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# INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) DISCLOSURE AND FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS (DMBS) IN NIGERIA: A REVIEW OF LITERATURE.

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## Abstract

This study examined the effect of International Financial Reporting standards (IFRS) disclosure on the financial performance of Deposit Money Banks (DMBs) in Nigeria after its adoption. This is with a view to investigate the effect of IFRS disclosure on DMBs profitability ratios in Nigeria; to investigate the effect of IFRS disclosure on DMBs liquidity ratios in Nigeria; to investigate the effect of IFRS disclosure on DMBs investment ratios in Nigeria; and to measure the effect of IFRS disclosures on the financial performance of Deposit Money Banks. The findings revealed that elements of financial performance (profitability, liquidity and investments) were significantly independent predictors of IFRS disclosures. Evidence from the study shows that (i) IFRS disclosures have a significant effect on DMBs profitability in Nigeria. (ii) IFRS disclosures have a significant effect on DMBs liquidity in Nigeria. (iii) IFRS disclosures have a significant effect on DMBs investment in Nigeria. Based on the results, the study concludes that adoption of International Financial Reporting Standards (IFRS) disclosures has significant impact on the financial performance of DMBs in Nigeria. The study recommended that Deposit Money Banks (DMBs) should fully implement International Financial Reporting Standards (IFRS) 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), Financial Performance, Deposit Money Banks (DMBs).

## Introduction

IFRS are accounting rules (standards) issued by the International Accounting Standard Board (IASB), an independent organization based in London, UK. The hallmark of financial reporting globally is enshrined in IASB's conceptual framework. Prior to the advent of conceptual frameworks, financial reporting were based on vague principles and conventions such as true and fair view, prudence, stewardship, conservatism, matching and earnings process, rather than on a robust set of inter-related concepts reflecting underlying economic phenomena (McCahey and



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McGregor, 2013). International Financial Reporting Standards (IFRS) is the new dominant set of accounting standards developed under a rigorous due diligence process and now used in more than 120 countries around the world, including Australia, Brazil, Canada, the European Union, South Africa, Nigeria and many others (Deloitte, Touché Tohmastu 2013). The IFRS are therefore robust principle based set of global accounting standards with detailed disclosure requirements that will be useful to a wide range of users for making economic decisions.

**Conceptual Review**

**International Financial Reporting Standards (IFRS)**

IFRS is an acronym for International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). IFRS are considered principle-based set of standards, since they establish broad rules as well as dictate specific treatments. Similarly, the IASB Framework states that the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions (Edirin and Edesiri, 2016).

(Pelea, 2013) emphasized on the main objective of financial reporting, stressed on the need for published financial statements to provide information that are quite useful to investors, creditors, and other relevant stakeholders in making investment, credit, and similar resource allocation decisions. IFRS is committed to producing high quality financial statements within the banking sector that are relevant, reliable and comparable amongst users of accounting information (Owolabi andIyoha, 2012).However, (Fasoranti, Adelakun and Joshua, 2014), sees IFRS as a combination of the International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs), Standing Interpretations Committee (SICs) pronouncements; and International Financial Reporting Interpretations Committee (IFRICs) guidelines.

**Historical Background of the Internationalization of Accounting Standards**

The first move towards accounting standards convergence was the proposal to create the Accountants International Study Group (AISG) by the professional accountancy bodies in Canada, the United Kingdom and the United States in 1966. This was formed in order to develop comparative studies of accounting and auditing practices in the three nations. The AISG was eventually created in 1967. It published 20 studies until it was disbanded in 1977. Sir Henry Benson put forward the proposal for the setting up of the International Accounting Standard Committee (IASC) at the 40$^{th}$ World Congress of Accountants in Sydney in 1972. After discussions and signature of approval by the three AISG countries and representatives of the professional accountancy bodies in Australia, France, Germany, Japan, Mexico and the Netherlands, the IASC was established in 1973. Sir Henry Benson was the first elected Chairman while Paul Rosenfield was the first secretary of the IASC. By the beginning of the 21$^{st}$ century in only one of the nine original IASC countries (Germany) did even a relatively small number of listed companies used IASs to report to domestic Investors. The primary goal of IASC formation was to develop a single set of high quality International Accounting Standards (IASs) to replace national standards. Between 1973 and 2001, the IASC issued 41 standards or IASs before it was replaced by the International Accounting Standards Board (IASB). All listed companies in France, Germany, the Netherlands and the UK and other 21 countries were mandated by the European commission to adopt IASs or the International Financial Reporting Standards (IFRS) from 2005.The Australian government and standard setter

had put up an adoption policy of IAS by 2005. The US roadmap for adoption is 2014-2016. Canada and Japan are also considering convergence with IFRS.

A Memorandum of Understanding (MOU) was agreed between the United States Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB), towards the convergence of US GAAP and the IFRS in 2002. In the Norwalk Agreement, both the FASB and IASB pledged their joint commitment towards the development of high quality, compatible accounting standards for both domestic and cross border financial reporting (Odia and Ogiedu, 2013).

**IFRS Adoption Process in Nigeria**

The adoption of IFRS in many countries requires standards setters to understand the different regulatory and commercial environments in various countries. A roadmap on the adoption of IFRS (Issued by the International Accounting Standards Board) was used as a guideline for the preparation of statutory financial statements in Nigeria. According to Report of the Committee on Roadmap (2010) the roadmap also outlines specific milestones that if realized, could lead to the adoption of IFRS in three phases as follows:

(i) Public Listed Entities and Significant Public Interest Entities in Nigeria by 2012,
(ii) Other public Interest Entities by 2013, and
(iii) Small and Medium-sized Entities by 2014.

**Adoption Statement**

It is in the best interest of the nation to adopt the IFRS. The transition should be phased so that the objectives are achieved within the time-frame as outlined in the roadmap. The phases are explained as follows (Abdulkadir, 2012):

**Phase 1: Publicly Listed Entities and Significant Public Interest Entities.**

This means government business entities, all entities that have their equities or debt instruments listed and traded in the public markets (a domestic or foreign Stock Exchange or an over-the-counter markets). Examples of entities meeting these criteria include: Nigerian National Petroleum Corporation (NNPC), banks and insurance companies. Transition date for SPEs begins 2010, with a reporting date of 2012. Transition begins by raising awareness to educate both the users and preparers of IFRS financial statements, followed by planning, training and analyzing the impact of IFRS adoption on people, systems and processes and on business of firms. By the year 2011, SPEs will then identify the key reporting data and prepare IFRS opening Statement of Financial Position (SFP). By the year 2012 SPEs are required prepares quarterly report using IFRS rules, follow audit procedures and investor relations to educate analysts, investors and manage external stakeholders. By the year 2013, SPEs would identify the loopholes in the existing system and processes by ensuring compliance and monitoring.

**Phase 2: Other Public Interest Entities.**

This refers to those entities, other than listed entities (unquoted, private companies) which are of significant public interest because of their nature of business, size, number of employees or their corporate status which requires wide range of stakeholders. Examples of entities meeting these criteria are large not-for-profit entities such as Charities and Pension funds.Transition date for PIEs

begins by the year 2011 with a reporting date of 2013. By which period opening SFP and comparative figures are expected to be prepared. By 2013, PIEs are required to prepare quarterly reports using IFRS, audit procedures, and investor communications.

**Phase 3: Small and Medium-sized Entities (SMEs).**

Small and Medium-sized Entities (SMEs) refers to entities that may not have public accountability and their debt or equity instruments are not traded in a public market;

- they are not in the process of issuing such instruments for trading in a public market;
- they do not hold assets in fiduciary capacity for a broad group of outsiders as one of their primary businesses;
- the amount of their annual turnover is not more than N500 million or such amount as may be fixed by the Corporate Affairs Commission;
- their total assets value is not more than N200 million or such amount as may be fixed by the Corporate Affairs Commission;
- no Board members are foreigners;
- no members are a government or a government corporation or agency or its nominee; and
- the directors among them hold not less than 51 percent of its equity share capital.

