# Adoption Of International Financial Report Standard [IFRS] And The Quality Of Corporate Financial Reports Of Quoted Companies

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***Abstract*- Introduction:** The quality of financial reporting implies how well a standard can detect and document any material misstatements in corporate financial reports This, gives need to a standard to follow which is meant to give accurate and meaningful information of the sales and the nature, timing and uncertainties of the cash flow, to those who need it. However, IFRS has been widely speculated by different scholars and practitioners to be capable of bringing about improved quality in financial reportage (Irvine & Lucas, 2016) but most corporate firm found it difficult to blend with this principles due to their inability to comprehend the reporting standard which demand thorough understanding. As a result of this incomprehensiveness, this study evaluate the influence of IFRS adoption on quality of financial reporting on selected quoted companies in Nigeria

**Methods**: the study adopted primary and secondary data by using both expost facto design and questionnaire where data for discretionary accruals were extracted from 5selected quoted companies 2009-2014 while questionnaire provide information to measure 50 user perceptions towards the influence of IFRS adoption on the quality of financial reports.

**The results** showed an insignificant mean differences between pre and post adoption of IFRS [mean difference=0.167; t-value=0.167; p-value=0.875>0.05] and further revealed a positive significant effect of IFRS adoption on quality of financial reporting [ $R^2$= 0.553, t-value=7.537 p-value= 0.000<0.05]. This finding revealed an insignificant differences which call for more implementation of the latest policy by unveiling more of this policy to the management of selected quoted companies. Therefore, this study suggested more training to management, for development of their professional skill and experience towards IFRS implementation and espoused organisations, companies to different benefit of adopting the Standard .

***Index Terms*-** Quality, Reporting, discretionary, accruals,

## I. BACKGROUND

Quality of financial reporting implies how well a standard can detect and document any material misstatements in corporate financial reports (Sunday, 2019). In other words, financial reporting quality entails the reliability of the opinion expressed through the implement principles on the financial reports (Arens, 2015) A financial report is the main source of information to all parties who have an interest in a company. Hence, Wulandari (2015) stated that a financial report should picture the financial position of the company In addition, Alichia (2015) also emphasized that through the financial report, we can get a picture of the life of a company, whether it is in a good condition or it has a tendency to go bankrupt. However, in the past few years, accounting scandals in Nigeria corporate companies was revealed which has raised public concerns towards financial reporting quality and requested for it further scrutiny. This has led agencies in 2017 to equipped regulatory bodies and authorities' concerns about financial reporting quality like accounting standard-setting institutions such as the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) who later joined resources together in May 2014 to develop

International Financial Reporting Standard[IFRS] focusing on revenues and reporting (Olubunmi & Rafiu, 2021). This standard is meant to specialised more on revenue recognition and reporting standard that affects all businesses that enter into contracts with customers to transfer goods or services public, private and non-profit entities. The new accounting standard for reporting and revenue recognition will likely affect every aspect of a business that relates to revenue, from a company's financial results to compliance with debt covenants to executive compensation (Knachel, 2016). In addition, IFRS consists of many different parts, but this present study concentrates more on it latest role [IFRS 17]. The new standards was effective from 1st January 2018, and its directions are more precise on how to report, than what they were in the previous standards. This standard is meant to give accurate and meaningful information of the sales and the nature, timing and uncertainties of the cash flow, to those who need it (KPMG, 2017)

Moreso, IFRS has been widely speculated by different scholars and practitioners to be capable of bringing about improved quality in financial reportage (Irvine & Lucas, 2016). The higher the quality of financial reporting, the more significant are the benefits to be gained by investors and others users of the financial reports in making informed economic decisions. Olanlokun and Sholola (2019). Unfortunately, many reported corporate financial statement had poor quality which had posing threats and adverse influence on investors and other users confidence and credibility of public finances due to their incapability to adapt to the new standard of IFRS which requires thorough understanding to project financial reporting effectively. However, to the best of researchers knowledge, few attention tend to have been paid by authors on the influence of international financial reporting standard on the quality of corporate financial reports of quoted companies in Nigeria using users perspective. Hence, this study stands to fill the gap by investigating the influence of adopting IFRS on quality corporate financial reporting of quoted companies in Nigeria .

