GSJ: Volume 9, Issue 11, November 2021, Online: ISSN 2320-9186

www.globalscientificjournal.com

INTERNATIONAL FINANCIAL REPORTING STANDARDS' AND POST COMPLIANCE ASSESSMENT OF SELECTED MANUFACTURING FIRMS PERFORMANCE IN NIGERIA, (2014 -2020)

BY

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ABSTRACT

This study examined the rate at which International Financial Reporting Standards' and the related disclosure requirements guaranteed performances of Manufacturing industries in the post compliance periods in the South – West Geo-political zone of Nigeria. Secondary data were extensively sourced and analyzed based on the year of mandatory compliance to Publication of financial statement in line with the prescriptions of IFRS of the selected listed companies which must have been in existence two years before 2012- the IFRS adoption ultimatum date in Nigeria. The result showed that IFRS specific template for manufacturing entities are followed in preparing and presenting annual financial reports. The compliance have a significant effect on manufacturing companies performances in the post compliance period as the P-value of disclosure requirements ($p = 0.001$) is greater than P-value of companies performance ($P= 0.005$) which indicates that the rate of compliance to IFRS disclosure requirement has improved the performance of most manufacturing entities via profitability, solvency and liquidity values improvements. The study also established that factors like inadequate re-trainings (70%), unqualified

Account staff (65%) and lack of standard financial reporting templates (72%) were inhibiting factors of performance of the selected manufacturing companies in developing economy. Based on the above, the study concluded that IFRS have a significant impact on Performances of manufacturing companies in Nigeria during the studied period.

Key words: IFRS, Due diligence, GAAP, ROCE, policy choice , IAS

1. Introduction

Generally, a financial report credibility, reliance and relevance depends largely on the standards upon which it is prepared. The standard and the presentation design must be suitably applicable to the industrial prescriptions of the country where the entity operates. Records has it that International Accounting Standards (IAS) was produced by two accounting bodies. The principle that guides the preparation and presentation of financial reports were formally produced by the International Accounting Standards Committee (IASC) and the International Accounting Standards Board (IASB). The International Accounting Standards Committee (IASC) came up with 41 accounting standards between 1973 and 2000. The IASC was replaced by the International Accounting Standards Board (IASB) in the year 2000. The new Board embarked on the review of processes aimed at refining the standards. The result was a reduction in the number of standards from 41 in the year 2000 to 28 by the year 2008. The standards produced by these two bodies culminated to the International Financial Reporting Standards which had by 2018 produced and issued over 200 standards. Thus, IFRS refers to the entire body of IASB pronouncements including standards and interpretations approved by IASB, IASC and their interpretations as produced by the Accounting Standards Interpretations Committee (IASIC).
The world economy has become increasingly interdependent over time, but this process of economic globalization has accelerated significantly over recent years. The growing scale of cross-border trade and flow of international capital has, however, brought about some of its own challenges, with one being the presentation and interpretation of financial information of manufacturing entities especially in the developing economy..
Most manufacturing companies in developing economy especially those with small size, low capital base and other deficiencies in compliance mechanism in Nigeria need to be re-examined in the face of multicultural concepts of Nigerians and legal system which are supposed to be fundamental factor if the disclosure *requirements adoption of the IFRS will hold water in the field of accounting profession. It therefore become important that frequent attention of accounting scholars contribution towards successful post- compliance to IFRS and effective performance of manufacturing companies in developing economy in objective manner rather than mere stereotyped adoption campaign that pervaded everywhere be established in conjunction with the status of the economy where the firms operate, hence this study*.

2. Theoretical Framework

According to Barth et al. (2007:2), the *IASB Framework* was approved by the IASC Board in April 1989 for publication in July 1989, and adopted by the IASB in April 2001. In September 2010, as part of a bigger project to revise the *Framework* the IASB revised the objective of general purpose financial reporting and the qualitative characteristics of useful information. The remaining of the document from 1989 remains effective, Ashbaugh and Pincus (2001:422).

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit. Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed (Barth et al. 2007:6; Chen 2010:226). Accrual accounting depicts the effects of transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period. This is important because information about a reporting entity's economic resources and claims and changes in its economic resources and claims during a period provides a better basis for assessing the entity's past and future performance than information solely about cash receipts and payments during that period, Daske et al. (2007:16)..The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. The IASB acknowledges that cost may be constrain on preparing useful financial information Paananen (2008:17). The elements directly related to the measurement of financial position are assets, liabilities and equity. These are defined as follows: An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits while equity is the residual interest in the assets of the entity after deducting all its liabilities.

