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## EFFECT OF PRE AND POST IFRS REPORTING SYSTEM IN MODERN BANKING SECTOR IN NIGERIA

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### ABSTRACT

The research is to examine the effects of adopting the international financial reporting system (IFRS) on modern banking industries and monetary firms, particularly through a study of the South Eastern region of the country. The literature shows that there is a need to understand the effects of adopting the international financial reporting system (IFRS), in the study area. The study applied percentage analysis, descriptive statistics, chi-square analysis, and correlation analysis to study the data analysis in the system. The result shows that the response hypothesis disagrees with the null hypothesis and rejects the null hypothesis. However, the alternate hypothesis will be accepted, which states that there is a significant difference between the introduction of IFRS, which has increased the reliability and transparency of the financial statements of banks. The result concludes that there is a need to adopt IFRS in modern banking industries and banking sectors in the south eastern region. The findings of this study show that there is a need for the adoption of an international financial reporting system (IFRS) in the modern banking system to enhance accountability in the banking sector. The study recommends the adoption of IFRS for other accounting firms and organizations to improve accountability and accuracy.

**Keywords:** Accounting; Finance; Industry; IFRS; GAAP; Banking; Reporting System.

## INTRODUCTION

Because International Financial Reporting System (IFRS) is becoming more widely accepted in Nigeria, the United States, and other parts of the world, now is the best moment to learn about the impact of the international financial reporting system (IFRS). The majority of professional accountants will be impacted in some way. When a critical mass of companies in a given industry starts reporting their financial statements using IFRS, issuers will be under pressure to follow suit, allowing investors to compare financial results more easily. However, this problem will have ramifications that go far beyond financial reporting.

It will have an impact on practically every element of a company's operations, from information technology systems to tax reporting requirements to how stock-based remuneration is tracked (Yusuf, 2006). IFRS includes the principles outlined, which serve as a foundation for establishing accounting standards and a point of reference for preparing financial data in the absence of explicit advice. Nigerian Generally Accepted Accounting Principles (GAAP), on the other hand, has an accounting policy standard that includes guidance on the preparation of accounting policies as well as the fundamental concepts to be used in doing so. Entity, going concern, periodicity, realization, matching, consistency, and historical cost are some of the fundamental concepts. It also includes policies for determining how to apply the fundamental concepts; substance over form, objectivity, fairness, materiality, prudence, and historical cost or fair value is just a few of them. In certain industries, however, IFRS allows for the revaluation of intangible assets, property, plant and equipment (PPE), investment property, and inventories. Certain types of financial instruments and biological assets must also be measured at fair value, according to IFRS. Nigerian GAAP is similar to IFRS in many ways, but there are fewer deviations from historical cost. Instead of profit or loss, revaluation gains or losses on investment property are taken to equity. Financial instruments are typically carried at cost or amortized cost, with provisions for value loss. Fairness in presentation takes precedence.

### **Objectives of the Study**

The main objective of this study is to determine the extent to which the introduction and adoption of international financial reporting standards (IFRS) has significantly increase the reliability of financial statement reporting of banking industries.

The specific objective includes:

- 1) To ascertain the level the introduction and adoption of international financial reporting standards (IFRS) has increased the reliability of the financial statement of banks.

### **Research Questions**

The following questions guided the study:

- 1) To ascertain the level the introduction and adoption of of international financial reporting standards (IFRS) has significantly increase the reliability of the financial statement reporting of banking industries.

### **Research Hypothesis**

The following hypothesis guided the study:

- H<sub>01</sub>: The level the introduction and adoption of international financial reporting standards (IFRS) has not significantly increase the reliability of the financial statement reporting of banking industries.