Prior studies have adopted several proxies as an indicator for the quality of financial reporting. Otuya *et al.* (2017), and Simnett (2016) who used discretionary accruals. Others used level of disclosures but this present study will add new proxy to one of the existing one which is discretionary accruals and users perception as an uncommon proxy to evaluate the quality of corporate financial reporting within five selected corporate . quoted companies in Nigeria.

However, the study is specifically carried out to ;

1. Compare the mean differences on quality of financial reporting before and after IFRS adoption using discretionary accruals within the selected companies between 2009-2014
2. Indicate users perception towards the contribution of IFRS on quality of financial statement
3. Identify the level of users perception towards the contribution of IFRS on the quality of financial reports
4. To show the significance differences in quality of financial reporting at pre and post adoption of IFRS using discretionary accruals
5. To show the significant influence of IFRS on quality of financial reporting using users perception

Research questions

1. What is means differences and level of quality of financial reports before and after the adoption of IFRS using discretionary accruals within 2009-2014
2. What are the users perception towards the contribution of IFRS on the quality of financial reports
3. What is the level of contribution of IFRS on quality of financial reporting using users perception in selected corporate quoted companies in Nigeria

**Research hypothesis**

- H0: There is no significance differences in quality of financial reporting at pre and post adoption of IFRS using discretionary accruals within the selected five corporate quoted companies
- H0:There is no significance influence of IFRS on quality of financial reporting using users perception

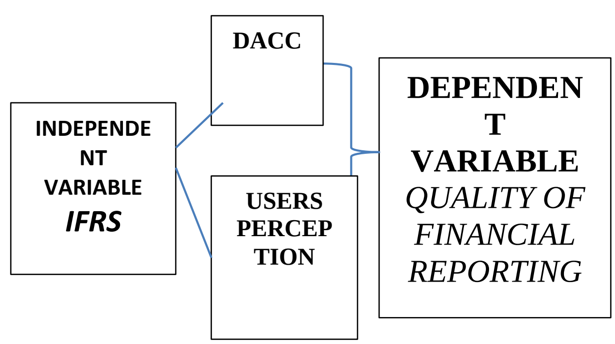
## II. LITERATURE REVIEW

The 'quality of financial reporting' is used universally; this concept refers to the accuracy with which financial reports of a firm reflects its operating performance and how useful they are in forecasting future cash flows (Musa, Idris & Kwakipi, 2019). There are seven (7) qualitative characteristics quality issues in financial accounting viewed as desirable for the fulfilment of their fundamental objective of communicating decision-useful measurements include relevance, understandability, reliability, completeness, objectivity, comparability, and timeliness (Honu & Gajevszky, 2015). In order to have high quality financial reporting the accounting standards must first be of high quality. Khaled, (2014) stated that financial reports should be able to show pertinent, dependable, comparable and comprehensible information. This variable was measured with discretionary accruals and user perspective.

Discretionary accruals or Corporate accruals is defined as the difference between financial statements accruals (FSA) and estimated accruals (EA). Financial statements accruals is defined in this study as the difference between net income (NI) and cash flow from operating activities (CFO) divided by lag total assets (LTA). Estimated accruals is measured using a regression model (Modified Kothari-Jones Model, 2005); this model is used here in order to adjust for the performance of the organizations in the model. We then focus on the difference between the two accruals. The greater the difference, the lower the quality, while a smaller difference indicates a higher quality of corporate financial reports. Users perspective reflecting the view of the users towards the impact of IFRS on the quality of financial reports before and after adoption of the standard.

