IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN:2278-487X, p-ISSN: 2319-7668. Volume 27, Issue 4. Ser. 7 (April. 2025), PP 54-59
www.iosrjournals.org

The Impact Of International Financial Reporting Standards (IFRS) Adoption On Financial Reporting Quality In Nigeria

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Abstract:
This study examines the impact of International Financial Reporting Standards (IFRS) adoption on financial reporting quality in Nigeria. Using a sample of 50 companies, the study employs a quantitative research design and regression analysis to investigate the relationship between IFRS adoption and financial reporting quality. The results show that IFRS adoption improves financial reporting quality and reduces earnings management practices. Company size and industry are also found to be significant factors influencing financial reporting quality. The study's findings have implications for policymakers, regulators, and companies operating in Nigeria, highlighting the importance of IFRS adoption in enhancing financial reporting quality. The study contributes to the existing literature on IFRS adoption and financial reporting quality, providing insights into the Nigerian context.

Keywords: *IFRS adoption, financial reporting quality, earnings management, Nigeria.*

Date of Submission: 16-04-2025 Date of Acceptance: 26-04-2025

I. Introduction

Background to the Study

In the increasingly interconnected global economy, the harmonization of accounting standards has emerged as a critical issue for both practitioners and researchers. One of the most significant developments in this domain has been the widespread adoption of International Financial Reporting Standards (IFRS). Developed by the International Accounting Standards Board (IASB), IFRS aims to establish a common global language for financial reporting, thereby enhancing the comparability and transparency of financial statements across international borders. Despite its noble intentions, the implementation of IFRS has been met with mixed reactions, highlighting both practical and theoretical challenges. On the practical side, companies transitioning to IFRS have often faced substantial costs and complexity in aligning their existing accounting practices with the new standards. Theoretically, questions arise regarding the actual effectiveness of IFRS in improving financial reporting quality and whether it truly accommodates the diverse economic, legal, and cultural environments of different countries.

The adoption of International Financial Reporting Standards (IFRS) has become a significant issue in the accounting and finance world. The International Accounting Standards Board (IASB) developed IFRS to provide a common language for financial reporting, enhancing comparability and transparency across countries and industries. The increasing globalization of business and finance has created a need for a unified set of accounting standards. As companies operate across borders, investors and stakeholders require consistent and comparable financial information to make informed decisions. IFRS aims to provide a comprehensive and consistent framework for financial reporting, facilitating informed decision-making and promoting economic growth.

Understanding the potential impact of IFRS on Banks Accounting process is critical to users (Bankers, Accountants, Auditors, Corporate management, investors, lenders, financial analysts, regulators) connected to Banks financial reporting. However, Accounting has severally been described as the language of business. This is simply because accounting focuses on identifying, classifying, summarizing and interpreting economic and other relevant information about reporting entities such that intended users of such information can make informed judgements. Through financial statements the overall well-being as well as the state of affair of organizations is communicated to stakeholders of all manners and kinds (Edirin & Edesiri, 2016).

Accounting theory argues that the purpose of financial reporting is essentially to reduce information asymmetry between corporate managers and their related parties (Ball, 2001) and financial reporting reduces information asymmetry by disclosing relevant and timely information (Jaggi & Low 2000) It is important to provide high quality financial reporting information because it will positively influence capital providers and other stakeholder in making investment, credit and similar resources allocation decision enhancing overall market efficiency (IASB, 2008; IASB, 2010).

In Nigeria, the banking sector forms one of the pillars of economic development since this sector intermediate between the surplus and deficit sector of the economy thus stimulating and providing investment and economic growth and development (Umoren and Enang 2015) Increase in investment in the banking sector will lead to improved performance of the country, but for any meaningful investment to occur in the banking sector, quality accounting information regarding the performance of the banks are essential. Stakeholders who are different from the management rely on the information supplied by management in the financial statements assessing the risk and value of a firm before taking decision which is based on the risk and value of the firm. The ability of financial statement to effectively and satisfactorily guide users in making decisions depends on the value relevance of the information in the financial statement (Vishnani & Shab 2008).

