

Impact of IFRS Adoption and Value Relevance of Accounting Quality on Listed Firms in Nigeria

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ABSTRACT

This study concentrated on evaluating the value relevance of accounting quality in Nigeria both before and after the mandatory adoption of IFRS as a reporting standard for the period of two (2) years (2011-2012) using annual reports of the whole (108) companies quoted on Nigerian stock exchange with exclusion to companies that operate in the financial services sector of the market, criteria were used to arrive at the sample of 91 listed firms, Secondary data and Ordinary least Square (OLS) was engaged in analyzing the data extracted for this study, using STATA 13, Analysis was done using Pre IFRS and Post IFRS, the study discovered that value relevance of accounting quality is higher in the post-IFRS adoption period compared to that of the pre-adoption period. The study recommended that other developing nations should adopt IFRS as their financial reporting standard since it is accomplished of increasing their value relevance of accounting quality.

Keywords: *IFRS Adoption, Value Relevance and Accounting Quality*

INTRODUCTION

International Financial Reporting Standards (IFRSs) are set of principle-based accounting standards issued by an independent accounting standard body called International Accounting Standard Board (IASB) to harmonize the standards issued by country- based accounting standard boards. Nigeria like many other nations in the world has adopted IFRS as reporting standard, in which all Publicly listed bodies are mandatory to adopt IFRS starting from 1st January 2012, other public interest bodies are mandated to adopt the said standards as from 1st January 2013, while small & medium-sized entities should comply with IFRS for SMEs starting from 1st January 2014. They are intended with a view of humanizing the quality of reporting system and increase the comparability of financial statements universally; thereby improving the decision usefulness of financial reports across the world (Ball, 2006; Müller, 2014; Paglietti, 2010). Moreover, another study surveys whether a financial statement of companies prepared under IFRS adoption could yield information with great quality to permit investors to make a decision (Ball, 2006).

In Nigeria IFRS as a reporting standard is anticipated to be more value relevant to users, more timely, more accurate as well as more quality of reported earnings as evident in many countries (Barth,

Landsman, & Lang, 2008). Most of the studies in Nigeria were concentrated on the adoption, benefits, and challenges of implementation of IFRS in Nigeria (Madawaki, 2012). However, despite all studies conducted by various scholars yet, there are limited empirical researches carried out on the value relevance of accounting quality on IFRS adoption, particularly in Nigeria. To the best of researcher information, no empirical study was carried out to evaluate the impact of the adoption of IFRS and value relevance of accounting quality of listed firms in Nigeria, as such, this research is to be conducted to fill the current gap and also to dig out whether the adoption of IFRS has improved the accounting quality in Nigeria by considering value relevance of those entities.

To achieve the stated objective, the researcher hypothesized that IFRS adoption has no significant impact on the value relevance of accounting quality of listed firms in Nigeria. This study will also make several contributions by providing additional confirmation to the literature on accounting information and the impact of IFRS adoption.

PURPOSE & BACKGROUND

Mandatory adoption of IFRS as reporting standard has become a global phenomenon, several countries like New Zealand, Australia, Russia, E.U. Bahrain, South Africa, Singapore, Malaysia and some countries in Africa have adopted IFRS as their new reporting standard (Aharony, 2010). The issuance of the European parliament (No.1606/2002) which requires all companies listed on organized European Union Exchange (over 7000) to prepare their annual accounts and reports in compliance with the provision of IFRS starting from 1st January 2005 has drawn the attention of accounting professionals, academics and other finance-related researchers to the economic consequences of the IFRS adoption (Kargin, 2013).

This study aims to evaluate the impact of mandatory adoption of IFRS and Value relevance of accounting quality for the sample of listed companies in Nigerian stock exchange. Consequently, Users of financial statements may find it difficult to locate their information needs in any financial statement that lacks some or all of the basic qualities of financial information. Accounting standards are prescribed rules and principles that will improve business practices through proper reporting (Kasum, 2011). They are developed as a guiding tool, which defined how reporting entity should present a reporting item in their reporting statements (Oghuma & Iyoha, 2006). Accounting standards are designed in a manner that if complied with will ensure that financial statements portray all of the necessary information needs of any user of such statements. Financial information can be found in either financial statement proper (statement of financial position, income statement, cash flow statement) or as an item of disclosure/additional information (notes to the accounts).

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Value Relevance and GAAP Financial Information

The first known study to describe the association between accounting numbers with market share price or return (Amir, Harris, & Venuti, 1993, Barth et al., 2001). Since the establishment of

IABS, several researchers have investigated the impact of IFRS adoption on the value relevance of financial statements (Alali & Foote, 2012; Kargin, 2013; Kim, 2013; Palea, 2013, 2014; Tsalavoutas, André, & Evans, 2012; Zéghal et al., 2011) based on the fact that value relevance studies are designed to evaluate whether information discloses in financial statements can serve as a basic source of information to investors in determining equity value of the firm (Barth, 2001). Some researchers have adopted value relevance as one of the metrics of accounting quality (Ahmed et al., 2013; Barth et al., 2008; Dimitropoulos et al., 2013). In accounting literature, the amount is term as value relevant if it has the power to predict or has a predicted association with share price or return (Barth et al., 2001).