International Financial Reporting Standard

[IFRS] can be viewed as a high quality accounting standard when compared to most local standards, and that could assist in fostering increased comparability of financial statements by investors (Odia & Ogiedu 2013). Kool (2011) affirms that, the purpose of introducing a new accounting standard such as IFRS is to improve the transparency and comparability of firms and since the capital market is primarily defined by investors and creditors, this increasing transparency and comparability (as a result of change in accounting standards) will have a direct impact on the capital market reflected by a change in cost of capital and market liquidity




**Conceptual Framework**

The research framework designed above show a graphical representation of the diagnostic pattern of the problem under study. In this diagram, we show two proxies of financial statement analysis. The discretionary accruals of financial reports is shown under proxy 1, and users' perception about financial . is shown under proxy 2.We then evaluate the results of these two proxies to assess the quality of corporate financial reporting. Lower levels of accruals shows higher level of financial report and users' negative perceptions are the result of lower quality financial reports, while users' positive impressions are the result of higher quality financial reports.

**Theoretical Review**

**Agency Theory:** The theory was propounded by Stephen Ross and Barry Mitnick in 1973 (Mitnick, 1975), who discussed how to cure the challenges faced by the owners (principal) and management (agent) as agency costs. The assumption of agency theory is that the agent is self-interested and opportunistic and will therefore not act in the best interest of the principal leading to principal-agent conflicts when control of a company is separate from its owner. Top management of the firm who are much sought to have a conflict of interest with the shareholders in making operational decisions. Shareholders delegate to the directors the responsibilities of overseeing the top management of the firm but one of prior studies led by Perrow (1986) criticise the theory by saying that positive agency theory focused on agents as a problem of an agency relationship, leaving out principals who could be opportunistic and self-centered as well study.

### *Stakeholder Theory:*

The theory was propounded by Edward Freeman in 1984. According to Harrison *et al.* (2015) defines a stakeholder as "any group or individual who can affect or is affected by the achievement of the firm's objectives. The assumption of stakeholder theory was explained by some scholars such as Harrison *et al.* (2015) assumed that, when management of a firm provide more resources in fulfilling the demands and needs of stakeholders, the stakeholder would simply retain their willful participation to the benefit of the firm. Stakeholder theory is useful when developing and maintaining relationships with stakeholders because it discloses the information to ensure a good relationship between managers and stakeholders is maintained. This reduces agency problems, but many supporters do not feel that the information should be disclosed. Under stakeholder theory, management has more significant resources that allow them to identify and remedy internal problems (Feils *et al.*, 2018).

### *Stewardship Theory:*

The theory was propounded by Donaldson and Davis (1991 & 1993). Stewardship theory is used to define the situation in which the interest of managers aligns with the objective of the principal to achieve a common goal of maximizing wealth (Nwonyuku, 2016). In stewardship theory, financial reporting is a means for directors who are stewards of shareholders to communicate on the deployment of resources entrusted to them and their role in shareholder value maximization (Davis *et al.*, 1991). The assumptions of stewardship theory is that, steward's behaviour is aligned with the principal's objectives, steward behaves in a pro-social manner, the steward has a high level of identification with the organisation, and the steward is intrinsically motivated by high order needs fulfilment (Davis *et al.*, 1997). This study premised on the stewardship theory which postulates that a steward protects and maximizes shareholder wealth through the quality financial reports because by doing so, the steward's utility functions are maximized. The steward derives greater utility from satisfying organisational goals than through self-serving behavior.

**Gap in Literature**

Looking at how important the quoted companies to any economy, and the magnitude of the products and services they deliver to a given economy, it is important that the effect of IFRS characteristics on quality financial reporting is studied using descriptive, t-test and regression analysis in the form of minimum value, maximum value, mean and standard deviation to value the firms (DACC and users perception). Seeing that the previous research on this topic either used other variables like ROA, ROE, ROI, EPS, TOBIN's Q or covers an earlier period. Hence, there is the need of more research with annual reports (2009-2014) which covers 6years period and users perspective showing current view of users about the effect of IFRS on quality of financial reporting which this study intends to fill in the aforementioned gap.