Entities that do not meet the IFRS for SME's criteria shall report using Small and Medium-sized Entities Guidelines on Accounting (SMEGA) Level 3 issued by the United Nations Conference on Trade and Development (UNCTAD). Transition date for SMEs begins by 2012 with a reporting date of 2014. SMEs commence transition to IFRS by 2012, preparing opening SFP and comparative figures and investor communications by 2013, adopting IFRS reporting standards, and ensuring compliance and monitoring by 2014.

**The effect of IFRS Adoption on Financial Statements**

Dumont (2015) offers the following explanations on the impact of IFRS on financial statements:

i. **Inventory**
   Two inventory method standards normally used in the past were first-in-first-out (FIFO) and last-in-first-out(LIFO). However, LIFO is not allowed under IFRS, sofirms that have used LIFO in the past under GAAP will have to change their inventory method to FIFO.

ii. **Property, Plant and Equipment**
   Also known as the fixed assets of the firm are reported at their initial cost less accumulated depreciation. GAAP does not allow any upward adjustments of property, plant and equipment, whereas under IFRS they can. This can have a profound impact on a firm's reporting.

iii. **Goodwill**
   An intangible asset, goodwill is treated similarly to property, plant and equipment. It is reported onthe balance sheet at the initial cost less accumulated amortization. Any downward revaluation will cause a loss on the income statement and if it is marked

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up, which is not allowed under GAAP and then a gain is recorded up to the initial cost amount. Any adjustment beyond that will be reported directly to equity.

iv. **Construction contracts**

Depending on the accounting method adopted, the revenue and profit for construction projects can be affected. Under GAAP if the outcome of a project cannot be estimated, then the completed contract method is required. However, under IFRS if the outcome of a project cannot be estimated, revenue is recognized only to theextent of contract costs and profit is only recognized at project completion.

v. **Cost of goods sold**

Since LIFO is not allowed under IFRS, LIFO firms have to convert their inventory into FIFO terms in the footnotes of the financials. This difference is known as the LIFO reserve and is calculated between the cost of goods sold under LIFO and FIFO. The benefits in doing this, is an increase in the comparability of LIFO and FIFO firms. However, since everything is moving towards IFRS, FIFO is the standard moving forward. This has an effect on the financials of a firm. In particular, during periods of high inflation, a firm that uses LIFO will report higher cost of goods sold and lower inventory as compared to a firm that uses FIFO. Higher costof goods sold results in lower profitability and lower profits results in lower income taxes. Lower profits will also results in lower equity for the firm, which affects retained earnings in a negative way. In contrast, in a low inflationary period, the effects mentioned are reversed.

vi. **Operating expenses**

IFRS does not differentiate between expenses and losses but GAAP does. With IFRS any losses that are due to a firm's main business are included in its operating expenses.

vii. **Financial ratios**

It is important to note that there are impacts on more than one financial ratio when converting GAAP to IFRS. Current and quick ratios (due to the difference in inventory methods), the interest coverage ratio (asEBIT can be affected by the difference in cost of goods sold) and return on assets (net income is affected by the cost of goods sold as well), among others.

**Benefits of IFRS Adoption in Nigeria**

The adoption of IFRS has several benefits as evidenced by previous studies carried out by several scholars some of which include the following: (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. (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.


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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. The potential benefits that Nigeria stands to gain after IFRS adoption are as identified below:

i. Greater transparency and understandability of the information disclosed in the financial statement.
ii. Reduction in the national standard-setting costs.
iii. Promotion of the compilation of meaningful data on the performance of various reporting entities at both public and private levels in Nigeria thereby encouraging comparability, transparency, efficiency and reliability of financial reporting in Nigeria.
iv. Assurance of useful and meaningful decisions on investment portfolio in Nigeria. Investors can easily compare financial results of corporation and make investment decisions.
v. Attraction of direct foreign investment. Countries attract investment through greater transparency and a lower cost of capital for potential investors. For example, cross-border listing is greatly facilitated by the use of IFRS.
vi. Assurance of easier access to external capital for local companies.
vii. Reduction of the cost of capital to companies and higher share prices (due to greater confidence of investors and transparent information).
viii. Facilitation or easy consolidation of financial information of the same company with offices in different countries. Multinationals companies avoid the hassle of restating their accounts in local GAAPs to meet the requirements of national stock exchange and regulators, making the consolidation of accounts of foreign subsidiaries easier and lowering overall cost of financial reporting.
ix. Easier regulation of financial information of entities in Nigeria.
x. Enhanced knowledge of global financial reporting standards by tertiary institutions in Nigeria.
xi. Additional and better quality financial information for shareholders and supervisory authorities.
xii. It enables government to improve on assessment of the tax liabilities of multinational companies.

**Challenges to IFRS Adoption in Nigeria**

There is increased need for training and education for investors, accountants, auditors, preparers and users of financial reports, development of IFRS curricula at the university and other levels, adjustment of the accounting training and education to incorporate IFRS. The legal system must be conversant with the new IFRS standards as it applies to tax issues and other applications of laws. The adoption of IFRS must involve the strengthening of the various institutions which will enhance its effective implementation such as: preparers (managers) and enforcers (auditors status, independence, training, compensation, tough judgment), legal systems and courts, regulators, accounting boards, ownership structure/block shareholders, politicians, law-makers, analysts, rating agencies, accounting professional bodies, tax authorities and capital market

regulators),corporate governance structure, the press, public, educational institutions and business schools, financial market structure, depth and intermediation(Odia and Ogiedu, 2013).
(Herbert and Tsegba, 2013) studied the economic consequence of IFRS adoption in Nigeria. They found that the major set-back 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. The practical challenges that may be faced in Nigeria as a result of implementing the IFRS need to be identified and addressed in order to benefit fully from the introduction of IFRS.
These challenges have been evidenced by previous studies conducted by scholars such as: (Alp andUstundag, 2009): potential knowledge shortfall, (Li and Meeks, 2006): legal system effect, (Shleifer andVishny, 2003): tax system effect, (Irvine and Lucas, 2006): education and training, (Martins, 2011): enforcement and compliance mechanism. The challenges are discussed as follows:

i. **Level of Awareness**

The transition plan to IFRS and its implications for preparers and users of financial statements, regulators, educators and other stakeholders have to be effectively coordinated and communicated. This should include raising awareness on the potential impact of the conversion, identifying regulatory synergies to be derived and communicating the temporary impact of the transition on business performance and financial position. The implementation of IFRS requires considerable preparation both at the country and entity levels to ensure coherence and provide clarity on the authority that IFRS will have in relation to other existing national laws.

ii. **Accounting Education and Training**

Practical implementation of IFRS requires adequate technical capacity among preparers and users of financial statements, auditors and regulatory authorities. Countries that implemented IFRS faced a variety of capacity-related issues, depending on the approach they took. One of the principal challenges Nigeria may encounter in the practical implementation process, shall be the shortage of accountants and auditors who are technically competent in implementing IFRS. Usually, the time lag between decision date and the actual implementation date is not sufficiently long to train a good number of professionals who could competently apply international standards.

iii. **Training Resources**

Professional accountants are looked upon to ensure successful implementation of IFRS. Along with these accountants, government officials, financial analysts, auditors, tax practitioners, regulators, accounting lecturers, stock-brokers, preparers of financial statements and information officers are all responsible for smooth adoption process. Training materials on IFRS are not readily available at affordable costs in Nigeria to train such a large group which poses a great challenge to IFRS adoption.