## **LITERATURE REVIEW**

### **Concept of International Financial Reporting Standards (IFRS)**

International Financial Reporting Standards (IFRS) are standards for reporting financial results that apply to all profit-oriented entities' general purpose financial statements and other financial reporting. The term IFRS comprises IFRS issued by IASB; IAS issued by IASC; and interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB (Hoyle et al., 2011; Baker et al., 2009; Larsen & Prizmic, 2008). Alistair (2010) cited in Ojeka & Mukoro, (2011) defined International Financial Reporting Standards (IFRS) as a series of accounting pronouncements published by the International Accounting Standards Board to assist preparers of monetary statements, throughout the globe, produce and present prime quality, transparent and comparable financial information. Since 2001 International Financial Reporting Standards (IFRS) are being developed and approved by the International Accounting Standards Board (IASB). The IASB may be a stand-alone, privately funded accounting principle setting body established to develop global standards for financial reporting. It's the successor to the International Accounting Standards Committee (IASC), which was created in 1973 to develop International Accounting Standards (IAS). Based in London the IASB assumed principle setting responsibilities from the IASC in 2001 (Hoyle, et al., 2009, Baker. et al., 2009 and Larsen, 2008). One in every of the essential features of IFRS is that it's a principle based standard and seeks to avoid a rule based mentality (Hlacuc et. al., 2009). Instead, the appliance of IFRS requires exercise of judgment by the preparer and also the auditor in applying principles of accounting on the idea of the economic substance of transactions. The IASB framework establishes a general requirement to account for transactions in accordance with their substance, instead of only their legal form. This principle comes through very vividly in many IFRS. The ISAB intends to not permit choices in accounting treatment, as its objective is to want like transactions and events to be accounted for and reported in a very like way, and in contrast to transactions and events to be accounted for differently. In keeping with IASB (2009), the IASB achieves its objectives primarily by developing and publishing IFRS and promoting the employment of these standards normally purpose financial statements and other financial reporting. Other financial reporting comprises information provide outside financial statements that assists within the interpretation of an entire set of economic statements or improves users" ability to create efficient economic decisions. The term, financial reporting" encompasses general purpose financial statements plus other financial reporting. IFRS commenced recognition, measurement, presentation and disclosure requirements addressing transactions and other events and conditions that are important generally purpose financial statements. They will also kick off such requirements for transactions, events and conditions that arise mainly in specific industries. IFRS are supported the Framework, which addresses the concepts underlying the knowledge presented normally purpose financial statements. The target of the Framework is to facilitate the consistent and logical formulation of IFRS. It also provides a basis for the utilization of judgment in resolving accounting issues (IASB, 2009).

### **METHODOLOGY**

For the purpose of this study, a descriptive type of survey method will be used, which is through questionnaire, personal interview and observation. The population of the study will

comprise 1300 senior accountants, internal auditors and other staff, in Nigerian public organizations specifically banking sectors, and with a sampling size of 306. The study will be carried out in some selected banks in Awka, Nnewi and Onitsha in Anambra State, Nigeria. The instrument to be used for data collection will be questionnaire constructed by the researcher. For the hypotheses, when the significant probability will be less than 0.05 levels, of Significance, a null hypothesis will be accepted as significant. On the other, when the significant probability level will be greater than 0.05 level of significant, the null hypothesis will be rejected as not significant. The sample size for this study will be determined using Taro Yamane formula.

$$n = \frac{N}{1+N(e)^2}$$

When n = sample size

N = population

e<sup>2</sup> = Margin of error (assumed 5%)

1 = unity or constant

$$\text{Therefore} = \frac{1300}{1+1300(0.05)^2}$$

$$\frac{1300}{1+(1300 \times 0.0025)} = \frac{1300}{1+3.25}$$

$$\frac{1300}{4.25} = 306$$

The sample size of 306 will be adopted for this study.

The face and content validation of the instrument was done by the researcher's supervisor. A copy of research questionnaire was sent to the supervisor and the necessary corrections were done. The researcher will use both primary and secondary data which are gotten through personal observations, journals and periodicals, textbooks. The descriptive method of data analysis will be used to analyze data that will be generated for the research. This will be supported by tables showing questions, responses and percentages of Yes or No.

$$\text{Percentage} = \frac{\text{Number of Response}}{\text{Total Number of Respondents}} \times \frac{100}{1}$$

The data generated for this study will be analyzed, using Pearson correlation statistical tool, and with other appropriate statistical techniques. The techniques included frequency and percentages. The hypotheses postulated will be put in null (Ho). All analysis will be done using Statistical Package for Social Science (SPSS) version 21 and Minitab software version 16.1. The hypotheses will be tested as follows.

