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Effect of International Financial Reporting Standard Adoption on Financial Performance of Listed Money Depositing Banks in Nigeria

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Abstract
The motivation of this study is derived from prior studies which relate to the investigation of IFRS impact on the financial performance of money depositing banks listed on NSE. It examines the effect of the adoption of the International Financial Reporting Standards on the financial performance of money depositing banks. A Wilcoxon model is explored using pooled data that fitted with the variables. The results show that IFRS adoption has positively impacted some variables in the financial statement of money depositing banks, for example, profitability and growth potential. Based on the evidence in support of modernization theory, government should encourage and support money depositing banks in the adoption and application of IFRS in order to improve their performance. Future research may also identify the specific provisions of IFRS that are responsible for the positive impact on financial performance measures. Such detailed knowledge is useful to standard setters who may wish to improve existing accounting standards. Further research should extend the sample size and the time horizon of the study in order to add to the findings reported here.
Keywords: IFRS, Financial Performance, Money Deposit Banks, Nigerian Stock Exchange.

1. Introduction

The expansion of international trade and accessibility to foreign stock and debt has given impetus to the adoption of a global set of standards. It is believed that a common set of practices will provide a level playing field for all companies worldwide (Murphy, 2010). In the case of Nigeria, National, foreign, and local financial experts have called for the adoption of the globally accepted standard; the International Financial Reporting Standard (IFRS). The process of adoption of IFRS poses difficulties which can be overcome by concerted efforts in training and information dissemination about the new standards.

Literature reveals that the level of reliable and adequate information by listed companies in developing countries lags behind that in developed ones and government regulatory forces are less effective in driving the enforcement of existing accounting standards (Barth, Landsman and Land, 2012).

In view of the strategic importance of the banking sector to economic development in Nigeria, and the fact that banking sector was the first among the listed public entities in Nigeria to fully adopt IFRS, a study on the effect of IFRS adoption on financial performance of money depositing banks in Nigeria becomes imperative.

However, the observations from the previous studies necessitated the need for the study in order to examine the effect of IFRS adoption on financial performance in Nigeria banks. Many studies have been done on adoption of IAS/IFRS and its implication on financial performance in most of the developed countries. Also studies have been carried out on the effect of IFRS adoption on financial performance of banks in developing countries with conflicting results.

However, studies on IFRS and financial performance in the developing nations fail to capture measures of bank performance, as the studies adopted survey design and percentage analysis. However this study uses secondary data, causal-comparative design, and non-parametric inferential statistics. Also we used relevant performance indicators (liquidity, leverage, performance growth and earnings per share) to measure bank performance.

This is another modest contribution to bridge the research gap on effect of IFRS adoption on financial performance of money depositing banks listed on NSE using more recent data. This is to narrow this gap and as well contribute to the existing literature.

The main objective of this study is to ascertain the effect of IFRS adoption on financial performance of selected banks in Nigeria using pre and post performance indices. The specific objectives are to:

1. Ascertain the effect of pre and post IFRS adoption on liquidity of selected banks in Nigeria.
2. Determine the extent to which pre and post IFRS adoption affects performance growth of selected banks in Nigeria.
3. Ascertain the effect of pre and post IFRS adoption on the Return on Asset of selected banks in Nigeria.
4. Determine whether pre and post IFRS adoption affects earning per share of selected banks in Nigeria.

To achieve the purpose of this study, the following null hypotheses were formulated:

1. IFRS adoption does not have a significant effect on liquidity of selected banks in Nigeria.
2. IFRS adoption does not significantly affect the performance growth of selected banks in Nigeria.
3. Adoption of IFRS does not have significant effect on the return on asset of selected banks.
4. Adoption of IFRS has no significant impact on the earnings per share of selected banks in Nigeria.

Review of Related Literature

2. The Concept of IFRS

IFRS are defined to include; all international financial Reporting standards so far issued by IFRS foundation. All subsisting international Accounting standards (IAS) previously issued by IASB and its predecessor, IASC. All subsisting statements of interpretations committee (SIC). All international financial reporting interpretation committee (IFSIC) now called IFRS interpretation committee. IFRS encompass standards which unambiguously define the treatment of various accounting issues and have stated to significantly impact the process, quality and rehabilitee of financial statements globally.

2.1 Liquidity

Liquidity is the term used to describe how easy it is to convert assets to cash. The most liquid asset, and what everything else is compared to, is cash. This is because it can always be used easily.

Liquidity expresses the capacity of the company to meet its short term obligations, that is, to cover its cash outflows with adequate cash inflows and, moreover, to ensure a security reserve for unpredicted events such as the decrease of the cash inflows or increase of payments. Consequently, liquidity may be defined as the capacity of the company to rapidly transform the current assets in cash or to obtain cash to meet its short term obligations (Pacurari,2014).

2.2 Performance Growth

Performance growth is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Investopedia, 2015).