iv. **Tax Reporting**

The tax considerations associated with the conversion to IFRS, like other aspects of a conversion are complex. IFRS conversion calls for a detailed review of tax laws and tax administration. Specific taxation rules would have to be redefined to

accommodate these adjustments. For instance, tax laws which limit relief of tax losses to four years should be reviewed. This is because transition adjustments may result in huge losses that may not be recoverable in four years. Accounting issues that may present significant tax burden on adoption of IFRS, include determination of Impairment, Loan loss provisioning and Investment in Securities/Financial Instruments.

v. **Amendment to Existing Laws**

In Nigeria, accounting practices are governed by the Companies and Allied Matters Act (CAMA) LFN 2004 as amended, and the Statement of Accounting Standards (SAS) issued by the Nigerian Accounting Standards Board (NASB) and other existing laws such as Nigerian Stock Exchange Act 1961, Nigerian Deposit Insurance Act 2006, Banks and Other Financial Institution Act 1991, Investment and Securities Act 2007, Companies Income Tax Act 2004, Federal Inland Revenue Services Act 2007. All these provide some guidelines on preparation of financial statements in Nigeria. IFRS does not recognize the presence of these laws and the accountants have to follow the IFRS fully with no overriding provisions from these laws. Nigerian law makers have to make necessary amendments to ensure a smoothtransition to IFRS.

vi. **IASB Funding, Staffing and Governance Structure**

Adopters need assurance of IASB true independence with stable funding, expert staffing, appropriate governance to ensure standards setting process is free from undue influence and politicization maneuvers. This will ensure IASB legitimacy and assure the confidence of market participants and adopting nations around the world.

vii. **Dominance of the Developed Countries and Political Lobbying**

The developed countries want to dominant the IASB structure and standards setting process to the detriments of the developing countries.

viii. **Compliance Issues and Enforcement Mechanisms**

There have been varying levels of compliance with IFRS despite claims by companies that their financial statements complied with IFRS. A major challenge is enforcement mechanisms of IFRS especially in jurisdictions with weak institutions and enforcement agencies.

ix. **Cultural and Structural Changes**

The challenges face in adopting IFRS in terms of changing culture and developing systems of regulation and accountability are quite enormous. There are cultural, language, regulatory and accounting profession challenges as well as demands for greater accountability and wider political participation and embracing of necessary political reforms faced by countries in adopting IFRS. In fact embracing globalization and adopting IFRS has challenges as it makes necessary reforms to a country's regulatory, legal and economic structures and adaption of its culture to the West.

**Nigerian Banking Industry**

The importance of financial system in a nation cannot be undermined as its functionality as the power to either make or mar the economic growth of the country. It is an undeniably fact the banking industry is one of the most important sector that oils the wheel of an economy (Adeujah, 2015). According to the CBN Governor (2014), the tight monetary policy of the bank has contributed

to the stability and growth of the Nigerian economy. Inflation became six-year low by the end of April 2014. Debt to GDP ratio declined to 11 percent while the foreign exchange reserve was still $37.15billion. Also by the end of April 2014 the private sector credit had increased by 26.4 percent. From 2010 till 2013, the country has recorded more than $22 billion in foreign direct investment (FDI) placing Nigeria in one of the top positions in Africa. Hence, it is pertinent for the study to consider the nature of banking industry in Nigeria because of its impact on the economy as a whole. The operations of banking industry in Nigeria can be traced to the creation of African Banking Corporation and Bank of British West Africa in the period between 1892 and 1894. It is an obvious point that during this period the colonial banks had a strong influence on financial activities and commercial transactions across West African countries. Following this period, the Barclays bank dominion colonial oversea (DCO) emerged in 1917 but later developed into Union Bank of Nigeria Plc (UBA). In 1948, the British and French bank for commerce was founded which metamorphosed into United Bank for Africa but it did not to show the African Heritage. Hence, the African Continental bank was established in 1949. Bank of British West Africa later merged with standard Bank Limited to become First Bank of Nigeria.

As the country approached independence, there was a need to establish an apex bank to oversee, regulate and supervise the affairs of the financial institution on July 1st 1959. It is noteworthy that between 1947 and 1957, a total of 25 indigenous banks operated in Nigeria, in the period between 1985 and 1994, the total number of merchant and commercial banks had increased rapidly from 26 and 1297 respectively to 144 and 2541 (Dogarawa, 2012). The 1990's is very crucial in the history of Nigerian banking industry as it marked the development of the sector as a result of liberalization and financial deregulation. It also marked the challenges faced due to abuses and malpractices in the system (Pat and James, 2011). By 2004, a total number of 89 banks were operation but most of them were undercapitalized.

The banking industry had to undergo serious changes in the periods between 2004 and 2009 that led to the consolidation of banks. As a result of this, by 2012 the industry consisted of twenty four commercial banks, five discount houses, five development banks, fifty class A bureau de change, five hundred and ninety eight bureau de change, ninety eight primary mortgage institutions, eighty four finance houses and nine hundred and fourteen micro finance banks. The banking reform between 2004 and 2009 resulted in the consolidation of banks to ensure they perform their role as a financial intermediary effectively. Their minimum paid in capital increase from N2 billion to N25 billion, total capital of consolidated bank increased by 439% and deposit level rose by 242%. There was a massive drop in the total number of banks from eighty nine (89) to twenty four (24) well capitalized banks. However, the global financial crises in 2007 mitigated the improvement in the financial sector through the consolidation exercise as some banks had serious liquidity problems by the end of 2008. As a result of this the government had to rescue banks by injecting a sum of N620 billion to ensure financial stability and safeguard depositors from losing their money. The CBN had to remove five chief executive officers from their positions and establish ten year tenure for bank Chief executive officers.

Following the financial crisis, CBN established the Asset Management Corporation of Nigerian (AMCON) to purchase the non-performing loans (NPL) of distressed banks in exchange for zero coupon bonds. AMCON eventually purchased toxic asset of over NGN 3 trillion, redeemed NGN 1.3 trillion in bad loans and recapitalized three banks. Nigeria as a developing country is doing well in

the Getting credit category of the World Bank's report Doing Business since 2009 and was ranked in 2014 edition as 13th position out of 189 economies (Barungi, 2014).

**Harmonization, Convergence and Adoption of IFRS: The clarification**

The concerns for harmonization of accounting standards and later, convergence in the 1990s with IFRS are due to the globalization of the capital markets. In fact, it is believed that accounting harmonization is necessary for the globalization of capital markets. Investors now seek investment opportunities all over the world. Many business entities continue to expand their operations across national borders. Companies are seeking capital at the lowest cost anywhere.

Security markets are crossing national boundaries (and increasing cross-border capital flow). Merger talks among some of the world's largest stock exchanges continue and the glowing investment transactions via the internet. There is need for transparency in company reports so that investors, lenders and other users of financial information of companies could compare their performance from one country to another. Also there is the need to provide information that is relevant, reliable and understandable to meet the needs of investors, for easy comparability of companies' performance and the decision to buy, hold or sell made easy through reduction or elimination of differences in accounting policies and principles between countries.

The term harmonization means "the reconciliation of different accounting and financial reporting systems by fitting them into common broad classifications, so that form becomes standard while content retains significant differences"(Odia and Ogiedu, 2017).

Convergence means the process of converging or bringing together international standards issued by the IASB and existing standards issued by national standard setters, with the aim of eliminating alternatives in accounting for economic transactions and events. The ultimate objective of convergence is to achieve a single set of internally consistent, high quality global accounting standards, issued by the IASB and adopted by all the national standard setters. According to (Odia and Ogiedu, 2017), the need for global convergence of accounting standard or for an international standard setter is to:

(i) recognize the growing need for international accounting standards;
(ii) ensure no individual standards setter has a monopoly on the best solutions to accounting problems;
(iii) ensure no national standard setter is in a position to set accounting standards that can gain acceptance around the world;and
(iv) clarify that there are many areas of financial reporting in which a national standards setter funds it difficult to act alone.

