convergence of Nigerian Accounting standards with IFRS by all Public interest entities and quoted companies in Nigeria. Actually, Nigeria started the IFRS adoption process in 2007 but the Financial Reporting Council (FRC) Bill was finally passed by the Senate on 18th May 2011 requiring all quoted companies to adopt IFRS as from 1st January 2012. The FRC Bill was signed into law on 20th July 2011 and replaced the Nigerian Accounting Standards Board (NASB) Act of 2003. The FRC Act
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was to help the move the country towards the adoption of IFRS which would help align Nigeria with other countries, improve investors’ confidence and help attract foreign direct investments in Nigeria. The first-time application of IFRS by adopting companies in Nigeria was in 2012.

The adoption of IFRS in Nigeria was predicated on the perceived benefits associated with a high quality accounting standard like the IFRS (Mike, 2009, Okere, 2009, Adegbie, 2010; Zakari, 2010, Okaro, 2011, Adekoya, 2011, Iyoha & Jafaru, 2011 and Tanko, 2012). However, as at 31st December, 2014, less than one-third of companies quoted on the Nigeria Stock Exchange are yet to prepare and present their financial reports using IFRS (Okpala, 2012). From extant literature, there are various factors and implementation challenges of IFRS adoption by countries and firms documented by researchers from studies in both developed and developing countries (Abdelsalam & Weetman 2003, Zeghal & Mhedhbi, 2006, Daske et al 2007a, Ayuba & Gugong, 2014, Masoud, 2014) However, it is not clear the firm and corporate governance factors responsible for the differential and low-level adoption of IFRS by listed companies in Nigeria. Although a lot of empirical studies have been carried out on the benefits and challenges of implementation of IFRS in Nigeria (Madawaki, 2012, Owolabi & Iyoha, 2012, Donwa & Odia, 2013, Odia & Ogiedu, 2013, Odia, 2015), there are limited researches on the determinants of IFRS adoption in Nigeria (Odia, 2013).

Daske et al (2007) have argued that firms have considerable discretion in how they adopt IFRS. They posited that while some firms may simply adopt IFRS as a label, others may view the decision as a serious commitment to transparency. Using a large panel of IFRS (and IAS) adoptions from 1988 to 2004 across 24 countries, they argued this may be attributed to the reporting incentives or the economic consequences (cost of capital, bid-ask spreads and illiquidity) of IFRS adoption. Again, the level of compliance with IFRS has also been found to be related to company size, international visibility, and the quality of auditing, industry type, less reliance on debt leverage, dispersed ownership, high analyst following (Gassen & Sellhorn, 2006, Daske et al, 2007, Christensen, Lee & Walker, 2007 & 2008, Albu & Albu, 2012), institutional factors like nature of national accounting regulator (Albu & Albu, 2012), effective company control systems and management dedication to quality reporting, oversight mechanism with expertise and power to achieve effective enforcement, and quality auditing (Brown & Tarca, 2005), high analyst following. The differential compliance could also be linked to the cost of transition (ICAEW, 2007, Fox et al, 2013).

Generally, most of the studies on the determinants of IFRS adoption are country specific with contradicting results on examining factors such as culture, economic growth, political system, educational level, capital and financial markets, privatization, foreign direct investment, legal environment, globalization and trade relationships. However, there are some studies examining the factors IFRS adoption at the company’s level (Blanchette, Racicot & Sedzro, 2013). Ramanna and Sletten (2009) have argued that the firm-level studies are conditional on countries’ decisions to allow or mandate IFRS. This suggests that studies of IFRS adoption at the country-level can complement firms-level studies. Again, there are few researches based on small sample size and mixed evidences on how IFRS adoption has affected accounting figures and financial ratios of listed companies in Nigeria (Tanko, 2012, Taiwo & Adejare, 2014, Zayyad, Ahmad & Mubaraq, 2014, Ibiame & Ateboh-Briggs, 2014, Abata, 2015). Therefore, the chapter intends to consider first and foremost, the impact of some firm characteristics and corporate governance mechanisms on the IFRS adoption by listed companies in Nigeria. Second, the effects of IFRS adoption in Nigeria on some key financial statement items and financial ratios are considered. Using 50 non-financial companies quoted in the Nigerian Stock Exchange for the period 2011 to 2013, and basic statistical analyses like the regression analyses and parametric statistics, the chapter addresses