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Research Article

Examining the Adoption of International Financial Reporting Standard on Nigeria Manufacturing Industries: An Issue for Quality Financial Reporting

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Abstract
Pressures brought on by the globalisation of accounting standards prompted modifications to reporting systems all across the globe. It was noted that the application of the IFRS standard hasn't stopped inflated earnings and has no relationship to corporate performance. But given the results of other studies, it's challenging to say whether the execution of IFRS has occasioned in high-quality financial reports in the manufacturing sectors. The implementation of IFRS and the caliber of financial disclosure in Nigeria's industrial sector are the subjects of this study. Both primary and secondary data were employed in the investigation. The sampling cited manufacturing industries' internal and external auditors and accountants provided the source data. The secondary data was gathered from the annual reports of three (3) chosen manufacturing companies listed between 2006 and 2017 on the Nigerian stock exchange. The statistical connection between IFRS implementation and the caliber of financial disclosure in the Nigerian manufacturing sector was assessed using a multiple regression approach. The performance of manufacturing companies under the Nigerian GAAP and IFRS was measured using paired sample T-test. The results discovered that IFRS execution has a substantial positive link with quality of financial reporting in Nigeria manufacturing industry. The paper concluded and recommended that institutional and legal system should be considered in order to guarantee enhancement in transparency and comparability in financial report.
Keywords: GAAP, IFRS, quality financial reporting, manufacturing industry, equity agency theory.

Background of the Study

The International Accounting Standards Board (IASB) embraced international financial reporting standards (IFRS) as benchmarks, interpretations, and a template. "*These benchmarks are the result of private sector efforts to harmonize and internationalize financial reporting in light of the requirements of business globalization and regional convergence".* (Abata, 2015). In Nigeria context, it remains unclear whether the execution of IFRS by manufacturing companies has improved the quality of financial reporting as expected as empirical evidence yielded conflicting evidence. Ogundana, *et al.,* (2017) study indicates a substantial connection between IFRS implementation and worth of accounting information.

Similar to this, Abata (2015) discovered that IFRS financial reports improved best practices and offered more advantages than the previous GAAP. Prior to the acceptance of IFRS, Ogundana *et al.,* (2017) noted that "*the preparation and presentation of financial reports was subjected to different procedures which collectively were termed generally accepted accounting principles (GAAP)".* The local government of each country devised, publishes, and regulates the accounting standards used in various countries. The advent of IFRS has changed how financial statements are prepared, reported, and presented. A single global set of accounting, reporting, and disclosure rules is necessary because of the globalisation of the financial markets (Akinyemi, 2012).

There was much clamour for the unification of accounting standards prior to the implementation of IFRS. This is due to the financial crisis that engulfed several nations and the failure of some blue-chip firms in western nations despite receiving a clean bill of health in their financial reports. This prompted accounting regulators to scrutinize reporting practices and accounting standards.

Statement of the Problem

Oseni (2013) opined that "*the differences in these accounting standards of countries degenerated into lack of harmonization of accounting information since accounting procedures adopted varied from country to country"*. Challenges brought on by the globalization of accounting standards prompted modifications to reporting systems all across the globe. Consequently, Nigeria adopted IFRS in 2012 in order to align its accounting standards with the rest of the world and for easy comparability of accounting information by foreign investors who might rely on the accounting information to access the threat and worth of an enterprise so as to make informed investment decision. Umobong and Ibanichuka (2016) give proof that the adoption of the IFRS standard has no bearing on the operation of the company and has been ineffective in curbing inflated earnings. It is therefore challenging to draw a firm conclusion about whether IFRS adoption produces high-quality financial reports in the industrial sector given the conflicting results of earlier studies.

Objective of the Study

To access the connection between IFRS execution and value of financial disclosure in the Nigeria manufacturing industries.

Literature Review

Conceptual Framework

The Concept of Quality of Financial Reporting

Barth, *et al.,* (2008) described quality of financial reporting as "*the ability of accounting measures to reflect the economic position and performance of a firm*". Hribar, *et al.,* (2014) conceptualize the excellence of financial disclosure as "*the degree of usefulness of accounting information to represent a true and fair view of entity's financial results and position, to help predict its future performance and to enhance assessment of entity's value"*. It is helpful to estimate prospective performance and determine the business entity's value to the extent that accounting information actually describes the corporation's existing operational performance.