## III. METHODOLOGY

This study adopted both secondary and primary quantitative data using ex-post facto and cross descriptive survey type respectively. Ex-post facto design was employed purposely, to extract already existing data from the selected corporate companies financial annual reports to deduce the value of discretionary accruals from 5 selected companies from 2009 to 2014 while questionnaire was design through goggle form to capture users view towards annual financial statement and to gain their perspective towards the effect of IFRS on the quality of the selected financial reports.

The population of this study consisted of all 131 listed quoted companies in the Nigerian Stock Exchange (NSE) as at January 2022 which were classified into 11 sectors namely; Agriculture (5), Conglomerates (5), Construction/Real Estate (8), Consumer Goods (21), Financial Services (25), Healthcare (7), Information & Communications Technology (ICT) (9), Industrial Goods (13), Natural Resource (4), Oil & Gas (10), and services (24) (NSE, 2021). However, the scope of the study limited the focus to consumer goods sectors where five were randomly selected. The studied companies are listed (Table 3.1)

**Table 3.1: Studied companies with years of incorporation**

| Companies | Years of incorporation |
|---|---|
| 1. Unilevel | 1923 |
| 2. Enamel | 1960 |
| 3. Guiness | 1950 |
| 4. Breweries | 1971 |
| 5. Dangote sugar | 2005 |

Source: NSE , 2022

This study secondary data was obtained from the audited annual financial reports of five (5) quoted companies (unilevel,Enamel, Guinness, Nigerian Breweries, and Dangote sugar PLC) these companies were purposively selected from the population of quoted companies listed on the Nigerian stock exchange for a period of seven (6) years (2009-2014). The choice for those companies at the chosen time periods was informed by data availability within the selected time understudy.

The model used in this study was based on the functional relationship between the dependent and the independent variables thus: Y=f(X). The dependent variable here was the quality of financial reporting of the selected quoted companies, measured by discretionary accruals and users perception while the independent variable was IFRS adoption which takes the value of zero (0) in the period prior to the adoption and one (1) in the periods of adoption.

Accruals is measured using a regression model (Modified Kothari-Jones Model, 2005); this model is used here in order to adjust for the performance of the organizations in the model. We then focus on the difference between the two accruals. The greater the difference, the lower the quality, while a smaller difference indicates a higher quality of corporate financial reports.

$$\frac{DA_{it}}{Ai_{t-1}} = \frac{TAC_{it}}{Ai_{t-1}} - \frac{NDA_{it}}{Ai_{t-1}}$$

However, users perception, extracted from primary source, questionnaire. This was sent to 50 users of financial report using simple random sampling techniques to select ten users from each five companies, making a total of 50 users. The questionnaire comprises of two sections; [i] personal information [ii] effect of IFRS on quality of financial reporting standard using users perception, measured with four point likert attitudinal scale which was later transform to two for easy interpretation [where strongly agree and agreed was combined to make AGREE =1 while strongly disagree and disagreed were combine to make DISAGREE=0].

The questionnaire was sent via mail to selected 50 users from 5 selected quoted companies after getting there contact from companies website.

**Y=quality of financial reports**
**X =IFRS**
**Y1=discretionary accruals [DACC]**
**Y2=User perception [PERCEPT]**
MODEL 1
DACC = $f$(IFRS); DACC = $\alpha_0 + \beta_0$IFRS+ $\mu_1$

The data analysis was done with the Microsoft Excel (MS Excel 2010), GP Power and Statistical Package for Social Sciences (SPSS v25). Descriptive statistics, paired sample ttest analysis and regression analysis were carried out to get the desired results of research objectives.

