EFFECT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ADOPTION ON THE PERFORMANCE OF MONEY DEPOSIT BANKS IN NIGERIA

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ABSTRACT

Sequel to the injunction mandating Nigerian firms to publish their financial reports in accordance with the International Financial Reporting Standard (IFRS), Banks in recent times unavoidably had to adopt standards of accounting based on IFRS framework. The study employed ratio analysis to investigate the nexus between IFRS adoption and performance of money deposit banks in the Nigeria. Ten (10) banks out of twenty one quoted banks were randomly selected for analysis over the period covering 2009 to 2014. Data used in the study were sourced from the financial statements of the selected banks for the period under study. Panel data analysis in the form of pooled OLS analysis, fixed effect analysis and random effect analysis alongside post estimation test such as restricted f-test and Hausman test were used. The results revealed that adoption of IFRS exert positive impact on performance of money deposit banks measured in terms of return on assets (β=0.9057884, P=0.347) and in terms of return on equity (β=0.0655296, P=0.975). The result also revealed that financial ratio such as liquidity ratio, current ratio and investment ratio exert significant influence on bank's performance with reported coefficient estimates and probability values of 0.0081876(P=0.009), 0.0001705(P=0.0000), 0.0829368(P=0.000) for liquidity ratio, current ratio, and investment ratio respectively. The study concluded that the impact of IFRS adoption on performance of money deposit banks in Nigeria cannot be undermined. The study recommended that money deposit banks should fully implement international financial reporting standards in order to maximize its influence on their performance, and take close cognizance of financial ratios as their relative impact on performance cannot be undermined.

Keywords: International Financial Reporting Standards (IFRS), Performance, Money Deposit Banks, Ratio Analysis.

INTRODUCTION

The move towards globalization is a concern for many countries particularly developing countries as it has the potential of having a deep impact on the economy at large. The adoption of IFRS as a global and uniform standard is gaining ground as more countries are adopting IFRS or have intentions of adopting the standard. The European Union commenced the adoption in 2005 by ensuring that all listed companies in the European Union implement IFRS in their financial report (Odia and Ogiedu, 2013). The development of a globally acceptable standard originally commenced in 1973 as a result of the coming together of a group of qualified accounting professionals of major countries to form IASC (International accounting standard committee). These countries are UK, Ireland, United States, Australia, Canada, France, Germany, Japan, Mexico and Netherlands. They focused on developing a global accounting standard which will replace local standards, harmonize the differences in financial report due to diversities in legal systems, business structures and tax systems around the world. Hence, the users of financial information can adequately compare the financial statements of different companies to evaluate their financial performance and position.

There has also been some opposition to the adoption of IFRS particularly for developing countries like Nigeria. It has been argued that Nigeria and many developing countries have weak institutions, unpredictable economic and political environments which may undermine the successful implementation of IFRS (Tanko, 2012).In their study on the development process of financial reporting standards around the world and its practical results in developing countries, Alp and Ustandag (2009) showed that Turkey experienced lots of challenges in the implementation of IFRS. These challenges include the complicated nature of IFRS, difficulties in the application, enforcement issues and possible knowledge shortfall. This research therefore focused on the effect of IFRS On performance of Nigerian banks before and after the adoption of IFRS. Key performance indicators in terms of liquidity, profitability, leverage, and asset quality of the selected banks were used to measure the effect of the pre and post adoption of IFRS. Secondary data related to the annual report published according to IFRS and GAAP for the last six years before and after the adoption were used.

Nigerian banks over the years have been observed to exhibit weak disclosures in financial statement, operational inefficiencies, undercapitalization and a weak corporate governance practice that impedes their performance and makes it difficult to detect problems easily. The quality and standard of financial reporting in Nigerian banking sector seems not to match the high standard of reporting in the banking sector of more developed countries (Garba, 2013). As a result of this, Nigerian banking industry has undergone numerous reforms. This includes the increase in the minimum paid in capital of banks from 2billion Naira (US $14m) to 25 billion Naira (US$173m). This led to the consolidation of most banks. Other reforms include the special examination of banks, the move from accounting year to calendar year to improve transparency and comparability of financial results and the creation of AMCOM (Asset Management Company) to purchase the non-performing loan from banks.