Concept of IFRS

Abata (2015) noted that "*IFRS are a single set of high quality, understandable standards for general purpose financial reporting which are principles-based in contrast to the rule based approach; they are standards, interpretation and framework adopted by international accounting standards board; they are products of private sector initiatives towards the harmonization and internationalization of financial reporting in response to the demands of business globalization and regional convergence".* Adeyemi (2016) pointed out that "*IFRS are principle-based accounting standards which are set to achieve the objective of harmonization of all the accounting standards of different countries in order to enhance compatibility and improve quality of accounting information in general".* They are a result of expanding international corporations and are gradually taking the place of the numerous various national accounting standards.

Empirical Framework

Awen (2020) examined IFRS acceptance and value of financial reporting in the Nigerian manufacturing industry. It discovered a substantial link between IFRS implementation and quality of financial disclosure in the manufacturing sector. The study therefore concludes that IFRS implementation affects the worth of financial disclosure position.

Bawa *et al.,* (2020) evaluated Africa's economic performance for the growth of the financial sector. It makes use of secondary data from the 37-year (1980-2017) from the World Development Indicators (WDI). The paper makes a connection between the financial sector development and economic performance in 46 chosen African nations. The findings showed that financial freedom will drop by 3.87e-05 over the current period in sub-Saharan Africa due to economic performance, however financial development will increase financial freedom during the current period. The results additionally demonstrated that in order for the financial sector in Africa to operate with financial discipline and to achieve successful economic performance, financial liberalisation should be followed.

Amaefule *et al.,* (2018) look at how the deployment of IFRS has affected the financial performance of traded industrial businesses in Nigeria. The article's findings suggested that the Nigerian financial disclosure council evaluate the IFRS principles as laid down by the IASB to include local content. As a result, convergence rather than complete implementation by Nigerian businesses may be the best course of action.
Ogundana *et al.,* (2017) investigated the impact of required IFRS deployment on the accounting standard of Nigerian banks. The survey technique was utilized for the investigation. Copies of the questionnaire were

given to responders, and primary and secondary data were used. Also, information was gathered from the yearly reports of 12 Nigerian banks that are traded on the stock exchange floor. The data were analysed utilizing simple regression as well as a paired t-test with a significance level of 5%. The study found a strong link between the acceptance of IFRS and the accuracy of accounting information.

Umobong and Ibanichuka (2016) use secondary data from the NSE from 2006 to 2014 to investigate IFRS execution and firms' financial performance in Nigeria. They compare the financial pre-and post-IFRS of food, beverage, and pharmaceutical companies to determine whether IFRS adoption decrease financial result manipulations. Data were compared before and after the adoption of IFRS using independent sample t-test and ANOVA. Results suggest that IFRS execution has no effect on reported performance because there are no appreciable differences in the mean of ROA, ROE, and EPS between the two periods. The study concludes that IFRS failed to prevent bloated earnings.

Theoretical Framework

Agency Theory

According to advocates of agency theory, managers can minimize clashes by firmly following the interests of the stockholders (Fama and Jessen, 1988). According to this, managers won't work to maximise profits for stockholders unless the major firm implements suitable governance structures to protect shareholders' interests (Jensen and Meckling, 1976). In short, managers frequently control earnings, which has a negative effect on the accuracy of reporting earnings.

Research Methodology

The study uses survey and expost facto research design. The study selected three (3) quoted manufacturing companies using convenience sampling techniques. It utilizes both primary and secondary data. The primary data was a five Likert point questionnaire used to source information from both internal and external auditors and accountant of the sampled quoted manufacturing industries. The secondary data utilized were from the yearly reports of the three (3) chosen manufacturing corporations listed on the NSE from 2006–2017. The period from 2006–2011 covers the pre-execution period while 2012–2017 covers the post execution period of IFRS.

Data Analysis

The statistical connection between IFRS implementation and worth of financial disclosure in Nigeria manufacturing industry was measured using multiple regression analysis while the statistical difference between the performance of manufacturing companies under Nigerian GAAP and IFRS was measured using paired samples t-test.

The link between the constructs was:

Table 1. Model Summary.

Model	R	R-square	Adjusted R-square	Std. Error of the Estimate	Durbin-Watson
1	.745[α]	.697	.631	3.333	1.740
a. Predictors: (constant), improved knowledge and skills in preparation of financial reports, enhancement in disclosure of financial information, credibility and transparency of financial reports.					
b. Dependent variable: quality of financial disclosure.					