The elements of income and expenses are crucial in business undertaken. Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants while expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence's of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. An item that meets the definition of an element should be recognized and be disclosed for better understanding and proper comprehension of all the stakeholders in a business entity. It is probable that any future economic benefit associated with the item will flow to or from the entity; and the item has a cost or value that can be measured with reliability.

Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the balance sheet and income statement. This involves the selection of the particular basis of measurement. The concept of capital maintenance is concerned with how an entity defines the capital that it seeks to maintain. It provides the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured; it is a prerequisite for distinguishing between an entities' return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital may be regarded as profit and therefore as a return on capital. Hence, profit is the residual amount that remains after expenses (including capital maintenance adjustments, where appropriate) have been deducted from income. If expenses exceed income the residual amount is a loss.

2.1 International Financial Reporting Standards (IFRS)

IFRS refers to the entire body of IASB pronouncements including standards and interpretations approved by IASB, IASC and their interpretations as produced by the Accounting Standards Interpretations Committee (IASIC). The primary objective of all accounting standards is to enable corporations provide investors and creditors with relevant, reliable and timely information which is in line with the IASB"s accounting framework as in aiding the preparation and presentation of Financial Statements. The concept of financial reporting disclosure requirement is based on the IASB framework provisions where relevance, reliability and comparability are key components and therefore assumed that financial statement with four qualitative characteristics have better quality. The disclosure requirements that relate to Small and Medium Scale Enterprises (SMEs) as published by IASB in July, 2009 were based on general provisions that ranges from disclosure of accounting framework structure, asset and liability, business combinations, currency in use, specialized activities and main changes in exposure drafts. The major aim of providing these as a disclosure requirement is to provide standards for entities that are not of the same size nor having capacity and resources to adopt full IFRS. The Board further placed under the authority of entities in each territory to decide which class of entities are permitted to apply one standard of the other with all objectivity.

2.2 IFRS Operationalization

The economic success of any country depends largely on proper management and adequate investment in different business sectors-the small scale business, the medium scale business and the large scale business (Soludo, 2006). Out of these businesses, the Small and Medium scale Enterprises is the amiable point of joining the business world (Okunola, 1993) which is the practice that obtains in developing economy of the world. Akande (2010) opined that SMEs has been identified as the major source of economic development in developing economy, an accelerating force that is used in achieving socio- economic goals of a nation, a strong stimulant to economic growth of various forms and a strong provider of economic leeway to hitherto improvised families in the cities of developing countries. In South - West Geo-political zones of Nigeria, manufacturing companies takes predominant roles in engaging most households because of less stringency of laws and regulations which are often seen in listed companies of developing Nations. Series of events have emerged in the study of manufacturing companies especially those that are listed on the stock exchange markets the world over. Most of the empirical literature emphasis on the factors that hamper the growth and expansion of industries such as limited source of finance, lack of skills, competence, lackadaisical altitude of management and improper record / book-keeping of their businesses. Most of these factors also hindered the continuity and in- effectiveness of new breed Entrepreneurs in businesses in developing countries of the world. (Akerele, 2000). Also the fact that the operation of the businesses in most cases are usually not personalized and having a former structure is a referenced factors that exposed it to National and International rules such as Company and Allied Matters Act,of 1990 in Nigeria, International Accounting standards and the International Financial Reporting Standards (Adubifa, 1990).

2.3 Revenue Recognition Rules in Manufacturing Companies

In line with the International Financial Reporting Standard 15, a revenue is the gross inflow of cash, receivables and other considerations arising in the course of ordinary activities of an organization. This position has a lot of influence on statement of comprehensive income preparation which is the utmost basis of which manufacturing companies operates. Thus, from sales of goods, rendering of services and use of other enterprises resources that yield interest, companies are expected to make its

