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International Financial Accounting Standards (IFRS) in Nigeria: Investors Perspective

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Abstract:
This study was carried out to ascertain the Nigerian Investors' view on International Financial Reporting Standards (IFRS). Many researches were conducted before IFRS was adopted in Nigeria so as to encourage its adoption but after the adoption of IFRS in Nigeria very few studies have been conducted to verify if truly the acclaimed benefits of IFRS in theory are the same in practices. Also there is little research on the perception of users of IFRS financial information. This study aims to fill in the gap by conducting a research on users of financial reports; focusing majorly on investors. The study made use of primary sources of data in eliciting the required information needed for this research. The sample size consisted of seven (7) firms randomly drawn from list of approved Nigerian stockbrokers. The collected data was tested through Chi-square with the use of Statistical Package for Social Sciences (SPSS). The study finds that IFRS adoption influences investment decision in Nigeria, it has increased confidence of Nigerian investors in the financial statements of company. Also this study was able to show that major percentage of the Investors in Nigeria understands the IFRS reporting of companies. The paper recommends that organization should improve their IFRS communication in the annual report. Users of financial information especially the investing community, consisting of investors and stockbrokers, should endeavor to get more training on IFRS so they can have more understanding and easily interpret IFRS accounts better.

Keywords: *International financial accounting standards, investors, stock broker, financial reports.*

1. Introduction

The International Accounting Standard Board (IASB) in 2001 developed International Financial Reporting Standards (IFRS) so there can be global standards for the preparation and presentation of financial statement, ensuring the harmonization of accounting standard worldwide and the provision of a single set of high quality, understandable and uniform accounting standards (Ikpefan and Akande, 2012; Saidu and Dauda 2014)

International Financial Reporting Standards (IFRS) are defined by IASB as a set of international accounting standards stating how particular types of transactions and other events should be reported in the financial statements. Jacob and Madu (2009) identified IFRS as a single set of high quality and globally accepted accounting standards that can enhance comparability of financial reporting across the world. One of the main reasons for the establishment of IFRS is to eliminate the difficulty faced when international comparison of financial statements is being made. Such difficulties arise because there is diversity in financial reporting in different countries due to culture, legal systems, tax systems and business structures (Demaki, 2013). According to Demaki (2013), International Financial Reporting Standards (IFRS) harmonizes this diversity by making information more comparable and easier for analysis, promoting efficient allocation of resources and reduction in capital cost.

Before IFRS adoption, Investors were often faced with the challenges of comparability, objectivity, reliability, understand-ability of financial statements (Ocansey and Enahoro 2014) prepared by different companies located in different continents but the introduction of a single set of accounting standards has helped to overcome some of these challenges. Investors can now easily make investments anywhere in the world and also easily compare financial information of different companies irrespective of their location. A single set of financial reporting standards will increase comparability of financial information, enhance investment decisions, and ensure a more optimal allocation of resources across the world economy (Jacob and Madu, 2009).Epstein (2009) also identified that it will increase market liquidity, decrease transaction costs for investors, lower cost of capital and facilitate international capital formation and flows. Ocansey and Enahoro (2014) also stated that the adoption of IFRS will facilitate international movement of capital and greater integration of the global financial markets.

According to Essien-Akpan (2011), the increase in globalization and competition has led to trading on Capital market going global; a company can now raise funds on several stock exchanges around the world. Garuba and Donwa (2011) also supported this fact by stating that globalization and Information and Communication Technology (ICT) have made it possible to share financial information

globally hence enabling investors to be able to invest in any part of the globe. Regulators justify the move towards IFRS by the expectation that collective adoption of IFRS will, among other benefits, enhance the comparability of financial statements across countries and, thus, reinforce foreign equity investments (Brüggemann, Daske, Homburg and Pope, 2011). Entry barriers created by country specific accounting standard is removed when IFRS is adopted, helping investors to save resources that would have been used to familiarize themselves with local accounting standards (Brüggemann, Daske, Homburg and Pope,2011). Convergence could increase the quality and comparability of financial reporting (SEC 2008; Hail et al. 2010). Regulators and standard setters often emphasize that convergence benefits investors through lower information processing costs, since it reduces the need to learn and understand different sets of accounting standards (Chi 2009).
Many researches were conducted before IFRS was adopted in Nigeria so as to encourage its adoption but after the adoption of IFRS in Nigeria very few studies have been conducted to verify if truly the acclaimed benefits of IFRS in theory are the same in practices. Also there is little research on the perception of users of IFRS financial information. This study aims to fill in the gap by conducting a research on users of financial reports; focusing majorly on investors. The findings of this paper must be interpreted carefully because it focuses on investors, rather than on all parties that could be affected by IFRS prepared financial reports

