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International Financial Reporting Standards Adoption and Earnings of Quoted Banks in Nigeria

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ABSTRACT

The aim of this study is to examine the effect of adopted International Financial Reporting Standards (IFRS) adoption on the earning yield (EY) and earning per share (EPS) of quoted banks in Nigeria. The study made use of cross sectional data obtained for a period of 6 years from 2009 to 2014, while the panel ordinary least method of analysis was used to examine the impact of IFRS adoption on the earnings of all 15 quoted banks in the Nigerian Stock Exchange. The study found a significant and positive relationship between IFRS adoption and the EY of quoted banks in Nigeria. The study also found a significant and positive relationship between IFRS adoption and EPS of quoted banks in Nigeria. The study concludes that IFRS adoption has improved the decision making capability of the various stakeholders, thus, increasing investor confidence and the inflow of capital in the country through foreign direct investment. The study suggests that, in order to safeguard the suitable adoption of IFRS in Nigeria, competent Accountants and Auditors in IFRS are required in large number and that the Institute of Chartered Accountants of Nigeria must intensify it efforts in organising IFRS based training programmes for its members and other parties connected with corporate reporting.

Keywords: Corporate Reporting, Adoption, Performance, Local Generally Accepted Accounting Practice, International Financial Reporting Standards

JEL Classifications: G23, M4

1. INTRODUCTION

In recent times, there have been concerns among financial statement users, regulators, investors and the general public as to the quality of financial reports produced by the banks in Nigeria and all over the world. It is in this regard that Nigeria as adopted International Financial Reporting Standards (IFRS) in 2012. Furthermore, improvement in technology and globalization of the capital market has increased the inflow of capital in different counties through foreign direct investment. It is therefore important to understand the effect of changes in Accounting Standards on the earnings of banks in Nigeria. The main purpose of adopting IFRS in Nigeria is to take advantage of the Accounting Standards published by the International Accounting Standard Board to assist preparers of financial reports in Nigeria.

Prior to the adoption of IFRS, studies on earnings of firms were carried out around the world using various nationally generally accepted accounting practice, which were embedded in traditional, legal, economic, socio-cultural and regulatory peculiarities of these nations. It is also believed that the introduction of IFRS will improve international trade, investment decisions, and globalization of businesses as well as enhance the Nigerian Stock market and ultimately increase foreign direct investment. Therefore, it is important to recognise the possible effect of IFRS adoption on the market performance of the Nigeria banking sector, which is significant to all investors and stakeholders associated with corporate financial reporting (Adeyemo et al., 2015).

The globalisation of international markets and investment platforms across nations has increased the trends of nations adopting IFRS both in emerging and developed nations to increase the inflow of capital through foreign direct investment. As a result, African countries such as Zimbabwe, South Africa, Sierra Leone, Ghana, Nigeria, Kenya, and other emerging nations have either adopted or in the process of adopting IFRS. This is important considering the fact that quality financial reports are required for users of accounting information in making timely investment decisions and other relevant purposes. Thus, IFRS is committed to producing high quality financial statements within the banking sector that are relevant, reliable and comparable amongst users of accounting information (Owolabi and Iyoha, 2012).

The banking sector plays an important role in the growth and development of the economy of any nation. It also signifies the driving force of any economy, thus it is responsible for the provision of funds to other productive industries of the Nigerian economy, and therefore it is significant to the development and growth of other Nigerian economic sectors. Hence, it is important for manager and other decision makers to maintain confidence in the banking nation. However, given the role the banking sector plays in the growth and development of every country, there is an enhanced demand for high quality accounting standards to provide managers and business owners with the necessary resources in making vital decisions such that the subject matter of IFRS cannot be overstretched.

Though there have been a number of studies on the adoption of IFRS in various countries all over the world. Most of the empirical studies have been carried out in developed countries (Jermakowicz, 2004; Pownall and Schipper, 1999; Rees and Weigback, 2002; Hope et al., 2006; Blanco and Osma, 2008; Robyn and Graeme, 2009). But, relatively a few number of studies on IFRS and Earnings of firms have been carried out in developing countries (for example, Abolaji and Adeolu, 2015; Asian, 2015; Grossman et al., 2016). However, the extent of literature review shows that none of the study has examined the impact of mandatory adoption of IFRS and earnings of quoted banks in Nigeria using earning per share (EPS) and earning yield (EY) concurrently. This establishes an important gap in literature taking into account the variances between advanced and developing nations (Ball, 2006; Iyoha and Faboyede, 2011; Ojeka and Mukoro, 2011).