Table 2. ANOVA[a].

Model		Sum of square	Df	Mean square	F	Sig.
1	Regression	150.465	3	50.155	4.514	.009[b]
	Residual	355.535	32	11.110		
	Total	506.000	35			
a. Dependent variable: quality of financial disclosure.						
b. Predictors: (constant), improved knowledge and skills in preparation of financial reports, enhancement in disclosure of financial information, credibility and transparency of financial reports.						

Table 3. Coefficient[a].

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	24.726	4.266		5.796	.000
	Enhancement in disclosure of financial information	.208	.141	.320	2.481	.008
	Credibility and transparency of financial reports	.090	.090	.388	2.584	.001
	Improved knowledge and skills in preparation of financial reports	.385	.120	.481	3.204	.003

a. Dependent Variable: quality of financial reporting
Source: SPSS Ver. 210.

The R^2 value of 0.697 in Table 1 indicates that variability in enhanced knowledge and skills in the financial report preparation, improvement in the publication of financial information, and integrity and openness in financial reports account for 69.7% of the variation in the value of financial disclosures. This was substantiated by an adjusted R^2 rate of 0.631 (63.1%). The Durbin-Watson statistics value of 1.740 in Table 1 shows that the variables in the model are not auto correlated and that the model is reliable for predications.

The f-statistics value of 4.514 with f-statistics probability of 0.009 in Table 2 shows that the independent variables have significant relationship with the dependent variable (quality of financial reporting). Table 3 indicates that all the explanatory variables have significant connection with the quality of financial reporting. Base on the foregoing, we can conclude that IFRS adoption has a significant relationship with quality of financial reporting in Nigerian manufacturing industry.

In order to determine the statistical difference between performance of manufacturing companies under Nigerian GAAP and IFRS, Paired Sampled T-test was used to measure the difference between return on assets (a performance measure) before the adoption of IFRS and post adoption of FIRS period. The result of the Paired Sample T-test is presented in Tables 4 to 6.

Table 4. Paired Samples Statistics.

		Mean	N	Std. Deviation	Sig. Error Mean
Pair 1	ROA1	.3533	15	.04761	.01229
	ROAG	.0267	15	.00711	.00183
Pair 2	ROEI	.4493	15	.06375	.01646
	ROEG	.0332	15	.00646	.00167

Table 5. Paired Samples Correlations.

		N	Std. Deviation	Sig. Error Mean
Pair 1	ROA1 & ROAG	15	-.090	.750
Pair 2	ROEI & ROEG	15	-.296	.284

Table 6. Paired Sample Test.

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	ROA1 - ROAG	.326	.04877	.0125	.29959	.35361	25.939	14	.000
Pair 2	ROEI - ROEG	.416	.06595	.0170	.37961	.45266	24.437	14	.000

Source: SPSS Ver. 21.0

The Paired sample test shows that return on assets under IFRS and Nigeria GAAP recorded a t-statistics value of 25.939 which is statistically substantial at 0.5 level of significant. This suggests that there is a significant statistical variance between return on assets under IFRS and under Nigeria GAAP. Return on assets is higher under IFRS with a mean value of 0.3533 when compared with return on assets under Nigerian GAAP with a mean value of 0.0267. Similarly, the other performance measure, return on equity has a t-statistics value of 24.437 which is statistically substantial. This implies that there is a substantial variance between return value of 0.4493 when compared with return on equity under Nigerian GAAP with a mean value of 0.0332. Base on the significant probability value for the paired variables, it is inferred that there is statistical variance between the performance of manufacturing companies under Nigeria GAAP and IFRS.

Research Findings

The findings of this study clearly show that IFRS implementation has a substantial positive connection with quality of financial reporting in Nigerian manufacturing industry. This implies that the worth of financial reports in Nigerian manufacturing sector improved with the adoption of IFRS. IFRS adoption engendered high quality of financial reports in manufacturing sector when compared to Nigerian GAAP. Therefore, IFRS adoption in manufacturing sector in Nigeria is associated with minimal earnings.

Conclusion and Recommendations

The study concludes that IFRS adoption affects the quality of financial disclosure, therefore, technical know-how of auditors and accountant should be improved through periodic training and development, corporate governance practices, institutional framework and legal system should be considered in order to guarantee enhancement in openness and comparability in financial report.

Declarations

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