Hypothesis: Pearson Correlation Coefficient will be used to validate all hypotheses. It is the mostly widely used method to measure the extent of relationship between two or more variables and used for both interval and ratio scales. The Pearson correlation coefficient will

therefore be used to assess the respondent's opinion on the effect of adoption of IFRS on financial reporting of banks and to evaluate the significance differences of their responses to the data. While Kendall tau ranks correlation coefficient and spearman correlation coefficient will be used to validate the Pearson correlation analysis. The formula for Pearson correlation coefficient is given below as:

$$r = \frac{n \sum x y - \sum x \sum y}{\sqrt{[(n \sum x^2 - (\sum x)^2)(n \sum y^2 - (\sum y)^2)]}}$$

When  $y < + 0.5$ , a weak positive relationship exist  
 When  $y \geq + 0.5$ , a strong positive relationship exist  
 When  $y < - 0.5$ , a strong negative relationship exist  
 When  $y \leq - 0.5$ , a weak negative relationship exist  
 When  $y = + 1$ , a perfect positive relationship exist  
 When  $y = - 1$ , a perfect negative relationship exist  
 When  $y = 0$ , no relationship exist.

Student's t- test is a parametric test- statistic used to determine if two sets of data are significantly different from each other, and is most commonly applied when the tests statistic would follow a normal distribution if the value of a scaling term in the test statistics were known. When the scaling term is unknown and replaced by an estimate based on the data, the test statistic (under certain conditions) follows a student's t distribution (Press et al., 1992).

The formula is given below as:

$$t = \frac{M_1 - M_2}{\sqrt{\frac{N_1 S_1^2 + N_2 S_2^2}{N_1 + N_2}}}$$

Where:  $M_1$  = Mean of the first group;  $M_2$  = Mean of the second group

$N_1$  = Number in the first group;  $N_2$  = Number in the second group;  $S_1$  = Standard deviation of the first group;  $S_2$  = Standard deviation of the second group

Decision Rule: If the calculated correlations, t-tests and goodness of fit tests show significant values, the null hypothesis is rejected, given room for the acceptability of the alternative hypothesis. But if the calculated results show a non significant value, the null hypothesis will be accepted, while the alternative hypothesis will be rejected.

Hypothesis:

Ho: The introduction of IFRS has not increased the reliability, and transparency of the financial statement of banks.

**Table 1**  
*Responses to Research Question*

S/N	Questionnaire Items	Responses	No of Responses	Percentage%
1	The adoption of IFRS has brought about transparent financial statement?	Yes	236	84.29
		No	44	15.71
		Total	280	100
2	Did you encounter any difficulty at the first time IFRS was adoption?	Yes	210	75
		No	70	25
		Total	280	100
3	The adoption of IFRS has brought about high quality financial statement?	Yes	232	82.86
		No	48	17.14
		Total	280	100
4	The adoption of IFRS has brought about comparable financial statement?	Yes	221	78.93
		No	59	21.07
		Total	280	100

The table above shows that 84.29% of 100 respondents agreed that they feel good when IFRS was introduced, while 15.71% of 100 disagreed. The table shows that any 210 or 75% affirmed that they did not encounter any difficulty at the first time IFRS was adopted in the organization while 70 or 25% objected to that. However, 232 or 82.86% respondent agreed that they went through formal training when IFRS was introduced in their organization while 48 or 17.14% disagree with that. Furthermore, 221 or 78.93% respondent agreed that they have attended seminar on IFRS in their organization while 59 or 21.07% disagree.