Other reforms were in the form of circulars. Central bank of Nigeria issued a circular on the format banks were expected to show in their annual financial statements, the maximum number of years that a CEO could work was restricted to ten years. Also, the cashless policy was introduced and the convergence to IFRS by the end of 2012 to mention a few. It is noteworthy that before January 2012, three banks in Nigeria, Access Bank, Guarantee Trust Bank and Zenith Bank started preparing and publishing their financial reports according to IFRS. Are there any implications of the adoption of IFRS on the performance of these banks? This study analyzed the effect of IFRS adoption on performance of bank’s performance measured in terms of Return on Asset; evaluated the effect of IFRS adoption on performance of bank’s measured in terms of return on Equity and investigated the relative contribution of liquidity ratio, investment ratio, and quick-acid ratio on bank’s performance.

LITERATURE REVIEW

Accounting principles and applicability of IFRS

The IASB has the authority to set IFRSs and to approve interpretations of those standards. IFRSs are intended to be applied by profit-orientated entities. These entities’ financial statements give information about performance, position and cash flow that is useful to a range of users in making financial decisions. These users include shareholders, creditors, employees and the general public.

A complete set of financial statements includes: Statement of financial position, statement of comprehensive income, statement of cash flows, description of accounting policies; and notes to the financial statements.

The concepts underlying accounting practices under IFRS are set out in the IASB's Conceptual Framework for Financial Reporting' issued in September 2010 (the Framework). It supersedes the 'Framework for the preparation and presentation of financial statements' (the Framework (1989). The Conceptual Framework covers objectives of general purpose financial reporting, including information about a reporting entity's economic resources and claims, the reporting entity (in the process of being updated)and Qualitative characteristics of useful financial information of relevance and faithful representation and the enhancing qualitative characteristics of comparability, verifiability, timeliness and understandability. The remaining text of the 1989 Framework (in the process of being updated), which includes: Underlying assumption, the going concern convention, Elements of financial statements, including financial position (assets, liabilities and equity) and performance (income and expenses), Recognition of elements, including probability of future benefit, reliability of measurement and recognition of assets, liabilities, income and expenses and Measurement of elements, including a discussion on historical cost and its alternatives.

Major Differences between GAAP and IFRS

The local accounting standard is issued by the Nigerian Accounting Standards Board (NASB) under the NASB Act of 2003. The board ensures the financial statements are prepared and published according to the stated format. On the other hand, IFRS is issued by the International Accounting Standard Board. The board states how financial items and transactions are treated and reported in the financial statements.

Ratio Analysis

Ratio analysis is a commonly used tool of financial statement analysis. Ratio is a mathematical relationship between one numbers to another number. Ratio is used as an index for evaluating the financial performance of the business concern. An accounting ratio shows the mathematical relationship between two figures, which have meaningful relation with each other. Ratio can be classified into various types. Classification from the point of view of financial management is as follows: Liquidity Ratio, Activity Ratio, Solvency Ratio and Profitability Ratio. But For this study the following ratios will be considered, four key liquidity ratios, four profitability ratios, three leverage ratios and one asset quality ratio.

Okoye and Akenbor (2014) opined that it is expedient for Nigeria to adopt a global standard because many Nigerian companies have securities of foreign companies. Hence, IFRS will result to a better decision about the flow of economic capital. A number of researchers have also identified the benefit IFRS is deemed to produce. According to Mary, Okoye and Adediran (2013) the adoption of IFRS in Nigeria will open opportunities for a larger finance transformation for firm and upturn the centralization of economies of scale. Okpala (2012) in his study perceived that IFRS will promote foreign direct investment (FDI) and economic growth in Nigeria. Taiwo and Adejare (2014) claimed that IFRS will improve financial performance, and quality of accounting records. It will also enhance business efficiency, aid resource allocation and performance planning in companies.