Also, some findings of these studies advocate that IFRS adoption has positive impact on the earnings of quoted companies (Barth et al., 2008; Daske et al., 2008), while other studies opine that IFRS adoption has negative impact on the earnings of firms (Vera, 2013 and Matthias, 2015). These mixed outcomes make the subject matter indecisive, especially with regard to emerging nations, where the extent of literature reveal that no such studies have been conducted using these proxies concurrently along with current data. Hence, there is a need to study the subject matter with regards to Nigeria by investigating the impact of the Mandatory Adoption of IFRS on the earnings of quoted banks in Nigeria, using EY and EPS.

Therefore, the aim of this study is to investigate the impact of the Mandatory IFRS Adoption on the Earnings of Quoted Banks in Nigeria. The rest of this study is organized as follows: Section 2, Provides a review of the existing literature on IFRS adoption and Earnings, and also the theoretical framework of the study. The Section 3, dealt with the hypothesis formulation, model specification and data collection method. The Section 4, outlined the findings of the study, while the Section 5, focused on the conclusions and recommendations of the study.

1.1. Hypotheses Testing

H_1: IFRS adoption has no significant effect on the EY of quoted banks in Nigeria.

H_2: IFRS adoption has no significant effect on the EPS of quoted banks in Nigeria.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

This chapter discusses the adoption of IFRS and earnings of quoted bank in Nigeria. It also presents the theoretical and empirical frameworks for the study.

2.1. Adoption of IFRS and Quoted Banks in Nigeria

In recent times, increase in globalization and competition across borders has made it vital for countries and companies to come together and become more competitive across the globe. Therefore, IFRS is committed to harmonizing the difference accounting practises across the world by providing information that are comparable, reliable, relevant, consistent, and reduce cost of capital of transacting businesses across borders (Essien-Akpa, 2011). However, the successful implementation of IFRS depends on the ability of the public to translate local and international financial information into IFRS financial language. Some studies such as (Ezeani and Oladele, 2012; Ikpefan and Akande, 2012; Demaki, 2013; Odia and Ogiedu, 2013) argued that the adoptions of IFRS would bring about more comparable, reliable, relevant, and consistent financial reporting information across the world.

Due to the proposed benefits of IFRS, it is predictable that the implementation of IFRS will provide high quality financial reports that are comparable, reliable and understandable for the reporting entities in the financial sector (Adah, 2012). Furthermore, the adoption of IFRS will also improve the reliability and comparability of financial reports published in the Nigerian banking sector. However, it is generally believed that users of financial reports appreciate the importance of providing high quality accounting standards that are consistent and comparable in reflecting the economic reality of transactions (Collins, 2002).

Matthew (2015) suggested that the Nigerian government must support the adoption of IFRS particularly in the area of implementation and compliance as a matter of urgency to enable full realization of the country's economic potential. Similarly, Nyor, (2012) argued that Nigerian firms should adopt the IFRS as a result of the fact that it will pave the way for better accountability, transparency and enhance the quality of reporting in Nigeria.

Hossain et al. (2015) investigated the adoption of IFRS in an emerging economy like Bangladesh. The study found that the adoption of IFRS is likely to benefit the Bangladesh economy through enhanced financial reporting quality, improve access to global financial markets, attract foreign direct investment, reduce cost of capital, and also intensify the capacity of organisations to secure cross border listing.

2.2. Adoption of IFRS and the Earnings of Nigerian Banks

The Nigerian banking sector performs other important roles besides providing credit facilitates and granting loans to her customers. The Nigerian banking sector is an important sector of the Nigerian Economy, which is carries out its functions effectively and efficiently in achieving the economic development of the nation (Sanusi, 2012). However, the banking system will function more successfully when there is a healthy financial structure in place to ensure the reliability, comparability and accuracy of financial information available to all financial report preparers and other stakeholders.