## IV. RESULTS AND DISCUSSION

**Table 1:Descriptive Statistics for selected companies accruals**

| | N | Min | Max | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Discretionary accruals before IFRS | 5 | 6.62 | 23.2 | 10.9 | 7.02 |
| Discretionary accruals after IFRS | 5 | 7.32 | 17.8 | 10.2 | 4.38 |

From the reported descriptive statistics, discretionary accruals shows a range between 6.62 to 17.23 before adoption and 7.32 to17.80 after adoption. This indicates a wide before and a slim gap after adoption of IFRS between the minimum and maximum values of discretionary accruals. This result further revealed an average value of 10.9 for discretionary accruals before the adoption of IFRS which is less than as 50% within the selected five companies which was reduced to 10.29 after the adoption of IFRS which was lesser than 50%. This implies that the use of discretionary accruals naturally affects the quality of financial reporting after IFRS adoption compare to before its adoption. However, the Higher discretionary accruals indicated lower quality of financial report and vice-versa. This shows that IFRS adoption brought an increase to the quality of financial report compare to past years.

Research question one

*What is the mean differences on quality of financial reporting before and after IFRS adoption using discretionary accruals within the selected companies between 2009-2014*

**Table 3: Comparison of discretionary mean before and after the adoption of IFRS on selected quoted companies**

| | **Pre adoption of IFRS [2009-2011]** | **Post adoption of IFRS [2010-2014]** |
|---|---|---|
| Mean ±SD | 10.9±7.02 | 10.29±4.38 |
| Minimum | 6.62 | 7.32 |
| Mean differences | 0.61 | |
| Maximum | 23.20 | 17.20 |

Table 3 revealed a mean value of 10.9±7.02 before IFRS adoption and 10.29±4.38 after IFRS adoption, showing a positive influence of International financial reporting standard on the quality of financial reporting. This was supported with Botsona [2004] who said the higher discretionary accruals the lower the quality of financial report and vice-versa. This showed that after the adoption of IFRS between 2010-2014 there was a reduction in the companies discretionary accruals values which reflected higher quality of financial reporting compare to past years before adoption.

Research question two

*What are the users perception towards the contribution of IFRS on quality of financial statement*

**Table 4: Users perception towards the effect of IFRS on quality of financial statement**
**A=Agree; D=Disagree**

| Statement | A | D | Mean ±SD |
|---|---|---|---|
| Adoption of IFRS aids the quality of financial reporting standard in my company | 45 {93.8%} | 3 {6.3%} | 0.33 ±0.2 |
| Adoption of IFRS facilitates the timeliness of my company reports compare to past years | 43 {89.6%} | 5 {10.4% } | 0.89 ±0.30 |
| IFRS encourages easier comparison of financial statements of my company from past periods | 44 {91.7%} | 4 {8.3%} | 0.91 ±0.27 |
| IFRS strengthens the reliability features of my company financial information for proper business decisions than past periods | 47 {97.9%} | 1 {2.1%} | 0.97 ±0.14 |
| Adoption of IFRS increases the efficiency of my company financial analysis through easier auditing standard | 42 {87.5%} | 6 {12.5% } | 0.87 ±0.33 |
| Adoption of IFRS promotes both internal and external financial reporting quality in my company | 47 {97.9%} | 1 {2.1%} | 0.97 ±0.14 |
| Adoption of IFRS presents accurate financial information to users in making proper decision for the companies | 44 {91.7%} | 4 {8.3%} | 0.91 ±0.27 |
| The company regrets of adopting IFRS as a standard | 3 {6.3%} | 45 {93.8% } | 0.93 ±0.24 |

Table 4 revealed users perception towards the effect of IFRS on quality of financial report. The result showed that majority of the users agreed that adoption of IFRS aids quality of financial reporting standard {93.8%}, facilitates timeliness {89.6%}, encourages easy comparison of financial statements from the past periods {91.7%}, strengthens reliable financial information of a company for proper business decisions {97.9%}, and increases efficiency of the company {87.5%} while most of the users disagreed that their company regretted from adopting IFRS as a standard {93.8%}
Research question three:
*What is the level of users perception towards the contribution of IFRS on the quality of financial reports*

**Table 5; Level of users perception towards the effect of IFRS adoption on the quality of financial report**

| **Level of users perception** | **Frequency** | **Percentage (%)** |
|---|---|---|
| Positive perception (4 and above) | 45 | 93.7% |
| Negative perception [less than 4] | 3 | 6.3% |
| Total | 48 | 100% |
| Mean ± Standard deviation; **7.4 ±1.67; max=8; min=1** | | |

Level of users perception was measured on 8 point rating scale from table 5. The result showed that majority of the users had positive perception 93.7% compare to few with negative perception 6.3% . This shows that majority of the users of financial reports had positive perception towards the effect of IFRS adoption on quality of financial report.