Convergence is the process by which standard setters across the globe discuss accounting issues drawing on their combined experiences in order to arrive at the most appropriate solution. (Obazee, 2007) suggests that convergence could be either by adoption (a complete replacement of national accounting standards with IASB's standards) or by adaptation (modification of IASB's standards to suit peculiarities of local market and economy without compromising the accounting standards and disclosure requirements of the IASB's standards and basis of conclusions). Convergence was meant to bring standards like the NGAAP and IFRS closer or harmonize them; to produce identical standards. According to SEC (2010), there are two approaches to IFRS adoption

around the world: convergence and endorsement approaches. SEC (2010) classifies jurisdictions which do not adopt IFRS as issued by the IASB as following;

(i) Convergence approach where they keep their local standards but make effort to converge with IFRS over time.

(ii) Endorsement approach is where jurisdictions incorporate individual IFRSs into their local standards.

**Benefits of Convergence of International Financial Reporting Standards (IFRSs)**

Single Reporting: Convergence with IFRS eliminates multi reporting such as Nigeria GAAP, IFRS and Nigeria GAAP:

- Greater Comparability of financial information for investor as a result of transparent financial reporting of company's activities; among sectors, countries and companies.
- Higher Economic Growth.
- Convergences to IFRS give Nigeria Professionals opportunities to sell their services as experts in different parts of the world.

Adoption of IFRS means full scale implementation or usage of IFRS without any variation. Convergence may facilitate adoption over a transition period but it is not substitute for adoption. Therefore countries must resist the temptation of converging and go for full IFRS adoption. IFRS adoption is believed to have the most significant impact on accounting and financial reporting functions, enhance greater transparency and disclosures in financial statements(Odiaand Ogiedu, 2013).

**Adoption of IFRS and Quoted Banks in Nigeria**

In recent times, increase in globalization and competition across borders has made it vital for countries and companies to come together and become more competitive across the globe. However, the successful implementation of IFRS depends on the ability of the public to translate local and international financial information into IFRS financial language. Some studies such as (Ezeani andOladele, 2012); (Ikpefan andAkande, 2012); (Demaki, 2013); (Odia andOgiedu, 2013) argued that the adoptions of IFRS would bring about more comparable, reliable, relevant, and consistent financial reporting information across the world. Due to the proposed benefits of IFRS, it is predictable that the implementation of IFRS will provide high quality financial reports that are comparable, reliable and understandable for the reporting entities in the financial sector (Adah, 2012).

Furthermore, the adoption of IFRS will also improve the reliability and comparability of financial reports published in the Nigerian banking sector. However, it is generally believed that users of financial reports appreciate the importance of providing high quality accounting standards that are consistent and comparable in reflecting the economic reality of transactions (Collins, 2002). (Matthew, 2015) suggested that the Nigerian government must support the adoption of IFRS particularly in the area of implementation and compliance as a matter of urgency to enable full realization of the country's economic potential. Similarly, (Nyor, 2012) argued that Nigerian firms should adopt the IFRS as a result of the fact that it will pave the way for better accountability, transparency and enhance the quality of reporting in Nigeria. (Hossain, Hassan and Safiuddin, 2015) investigated the adoption of IFRS in an emerging economy like Bangladesh. The study found that

the adoption of IFRS is likely to benefit the Bangladesh economy through enhanced financial reporting quality, improve access to global financial markets, attract foreign direct investment, reduce cost of capital, and also intensify the capacity of organizations to secure cross border listing.

**Recognition, Measurement and Disclosure Requirements of Relevant IFRS**

**IAS 1: Presentation of Financial Statements**

This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

A complete set of financial statements comprises:

(a) a statement of financial position as at the end of the period;

(b) a statement of profit and loss and other comprehensive income for the period;

(c) a statement of changes in equity for the period;

(d) a statement of cash flows for the period;

(e) notes, comprising a summary of significant accounting policies and other explanatory information; and

(f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties.

**Disclosure**

An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS.

An entity shall present a complete set of financial statements (including comparative information) at least annually.

Except when IFRSs permit or require otherwise, an entity shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

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When the entity changes the presentation or classification of items in its financial statements, the entity shall reclassify comparative amounts unless reclassification is impracticable.
An entity shall clearly identify the financial statementsand distinguish them from other information in the same published document.
An entity may present a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section. An entity may present the profit or loss section in a separate statement of profit or loss. If so, the separate statement of profit or loss shall immediately precede the statement presenting comprehensive income, which shall begin with profit or loss.
The other comprehensive income section shall present line items for amounts of other comprehensive income in the period, classified by nature (including share of the other comprehensive income of associates and joint ventures accounted for using the equity method and grouped into those that, in accordance with other IFRSs:
(a) will not be reclassified subsequently to profit or loss; and
(b) will be reclassified subsequently to profitor loss when specific conditions are met.
An entity shall recognise all items of income and expense ina period in profit or loss unless an IFRS requires or permits otherwise.
The notes shall:
(a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 117–124;
(b) disclose the information required by IFRSs that is not presented elsewhere in the financial statements; and
(c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.
An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.
An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. An entity shall also provide additional disclosures on puttable financial instruments classified as equity instruments.

**IAS 2: Inventories**

The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.


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**Measurement**

Inventories shall be measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified. However, the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.

**Recognition**

When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**IAS 12: Income Taxes**

The objective of this Standard is to prescribe the accounting treatment for income taxes. For the purposes of this Standard, income taxes include all domestic and foreign taxes which are based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.

The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

(a) the future recovery (settlement) of the carrying amountof assets (liabilities) that are recognised in an entity's statement of financial position; and

(b) transactions and other events of the current period that are recognised in an entity's financial statements.

**Recognition**

Current tax for current and prior periods shall, to the extent unpaid, be recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognised as an asset. Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

It is inherent in the recognition of anasset or liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such


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recovery or settlement were to have no tax consequences, this Standard requires an entity to recognise a deferred tax liability (deferred tax asset), with certain limited exceptions.
A deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

**Measurement**
Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities shall not be discounted.
The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that itbecomes probable that sufficient taxable profit will be available.
Allocation This Standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss. For transactions and other events recognised outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects are also recognised outside profit or loss (either in other comprehensive income or directly in equity, respectively). Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill arising in that business combination or the amount of the bargain purchase gain recognised.

**IAS 33: Earnings per Share**
The objective of this Standard is to prescribe principles for the determination and presentation of earnings per share, so as to improve performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity. The focus of this Standard is on the denominator of the earnings per share calculation.
This Standard shall be applied by entities whose ordinary shares or potential ordinary shares are publicly traded and by entities that are in the process of issuing ordinary shares or potential ordinary shares in public markets. An entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard.
An ordinary share is an equity instrument that is subordinate to all other classes of equity instruments.
A potential ordinary share is a financial instrument or other contract that may entitle its holder to ordinary shares.
An entity shall present in the statement of comprehensive income basic and diluted earnings per share for profit or loss from continuing operations attributable to the ordinary equity holders of

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the parent entity and for profit or loss attributable to the ordinary equity holders of the parent entity for the period for each class of ordinary shares that has a different right to share in profit for the period. An entity shall present basic and diluted earnings per share with equal prominence for all periods presented.

An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of comprehensive income or in the notes.

**Basic Earnings Per Share**

Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

For the purpose of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the parent entity in respect of:

(a) profit or loss from continuing operations attributable to the parent entity; and

(b) profit or loss attributable to the parent entity shall be the amounts in (a) and (b) adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity.

For the purpose of calculating basic earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares outstanding during the period. [Paragraph 19] The weighted average number of ordinary shares outstanding during the period and for all periods presented shall be adjusted for events, other than the conversion of potential ordinary shares that have changed the number of ordinary shares outstanding without a corresponding change in resources. [Paragraph 26]

**Diluted Earnings Per Share**

For the purpose of calculating diluted earnings per share, anentity shall adjust profit or loss attributable to ordinary equity holders of the parent entity, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares calculated in accordance with paragraphs 19 and 26, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. An entity uses profit or loss from continuing operations attributable to the parent entity as the control number to establish whether potential ordinary shares are dilutive or antidilutive. In determining whether potential ordinary shares are dilutive or antidilutive, each issue or series of potential ordinary shares is considered separately rather than in aggregate.