Value relevance can be defined as the ability of financial reports to disclose all the necessary information that can convey and summarize the actual firm's value (Kargin, 2013). It can be measured through the use of statistical tools to determine the statistical relationship between information disclose in financial reports and share price or return of the reporting entity. Barth et al., (2008) using the sample of 21 countries that adopted IAS between 1994 until 2003 found a higher association between accounting numbers with stock market price and return. Empirical evidence proved that the use of IFRS has increased the value relevance of financial reports in an emerging market (Alali & Foote, 2012).

Keener (2010) examine the relative value relevance of earnings and book value across industries in the U.S.A over 20 years (1982 to 2011) covering 98,284 firms- year observations. The study uses the Ohlson model (1995) and Collins et al (1997) model to document that the joint value relevance of earnings and book value has not decreased over the sample period and also the incremental value relevance of earnings has increased while book value stayed constant for the sample period and truly concluded that there is no incremental value relevance of earnings and book value. Khanagha, Mohamad, Hasan and Sori (2011) examined the value relevance of accounting information in Iran between 1996 and 2008. The result obtained from the combination of regression and portfolio approaches shows that accounting information in Iran is value relevant, and the value of Earning per share (EPS) is higher than the book value of equity per share (BVPS). Dahmash and Qabajeh (2012) examined the value relevance of Ohson model and found that higher value relevance for the Jordanian industrial companies listed in Amman Security Exchange in capturing share prices, that book value of equity and abnormal earnings are value relevant for the pooled sample and the two samples, that the coefficient value of the book value variable and it was more related to the industrial public companies.

IFRS Adoption and Value Relevance of Accounting Quality

The main goal of IASB is to develop a world-wide acceptable set of a high-quality accounting standard. To achieve this objective, IASB has issued accounting standards that eliminated many accountings (alternatives) methods to increase comparability of financial reports, limit managerial discretions on earning smoothing or overstatements. The standards require extensive disclosures in the content of the financial report to provide investors with relevant information that will aid the investment decision-making process (Barth et al., 2008), hence improving the overall accounting quality. Accounting quality can be increase by either changing to better financial reporting standard or through increase/tight enforcement of existing standard (Ahmed et al., 2013). For a country that adopts IFRS as reporting standard, overall accounting quality will be high if IFRS is of higher quality than existing local standard, holding the enforcement level constant and the reverse will be the case where local standards are of better quality than IFRS (Christensen, Hail, & Leuz, 2013).

Isenmila and Adeyemo (2013) examined the effect of Nigeria institutional infrastructure on the mandatory adoption of IFRS with took effect from January 2012. Using Questionnaires to seek respondent's views on the subject matter and analyzed with multiple regression techniques and analysis of variance, they found that four out of five institutional infrastructures are ready and strong enough to support the mandatory adoption. Okafor and Ogiedu (2011) examine the potential effect of the adoption and implication of IFRS in Nigeria from the perspective of shareholders and found that

IFRS have potential for yielding greater benefit than current GAAP; improving business performance management and impacts on other business functions apart from financial reporting complexities and increase compliance with accounting standards.

The impact of mandatory adoption of IFRS on accounting quality depends on whether IFRS are of higher quality or lower quality than local standards. Higher quality standards are those that can limit managerial discretions over the choice of accounting methods and eliminate income smoothing or overstatement thereby making financial reports to reflect the firm's actual economic position (Ahmed et al., 2013; Barth et al., 2008; Chua et al., 2012; Dimitropoulos et al., 2013). Though there is no consensus on what constitutes accounting quality, for this research work accounting quality metrics based on value relevance, which was developed and used in many pieces of research (Ahmed et al., 2013; Barth et al., 2008; Chua et al., 2012; Dimitropoulos et al., 2013; Lin et al., 2012; Samarasekera et al., 2012) will be adopted.

METHODOLOGY

Secondary sources of data which are the most appropriate for good empirical findings in IFRS and Value relevance are used, (Kantudu & Tanko; 2008). The data for this research were extracted from annual reports of ninety-one sample listed companies in Nigeria, (2011-2012) pre and post IFRS adoption respectively. Ordinary Least Square (OLS) was engaged in analyzing the data extracted for this study, and robustness tests were carried out using STATA 13.

Variable Measurement and Model Specification

The following table depicts the definition and measurement of variables. The dependent variable for the study is share price; this is the amount at which the share of a firm listed on the stock exchange market can be acquired at a particular point in time. The share prices are usually quoted on daily basis for trading information purposes (Akpaka et al., 2014). However, the share price used in the research is the price of listed firms three months after the firm's year ended.