GSJ: Volume 9, Issue 11, November 2021
ISSN 2320-9186

ways without jeopardizing the position of IFRS which emphasis on the revenue recognition as concerning the revenue that should be recognized.. A key criterion for determining when to recognize revenue from transactions involves sales of goods demands that the company (seller) must transferred to the buyer the significant of ownership risk. It is normally inappropriate to recognize transaction as a sale. An example of significant risks of ownership that may be retained by a seller is the liability for unsatisfactory performance not covered by normal warranty provisions. Where only a non-significant reward of ownership is retained by the seller, this will not normally preclude recognition of revenue, for example, when title is retained by the seller solely to protect the collectability of the amount due, as in the hire-purchase. Thus, many theories that explain the underpinning adoption of IFRS to financial reporting and manufacturing companies post-adoption and implementation predicaments in Nigeria includes relativity impact theory, contingency theory, convergence theory, stakeholders' theory, behavioural finance theory, the institutional theory and the financial contagion theory coupled with relevant disclosure requirements and compliance records of listed entities in Nigeria

3. DATA ANALYSES AND RESULTS

Table 1: IFRS Versus GAAP (Standards Provisions – key changes)

Basis of Comparison	*IFRS Provisions*	*GAAP Provisions*	*Basic Differences*
Financial State	*Income Statement, Balance Sheet, cash flow statement, value added statements, accounting policies and notes to the account.*	*Statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash-flow, accounting policies, notes and significant management estimates and judgement.*	*Title of major items o Financial statements has changed*
Property, Plant & Equipment	*Measured with cost model*	*Measured with cost model but with details such as useful life, ,impairment calculation and identification of cash generating units*	*Breakdown of complexities are achieved*
Segment reporting	*More of geographical*	*Operational segment is based on Mgt. view. If the aggregate revenue is less than 75%, then more segment is required until 75% threshold is reached.*	*Segmental reporting eventually abolished*
First time adoption	*Not applicable*	*Provides guidance and requirements on the transition to IFRS. It also provides relief for certain items in determination of opening balances.*	*This is the beginning change into era of reporting financial statement in uniform form globally*

Financial guarantees	*Disclosed as contingent liabilities*	*Requires financial guarantees to be recognized at their fair value.*	*Fair value recognitio is emphasized*
Scope of Consolidation	*General principles*	*Investments under control is consolidated*	*Control and exercise significant influence i ascertained*
Employees benefits	*General expenses and disclosure as pensions*	*Recognize the undiscounted amount as benefits*	*Interest is generated additional benefits to employees at retirement*
Risk Management	*Limited disclosure of foreign exchange*	*Disclosure is required for foreign risk.*	*Other risk items are disclosed*

Source: IFRS prospectus, 2020

Table2: **Post-compliance Year of Operation of Selected Industries**

Number of year	Number of Respondents	Percentage (%)
1-3	8	13.33
3-5	2	3.33
5-7	20	33.33
8-10	15	25
10-Above	15	25
Total	60	100

Source: Field Study,2021.

From table one, salient areas of differences between old ways of presenting financial reports and the provision made by the new standards (IFRS) and the former General Accepted Accounting Standards showed the areas where preparers of account need to focus for training purposes so as to enable manufacturing companies derived the desired benefits from the new provisions. Benefits derivable if the provisions are properly keyed into will includes decrease in cost of capital, efficiency in capital allocation, international capital mobility, increased market liquidity and value, comparability enhancement and improved transparence of results of operations. Easy regulation of financial information of entities are also ensured with better and quality information for shareholders and supervisory entities.

Performance indices showing the effect of IFRS (Profitability, liquidity and investors activities ratios) in line with compliance with the requirements of IFRS showing mean and median comparison of the collected variables from 2014 to 2020 of the selected firms were as presented below:

Tabl3 3: **Mean and Median Values Relationship of profitability indices**

	MV	EPC	ENP	BIO	WSM	AWR	ERD	CEL	SIZ
Mean	1.4732	0.7554	0.2832	0.6537	0.6392	0.1283	0.3849	0.0314	1949774
Median	1.1600	1.0000	0.00000	0.0000	0.0000	0.0000	0.0000	0.0000	4896443.
Maximum	12.570	3.0000	3.00000	3.0000	3.0000	3.0000	3.0000	3.0000	2.15E+0
Minimum	0.1200	0.0000	0.00000	0.0000	0.0000	0.0000	0.0000	0.0000	99836.00
Std. Dev.	1.0570	0.7794	0.63063	0.9772	0.9644	0.4520	0.7628	0.2341	3261639
Skewness	4.2503	0.7322	2.25131	1.22Shar eholde7	1.2275	3.6749	2.0496	8.8679	2.7048
Kurtosis	35.938	2.8430	7.32435	3.1352	3.1512	16.011	6.4214	91.4183	11.111
Beta-value	19913.8	37.326	670.671	102.89	104.11	3843.0	490.61	139945.3	1635.97
Probability	0.0000	0.0000	0.00000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sum	608.46	312.00	117.000	270.00	264.00	53.000	159.00	13.000	8.05
Sum Sq.	460.33	250.30	163.854	393.48	383.24	84.198	239.78	22.590	4.38E+1
Observation	413	413	413	413	413	413	413	413	413
Cross secti	50	50	50	50	50	50	50	50	50

Table 4: OLS Regression Result of compliance and profitability of manufacturing firms.

Variables	Estimated coefficient	Standard error	T statistics 1.97	P value 0.04
R	R^2	Adjusted R squared	Standard Estimate of regression	
0.93	0.86	0.73	0.8183	

Source: Researchers computation with E-views Software , 2018

Table 4.1: Descriptive Statistics of impart of IFRS on performance of selected manufacturing firms from 20 14-2020 (n=50)

Variable	*Mean*	*Std. Deviation*	*Skewness*	*Kurtosis*
B12	*2.980*	*1.921*	*- 007*	*-2.00*
B13	*3.880*	*1,136*	*-702*	*-.552*
B14	*4.100*	*0.650*	*-600*	*1.37*
B15	*4.600*	*1.800*	*0.25*	*7.18*

B16	*2.710*	*0.570*	*-1.97*	*-1.819*
B17	*4.720*	*0.810*	*-2.70*	*2.94*
B18	*4.580*	*1.53*	*-070*	*8.43*

Source: Field Survey

Table below shows the descriptive statistics of the impact of IFRS on the performance indices of selected manufacturing firms in the post compliance period (2014) to 2020. From the analysis table, variable B17 with a mean value of 4.72 and the highest signify a very high impact. It shows that 94% of the respondents to a large extent agreed that IFRS provides better information in the post compliance period than GAAP. The second highest B15 mean value of 4.60 signify that the respondents believed that IFRS directly affects how earnings, profitability and other key performance indices of business of manufacturing firms are accounted and reported and therefore IFRS has significant effects on performance of the firms in the studied period. Other next ranked values of B18, B14. B13, B12 and B16 with mean values of 4.580, 4.10, 3.88, 2.98 and 2.710 implies that adoption of IFRS will improve transparence of the firms as well as provide greater opportunities that will further enhance performances of manufacturing firms in Nigeria,

Conclusion and Recommendations

The study showed that total compliance with the rules set in the standards guaranteed effective performances of manufacturing companies as stakeholders' have access to adequate information which further boost their returns, there are clear distinction between the Generally Accepted Accounting Practices (GAAP) and the IFRS basically on the title of financial statement items and the treatment of cogent accounting factors which tends to improves firms' opportunities as well as providing the shareholders needed and necessary information, it opened external opportunities as in the areas of external capital assessment and in getting access to new markets. The success of the adoption depends largely on the approach of training adopted by the organization for the preparers of financial statements in manufacturing companies. This explains why some people offered themselves to learning the ways of preparing financial statement in modern ways as prescribed by IFRS. There is a degree of relationship between the performance of manufacturing companies and IFRS disclosure requirements if compliance level improves. The approach used in straining the account preparers has to be frequent and continuous so that there may not be a missing gap between what is require and what obtains. That there is there should be a major benefit to the trainees on this new standards for effectual application and adoption. Thus trainees youth of between fifteen to twenty–five years are expected to participate actively in this practice to serves as a learning-curve to an independent manufacturing businesses. That manufacturing companies need to train young and able minds with clear intention to practice the new provisions of IFRS so that their financial reports could be prepared and presented in accordance to economic reality which will invariably create a reliable format of conglomerate businesses and meet the public needs in solving compliance problem of the country. Thus, getting trainable youths employed .in manufacturing businesses especially in the accounting section will help to sustained ailing economy and persistent clamoring of defaults in disclosure of IFRS requirements in the Nation which will reduce drastically.

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