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**Retrospective adjustments**

If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively.

**Differences between NGAAP and IFRS**

Nigerian public listed entities are required to present their financial statement reports in accordance with IFRS beginning January 2012. Until then, all Nigeria firms prepared their financial statements in accordance with local standards issued by the Nigeria Accounting Standard Board. The principal differences between Nigerian Accounting Standards (NG-GAAP) and IFRS appeared in financial statement presentation such as change in equity, income statement and significant management estimates and judgments are concepts that are not addressed in the local standards. There are also significant differences in property, plant and equipment, related parties, segment reporting, leases, impairment and risk management disclosure. Finally significant differences are also found in other areas such as financial guarantees, scope of consolidation and employee benefits.

**Table 2.3: Key Differences between NGAAP and IFRS**

| TOPIC | NGAAP | IFRS |
|---|---|---|
| **Financial statement presentation** | - Income statement<br>- Balance sheet<br>- Cash flow statement<br>- Value added statement<br>- Accounting policies<br>- Notes to account<br>- Directors reports | -Statement of comprehensive income (including income statement).<br>- Statement of financial position (balance sheet)<br>- Statement of changes in equity<br>- Statement of cash flows<br>- Accounting policies<br>- Notes<br>-Significant management estimates and judgments |
| **Property plant and Equipment** | Measured using cost model | Measured using cost model with detailed guidance regarding:<br>- Componentization<br>- Useful lives<br>- Residual values<br>-Impairment calculations and identifying cash generating units. |
| **Related parties** | Limited disclosure but expected | Detailed guidance on identification of related parties and detailed disclosure of related parties and transactions |
| **Segment reporting** | More on geography | - Operation segments based on management's view.<br>- Threshold for reportable segments is results or assets of an individual segment should be 10% or more of all segments. |

| | | |
|---|---|---|
| | | - If the aggregate revenue of all reported segments on this basis less than75% of total, then more segments required until 75% threshold is reached. |
| **First time IFRS adoption** | Not related to GAAP | Addresses the requirement on IFRS transition. |
| **IFRS 1 - First time adoption of IFRS** | Not applicable | Provides guidance and requirements on the transition to IFRS. Also provides relief for certain items in the preparation of the opening balance sheet. |
| **Financial guarantees** | Disclosed as contingent liabilities | Requires financial guarantees to be recognized at their fair value |
| **Scope of consolidation** | General principles | Investments under control are consolidated. SPEs are potentially also consolidated |
| **Employee benefits** | General expense and disclosures on pensions | - Complex criteria of accounting<br>- Recognize the undiscounted amount of short-term employee benefits |
| **Risk management disclosures** | Limited disclosure of foreign exchange and credit risk | Disclosure required for:<br>- Credit risk and<br>- Liquidity risk<br>- Price risk<br>- Capital risk management<br>- Risk management |
| **Leases** | Based on general guidelines – operating and finance leases | - Currently similar but updates to IFRSS e.g. IFRIC 4 will lead to only finance leases hence more items coming unto balance sheet.<br>- Fair value and amortized costs used in valuations<br>- Certain transactions/contracts containing hidden leases which needed to be accounted for |
| **Impairments** | No specific standard | - Carry out impairment test based on trigger vent<br>- IFRS 36 – impairment on non – financial assets<br>- IAS 39 – impairment on financial assets |
| **Financial asset classification and valuation** | Classification include:<br>- Cost<br>- Amortized cost | Classification include:<br>- Amortized cost<br>- Fair value<br>This is driven by the business model and nature of the instrument. |

Source: Abdulkadir 2012, Adeujah 2015 and Adejoh 2014.

**Other Differences between NGAAP and IFRS**

Differences in the application of standards are inferred through the examination of differences that transpire in actual financial statements of reportingNigerian Banks. Variations in the application are possible due to the principle-based approach underlying both IFRS and NGAAP, as professional judgment plays a major role in the process of interpreting and applying principles. For

example, the theoretical rational for impairment write-down (i.e. conservatism) is similar in IFRS and NGAAP, however the criteria used for identifying situations that require such a write-down differ. Since the amount of impairment losses may be material in practice, the recognition versus non-recognition of impairment losses has the potential to significantly affect profit/loss reported in the income statement. This is why empirical evidence in the application of standards is necessary to assess the real impact of differences between IFRS and NGAAP. Many other differences exist between NGAAP and IFRS apart from fair value orientation and non-controlling interest. Those include differences related to revenues, property, plant and equipment, intangibles, financial instruments, hedges, asset retirement obligations, employee future benefits, share -based compensation, leases, income tax, foreign currency translation, and strategic investments (CICA, 2009). According to (Jayeoba and Ajibade, 2016) other difference that exist between NGAAP and IFRS are itemized as follows;

i. **The financial statement Presentation:**

The financial statement presentation differs under the NGAAP system when compared with IFRS system. According to SAS 2, Information to be disclosed in the Financial Statements are income statement/profit and loss account, balance sheet, cash-flow statement, value added statement, five year financial summary, accounting policies and notes constitute minimum financial statements requirement for a public limited liability company. In the case of International Accounting Standard system IAS-1 (Presentation of Financial Statements) consist of statement of comprehensive income (including income statement), statement of financial position (balance sheet), statement of cash flow, statement of changes in equity, accounting policies, notes and significant management estimates and judgments constitute financial statement requirements.

ii. **Fair Value Measurement**

A higher reliance on fair value accounting in IFRS represents a substantial difference compared with SAS. It represents a departure from the traditional historical cost principle. IFRS puts a much greater emphasis on fair value than that rendered under SAS. It primarily responds to the needs of investors which are given deliberate importance in IFRS compared to other users (IASB, 2001; Chua and Taylor, 2008). Since investors need market-based values to make decisions regarding buying or selling stocks, many items in financial statements are required or eligible for fair value accounting under IFRS. Fair value ordinarily is not a new concept under NGAAP accounting system as SAS 3-Accounting for Property Plant and Equipment, SAS 11-Lease, and SAS 8-Accounting for Employees Retirement Benefits, made reference to its usage in some accounting treatments. According to SAS 3, fair value is the amount for which an asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction. This has often been interpreted to be market price of an asset or liability under SAS. However, IFRS 13-fair value measurement is considered relatively unique in that it discloses valuation techniques pertaining to different categories of inputs through a fair value hierarchy and its Estimate involves various degrees of subjectivity depending on the availability of an active market for the assets and liabilities in question. In general, fair value is mandatory in measuring transactions at initial recognition under IFRS. However,

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items such as financial instruments held-for-trading, derivatives, assets and liabilities are required to be re-measured at fair value.

**iii. Comprehensive Income**

Comprehensive income is seen as a major development in the recent evolution of accounting standards and a central notion in the conceptual framework of IFRS. It reflects all revenues, expenses, gains and losses that are to be recognized according to accounting standards during a period, and is summarized in a separate financial statement named the Statement of Comprehensive Income called Trading, Profit and Loss Account under SAS. The Statement of Comprehensive Income is seen as an upgrade to the Trading, profit and Loss Account. The Statement of Comprehensive Income has two components. The first corresponds to the bottom line (profit or loss) of the income statement as it is commonly measured, incorporating gains and losses on transactions with outside parties and a number of unrealized gains and losses on items measured at fair value through profit or loss. The second component of the statement of comprehensive income relates to unrealized gains and losses caused primarily by fair value adjustments. This component is designed to by-pass the income statement. In order to do that, a new category of accounting adjustment has been introduced known as other comprehensive income (OCI), which is presented directly in shareholders' equity. OCI may be seen as a buffer that allows the use of fair value accounting without its direct impact on the income statement. The profit accumulates in retained earnings; the annual variation of the OCI accumulates directly in shareholders' equity, whereas the sum of annual profit and annual variation of OCI forms the comprehensive income. It should be noted that the separate reporting of comprehensive income was introduced in U.S. accounting standards in 1997 (SFAS No. 130 Reporting Comprehensive Income) and in Canadian accounting standards in 2005 (CICA Handbook: Section 1530 Comprehensive Income).While IFRS prohibits the presentation of extraordinary items in statement of comprehensive income or in the notes, SAS requires extraordinary items to be presented in the profit and loss statement of the entity distinct from the ordinary income and expenses for the period. They are considered in determining the profit and loss for the period.