**Inferential statistics**
Hypothesis one:
Ho1= There is no significance differences in quality of financial reporting before and after adoption of IFRS at selected quoted companies using discretionary accruals

**Table 6: t-test analysis showing the means difference between pre and post adoption of IFRS on quality of financial reporting of selected quoted companies**

| | | N | Mean ±SD | Mean dif. | t. {df} | p |
|---|---|---|---|---|---|---|
| DACC | Pre- adoption of IFRS | 5 | 10.93 ±7.02 | 0.64 | .167 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | [2009-2011] | | | | {4} | 0.875 |
| | Post –adoption of IFRS [2012-2014] | 5 | 10.29 ±4.38 | | | |

The result from table 6 shows that the p-Value is 0.875 which is greater than 0.05 which shows insignificant between pre and post adoption of IFRS. Though , there exist a mean difference of 0.64 before and after adoption of IFRS but the differences was not significant on the quality of financial report for the period understudy. Therefore, the null hypothesis hereby accepted by this finding

**Discussion on model one**

This result revealed an insignificant mean differences before and after IFRS adoption which implies an improvement on the quality of financial report but not significant before and after the adoption of IFRS from the selected quoted companies. This result is corroborated with a study led by Irvine and Lucas (2016) who found that different scholars and practitioners have confirmed IFRS to be capable of bringing about improvement to the quality of financial reportage (Irvine & Lucas, 2016)

Hypothesis two

H0: there is no significant influence of IFRS adoption on quality of financial reporting using users perception

**Table 7: Regression Analysis for Model 2**

| Variable | Coeff | Std Error | t | P-value |
|---|---|---|---|---|
| Quality of financial reporting [Perception] | 0.743 | 0.746 | 7.537 | 0.000 |
| Cons | | | 1.184 | 0.243 |
| F statistics | 56.808 | | | |
| Prob(f-statistics) | 0.000 | | | |
| $R^2$ | 0.553 | | | |

**Dependent Variable: perception; p<0.05; Source: Researcher's Study, 2022**

**Interpretation**

Hypothesis two tested the influence of international financial reporting standard [IFRS] on quality of financial reporting using users perception of the quoted selected companies on Nigerian stock exchange. The result of the analysis on Table 7 shows a positive effect of IFRS on quality of financial reporting. This is indicated by the sign coefficient that $\beta_1 = 0.743<0$. The positive coefficient of this model was significant. This is determined from the t-statistics result (t= 7.53) which is greater than the t-tabulated (t=1.96). This is further confirmed by the probability values of f-statistics (p-value=0.000) which is less than the 5% level of significance. We therefore infer from the result of this model that the influence of IFRS adoption on quality of financial report using users perception is positive and significant. The $\mathbf{R^2}$ of 0.553 explains that only 55.3% of the total variation is explained by the independent variable while the balance of 44.7% is explained by factors outside this study. The statistical significance of this model indicates that the study will reject the Null Hypothesis and accept the alternate.

**Discussion of model two**

The result from this finding shows a significant positive effect of IFRS adoption on quality of financial reporting. This implied that majority of the users financial reports had confirmed the effect IFRS on quality of financial report. This result correlates with a study conducted by knachel (2016) who said the new accounting standard for reporting and revenue recognition will likely affect every aspect of a business that relates to revenue, from a company's financial results to compliance with debt covenants to executive compensation.

## V. CONCLUSION AND RECOMMENDATION

This finding revealed an insignificant differences which call for more implementation of the latest policy to produce a reduce discretionary accruals and increase quality financial reports. Hence, to enhance this more training must be given to the management of the selected quoted companies.

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