1.1. Research Problem

Information provided in line with International Financial Reporting Standards (IFRS) is already influencing the investment decisions of more than half of fund managers in Europe according to a MORI survey commissioned by PricewaterhouseCoopers in 2006. The results revealed that the new standard is having a real impact on the way fund managers view companies and the investment decision they make.The problem of this study is to determine if the same apply to investors in Nigeria. The statement of problem of the study is to find out if investors understand the IFRS reporting of companies they invest in and if there is better information for investment decision. Hence, this research is expected to answer the following questions.

i. Does the adoption of IFRS in Nigeria influence investment decision?
ii. Has IFRS increased confidence of investors in the financial statements of company?
iii. Has IFRS increased Nigerian investors understanding of financial reports?
iv. Does IFRS make comparison of financial reports easier?

1.2. Research Objectives

The main objective of this study is to determine the Nigerian Investors' view on IFRS Adoption. Specifically, the study seeks to:

i. Ascertain if the adoption of IFRS in Nigeria influences investment decision
ii. Determine whether IFRS has increased confidence of Nigerian investors in the financial statements of company
iii. Ascertain if investors in Nigeria understand the IFRS reporting of companies.
iv. Ascertain if IFRS makes comparison of financial reports easier

1.3. Research Hypotheses

The following Null hypotheses are formulated and tested based on the research questions

- H_0 1: Adoption of IFRS in Nigeria does not influence investment decision
- H_0 2: Adoption of IFRS has not increased confidence of Nigerian investors in the financial statements of company.
- H_0 3: IFRS has not increased Nigerian investors understanding of financial reports
- H_0 4: IFRS does not make comparison of financial reports easier

2. Literature Review

According to Sucher and Jindrichovska (2004), there has been sparingly little academic empirical research on what has happened when IFRS are implemented within a country. The Minister for Trade and Investment in Nigeria, Mr. Olusegun Aganga recently said, "The adoption of International Financial Reporting Standards (IFRS) in Nigeria has enhanced the perception of Nigeria in the international community and the first phase of the adoption of IFRS in Nigeria has started producing enhanced perception for Nigeria."
A study commissioned by PricewaterhouseCoopers in 2006 titled "The European investors' view" revealed that the European investors are already alert to the new IFRS information reported to them. They see the change to IFRS as significant and having impact on investment decisions. Most investors report 'reasonable confidence' in their understanding of the IFRS reporting of companies they invest in. However, only a quarter have 'a great deal of confidence' so it is clear that investors will continue to rely on companies to explain the full implications of their IFRS numbers.
In the study by Okafor and Ogiedu (2011), the study revealed that IFRS has greater benefits than SAS particularly in areas of international comparability of financial statements, cross border listings, mergers and acquisitions, and ability to raise finance. According to them, the adoption and implementation will impact information technology, human resources management, business processes and operations. Also the results indicated that the adoption and implementation of IFRS will introduce substantial complexities into the existing accounting systems. One key source of the complexity is the use of fair value measurements. Ocansey and Enahoro (2014) concludes in their study that IFRS adoption enhanced analyst, investors and other stakeholders' understandability, comparability, transparency, confidence and reduce cost of analysis of financial statements and other investment decisions.
Joos and Leung (2013) carried out a study on "Investor Perceptions of Potential IFRS Adoption in the United States" and it was discovered that investors' reaction to IFRS adoption is more positive in cases where IFRS is expected to lead to convergence benefits.