**vi. Non-controlling Interest**

Non-controlling interest represents the share of consolidated subsidiaries that is not owned by or attributed to the parent company. In NGAAP, non-controlling interest is presented outside shareholders' equity in the consolidated balance sheet. Accordingly, it is treated similar to creditors and presented in liabilities, or alternatively presented in-between liabilities and equity. Under IFRS, non-controlling interest is treated differently based on the entity theory. According to this theory, owners have a participating right or residual interest in a portion of the consolidated entity, and therefore non-controlling interest is presented within the shareholders' equity in the consolidated balance sheet. Furthermore, in NGAAP, the share of profit/loss attributable to non-controlling interest is treated as an expense/revenue within the consolidated income statement (as the interest expense on debts) while under IFRS, the share of profit/loss attributable to non-controlling interest is a capital attribution.The difference between the treatment of non-controlling interest under


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NGAAP and IFRS has two major implications. First, the difference has a direct impact on the financial structure reported on the Statement of Financial Position, in particular on leverage ratios such as the debt-to-worth ratio. Second, the difference affects the bottom line reported in the income statement and several profitability ratios such as the return on assets and the net profit margin.

**vii. Assets held for sale and discontinuing Operations:**

IFRS introduced and recognized Assets Held for Sale and Discontinued Operations which are considered separate disclosures under non-current and current assets. It provides accounting treatments and recognition of Assets held for sale and discontinued operations in line with IFRS 5-Non-Current Asset Held for Sale and Discontinued Operations which is separate from IAS 16-Property, Plant and Equipment. IFRS 5 sheds lights on the concepts of Assets held for sale and the disposal group (i.e. group of assets to be disposed off, by sale or otherwise) which are to be presented separately in the Statement of Financial Position and are to be measured at lower of carrying amount and fair value less costs to sell and depreciation on such assets to cease. In the case of classification as "Discontinuing", the disclosure requirement, criteria and measurement are also disclosed in IFRS 5. SAS on the other hand does not provide a separate standard for recognizing such assets as they are classified into the appropriate asset subheadings and treated in line with the appropriate SAS (for instance equipment treated in line with SAS 3-Accounting for Property Plant and Equipment).

**viii. Impairment of Assets**

Impairment according to IAS 36-Impairment of Assets, is viewed as when an asset's carrying amount exceeds its recoverable amount. While carrying amount is the amount at which an asset is recognized in the balance sheet after deducting accumulated depreciation and impairment losses, recoverable amount on the other hand is the higher of an asset's fair value less costs to sell (sometimes called net selling price) and its value in use. The objective of taking impairment into consideration is to ensure that assets are carried at no more than their recoverable amount. Hence, its emphasis on impairment testing for assets particularly Property Plant and Equipment is not only limited to non-financial assets as IAS 39-Financial Instruments: Recognition and Measurement also provides disclosures for treatment of impairment in financial assets. This is an issue which SAS is silent on.

**ix. Segment Reporting**

Under SAS, a segment is viewed as a distinguishable component of the company that is engaged either in providing related products or services (business segments). Therefore, SAS-24 (Segment Reporting) discloses operating segments in terms of geography. IFRS considers operating segments based on management's view and suggest thresholds for reportable segments. Beyond geographical segmentation IFRS-8 (Operating Segments) discloses information about reported segment profit or loss and other disclosures as contained in the standard.

**x. Non-financial disclosures and Related Party transaction:**

Generally, non-financial disclosures are observed to be more under IFRS when compared with SAS. Also in the case of related party transaction, SAS expects


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disclosure but this however is limited. IFRS sets out detailed guidance on identification of related parties and detailed disclosure of related parties and transactions as contained in IAS 24-Related Party disclosures.

**xi. Employee Retirement Benefit:**

IFRS recognizes the undiscounted amount of short term employee benefits and presents a complex picture of accounting and recognizing employee benefits. The simplistic nature of disclosing employee retirement benefit obligation under SAS differs from the complex actuarial disclosure of the same item under IFRS. IAS 19 gives three choices for the treatment of actuarial gains or losses arising on measurement of employee benefits. These choices include: to recognise actuarial gains and losses immediately in other comprehensive income, it is recognised under the income statement approach immediately in profit or loss and under the corridor approach, any actuarial gains and losses that fall outside the higher of 10 per cent of the present value of the defined benefit obligation or 10 per cent of the fair value of the plan assets (if any) are amortised over no more than the remaining working life of the employees. While under SAS, Actuarial gains and losses should be recognized immediately in the statement.

**xii. Petroleum Activities in the Downstream:**

Currently issues relating to Petroleum Activities-Downstream Activities are adequately covered by SAS 14. While IFRS 6 (Exploration for and Evaluation of Mineral Resources), has limited disclosures with respect to oil exploration.

**xiii. Telecommunication Activities:**

SAS 25-Telecommunication Activities gives detailed disclosures, recognition and measurement to transactions relating to telecommunication companies. This is because like Oil exploration companies, their businesses are uniquely different and cannot be treated like other entities that engage in production of goods/service delivery. Currently IFRS has no standard for telecommunication activities.

**xiv. Foreign currency conversion and Translation:**

Although SAS 7-On foreign Currency Conversion and Translation establishes the need for a reporting currency which in the case of IAS 21-The Effects of Changes in Foreign Exchange Rates is called "presentation currency", both do not provide the same methods of foreign currency translation. While SAS 7 suggests methods (i.e. closing, temporal, monetary and non-monetary methods) of translating accounts of foreign operations, IAS 21 differentiates functional currency from presentation currency and goes further to provide guidelines for treating foreign currency transactions taking into consideration the nature of the items (monetary and non-monetary), translations from functional currency to presentation currency, considering the effect of inflation (making reference to IAS 29-Financial Reporting in Hyperinflationary Economies) and exchange differences. In addition, IFRS also considers the effects of exchange differences on the disposal of foreign operations.

**xv. Entities Operating in Hyper- Inflationary Economies**

IAS 29 - Financial Reporting in Hyper inflationary economies prescribes reporting requirement for entities operating in hyperinflationary economies. There is no equivalent standard under SAS.


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**xvi. Agriculture**

IAS 41- Agriculture establishes standards of accounting for agricultural activities; the management of the biological transformation and harvest of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). There is no equivalent specific standard on agriculture under SAS.

**xvii. Goodwill**

Goodwill is not amortized under IAS 38 but is subject to annual impairment test under IAS 36 while SAS 9 provides that goodwill arising on amalgamation in the nature of purchase is amortized over a period of 5 years.

**xviii. Revaluation of Assets**

Under IFRS, if an item of property, plant and equipment is re-valued, the entire class of assets to which that asset belongs should be re-valued. While under SAS an entire class of assets can be re-valued, or selection of assets for revaluation can be made on a systematic basis.

**xix. Contingent Asset Disclosure**

IFRS stipulates that Contingent assets should be disclosed in the financial statements only if the inflow of economic benefit is probable. While under SAS, Contingent assets are disclosed as part of the director's report and not disclosed in the financial statement but as note (that is, off balance sheet items).