Table 1: Measurement

No	Variable	Measurement
1.	Share Price	Price of a share of listed firms 3 months after the fiscal year.
2.	EPS	Net profit after interest and tax Divided by a weighted average The number of ordinary shares outstanding.
3.	BVPS	Shareholders fund divided by the weighted average number of ordinary share outstanding.
4.	FSZ	Share price multiply by no of ordinary shares.

Source: Akpaka, Chandrasekharan & Ahmed (2014); Turel (2009)

The model adopted to measure the relationship between the share price of the company with the two main variables from financial statement namely, book value per share from the statement of financial position and earnings per share from income statement as adopted from (Akpaka, Chandrasekharan & Ahmed, 2014; Turel (2009),

$$SP_i = \alpha + \beta_1 BVPS_i^{pre} + \beta_2 EPS_i^{pre} + \beta_3 FSZ_i^{pre} + \epsilon_i \dots \dots \dots \text{equation (1)}$$

$$SP_i = \alpha + \beta_1 BVPS_i^{post} + \beta_2 EPS_i^{post} + \beta_3 FSZ_i^{post} + \epsilon_i \dots \dots \dots \text{equation (2)}$$

RESULTS AND DISCUSSION

Table 1: Regression Result for Pre- IFRS Adoption

Variable	Coefficient	Std. Error	Z / t- value	p-value
Constant	128.568	33.410	-3.849	0.000
EPS	3.261	0.829	3.933	0.006
BVPS	.827	0.291	2.831	0.000
FSZ	9.072	2.237	4.057	0.000
R- square	0.473			
Adj. R	0.455			
F- Stat	26.11			
p-Value	0.000			

Source: STATA 13 outfit

As displayed in Table 1 above, BVPS and FSZ both have a p-value of 0.000 it indicates that has as a statistically, strong positive relationship with share price, which indicates that has a positive impact on the value relevance of listed firm in Nigeria. However, the fisher statistics of 26.11 which is significant at 1% indicate that the value relevance model is fit. Hence the outcome of the study can be relied upon. The p-value of 0.000 shows a strong, statistically and significant at the level of 1%, means that there is 1 per cent probability that the association among the variables is due to mere chance, however, the result is in line with researcher prior expectation because the share price of the company increases the EPS and BVS will also increase. It confirms the result of Aharrony (2010) and contradicts the result of Kargin (2013).

Table 2: Regression Result for Post –IFRS Adoption

Variable	Coefficient	Std Error	t- value	p-value
Constant	156.236	49.281	- 3.172	.002
EPS	6.940	1.370	5.070	.000
BVPS	.577	0.415	1.386	.169
FSZ	10.832	3.286	3.302	.001
R-square	0.4782			
Adj. R2	0.4602			
F- Stat	26.57			
P-value	0.000			

Source: STATA 13

The Aggregate result from the post IFRS regression analysis on table 2 reveals that R-Squared is 0.47 which means that 47 per cent variation in share price is explained by variation in post-IFRS financial information. Moreover, also fisher statistics of 26.11 which is significant at 1% indicate that the value relevance model is fit. Hence, the outcome of the study can be relied upon, the value of F which is strongly, statistically and significantly at level of 0.000 which means there is a 1% probability that the association among the variables is not due to mere chance. Base on the above, we conclude that IFRS adoption enhances the value relevance of financial information on listed companies in Nigeria. This supports the finding of Lee et al. (2011), Kargin (2013), while contradicting the finding of Keener (2010).

From another viewpoint, relative value relevance is used to compare the value relevance of two separate sets of financial information to ascertain which one is more value relevant. Madawaki (2012) who conducted research on value relevance studies, established that the relative value relevance can

be ascertained by comparing the R- square of accounting information involves in the analysis. This approach was also confirmed by Lambart (1996). Base on this understanding, we compare R- square of pre –IFRS financial information to that of post –IFRS. This study reveals that pre-IFRS R- square to be 0.473 while post – IFRS R-square is 0.478. We, therefore, conclude that post- IFRS financial information has relative value relevance over pre- IFRS financial information, even though is not significant.

CONCLUSIONS/ RECOMMENDATION

Base on the above finding, we conclude that post- IFRS financial information has relative value relevance over pre- IFRS financial information, even though is not significant. Therefore, it is recommended that Management, External Auditors and regulators should work together to tighten compliance in all listed firms on Nigerian stock exchange to improve the impact of IFRS. Since enforcement is better than the standard-setting itself as rigid regulation and enforcement could bring out the benefit of IFRS. In the same vein, organizations should provide all resources needed to cognize the impact of IFRS on their organization and continue train employees on IFRS and changes in the accounting framework.

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