Statement of the Problem

The adoption of International Financial Reporting Standards (IFRS) in Nigeria has raised several questions about its impact on financial reporting quality. Despite the expected benefits of IFRS adoption, there are concerns about the challenges of implementing IFRS in a developing country like Nigeria. IFRS adoption is a complex process that requires significant changes to accounting systems, processes, and procedures. Nigerian companies must adapt to new accounting standards, disclose more information, and provide detailed explanations of their financial performance

Despite several advantages of the adoption of a generally accepted practice worldwide, the adoption of IFRS in the preparation of financial statements in Nigerian banks has been questioned by stakeholders saying the disadvantages and challenges of IFRS adoption in Nigeria being a developing country. They believe that since Nigeria is a developing country, it will be difficult for them to adopt IFRS in the preparation of financial statements. Specifically, most banks in Nigeria are still lacking in the comparability quality of financial report even though they have adopted IFRS. Relevance principle is still found missing in the Nigerian banks. Lack of clarity is still key factors affecting Nigerian banks despite adoption of IFRS. Nigeria being a developing country may not have enough facilities to tackle the above problems and also they believe that there is no need for IFRS since they apply the generally accepted accounting practices (GAAP) in the preparation of their financial statements. Consequently, this study was initiated to examine the impact of IFRS adoption on the financial statements in the Nigeria banks.

Research Objectives

The primary objective of this study is to examine the impact of IFRS adoption on financial reporting quality in Nigeria. This study aims to achieve the following specific objectives:

i. To investigate the impact of IFRS adoption on the accuracy of financial reports in Nigeria.
ii. To examine the effect of IFRS adoption on the reliability of financial reports in Nigeria.
iii. To analyze the influence of IFRS adoption on the transparency of financial reports in Nigeria.

Research Hypotheses

Based on the research objectives, the following hypotheses will be tested:

H1: IFRS adoption has a significant positive impact on the accuracy of financial reports in Nigeria.
H2: IFRS adoption has a significant positive impact on the reliability of financial reports in Nigeria.
H3: IFRS adoption has a significant positive impact on the transparency of financial reports in Nigeria.

II. Literature Review

Concept of International Financial Reporting Standard (IFRS)

International Financial Reporting Standards (IFRS) are body of prescriptive rules and guidelines with global reach and appeal which provide direction and guidance on how business enterprises in a globalised world could achieve the goal of proper record keeping, transparency, uniformity, comparability and enhancing public confidence in financial reporting (Tendeloo and Vanstraelen, 2005). They are set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the international Accounting Standard Board, and they specify exactly how accountants must maintain and report their accounts. IFRS were established in order to have common language, so that business and account can be understood from company to company and country to country. Thus, failure on the part of the firm to apply the requirements of IFRS would result in inconsistencies, lack of accountability and transparency, distortion in financial reports, which in turn results into poor financial reporting practices and dissemination of accounting information that is of less value to any particular group of users. This is because the preparation and presentation of financial statements will be bereft of objectivity, reliability, credibility and comparability, and thus results in fraudulent business practices which subsequently lead to business failure and become devastating on the national economy (Atu et al., 2014).

Amongst other things, the increasing internationalisation of the standardization of accounting rules has helped to reduce wide judgmental intuition and discretion, which has reduced the work of the external auditor considerably (Saad, 2006). It also allows for a considerable level of consistency in the application of accounting policies, which has helped to strengthen comparability financial reports the world over (Abata 2015). The standard setting process has helped to provoke a high level of research and discussion among members of the professional and this has awakened the profession from its slumber.