**Legal and Regulatory Framework of Accounting Profession in Nigeria**

1. **The Companies and Allied Matters Act (CAMA) LFN 2004 as amended.**

   The preparation of financial statement by corporate organization must follow certain rules, principles and guidelines in Nigeria before the introduction of IFRS. The rules are stated in the Company and Allied Matter Act (CAMA) LFN 2004 (as amended) which is the central of business law in Nigeria. The act prescribes some format and content of what must be included in the company's financial statements disclosure requirements and auditing. It requires that financial statement of companies must comply with the Statement of Accounting Standards (SAS) issued from time to time by the Nigerian Accounting Standard Board (NASB) and audit carried out in accordance with generally accepted auditing guidelines and standards. One of the basic structures of CAMA Act (1990) LFN 2004 as amended is the preparation and presentation of financial statement and report.

2. **The Nigerian Accounting Standard Board (NASB) Act 2003.**

   The NASB Act, No 22 of 2003, formally created the Nigerian Accounting Standards Board and also established for it an Inspectorate Unit. NASB came into being on September 9 1982. It is the only recognized Independent body in Nigeria responsible for the development and issuance of statements of accounting standards for users and preparers of financial statements, investors, commercial enterprises and regulatory agencies of government.

3. **The Central Bank of Nigeria (CBN) Act 1991.**

   The Central Bank of Nigeria is the main statutory regulator of banks and non-banking financial institutions under the terms of the Banks and other financial institution Act (1991). The Banks and other financial institutions Act contains provisions on financial

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reporting by banks in addition to CAMA requirements. The CBN Act requires Banks to submit audited financial statements to the Central Bank of Nigeria for approval before publication in a national daily newspaper within four months from the year end. The functions of CBN in respect to banking services includes; conduct off-site surveillance, on site control of money deposited, specialized registry credit bureau and related institution, development of standards and consolidated supervision and finally forming policies of government.

4. **The National Insurance Commission (NAICOM) Act 2003.**
   The National Insurance Commission regulates financial reporting practices of insurance companies under the (NAICOM) Act, 2003. The ACT stipulates that insurance companies shall abide by rules and regulation that guides preparation and presentation of financial statement to ensure conformity and transparency. Audited financial statement are submitted to the National Insurance Commission within 6 months of the year- end and published in newspapers.
5. **Investment and Security Exchange ACT (ISE) 2007**
   The Investment and Security Exchange ACT stipulates corporate responsibilities of public companies. These are filling of annual report and period report with Security and Exchange Commission (SEC), disclosure of internal control system and registration of public company auditors with the commission. They also ensure financial statement is prepared using the prescribed format by NASB. The Act amongst others provides for:
   i. The establishment of Securities and Exchange Commission
   ii. The repeal of the Investment and Securities Act 1999.
   iii. The enlarged powers and functions of the commission over the capital market; and
   iv. A set of new market infrastructureand wide-ranging system of regulation of investment and securities business in Nigeria, especially in the area of mergers, acquisition and take over and collective investment schemes.
   v. A stock Exchange, which is a self-regulating organization established by the Nigerian Stock Exchange Act.
6. **Nigerian Stock Exchange Act (SEC) 1961.**
   The Nigerian Stock Exchange Act supports the Securities and Exchange Commission, supervises the securities market operations and regulates the secondary market.The ACT states that for any company to be listed on the floor of the Nigerian Stock Exchange that firm must comply with the accounting standards as issued by NASB. Audited Financial statements of all quoted firms on the floor of the Stock exchange and the Corporate Affairs Commissions must be approved by the Stock Exchange before publication in newspaper within three month after the year- end.
7. **Companies Income Tax Act (CITA) 2004 (as amended)**
   The Companies Income Tax Act is responsible for regulating the taxation practices relating to companies income in Nigeria.This ACT regulates the way and manner of presentation of financial statement as requires by law for taxation reasons. It is mandatory for companies to comply with provision of CITA in presenting their financial statement to tax authorities.


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**Ratio Analysis Used in Performance Evaluation**

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 accounting is as follows: Liquidity Ratio, Investment Ratio and Profitability Ratio. But For this study the following ratios will be considered, threekey profitability ratios, two liquidity ratios, and two investment ratios.

i. **Profitability Performance**

Profitability is the state or condition of yielding a financial profit or loss; it is the most common measure of bank's performance. It examines how successful a firm utilizes its operating resources to earn income. It also provides reasonable clue to the effectiveness of bank's operation (Mensah and Sebe-Yeboah, 2014). Profitability can be measured using GPM-Gross Profit Margin, NPM-Net Profit Margin and ROCE-Return on Capital Employed.

ii. **Liquidity performance**

This is a good indicator of financial health. The following ratios would be used to measure liquidity, Current ratio, quick ratio and cash ratio. This is mostly used by firms to determine their financial strengths, weaknesses and ability to meet their obligation as they fall due.

iii. **Investment Performance**

This makes use of investment ratios to assess the performance of a company's shares, for example, Price Earnings Ratio, Earnings Per Share and Earning Yield. Investment ratio is always of great interest to the ordinary shareholders, potential investors, analysts and competitors.

**Theoretical Review**

**Agency Theory**

The agency paradigm was developed in economics literature during 1960s and 1970s in order to determine the optimal amount of risk-sharing among different individuals (Ross, 1973; Jensen and Meckling, 1976). Agency theory is a theory explaining the relationship between principals (shareholders) and agents (managers). In this relationship, the principal delegates or hires an agent to perform work in the best interest of the principal. The delegation of decision-making authority can lead to a loss of efficiency and consequently increased costs (Jensen and Meckling, 1976). Agency theory has been one of the most important theoretical paradigms in accounting during the last 20 years (Lambert, 2001). It conceives disclosure as a mechanism which decreases the costs resulting from conflicts between managers and shareholders (compensation contracts) and from conflicts between the firm and its creditors (debt contracts). Therefore disclosure works as a mechanism to control manager's performance. As a result, managers are stimulated to disclose information voluntarily.

Financial reporting is a key practice of corporate disclosure. However, there are multiple factors surrounding the quality of financial reporting. (Beyer, Cohen, Lys and Walther, 2010) argue that the function of corporate information environment is the dynamic interaction as a consequence of information asymmetries and agency problems between investors, firms and managers. Therefore, in a capital markets setting, the corporate information environment is shaped by the


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decisions made by managers' reporting and disclosure, mandated reporting and disclosures regulations, and analysts' expectations.

(Beyer, Cohen, Lys, and Walther, 2010) illustrates two very important rationales. Firstly, that, the agency costs will be reduced when mandated disclosure allows for more efficient contracting with agents as it can serve as a cost-effective way to commit to frequent and detailed future disclosures when the literature supports that more information can reduce agency costs.(Leung and Ilsever, 2013) also argued that, the one way to mitigate problems from agency relationship is to reduce the information asymmetry between managers and investors. Thus the adoption of IFRSs would ensure that managers give and disclose relevant and reliable accounting information and reports to the shareholders thus reducing agency problems.

**Signaling Theory**

The signaling theory is useful for describing behavior when two parties (individuals or organizations) have access to different information. Typically, one party, the sender, must choose whether to communicate (or signal) the information and how, and the other party, the receiver, must choose how to interpret the signal. In circumstances of the information asymmetry, signaling theory suggests that companies with superior performance (or good companies) use financial information to send signals to the market. (Ross, 1977; Spence, 1973), showed that if the cost of signal is higher for the bad type than it is for the good type. The bad type may not find it worthwhile to mimic, and so the signal could be credible. Ross (1977) demonstrated how debt could be used as a costly signal to separate the good from the bad. Therefore, managers can be motivated to disclose private information voluntarily. This is because they expect this to provide (and to be interpreted as) a good signal about their company's performance to the market, and as reducing information asymmetry.