**Test of Hypothesis:**

The researcher formulates a hypothesis and this have to be tested in order to verify the validity of the working hypothesis. The descriptive statistics, summary statistics, t-test, normal probability test and goodness of fit test were used for the analysis. Note also that C13 is the data for hypothesis.

**Table 2**  
*Descriptive Statistics of Hypothesis*

Variable	Sum	Sum of Squares	Minimum	Mean	Median	SE Mean	Maximum	Range	StDev	Variance
C13	1120.0	215082.0	44.0	140.0	140.0	32.3	236.0	192.0	91.2	8326.0

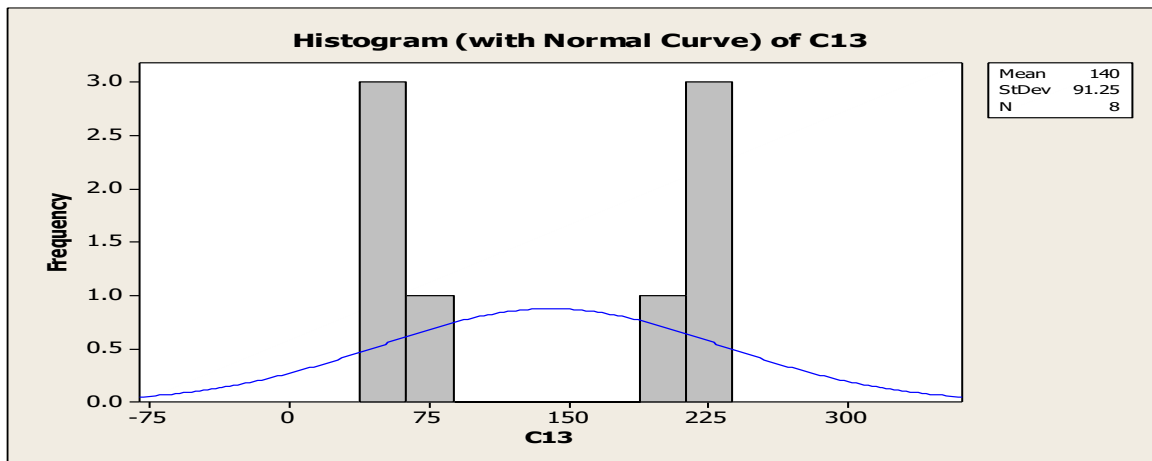


Figure 1: Histogram (with Normal Curve) of hypothesis one data

The descriptive statistics show the statistical summary of the hypothesis one, it describes the details of the hypothesis statistically. It also shows the histogram chart of the data with its normality curve.