The Nigerian Banking sector has gradually developed over the last couple of years, which is as a result of the various reforms carried out in the banking industry in the last couple of decades by the regulatory authorities. Following the 2008 banking sector crisis, the Central Bank of Nigeria proposed several programmes aimed at reforming the Nigeria banking industry and also to improve the earnings of financial sector in general. These reforms were aimed at eliminating the inherent weaknesses in the banking setup, poor internal control system, and improving the earnings of financial sector in the Nigerian economy (Sanusi, 2012).

Yahaya et al. 2015 investigated the post adoption off IFRS and value relevance of accounting information of quoted banks in Nigeria. Using the price model and the return model, the study found that the EPS increased in the post adoption than in the pre adoption periods. The study recommended that investors should understand the IFRS adoption process so as to avoid overvaluation of the economy when the financial markets are doing well.

Iorpev (2012) investigated the qualities of IFRS adopters and non-adopters on the Nigerian stock exchange from 2008 to 2011. Using exploratory research design of a sample of ten banks out of fifteen quoted banks in Nigeria, the study found that EPS are not significantly related with the adoption of IFRS. The study suggested that only specific firms listed on the NSE should adopt IFRS.

Okafor and Ogiedu (2011) examined the likely effect of financial reporting by quoted banks on the Nigerian Stock Exchange and the market prices of their shares. The study found that value relevance of published financial reports is insignificant and that ratios based on the financial reports such as the EPS display immaterial relationship with stock market prices. The study also found that although EPS are absolutely associated to market price per share, it does not have a substantial effect on market price of the shares. This study therefore suggested that the monitoring authorities must make sure that financial institutions comply with ethical codes and the appropriate accounting standards in preparing their financial reports.

Umoren and Enang (2015) investigated how the mandatory adoption of IFRS has enhanced the value relevance as measured by earning of financial information of banks in Nigeria. Using a sample of 12 quoted banks from 2010 to 2013, the study found that the earnings of listed banks in Nigeria were more value relevant in the post IFRS periods than under the Nigeria SAS. The study suggested that the accounting standard setters should include more measures to enhance the qualities of accounting information so as to improve its value relevance.

3. RESEARCH METHOD AND MODEL SPECIFICATION

The survey research design and the cross sectional research technique was used in the study. The cross sectional research technique was considered appropriate because the data used in the study were gotten at a specific period of time and this aims at precisely comparing the impact of IFRS adoption on the earnings of quoted banks in Nigeria. The study also used the descriptive analysis in presenting the results which were expressed in form of tables.

The population for the purpose of this study consists of all 21 deposit money banks in Nigeria, out of which 15 are quoted on the Nigerian Stock Market (CBN, 2016) all. However, the census technique was used in the study due to the fact that the entire population was used in the study. Hence, the data for all the sample deposit money banks were gotten from the annual reports of the 15 banks that are quoted on the Nigerian Stock Market from 2009 to 2014. However, all 15 quoted banks on the Nigerian Stock Exchange represent sufficient population and sample size for the study.

Secondary data gotten from the annual financial statement of deposit money banks from 2009 to 2016, duplicates of the financial accounts of 15 quoted deposit money banks were used to obtain data on the EY and EPS. In determining the impact of IFRS adoption on the earnings of banks in Nigerian, the study use proxies such as EY and EPS as the dependent variables and other independent control variables such as volume of shares traded, board size, firm size, and market price were also used in the study.

In order to accomplish the set objective of the study, the mathematical equations have been developed to examine the influence of IFRS adoption and earnings of Nigerian quoted banks.

$$Perf = f\,(IFRS, MP, BS, FS, VOLS) \quad (1)$$

$$EY = \beta_0 + \beta_1 IFRS + \beta_2 LogVOLS + \beta_3 BS + \beta_4 LogFS + \beta_5 MP + \mu t \quad (2)$$

$$EPS = \beta_0 + \beta_1 IFRS + \beta_2 LogVOLS + \beta_3 BS + \beta_4 LogFS + \beta_5 MP + \mu t \quad (3)$$

3.1. Apriori Expectation

Where,

IFRS adoption = $\beta_1, \beta_{2,} \beta_3, \beta_{4,} \beta_5, >0$.