Their findings suggest that investors expect U.S. adoption of IFRS to result in net convergence benefits, highlight the importance of convergence benefits to investors and show that there are both costs and benefits to the use of a common global accounting standard.
Adetoso (2014) examined “Adoption and Implementation of International Financial Reporting Standards (IFRS) in Nigeria: Auditors Perspectives” and concludes that there is correlation between IFRS adoption and management’s transparency and also that there is correlation between IFRS adoption and stakeholders’ reliance on management representations. Stakeholders’ reliance on financial statements will increase with the adoption of IFRS in Nigeria. The perception of auditors on the adoption and implementation of IFRS is that even though IFRS is more difficult to apply and time consuming, it is still preferable to the previous standard and among other benefits it will improve the level of financial disclosure by Nigerian firms.
Brüggemann, Daske, Homburg and Pope (2011) examined “The Impact of Global IFRS Adoption on Cross-Border Equity Investments by Individual Investors.”The study which focused on 31 countries around the world showed that stocks experience an increase in Open Market trading volume following mandatory adoption of IFRS. Stressing the fact that collective IFRS adoption has the potential to reinforce cross-border equity investments by individual investors. Okafor and Ogiedu (2011) noted that there are alternative views that the adoption of IFRS would imply major reporting changes and likely lead to lower reporting quality because many important differences between IFRS and GAAP remain (Benston, *et al,* 2006); IFRS offer more discretion and less guidance and hence more room for earnings management, and that they are less tested and comprehensive than Generally Accepted Accounting Principle (GAAP) (SEC, 2005; Leone, 2008). One of the challenges of adopting IFRS in Nigeria as identified by Garuba and Donwa (2011) is that most users do not have a good understanding of the IFRS and would find it difficult to appreciate the financial statements presented to them. According to them even though understandability is one of the qualities of IFRS-based financial statements, the complex nature of IFRS-based financial statements and the comprehensive disclosure requirements, make the financial statements to be very technical and bulky for non-accountant’s users to read and understand.
In the study carried out by Adetoso and Oladejo (2013) on “The Relevance of International Financial Reporting Standards (IFRS) in the Preparation and Presentation of Financial Statements in Nigeria”, it was concluded that the adoption of IFRS by organization will increase the level of confidence of global investors and investment analysts in Nigeria which will in turn assist them to generate more funds from foreign sources. The study recommends Government to release more funds to Financial Reporting Council of Nigeria (FRCN) to educate all stakeholders who will uphold the future of IFRS in the country. Also for regulators to ensure that there is availability of training facilities and materials for Professional Accountants.

3. Methodology

Survey approach was adopted for this study through a set of questionnaires which were designed in such a way to obtain information necessary from the respondents on their perception about IFRS adoption. This study is exploratory and adopts a quantitative approach in seeking answers to the research questions. The population of the study was randomly drawn from listed stock broking firms in Nigeria; this is because they represent major investors in Nigeria in helping them make investment decisions.
The study made use of both primary and secondary method of gathering data. For the primary data questionnaire was used in eliciting the required information needed while the secondary data was obtained from journals, published articles, textbooks and online resources. The study’s main instrument for data collection is the questionnaire. The sample size consisted of seven (7) firms randomly drawn from list of approved Nigerian stockbrokers. The collected data was tested through Chi-square with the use of Statistical Package for Social Sciences (SPSS)and Pearson Product moment correlation coefficient “r” was used to ascertain the strength of the relationship between the Independent and dependent variable.
A total of one hundred and seventy-five (175) questionnaires were issued out, 25 copies per company and the researcher was able to collect one hundred and twenty-two (122) questionnaires back from the respondents.

4. Results and Discussions

During the data gathering exercise, a total of 175 copies of questionnaire were distributed, 25 copies of questionnaire each to the 7 randomly chosen companies, out of which 122 were returned. This represents a response rate of 69.7% which is considered adequate. The response rate from the seven stock broking companies is shown in Table 1 below.