Signaling theory would suggest that the provision of voluntary IFRSs disclosures would give an indication of firms" decision-making process and financial behavior. Thus, the combination of agency and signaling theory is possible to lead to predictions about firm financial behaviour and accounting choices and improve the understanding of financial statements (Morris, 1987). The adoption of IFRSs gives a positive signal of higher quality accounting and transparency (Tendeloo andVanstraelen, 2005) and would also lead to lower information asymmetry and cost of capital (Leuz andVerrecchia, 2000). Similarly, the provision of quality accounting disclosures would tend to reduce the opportunities for earnings manipulation and enhance the stock market efficiency (Leuz and Wüstemann, 2003). The higher disclosure requirements and financial reporting quality that stem from IFRSs implies that the adoption of IFRSs gives a positive signal to investors as information asymmetry and agency costs tend to diminish (Tarca, 2004).

**Economic Theory**

Economic theory suggests that voluntary disclosures and increased information quality reduce information asymmetries (either between the firm and market participants or between informed and uninformed investors). This reduction in information asymmetries increases the firm's liquidity (Klein, 2002b; Ferguson, Lam, and Lee, 2002; Ahmed andMansor, 2009). Early empirical work by (Ahmed andMansor, 2009) reports that firms that provide more public information can reduce the adverse selection component of the bid-ask spread, and thus potentially reduce their cost of equity capital. Overall, the empirical evidence suggests that disclosures and accounting information of


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higher quality are related to improved liquidity. Thus, it is unclear whether the association between disclosures and liquidity is attributable to voluntary or mandatory disclosures, or some interaction of the two.

Finally, the contribution of this study to the literature consist amongothers that larger and more leveraged Nigerian listed deposit money banks reports most reliable accounting information in their financial statement if IFRS is adopted. In addition, the adoption of IFRS plays a prominent role in preventing managers of Nigerian listed deposit money banks from opportunistic behaviour in preparing financial reports. Again, the most profitable and fast growing Nigerian deposit money banks reports the most reliable, faithful and verifiable accounting numbers in their financial statement.

**Efficient Contracting Theory**

(Bowen, Rajagopal and Venkatachalam, 2008) find that the efficient contracting theory associates managers to exercising accountingdiscretion in an efficient manner suchthat in the long run firm value is maximized. The efficient contracting theory suggests a positive association between accounting discretion and long term firm performance and quality of financial information.

For the purpose of this study, Agency theory and Economic theory will be adopted to examinedeposit money bank performances after the adoption of International Financial Reporting Standards in the Nigerian banking sector as theoretical framework.

**Empirical Review**

**Evidence from Developed/Developing Countries**

(Blanchett, Racicot and Sedzro, 2013) examined the effect on IFRS on financial ratios in Canada using liquidity, leverage, profitability and coverage ratios as proxies. The study found that neither IFRS nor Canada GAAP produced a higher result. The result showed that liquidity ratios and leverage ratios revealed a higher performance under Canadian GAAP while profitability ratios and coverage ratios presented a higher performance under the IFRS period. (Umoren and Enang, 2015) examined IFRS adoption and value relevance on financial statement of Nigerian listed banks using the least square regression and descriptive statistics to analyse the data. They find that earnings per share increased the value relevance during the post IFRS period while book value per share of equity was reduced.

(Mc-Connelle, 2012) examines the impact of IFRS on financial ratios of fifty (50) firms in Canada from 2010-2011. The study found that IFRS has a positive impact on financial ratios.

(Terzi, Oktem andSen, 2013) conducted a study on IFRS and financial ratios in manufacturing firms using the logistic regression technique. They find that IFRS has significant impact on items like shareholder equity, long term liabilities and fixed assets. The study further shows that assets turnover ratios, current ratios and financial leverage ratios are significantly affected by the new regime.

**Evidence from Nigeria**

(Gideon, 2016) examined the effect of IFRS adoption on the performance of money deposit banks. The study employed ratio analysis to investigate the nexus between IFRS adoption and performance of money deposit banks in Nigeria, ten (10) quoted banks were selected over the periods covering 2009 to 2014. 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.(Okpala, 2014) examines therole of IFRS adoption in attracting foreign direct investments (FDI) in Nigeria and argues thatthe significant growth in FDI is attributable to the adoption of IFRS by the country.

(Onipe, Musa and Isah, 2015) examined the effect of IFRS on the financial statements of banks. In the study, a regression model was estimated using pooled data and fitted with dependent variables, fifteen (15) banks were selected over the periods of 2008 to 2013. (Shehu, Usman and Hassan, 2015) examined the adoption of IFRS and Earnings Quality in listed deposit money banks in Nigeria. The study adopt correlational research design with balanced panel data of 14 banks as sample of the study using multiple regression as a tool of analysis. (Onipe, Onyabe and Usman, 2015) examined the effect of IFRS on value relevance and key financial indicators. The study shows that IFRS has a significant positive impact on value relevance of accounting information. (Ibiamke and Ateboh-Briggs, 2014) examined the performance of financial ratios following the IFRS adoption in Nigeria using the Levene's paired sample statistics. The study reveals that IFRS adoption has negative impact on financial ratios of listed companies in Nigeria.

According to (Madawaki, 2016), the adoption of IFRS in Nigeria was planned into threephases: the first was for publicly listed entities and significant public interest entities toprepare their financial statements using applicable IFRS by January 1st 2012. The entitieswere required to convert their closing balances at December 2010 to IFRS-based figureswhich would serve as the opening balance sheet figure for January 2011. Thus the full IFRScompliant financial statements were to take off starting December 31, 2012 with 2011 ascomparative year.The phase requires public interest entities to mandatorily adopt IFRS for statutory purposesby January 1, 2013. This implies that all other public interest entities in Nigeria werestatutorily required to issue IFRS based financial statements for the year ended December 31,2013. The third phase was for the adoption of IFRS for Small and Medium Enterprises(SMEs) by the end of December 31, 2014. The entities that do not meet the IFRS for SMEscriteria were to report using the Small and Medium-sized Entities Guidelines on Accounting(SMEGA).

(Zayyad, Ahmed and Mubaraq, 2014) examined the effect of IFRS on financial ratios of listed manufacturing firms in Nigeria. The study compared IFRS with NGAAP for a period of four (4) years. The study employed a Kolmogorovstatistical method to test the set of data used in the study. The study reveals that IFRS periods donot show significance compared to NGAAP periods.

**Conclusion and Recommendation**

This research focused on the effect of IFRS disclosure on the performance of Nigerian banks after the adoption of IFRS. The question this study intends to answer is to what extent has IFRS disclosures enhance the performance of Deposit Money Bank in Nigeria?

Evidence from the study shows that:

- ✓ IFRS disclosures have a significant effect on DMBs profitability in Nigeria.
- ✓ IFRS disclosures have a significant effect on DMBs liquidity in Nigeria.
- ✓ IFRS disclosures have a significant effect on DMBs investment in Nigeria.

Based on the above findings, the study concludes that adoption of the International Financial Reporting Standards (IFRS) disclosures has significant impact on the financial performance of deposit money banks in Nigeria.


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Merely adopting IFRS is not sufficient, therefore, all stakeholders such as top managers, directors, independent auditors, accountants, regulators and law makers must work together to ensure the smooth adoption of IFRS procedures and also ensure that financial statements are prepared in compliance with IFRS. In order to safeguard the suitable adoption of IFRS in Nigeria, competent Accountants and Auditors in IFRS are required in large number. Nigeria presently does not have the adequate number of IFRS certified accountants and auditors. The Institute of Chartered Accountants of Nigeria must intensify in organizing IFRS training programmes for its members and other parties connected with corporate reporting.

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. Furthermore, the regulatory agencies of the sector, especially Central Bank of Nigeria to intensify the effort of monitoring the adoption compliance by all the banks and other financial institutions in the country as this will go a long way in improving the earnings reported by the listed deposit money banks in Nigeria.

Deposit money 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.

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