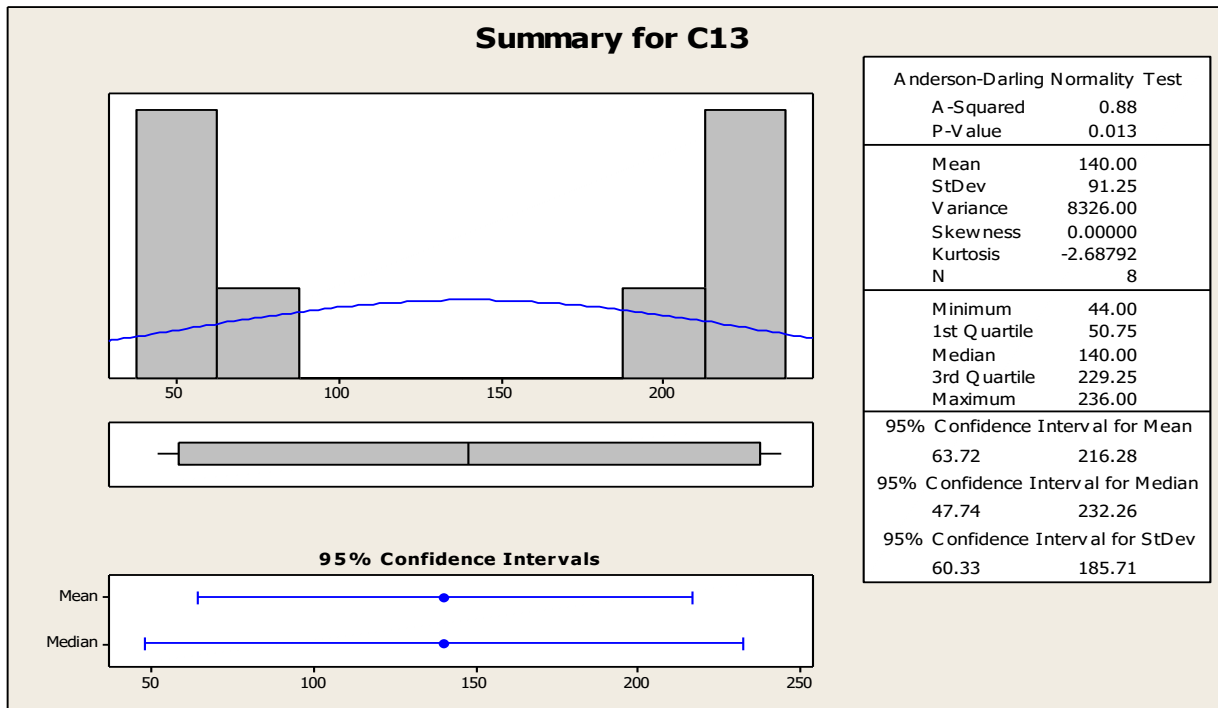


Figure 2: Graphical Summary for hypothesis one data

### Decision Rule

From the graphical summary analysis, it was observed that the test of the hypothesis one is significant. The significant difference of the result is 0.013. This shows that the null ( $H_0$ ) hypotheses will be rejected and the alternative ( $H_1$ ) hypothesis will be accepted. Hence there is significant difference between how the introduction of IFRS has increased the reliability, and transparency of the financial statement of banks.