Where,

EY measures the potential yield on investment.

EPS: Measures the percentage of earnings of a corporation assigned to each unit of outstanding shares.

IFRS: Dummy variable was used to measure IFRS adoption, where the pre adoption of IFRS period is represented by 0 while the post adoption of IFRS period is represented by 1.

Volume of shares traded measures the number of stocks or bonds transacted in the stock market during a given period of time.

Firm size measures the natural logarithm of the firm's total assets.

Board size measures the total number of the firm's directors.

Market price measures a simple average of the maximum market price and the minimum market price of shares.

The study used the panel regression method to investigate the influence of IFRS adoption on the earnings of quoted deposit money banks in Nigeria. The paper made use of other independent control variables such as volume of shares traded, board size, firm size, and market price while EY and EPS represent proxies for earnings of the deposit money banks.

4. RESULTS

This section presents the data analysis of the secondary data gathered from the annual reports of quoted banks in Nigeria and the Nigerian Stock Exchange Fact Book. The data collected are presented using tables for easy data presentation and understanding. The data analyses similarly include the hypotheses tested.

The result in Table 1 indicates the data for 15 quoted banks were appraised over 6 years period using panel least square technique of regression. The result showed that the probability of the f-statistic is 0.000010 which revealed that the totality of the model is significant. The result further revealed that the $R^2 = 52\%$, which indicates that 52% of the change in the dependent variable (EY) can be explained by the explanatory variable while the Durbin-Watson of 2.25 show that the result is free from serial autocorrelation problem.

The coefficient of whether there is any influence between the adoption of IFRS on the EY of quoted deposit money banks in Nigeria is 0.093015 with a P = 0.0000 at 5% level of significance. This suggests that there is a positive and significant influence between the adoption of IFRS and the EY of quoted deposit money banks in Nigeria.

From the analysis above, the relationship between the adoption of IFRS and EY has a correlation coefficient (r) of 0.093015, indicating a direct relationship between the two variables. On the premise of this result, the relationship between the adoption of IFRS and the EY of quoted banks in Nigeria is significantly at 5% level of significance, the study therefore accept the alternative hypothesis and reject the null hypothesis result which states that the adoption of IFRS has a significant effect on the EY of quoted banks in Nigeria.

This invariably means that the adoption of IFRS has significantly improved the EY of quoted banks in Nigeria. Furthermore, the significant relationship found between the adoption of IFRS and EY is consistent with the conclusions drawn by (Aurangzeb, 2012; Hayfa et al., 2013). These studies reported a significant relationship between the adoption of IFRS and the EY of firms. This study therefore argues that the adoption of IFRS will likely improve the EY of stakeholders and attract more investors to invest in the company. Thus, increase the inflow of capital through foreign direct investment.

The result in Table 2 showed that the data for 15 quoted banks were estimated over 6 year period using panel ordinary least square method of regression. The result revealed that the probability of the f-statistic is 0.000000 which indicate that the totality of the model is significant. The result further showed that the $R^2 = 71\%$ and this implies that 71% of the change in the dependent variable (EPS) can be explained by the explanatory variable while the Durbin-Watson of 1.82 which indicates that the result is free from serial autocorrelation problem.

Table 1: Panel least square regression result model 1

Dependent variable: EY				
Variable	**Coefficient**	**Standard error**	**t-statistic**	**P**
IFRS	0.093015	0.010908	8.527352	0.0000
LNFS	−0.020741	0.010699	−1.938470	0.0566
MP	−0.005083	0.001066	−4.767102	0.0000
VOL	0.000266	0.003500	0.075996	0.9396
BS	0.009683	0.005230	1.851638	0.0683
C	0.419145	0.167740	2.498773	0.0148
R^2	0.521597	Mean dependent variable		0.447764
Adjusted R^2	0.391744	Standard deviation dependent variable		0.547081
Standard error of regression	0.360836	Sum squared residuals		9.114193
F-statistic	4.016846	Durbin-Watson stat		2.253785
P (F-statistic)	0.000010			

Source: Author's computation 2016, IFRS: International Financial Reporting Standards, EY: Earning yield