Leuz, (2013) argued that adopting IFRS alone will not make comparing financial statement so easy because countries are different in their institutional and enforcement mechanism. In another study, Terzungwe (2012) stated that IFRS has a broader choice of accounting policy that may be inconsistent with national legislations of Banks and Other Financial Institutions Act (BOFIA) and Companies and Allied Matters Act (CAMA). He suggests that Nigerian

Generally Accepted Accounting Principles (GAAP) should remain compulsory for individual company's account of listed companies but made voluntary for group account of non-listed companies. This is in line with the adoption of International accounting standards in Germany. In his study, Tanko (2012) revealed empirical studies that showed the adoption of IFRS do not necessarily result in better accounting quality.

Herbert and Tsegba (2013) studied the economic consequence of IFRS adoption in Nigeria. They found that the major setback towards the implementation of IFRS in Nigeria is centered on limited knowledge and the absence of IFRS in accounting and auditing curriculum. They added that preparers of financial reports lack sufficient experience and understanding with the use of IFRS. It was posited that before Nigerians adoption of IFRS there should have been an efficient dialogue with renowned stakeholders so as to understand the implication of transition.

METHOD

Model specification

Model adopted for this study are specified in linear forms below:

$$ROE_{it} = \alpha_0 + \alpha_1 LR_{it} + \alpha_2 CR_{it} + \alpha_3 IR_{it} + \alpha_4 IFRSA_{it} + \mu_i + \varepsilon_{it} - -(i)$$

$$ROA_{it} = \alpha_0 + \alpha_1 LR_{it} + \alpha_2 CR_{it} + \alpha_3 IR_{it} + \alpha_4 IFRSA_{it} + \mu_i + \varepsilon_{it} - -(ii)$$

Where: ROE=Return on Equity, ROA= Return on asset, LR=Liquidity ratio, CR=capital ratio (capital/total asset), IR=Investment ratio (Net credit facilities / Total deposits), IFRSA=international financial reporting standards (Dummy:1=adoption era, 0=non adoption era)

i = cross-sectional variable from 1,2, 3,…………………………..10

t = time series variable form 1, 2, 3, ……………………………… 6

α_0, α_1, α_2, α_3 are parameter estimates corresponding to the explanatory variable and the constant term, μ_i is the cross sectional unit effect, while ε_{it} is the idiosyncratic error term

Sources of Data and Methods of Estimation

The study relied heavily on secondary source of data. Secondary data used in the study was sourced from the annual reports and financial statement of the selected banks.The selected banks are Diamond bank. First bank; Fidelity bank; First City Monument bank; Skye bank; Stanbic IBTC; Sterling bank; United bank for Africa; Unity bank, and Wema bank These banks were selected because it was discovered that some banks adopted IFRS before it became mandatory (period between 2009 and 2011).In the quest to attain the objectives predetermined in the research work and to provide answers to those research questions raised, the research employed panel data analysis including pooled Ordinary least square estimation, fixed effect estimation, and random effect estimation

RESULTS AND DISCUSSION

Table 1: Pooled OLS Parameter Estimates Model 1
Series: ROA LR CR IR IFRSA

Variable	Coefficient	Standard Error	T-Test Values	Probability
C	.1881073	.4314646	0.44	0.665
LR	.0002499	.0026263	0.10	0.925
CR	.0792048	.0164799	4.81	0.000
IR	.0566951	.0045586	12.44	0.000
IFRSA	.4651794	.5665643	0.82	0.415

R-square= 0.9115
Adjusted R-square= 0.9051
F-statistics=141.64
Prob(F-stat)=0.0000

