ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS AND THE DISCLOSURE PRACTICES BY LISTED MANUFACTURING FIRMS IN NIGERIA

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The undersigned certify that they have read and hereby recommend for acceptance by Obafemi Awolowo University thesis titled: 'Adoption of International Financial Reporting Standards and the Disclosure Practices by Listed Manufacturing Firms in Nigeria' in partial fulfilment of the requirements for the degree of Master of Science (M.Sc.) in Accounting of Obafemi Awolowo University Ile Ife, Nigeria.

Professor D.O. Elumilade ---
Supervisor Signature and Date

DEDICATION

This study is dedicated to God Almighty the fountain of all knowledge and wisdom, the one who has kept me till this present moment and brought me thus far in life.

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DAIRO IbukunoluwaOlatomi

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ABSTRACT

The study determined the extent of disclosure practices of the selected listed manufacturing firms in Nigeria; examined the relationship between the company characteristics and the extent of disclosure compliance and analyzed the difference in the quantity and quality of disclosure compliance among the listed Manufacturing Firms in Nigeria. These were with a view to providing information on the level of disclosure compliance after the adoption of International Financial Reporting Standards by the listed manufacturing firms in Nigeria.

This study employed secondary data. The data were sourced from the financial statement of listed manufacturing firms on the Nigeria Stock Exchange (NSE) and NSE Factsbook covering a period between 2012 and 2014. The choice of the base year is based on the fact that IFRS was introduced into the financial system in Nigeria in 2012. 40 out of 91 manufacturing firms that are existing in Nigeria during the sample period and with complete data were selected for this study using purposive sampling technique. Data collected on the company characteristics of the manufacturing firms in Nigeria were variables such as Company's Size (Total Asset), Return on Asset and Audit Firm Size. Data collected were analysed using descriptive and inferential statistics, and econometric techniques.

The result showed 88% disclosure compliance level by listed manufacturing firms in Nigeria and this suggests that the disclosure compliance level is relatively high. The result also revealed that company's size ($t=1.4699$; $p>0.05$) has a positive but insignificant relationship, audit firm size ($t= 2.9354$; $p<0.05$) is positive with significant relationship, while profitability ($t= -1.5606$; $p<0.05$) has a negative but significant relationship with the extent of disclosure compliance. The result further showed that there are significant

differences between the quality of disclosure of the firms audited by the big- 4 audit firms and the ones audited by the non-big 4 audit firms, with a mean value of (89.88:83.46), median value of (89.02:84.15),maximum value of (100:93.09) and minimum value of (73.98:72.36).

The study concluded that listed manufacturing firms in Nigeria comply with the minimum disclosure requirement of International Financial Reporting Standards.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The increasing growth in international trade, cross border financial transactions and investments which unavoidably involves the preparation and presentation of accounting reports that is useful across various national borders and the globalization of financial markets has accelerated the demand for more understandable and internationally comparable financial reporting, so recently there has been a push towards the adoption of International Financial Reporting Standards (IFRS), developed and issued by the International Accounting Standards Board (IASB)(Armstrong, Barth, Jagolinzer and Riedl, 2007).

International Accounting Standards Board (IASB) was formed to develop a single set of highquality, understandable and enforceable global accounting standards that requiretransparent and comparable information in general purpose financial statements.IFRSs (International Financial Reporting Standards) which were issuedby IASB aim to increase the consistency, transparency and comparability offinancial statements. Numerous developed and developing countries haveaccepted IFRSs (Demir, Bahadır,&Öncel, 2013).

A major landmark towards IFRS adoption was the decision of European Commission to adopt IFRS for listed companies. In 2002, European Union approved a regulation requiring all European Union listed companies to comply with IFRSs beginning in 2005. As a result of these developments, the desired goal of internationally comparable financial reporting was almost achieved. However, companies' compliance level with IFRSs requirements is still in question.

The introduction of International Financial Reporting Standards started in 2002 when European Union made it mandatory for publicly traded companies to present consolidated financial statements in conformity with International Financial Reporting Standards starting from January 01, 2005.Moreover on March 2007, SEC announced its intention to accept financial statements created in accordance withIFRS from January 1, 2009 beside the ones created according to US GAAP.(Jermakowicz, 2004; Susana, Jarne, andLa´ınez, 2007; Apostolos,Ballas, DespinaSkoutela and Christos A. Tzovas,2010).

Various survey studies have been conducted to assess the adoption of International Financial Reporting Standards in different countries of the world. A set of studies have been conducted in relation to the importance, (Apostolos et al., 2010; Iyoha and Faboyede, 2011) and the challenges of adopting IFRS, (Alessandro, Montani and Tettamanzi 2009; Robyn and Graeme, 2009). The other set of studies have been conducted on the effect IFRS has on companies and countries at large (Jermakowicz, 2004; Alicja, Fijalkowska, Baranowska and Frendzel 2007; Susana et al., 2007).

According to (Ball,Robin &Sadka2006), widespread international adoption of IFRS offers investors the following potential advantages; IFRS promise more accurate, comprehensive and timely financial statement information relative to the national standards they replace for public financial reporting in most of the countries adopting them, IFRS eliminate many of the adjustments analysts historically have made in order to make companies' financials more comparable internationally, the reducing of the cost of processing financial information most likely increases the efficiency which the stock market incorporates it in prices and finally, IFRS offer increased comparability and hence reduced information costs and information risk to investors.

Before the adoption of IFRS in Nigeria, there was legal and regulatory framework of accounting in respect to preparation of financial report, the Company and Allied Matter Act (CAMA 1990),which prescribe some format and content of company financial statement disclosure requirements. It requires that the financial statements of all corporate organizations comply and adhere with the Statement of Accounting Standards (SAS) issued from time to time by the Nigerian Accounting Standard Board (NASB). (Abdulkadir, 2013)

Hence, the adoption of IFRS in Nigeria was launched in September, 2010 by the then Minister of Commerce and Industry. The adoption was made in such a way that all the first tier companies listed on the stock exchange and are of public interest use it by 2012. (Kasum, 2011; Phang and Mahzan, 2013).As a result of the adoption process, mandatory disclosure requirements of all IFRSs, constituting the disclosure checklist were issued to underscore the need to strengthen regulation and supervision through enhanced disclosures by companies.

This disclosure checklist constitute, the general presentation disclosure index which includes, fair presentation of financial position, financial performance and cash flows of the entity in the financial statements, a complete set of financial statements, the name of the reporting entity or other means of identification, whether the financial statements are of an individual entity or a group of entities, reporting date or the period covered by the set of financial statements or notes.

Statement of financial position disclosure index which includes;the class of property, plant and equipment; the gross carrying amount and the accumulated depreciation at the beginning and end of the period,for each class of intangible assets; the gross carrying amount and any accumulated amortization at the beginning and end of the period.

Statement of profit or loss and other comprehensive income; the amount of each significant category of revenue recognized during the period including revenue arising from the sale of goods, the rendering of services, interest, royalties and dividends, Information about contingent liabilities arising from post-employment benefit obligations.