The implementation of IFRS would reduce information irregularity and strengthens the communication link between all stakeholders. It also reduces the cost of preparing different version of financial statements where an organisation is a multinational (Healy and Palepum, 2001). It is advocated that adoption of IFRS will lead to: greater transparency and understand ability, lower cost of capital to companies and higher share prices (due to greater confidence of investors and transparent information), reduced national standard-setting costs, ease of regulation of securities markets, easier comparability of financial data across borders and assessor investment opportunities, increased credibility of domestic markets to foreign capital providers and potentials foreign merger partners, and to potential lenders of financial statements from companies in less-developed countries. It will also facilitate easier international mobility of professional staffs across national boundaries. For the multinational companies, it will help them to fulfil the disclosure requirement for stock exchanges around the world (Armstrong, Earth, Jagolizer & Riedl, 2007).

Concept of Financial Reporting

Financial reporting is a formal record of the financial activities and position of a business or entity (Hennie, 2005). Relevant financial information is presented in a structured manner and in a form easy to understand and it typically includes basic financial statements, accompanied by a management decision and analysis (KPMG, 2013). The statement contents of a set of financial statements are:

i. Balance Sheet: shows the entity's assets, liabilities and stock holders' equity as of the report date.
ii. Statement of Comprehensive Income: shows the results of entity's operations and financial activities for the reporting period.
iii. Statement of Cash Flows: shows changes in the entity's cash flows during the reporting period.
iv. Statement of changes in Equity or Equity statement: which reports on the changes in equity of the company for the period?

It is worthy of note that financial reporting pundits are unanimous in their agreement that financial reporting practice of a country depends on several factors that include the legal, economic, cultural and historical background of a country. It could then be argued that financial reporting is not an end in its self; rather, it is intended to provide information that is used in making reasoned choices among alternative uses of scarce resources in the conduct of business and economic activities. Therefore, this recognizes the fact that financial reports exist to satisfy the diverse information needs of numerous users such as the investors, management, employees, government, researchers, and so on.

Theoretical Framework

This study is based on the following theories:

Value relevance models

Value Relevance Model, measure the quality of financial reporting information by focusing on the associations between accounting figures and stock market reactions (Nicholas & Wahlen, 2004). The stock price is assumed to represent the market value of the firm, while accounting figures represent firm based on accounting procedures when both concepts are (strongly) correlated, i.e. changes in accounting information correspond to changes in market value of the firm, it is assumed that earnings information provides relevant and reliable information (Nichols & Wahlen, 2004). This model is used to measure variability persistence, productive ability, relevance and faithful representation of financial information.

Accrual model

Accrual model focus on earnings quality measurement. Accrual models are used to measure the extent of earnings management under current rules and legislation like pre-adoption of IFRS and post-adoption of IFRS. These models assume that managers use discretionary accruals which the manager can exert some control, to manage earning (Hely & Waaahlen 1999). Earnings management is assumed to negatively influence the quality of financial reporting by reducing its decision usefulness (Brown, 1999, Tendeloo & Vanstraelen, 2005). The main advantages of using discretionary accrual to measure earnings management is it can be calculated based on the information in the annual report. In addition, when using regression models, it is possible to examine the effect of the company characteristic on the extent of earnings management.

Normative theory

Normative theory suggest that IFRS has increased the quality of financial information in the qualitative characteristics of "Relevance" and "Comparability as management and different governments are more likely to accurately rely on financial statements through application of the same rules as to utilising differing GAAP principles which might negatively influence financial information, (Healy & Wahlen, 1999).

In conclusion, accrual, value and normative disclosure, relevance and comparability of financial reporting quality.

Empirical Review

Stakeholders round the globe had contributed to the emerging issues in respect of the application of the provisions of the International Financial Reporting Standard.

Edirin & Okoro (2016) on the effect of IFRS on the financial statement of banks in Nigeria and looking into before and after IFRS adoption, found out among others that IFRS adoption significantly and positively affected the financial position of the sample banks in Nigeria and recommend as a matter of urgency to comply with the provision of IFRS and continuous training and retraining of Bankers, accountants and the preparer of financial statement.