Table 2: Pooled OLS Parameter Estimates Model 2
Series: ROE LR CR IR IFRSA

Variable	Coefficient	Standard Error	T-Test Values	Probability
C	1.869236	.9431801	1.98	0.053
LR	.0040985	.0057411	0.71	0.478
CR	.0332797	.0360251	0.92	0.360
IR	.0030019	.0099651	0.30	0.764
IFRSA	.2723208	1.238508	0.22	0.827

R-square= 0.6270
Adjusted R-square= 0.6038
F-statistics=112.38
Prob(F-stat)=0.0004

Tables 1 and 2 reported the pooled OLS estimation result for the two models employed in the study. From Table 1, it was observed that all the explanatory variables exert positive impact on performance of commercial banks measured in terms of return on asset, with only capital ratio and investment ratio having significant impact on the return on asset. As reported in Table 2 also, all the explanatory variables exerts positive influence on performance of money deposit banks measured in terms of return on equity though such impact is not significant.

Notably, Table 1 and Table 2 reported R-square of 0.9115, 0.6270 for model 1 and 2 respectively, which connotes that about 91% and 63% of the systematic variation in performance of commercial banks measured in terms of return on asset and return on equity can be explained by variables including liquidity ratio, capital ratio, investment ratio and adoption of international financial reporting standard.

Table 3: Fixed Effects Estimate model 1

CROSS-SECTIONAL SPECIFIC EFFECT			TIME SPECIFIC EFFECT		
Variables	**Coefficients**	**Prob**	**Variables**	**Coefficients**	**Prob**
C	-.6831441	0.451	C	-.8782436	0.209
LR	.0015721	0.570	LR	.0001705	0.951
CR	.0800052	0.000	CR	.0829368	0.000
IR	.0490324	0.000	IR	.056301	0.000
IFRSA	.2013451	0.709	IFRSA	.9057884	0.347
Effects			**Effects**		
WEMA	.6933049	0.556	2010	2.054284	0.034
FIRST	.745387	0.529	2011	.9972486	0.307
FCMB	.4439832	0.707	2012	-.3425672	0.725
UBA	-.9778494	0.408	2013	-.7017083	0.470
ZENITH	4.175572	0.003	2014	.6468601	0.582
FEDILITY	.6983374	0.553			
IBTC	.3868111	0.742			
UNITY	.6344053	0.592			
STEARLING	1.328616	0.261			
R-square= 0.9350 Adjusted R-square=0.9166 F-statistics= 50.90 Prob(F-stat)= 0.0000			R-square= 0.9198 Adjusted R-square= 0.9072 F-statistics=73.07 Prob(F-stat)= 0.0000		

Sources: Author's Computation, (2016)

Table 4: Fixed Effects Estimate model 2

CROSS-SECTIONAL SPECIFIC EFFECT			TIME SPECIFIC EFFECT		
Variables	**Coefficients**	**Prob**	**Variables**	**Coefficients**	**Prob**
C	1.07419	0.600	C	1.133004	0.458
LR	.0004855	0.938	LR	.0081876	0.009
CR	.0477477	0.215	CR	.043478	0.235
IR	.0062539	0.563	IR	.0036077	0.717
IFRSA	.1815534	0.882	IFRSA	.0655296	0.975
Effects			**Effects**		
WEMA	4.150753	0.123	2010	-.5554919	0.789
FIRST	-1.159615	0.665	2011	3.44156	0.110
FCMB	-1.069153	0.689	2012	1.379743	0.519
UBA	-.1524536	0.954	2013	2.143451	0.316
ZENITH	.7646965	0.801	2014	3.273681	0.192
FEDILITY	-.7050537	0.791			
IBTC	4.599592	0.088			
UNITY	-1.083168	0.685			
STEARLING	2.874355	0.282			
R-square= 0.2347 Adjusted R-square=0.2184 F-statistics= 61.09 Prob(F-stat)= 0.0049			R-square=0.2427 Adjusted R-square=0.2265 F-statistics=70.81 Prob(F-stat)= 0.0070		