Company Name	No. of Questionnaire Sent	No. of Questionnaire Returned	Percentage of Total Received
Capital assets Limited	25	17	13.9
CSL Stockbrokers Limited	25	19	15.6
Fidelity Union Securities Limited	25	17	13.9
IBTC Asset Management Limited	25	15	12.3
Forte Asset Management Limited	25	18	14.8
Rostrum Investment & Securities Limited	25	16	13.1
Reward Investments and Services Limited	25	20	16.4
TOTAL	**175**	**122**	**100**

Table 1: Summary of Questionnaire Administration

Table 2 presents the characteristics of the respondents. The respondents are fairly balanced in terms of gender. More than half of the practitioners either work in professional accountancy firms or in banks, etc. In all, the respondents seem to be familiar with the issues and challenges of IFRS adoption.

		FREQUENCY	PERCENTAGE
SEX:	Male	80	65.6
	Female	42	34.4
TOTAL		122	100
MARITAL STATUS:	Single	11	9.0
	Married	108	88.5
	Divorced	3	2.5
TOTAL		122	100
AGE:	Below 20 years	4	3.28
	21-30 years	23	18.85
	31-40 years	37	0.30
	41-50 years	48	39.34
	51 years and above	10	8.20
TOTAL		122	100
EDUCATIONAL QUALIFICATION:			
	WASSCE/SSCE	0	0
	NCE/ND	4	3.3
	HND/B.Sc	95	77.9
	MBA/M.Sc	12	9.8
	Others	11	9.0
TOTAL		122	100

Table 2: Demographic Characteristic of Respondents

The descriptive statistics on the responses to the questionnaire distributed is shown in Table 3 below.

S/N	VARIABLES IN QUESTIONNAIRE	SA	A	UD	D	SD	MEAN
1	The financial information prepared using IFRS by companies is clear and understandable.	59 48.4%	63 51.6%	0 0%	0 0%	0 0%	4.48
2	There isbetter information for investment decision as a result of IFRS	52 42.6%	60 49.2%	10 8.2%	0 0%	0 0%	4.34
3	Adoption of IFRS in Nigeria influences investment decision.	34 27.9%	72 59%	7 5.7%	9 7.4%	0 0%	4.07
4	IFRS has increased Nigerian investors understanding of financial reports.	56 45.9%	50 41%	7 5.7%	9 7.4%	0 0%	4.25
5	IFRS has impact on investors perception of company value.	66 54.1%	36 29.5%	20 16.4%	0 0%	0 0%	4.28
6	IFRS has increased confidence of Nigerian investors in the financial statements of company	60 49.2%	40 32.8%	13 10.7%	9 7.4%	0 0%	4.24
7	IFRS is a significant financial reporting development	54 44.3%	54 44.3%	14 11.5%	0 0%	0 0%	4.33
8	IFRS can impact key financial indicators Of a company regardless of its size	34 27.9%	66 54.1%	12 9.8%	10 8.2%	0 0%	4.02
9	IFRS improves transparency and manage- -mentinformation, together with consistency of reporting between jurisdictions and sectors.	47.5%	58 34.4%	42 18%	22 0%	0 0%	0 4.30
10	IFRS makes financial comparison easy	43 35.2%	63 51.6%	7 5.7%	9 7.4%	0 0%	4.15

Table 3: Descriptive Statistics of Primary Data

Source: Field Survey, 2015.

SA= Strongly agree: A= Agree: UN=undecided D= disagree: SD= strongly disagree:

4.1. Test of Hypotheses

In this section, the results obtained are used to answer the research questions relating to the hypotheses. Four hypotheses were tested using percentages, means and the Chi – Square. An alpha (α) level of 5% is assumed. Table 3below shows a summary of the results of the hypothesis testing.

	Adoption of IFRS in Nigeria influences investment decision	IFRS has increased confidence of Nigerian investors in the financial statements of company	IFRS has increased Nigerian investors understanding of financial reports	IFRS makes financial comparison easy
Chi-Square	90.669[a]	56.689[b]	67.049[b]	73.016[b]
df	3	3	3	3
Asymp. Sig.	.000	.000	.000	.000
a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 30.3.				
b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 30.5.				