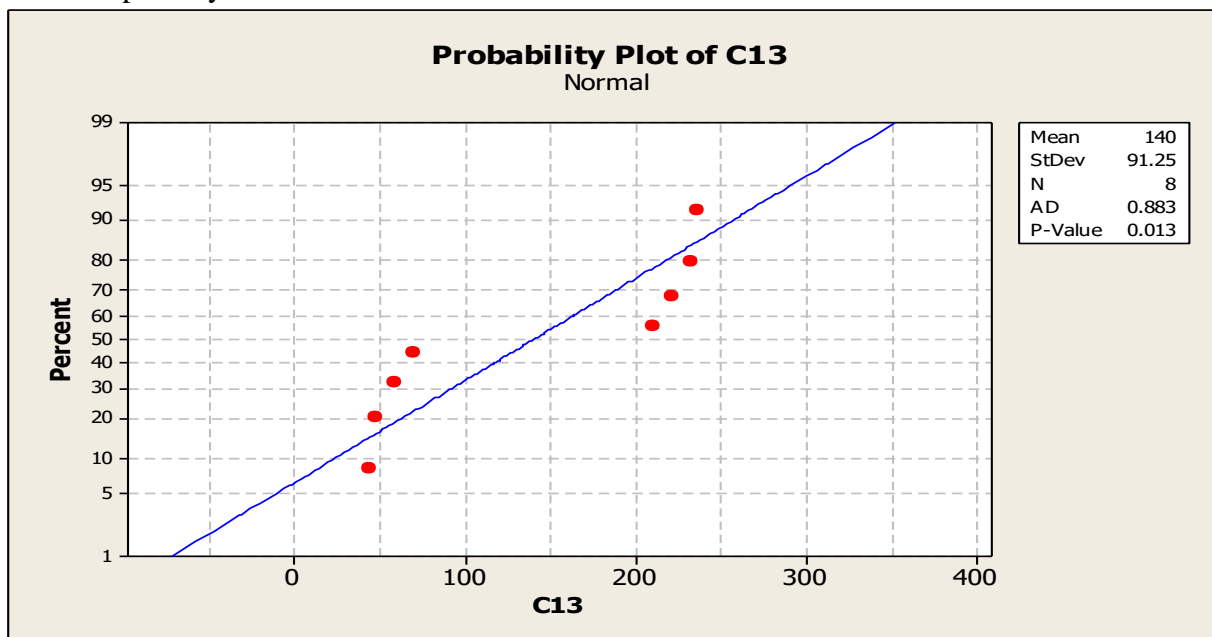


Figure 3: Probability Plot of hypothesis one data

**Decision Rule**

Since the response of the hypothesis one disagrees with the null hypothesis, with the significant difference of 0.013 which is less than 0.05 level of significant. We reject the null hypothesis which states that there is no significant difference between the introduction of IFRS has not increased the reliability and transparency of the financial statement of banks and accept the alternate hypothesis which states that there is significant difference between the introduction of IFRS, which has increased the reliability and transparency of the financial statement of banks.

**Goodness-of-Fit Test for Poisson distribution**

Table 3

*Goodness of Fit Test for Poisson mean Distribution*

Data	Observed	Poisson Probability	Expected	Contribution to Chi-Sq	N	N*	DF	Chi-Sq	P-Value
≤210	5	1.00000	8.00000	1	8	0	1	6822781224	0.000
211-220	0	0.00000	0.00000	0					
≥221	3	0.00000	0.00000	6822781222					