Table 2: Panel least square regression result model 2

Dependent variable: EPS				
Variable	**Coefficient**	**Standard error**	**t-statistic**	**P**
IFRS	0.709170	0.074517	9.516889	0.0000
LNFS	−0.046263	0.058942	−0.784880	0.4352
MP	0.047286	0.007997	5.912691	0.0000
VOL	−0.043355	0.027468	−1.578364	0.1190
BS	0.083861	0.042890	1.955234	0.0545
C	0.254597	0.716222	0.355472	0.7233
R^2	0.807229	Mean dependent variable		2.286226
Adjusted R^2	0.754906	Standard deviation dependent variable		3.010627
Standard error of regression	1.305486	Sum squared residuals		119.3006
F-statistic	15.42768	Durbin-Watson stat		1.815786
P (F-statistic)	0.000000			

Source: Author's computation 2016, IFRS: International Financial Reporting Standards, EPS: Earnings per Share

The coefficient of whether there is any effect of the adoption of IFRS on the EPS of quoted banks in Nigeria is 0.709170 with a P = 0.0000 at 5% level of significance. This implies that there is a positive and significant effect of the adoption of IFRS on the EPS of quoted banks in Nigeria.

In hypothesis 2, the alternative hypothesis assumed that the adoption of IFRS has a significant effect on the EPS of quoted banks in Nigeria. From the analysis above, the relationship between the adoption of IFRS on the EPS has a coefficient (r) of 0.709170, indicating a direct relationship between the two variables. On the premise of this result, the relationship between the adoption of IFRS and the EPS of quoted banks in Nigeria is significantly positive, the study therefore accept the alternative hypothesis and reject the null hypothesis result which states that the adoption of IFRS has significant effect on the EPS of quoted banks in Nigeria.

This invariably means that the adoption of IFRS has significantly improved the EPS of quoted banks in Nigeria. The result also supports the stakeholder theory which states that the adoption of IFRS will improve the decision making capability of all the various stakeholders. However, the significant positive relationship found between the adoption of IFRS and EPS is consistent with the conclusion drawn by (Aurangzeb, 2012; Hayfa et al., 2013; Jinadu et al., 2016). These studies reported a significant positive relationship between the adoption of IFRS and market performance of firms. This study therefore argues that the adoption of IFRS will likely improve the EPS of stakeholders and attract more investors to invest in the company. Hence, increase the inflow of capital through foreign direct investment.

5. CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

Merely adopting IFRS is not sufficient, therefore, all stakeholders such as top managers, directors, independent auditors, accountants, regulators and law makers must work together to ensure the smooth adoption of IFRS procedures and also ensure that financial statements are prepared in compliance with IFRS. In lieu of this fact, it is important for researchers and other stakeholders to explore the influence of the adoption of IFRS on the earnings of quoted banks in Nigeria.

5.2. Recommendations

Countries all-over the world now understand that the difference in the corporate reporting language of all countries increases difficulty in interpreting financial statements and this increases the cost of interpreting the financial statement. However, when most nations adopt IFRS it will militate against information asymmetry among manages, investors and all various stakeholders associated with financial reporting, thereby reducing the financial accounting issues affecting business decision making.

The study recommends that, in order to safeguard the suitable adoption of IFRS in Nigeria, competent Accountants and Auditors in IFRS are required in large number. Nigeria presently does not have the adequate number of IFRS certified accountants and auditors. The Institute of Chartered Accountants of Nigeria must intensify in organising IFRS training programmes for its members and other parties connected with corporate reporting.

Majority of the studies on the influence of the adoption of IFRS and earnings of firms have been conducted in advanced nations. However, due to the difference in data, technical progress and educational environment it is vital for researchers to study the influence of IFRS in a developing nation such as Nigeria where such studies are limited or non-existent.

Furthermore, the study investigated the influence of the adoption of IFRS on the earnings of quoted banks in Nigeria. The study also provides a basis on which other researchers can build on in respect to the growth of IFRS in Nigeria.

The limitations of this study have stimulated recommendations for future research work as enumerated below:

1. This study recommends that future research studies can examine other firms in various sectors of the economy and also reflect different future time periods.
2. This study also recommends that future research studies can explore the adoption of IFRS using other earnings parameters not earlier used in previous studies.

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