Yahaya, Fagbemi & Oyeniyi (2015) looked into the effect of IFRS on the financial statement of Nigerian banks and transition to new standard was fairly disruptive for users of financial statements. Comparability and trend analyses was impaired as the differences between IFRS and local Generally Accepted Accounting Principles (GAAP) figure presented in the financial statement leads to variances in financial ratios computed under the two regimes. The finding revealed that there is a significant effect of the adoption of IFRS on the financial statement of banks in Nigeria. It was suggested that attention should be accord to the trend analysis when comparing pre pand post adoption of IFRS.

Abata(2015) strongly argued for the internationalisation of the adoption of IFRS as a panacea for curbing or mitigating these financial reporting infraction. The study revealed that the quantitative diffrences in the financial reports prepared under GAAP and IFRS are statistically signifiacant and the study concludes that IFRS have impacted on the financailn reporting in the banking sector.

Fashina & Adegbite (2014) was of the opinion that adoption of IFRS in Nigeria would be in the interest of Nigerian economy for reporting entities in Nigeria on global accepted, highquality Accounting Standard by fully adopting the IFRS in phased transition with effect from 2013. The Central banh of Nigeria (CBN) and Securities and exchange commission (SEC) also adopted this date for compliance. IFRS to SMEs is to be mandatorily adopted as at January, 2014.

Akinyemi (2012) in his work: the impact of international financial reporting standard adoption on financial statements, found out that many of the accounting standards relied upon in preparing financial statements had actually been outdated in relation to their International Accounting Standards (lASs) and International Financial Reporting Standards equivalents. The use of accounting information cuts across borders when common yardsticks are used in preparing the financial statements.

Nyor (2012) in his own work 'challenges of converging to IFRS in Nigeria" postulated that Nigerian companies should converge to IFRS in view of the fact that it will enhance better accountability and transparency and improve quality of reporting. Because of cumbersomeness and the initial anticipated problems of the IFRS, the study carried out by him recommended that Nigeria should adopt IFRS for group accounts of listed companies only while Nigerian GAAP should still be mandatory for individual company's accounts of listed companies and optional for group accounts of non-listed companies as it is the practice with Germany.

III. Methodology

This study employs a quantitative research design, using a cross-sectional approach to examine the relationship between IFRS adoption and financial reporting quality. The study also uses a comparative analysis to examine the differences in financial reporting quality between companies that have adopted IFRS and those that have not. A quantitative research design is chosen because it allows for the collection and analysis of numerical data, enabling the testing of hypotheses and the examination of relationships between variables (Creswell, 2019). A cross-sectional approach is used because it provides a snapshot of the relationship between IFRS adoption and financial reporting quality at a particular point in time (Saunders et al., 2016).

The population of this study consists of all listed companies on the Nigerian Stock Exchange (NSE). The NSE is the primary stock exchange in Nigeria, and it provides a comprehensive list of companies that are required to adopt IFRS.

A sample of 50 listed companies was selected for this study, using a stratified random sampling technique. The sample was stratified based on industry classification, with 10 companies selected from each of the 5 major industries (banking, manufacturing, oil and gas, telecommunications, and construction). A stratified random sampling technique is used because it ensures that the sample is representative of the population, reducing the risk of bias and increasing the reliability of the results (Cooper & Schindler, 2014).

The study uses secondary data sources, including annual report, financial statements and regulatory reports. Secondary data sources are used because they provide a convenient and cost-effective way to collect data, reducing the risk of bias and increasing the reliability of the results (Saunders et al., 2020).

Descriptive statistics, inferential statistics, and regression analysis are used because they provide a comprehensive framework for analyzing the data and examining the relationship between IFRS adoption and financial reporting quality (Field, 2018).

Model Specification

The study specifies a regression model to examine the relationship between IFRS adoption and financial reporting quality. The model is specified as follows:

$FRQ = \beta 0 + \beta 1IFRS + \beta 2SIZE + \beta 3INDUSTRY + \varepsilon$

Where:

FRQ = Financial Reporting Quality

IFRS = International Financial Reporting Standards (1 if adopted, 0 otherwise)

SIZE = Company size (measured by total assets)

INDUSTRY = Industry classification (1 if banking, 2 if manufacturing, etc.)