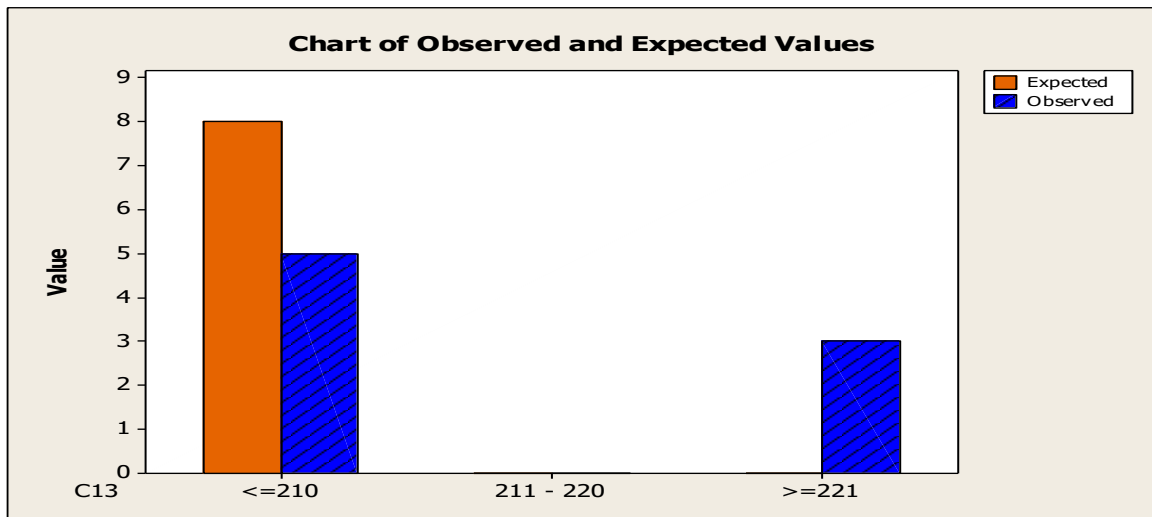


Figure 4: Chart of Observed and Expected Values

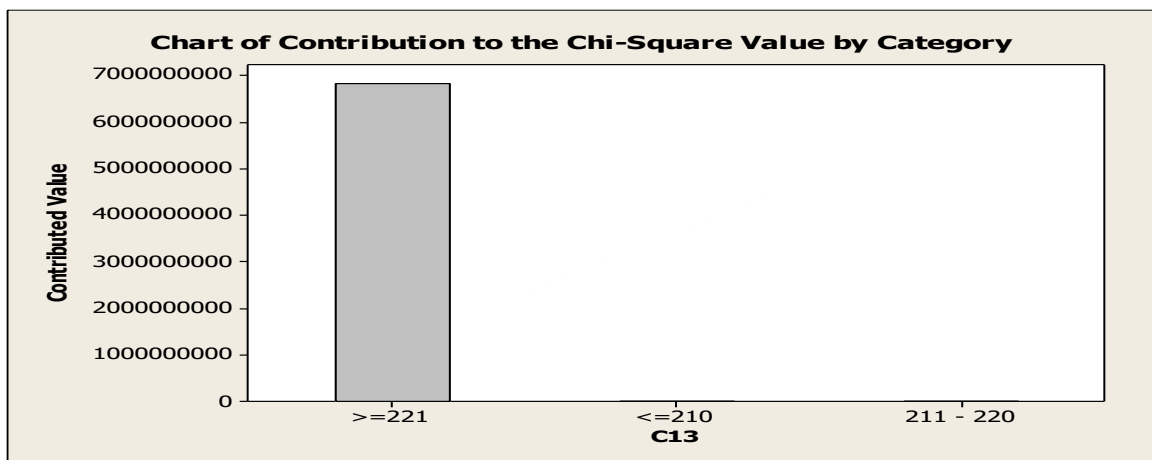


Figure 5: Chart of Contribution to the Chi-Square Value by Category



### **Decision Rule**

Since the response hypothesis one disagrees with the null hypothesis, with the significant difference of 0.000 which is less than 0.05 level of significant. Therefore, we reject the null hypothesis which states that there is no significant difference between the introduction of IFRS has not increased the reliability and transparency of the financial statement of banks and accept the alternate hypothesis which states that there is significant difference between the introduction of IFRS, which has increased the reliability and transparency of the financial statement of banks.

### **Summary of Findings**

This study examined the adoption of International Financial Reporting Standard (IFRS), its benefits, the challenges of adopting International Financial Reporting Standard, and the factors that could influence its adoption in south eastern region with a particular reference with the banking industries or banking sectors in Nigeria which adopted this standard. More importantly, the questions concerning the impacts of IFRS were subtly considered in this study. Adopting IFRS is a very big move for the firms, accounting regulatory body and the governments in Nigeria because the benefits, exceeds that of the demerits. The research used primary and secondary data to highlight how south eastern Nigerian firms can reap benefits from the adoption of the standards which are now used globally. The understanding of IFRS which is important in the business world should also be introduced to the students of the tertiary institutions. From the data collected on the subject matter of the research work studied, observations have been made on the response of the respondents as regards to the structural questionnaire presented to them. Based on the findings of the study, many respondents were of the view that there is significant difference between the responses that the introduction and adoption of international financial reporting system (IFRS) has increased the reliability and transparency of the financial statement in banking industries. However, from the findings, many respondents were also of the view that the introduction and adoption of IFRS in accounting areas has improved the standard of the banking sector earnings per share in south eastern region of the country.

### **CONCLUSION**

The study is of essence and significance to financial institutions. It was finds out that it's necessary for the introduction and adoption of the international financial reporting standards (IFRS) in banking sectors. The findings of the study revealed that the introduction and adoption of international financial reporting standards (IFRS) enhances financial statement in South Eastern banks with respect to the increase in the profit of financial statements. The study therefore concludes that the introduction and adoption of the international financial reporting standards (IFRS) is of significance agreement in enhancing and increasing the profitability of financial statement of the banking industries in South Eastern region.

### **Recommendations**

- 1) The syllabus in respect of accounting courses in higher educational institutions should incorporate the provisions of the standards.
- 2) Emphasis on training of practitioners on the field should be extended to students as some of them may not be able to meet the training fees.
- 3) Therefore, it is necessary that lecturers are well equipped to train the students.

- 4) Laws that are inconsistent with the IFRS have to be amended. Items like statement of financial position and valued added statements which are incorporated in the Companies and Allied Matters.
- 5) Act Cap C20, Laws of the Federation of Nigeria, 2004 should be amended.

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