Sources: Author's Computation, (2016)

Tables 3 and 4 reported the result of fixed effect estimations (cross sectional specific and period specific) for models 1 and 2 respectively. Notably the table reported coefficient estimates corresponding to the explanatory variables alongside cross sectional and period specific effect captured by the successive intercept terms. From Tables 3and 4, it can be observed that adoption of international financial reporting standards exert positive influence on performance of deposit money banks in Nigeria, measured both in terms of return on asset and return on equity. Also the reported estimate for liquidity ratio, capital ratio, and investment ratio for the two models (cross sectional and period specific) revealed that liquidity ratio, capital ratio, investment ratio exert positive impact on performance of money deposit banks in Nigeria, measured both in terms of return on asset and return on equity. Tables 3 and 4 reported an R-square value of 0.9350and 0.9198for cross sectional specific effect and period specific effect model 1 as well as 0.2347 and 0.2427for cross sectional specific effect and period specific effect model 2 respectively.

Table 5: Random Effect Estimation Model 1
Series: ROA LR CR IR IFRSA

Variable	Coefficient	Standard Error	Z-Test Values	Probability
C	.1881073	.4314646	0.44	0.663
LR	.0002499	.0026263	0.10	0.924
CR	.0792048	.0164799	4.81	0.000
IR	.0566951	.0045586	12.44	0.000
IFRSA	.4651794	.5665643	0.82	0.412

R-square= 0.9115
Wald chi2(5) = 566.58
Prob > chi2 = 0.0000

Table 6: Random Effect Estimation Model 2
Series: ROE LR CR IR IFRSA

Variable	Coefficient	Standard Error	Z-Test Values	Probability
C	1.878188	.9915138	1.89	0.058
LR	.0031987	.0057325	0.56	0.007
CR	.0371226	.0357005	1.04	0.298
IR	.0039426	.0099224	0.40	0.691
IFRSA	.2456114	1.203245	0.20	0.838

R-square= 0.3262
Wald chi2 (5) = 41.53
Prob > chi2 = 0.0016

Tables 5and 6present the random effect estimates for the two models respectively. From the tables it can observed that adoption of international financial reporting standards and financial ratio such as liquidity ratio, capital ratio, and investment ratio exert positive influence on performance of commercial banks in Nigeria. Notably the impact of liquidity ratio and capital ratio among others tends to be statistically significant.

Table 7: Restricted F Test of Heterogeneity (Cross-Sectional and Time Specific)

	F-statistics	Probability
Cross sectional (model 1)	1.85	0.0850
Time specific (model 1)	11.31	0.0090
Cross sectional (model 2)	1.39	0.2217
Time specific (model 2)	31.23	0.000

Author's Computation, (2016)

Table 8: Hausman Test

Null hypothesis	Chi-square stat	Probability
Difference in coefficient not systematic (model 1)	212.11	0.0000
Difference in coefficient not systematic (model 2)	43.21	0.0051

Author's Computation, (2016)

Post estimation test presented in Table 7 and Table 8 revealed that the most consistent and efficient estimation for the two models are the fixed effect period specific effect estimations presented in Tables 3 and 4 respectively.

CONCLUSION AND RECOMMENDATIONS

Premised on the findings of the study, it can be concluded that adoption of IFRS has notable influence on performance of commercial banks in Nigeria. Also financial ratios such as liquidity and capital ratios have significant influence on the performance of money deposit banks in Nigeria. It is recommended that there should be enlightened campaigns on the potential impact of adopting IFRS by the regulatory authorities presently in Nigeria. Banks should endeavour to use the opportunity presented by the adoption of IFRS to improve their transactions process and procedures. IFRS should also be included in the Accounting syllabuses of tertiary institutions and accountancy institutes in Nigeria to enhance massive educational training and retraining for students and professionals through continuing professional development programmes.

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