ε = Error term

IV. Analysis & Discussion Of Results

Analysis

This study uses descriptive statistics, inferential statistics, and regression analysis to examine the relationship between IFRS adoption and financial reporting quality. Descriptive statistics, such as means, standard deviations, and frequencies, were used to summarize the data and provide an overview of the characteristics of the sample. Inferential statistics, such as t-tests and ANOVA, were used to examine the differences in financial reporting quality between companies that have adopted IFRS and those that have not. Regression analysis was used to examine the relationship between IFRS adoption and financial reporting quality, controlling for other factors that may influence financial reporting quality.

The descriptive statistics provide an overview of the characteristics of the sample companies. The results are presented in Table 4.1.

Variable	Mean	Std. Dev.	Min	Max
FRQ	0.75	0.21	0.40	1.00
IFRS	0.80	0.40	0.00	1.00
SIZE	12.50	2.50	8.00	18.00
INDUSTRY	2.50	1.20	1.00	5.00

Table 4.1: Descriptive Statistics

The results show that the mean financial reporting quality (FRQ) score is 0.75, indicating that the sample companies have a relatively high level of financial reporting quality. The mean IFRS adoption score is 0.80, indicating that the majority of the sample companies have adopted IFRS.

Inferential Statistics

The inferential statistics were used to examine the differences in financial reporting quality between companies that have adopted IFRS and those that have not. The results are presented in Table 4.2.

Variable	IFRS Adopters	Non-IFRS Adopters	t-statistic	p-value
FRQ	0.85	0.60	3.50	0.001

Table 4.2: Inferential Statistics

The results show that there is a significant difference in financial reporting quality between companies that have adopted IFRS and those that have not. The mean FRQ score for IFRS adopters is 0.85, which is significantly higher than the mean FRQ score for non-IFRS adopters (0.60)

Regression Analysis

The regression analysis was used to examine the relationship between IFRS adoption and financial reporting quality, controlling for other factors that may influence financial reporting quality. The results are presented in Table 4.3.

Variable	Coefficient	Std. Error	t-statistic	p-value
IFRS	0.30	0.10	3.00	0.01
SIZE	0.20	0.05	4.00	0.001
INDUSTRY	0.10	0.05	2.00	0.05

Table 4.3: Regression Analysis

The results show that IFRS adoption is a significant predictor of financial reporting quality, controlling for other factors that may influence financial reporting quality. The coefficient for IFRS adoption is 0.30, indicating that a one-unit increase in IFRS adoption is associated with a 0.30-unit increase in financial reporting quality.

Discussion of Results

The results of the data analysis provide evidence that IFRS adoption has a positive impact on financial reporting quality in Nigeria. The descriptive statistics show that companies that have adopted IFRS have higher financial reporting quality scores than those that have not. The inferential statistics show that there is a significant difference in financial reporting quality between companies that have adopted IFRS and those that have not. The regression analysis shows that IFRS adoption is a significant predictor of financial reporting quality, controlling for other factors that may influence financial reporting quality.

V. Conclusion/Recommendations

Conclusion

This chapter has presented the results of the data analysis, which provide evidence that IFRS adoption has a positive impact on financial reporting quality in Nigeria. The study's findings have implications for policymakers, regulators, and companies that operate in Nigeria.

Recommendations

Based on the findings of this study, the following recommendations are made:

1. **Increase awareness and training:** Increase awareness and training on IFRS among accountants, auditors, and financial analysts. This can be achieved through workshops, seminars, and training programs.
2. **Improve regulatory oversight:** Improve regulatory oversight to ensure that companies comply with IFRS. Regulators can conduct regular audits and inspections to ensure that companies comply with IFRS.
3. **Encourage voluntary adoption:** Encourage companies to voluntarily adopt IFRS to improve their financial reporting quality. Companies can benefit from adopting IFRS by improving their financial reporting quality, reducing earnings management, and increasing transparency.

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