Table 4: Test Statistics

HYPOTHESIS	DEGREE OF FREEDOM(DF)	CRITICAL VALUE OF $\chi 2$	CALCULATED VALUE OF $\chi 2$	ALPHA(α) LEVEL
1	4	9.488	90.67	0.05
2	4	9.488	56.69	0.05
3	4	9.488	67.05	0.05
4	4	9.488	73.02	0.05

Table 5: Results of hypothesis testing
Source: Authors 2015

4.1.1. Hypothesis One

Adoption of IFRS in Nigeria does not influence investment decision. From the computation the calculated value of X2 is 90.67. The critical or table value at an alpha(α) level of 0.05 and 4 degree of freedom is 9.488. Since the calculated value is greater than the table value, we reject the null hypothesis and accept the alternative hypothesis. Therefore, it is concluded that Adoption of IFRS in Nigeria influences investment decision.

4.1.2. Hypothesis Two

Adoption of IFRS has not increased confidence of Nigerian investors in the financial statements of company. From the computation the calculated value of X2 is 56.69. The critical or table value at an alpha(α) level of 0.05 and 4 degree of freedom is 9.488. Since the calculated value is greater than the table value, we reject the null hypothesis and accept the alternative hypothesis. Therefore, it is concluded that Adoption of IFRS has increased confidence of Nigerian investors in the financial statements of company.

4.1.3. Hypothesis Three

IFRS has not increased Nigerian investors understanding of financial reports. From the computation the calculated value of X2 is 67.05. The critical or table value at an alpha(α) level of 0.05 and 4 degree of freedom is 9.488. Since the calculated value is greater than the table value, we reject the null hypothesis and accept the alternative hypothesis. Therefore, it is concluded that IFRS has increased Nigerian investors understanding of financial reports.

4.1.4. Hypothesis Four

IFRS does not make comparison of financial reports easier. From the computation the calculated value of X2 is 73.02. The critical or table value at an alpha(α) level of 0.05 and 4 degree of freedom is 9.488. Since the calculated value is greater than the table value, we reject the null hypothesis and accept the alternative hypothesis. Therefore, it is concluded that IFRS makes comparison of financial reports easier.

4. Findings and Conclusion

This study was carried out to ascertain the Nigerian Investors' view on International Financial Reporting Standards (IFRS). From the study the following findings were made

- IFRS adoption influences investment decision in Nigeria.
- IFRS has increased confidence of Nigerian investors in the financial statements of company
- Investors in Nigeria understand the IFRS reporting of companies.
- IFRS makes comparison of financial reports easier

The following conclusions have been reached based on the data analysis. IFRS adoption influences investment decision in Nigeria. Investors in Nigeria, represented by stockbrokers in this research, were of the opinion that adoption of IFRS influences investment decision because reporting is more transparent under IFRS so it is easier to draw conclusions and also because the financial information prepared using IFRS by companies is clear and understandable.

IFRS has increased confidence of Nigerian investors in the financial statements of company. IFRS is an international standard applicable anywhere in the world, a company adopting the standard in reporting is automatically doing away with local standards this has added to the confidence of investors in financial statements prepared using IFRS.

This study was able to show that major percentage of the Investors in Nigeria understand the IFRS reporting of companies even though some studies have shown that IFRS is more difficult to apply and time consuming. And considering the fact that IFRS is a standard used globally, it is easier for investors to make comparison of financial reports. The adoption of IFRS enables investors to save resources they would have used to try to understand country specific standards.

5. Recommendations

The following recommendations were made based on some salient issues revealed by the study.

Assessing, understanding and interpreting the changes to the financial account that IFRS has introduced is time consuming according to some of the investors. This study therefore recommends that organization makes it easier by improving their IFRS communication in the annual report so users of financial information can readily access and understand the new changes introduced by IFRS. Users of financial information especially the investing community, consisting of investors and stockbrokers, should endeavor to get more training on IFRS so they can have more understanding and easily interpret IFRS accounts better.

Also, the regulatory bodies in Nigeria such as Financial Reporting Council of Nigeria, Securities and Exchange Commission, Central Bank of Nigeria, and other regulatory bodies should encourage trainings and workshops to better inform those involved with financial reporting and also ensure strict adherence to the new standard when reporting. These regulatory bodies should put measures in place to ensure compliance for examples sanctions and recognitions for firms that fail to comply and firms that comply.

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