2.3 Return on Assets

Return on assets (ROA) is a financial ratio that shows the percentage of profit a company earns in relation to its overall resources. It is commonly defined as net income divided by total assets.

2.4 Earnings Per Share

One of the components of this firm performance is earning per share (EPS). EPS is one of the measures of managerial efficiency as well as firm performance. The debate on whether EPS has any predictive power on stock prices is not very clear in financial literature. Some analysts believe that, EPS has predictive power on stock prices. This argument holds the view that, EPS has influence on stock prices.

2.5 IFRS Adoption and Implementation in Nigeria:

The Nigeria's Federal Executive Council (FEC) gave approval for the convergence of Nigerian SAS with the IFRS from January 1, 2012. The adoption was organized such that all stakeholders use IFRS by January 2014. According to the IFRS adoption Roadmap Committee (2010), Public Listed Entities and Significant Public Interest Entities are expected to adopt the IFRS by January 2012.

All Other Public Interest Entities are expected to mandatorily adopt the IFRS for statutory purposes by January 2013, and Small and Medium-sized Entities (SMEs) shall mandatorily adopt IFRS by January 2014. Nigerian listed entities were required to prepare their closing balances as at December 31, 2010 according to IFRS. The closing figures of December 31, 2010 will become the opening balances as at January 1, 2011 for IFRS based financial statements as at December 31, 2011.

The opening balances for January 1, 2012 will be the first IFRS full financial statements prepared in accordance with the provision of IFRS as at December 31, 2012. "It will be in the interest of the Nigerian economy for listed companies to adopt globally accepted, high quality accounting standards, by fully converging Nigerian national accounting standards with International Financial Reporting Standards (IFRS) over the earliest possible transition period, given the increasing globalization of capital markets". did not improve the value relevance of the accounting numbers".

3. Theoretical Framework

The theoretical framework gives the meaning of a word in terms of the theories on International Financial Reporting Standards such as Signaling Theory and it assumes both knowledge and acceptance of the theories that this research work depends upon.

3.1 Signaling Theory

Signaling theory is useful in describing behavior when two parties have access to different information. In that setting, the ender (communicator) chooses how to communicate or signal the information to the other party (the receiver), who chooses how to interpret the signal. Because of the role of information in organizational growth and competiveness, signaling theory is prominent in management literature and has been gaining momentum in recent years (Connelly, Cerrto, Ireland &Reutzel, 2011).

Under signaling theory, managers use the accounts to signal their expectations to investors who use accounting information for decision making. Managers who expect a high level of future growth would signal that via published financial statements. Even managers of firms with poor financials would signal positive news to retain high rating among investors (Godfrey, Hodgson, Tarca, Hamilton & Holmes, 2013).

The adoption of IFRS provides opportunity for firms in developing countries to present financial statements using high quality accounting standards. Consistent with signaling theory, some IFRS adopters may send the proper signals, while others may convey deceptive signals. Daske et al (2013) found that some firms adopt IFRS more in name, while other adopters are omitted to improving transparency in financial reporting. The authors also found that the economic consequences of IFRS adoption differ between the 'label' and 'serious' adopters.

4. Empirical Studies

Isenmila and Adeyemo, (2013) on "A Perception Based Analysis of the Mandatory Adoption of (IFRS) in Nigeria". The results show that there is a statistically significant difference in the perception of the stakeholders about the desirability of the mandatory adoption of IFRS.

Kenneth, (2012) on Adoption of IFRS and Financial Statements Effects: The Perceived Implications on FDI and Nigeria Economy. The findings showed that IFRS has been adopted in Nigeria but only fraction of companies has implemented with deadline for the others to comply. It is perceived that IFRS implementation will promote FDI inflows and economic growth.

Daske, Hail, Leuz and Verdi (2007) studied 3,100 companies in 26 countries under mandate to adopt IFRS in "Mandatory IFRS Reporting around the World: Early Evidence on the Economic Consequences". The study however noted that a company's adoption of IFRS creates unassailable economic gains in countries with uncompromising regulation over financial reporting.

The study of Akiwi (2010) and Daske et al (2007) also found insignificant effect of global financial reporting standard on the performance of firms. However this finding is inconsistent with the result of Isenmila, and Adeyemo (2013) when the concluded that IFRS significantly affects firms liquidity.

Akhidime (2010), Okafor and Killian (2011), and Armstrong et al (2008), pointed out in their study that the performance of firms that adopt IFRS dependents on many factors. They argued that IFRS does not matter in determining firm's performance growth.

Chua and Taylor (2008), and Barth et al (2012), Isenmila, and Adeyemo (2013) in their study noted that adoption of global financial reporting standard affects firm's performance.

Akhidime (2010), Okafor and Killian (2011), and Armstrong et al (2008) on the contrary found that IFRS has insignificant effect of on firm's performance.

5. Methodology

The procedures, methods, techniques and methodology explored in carrying out the analysis of this study are exposited in this chapter in order to ensure a meaningful, obvious and unbiased result.

5.1 Materials

The data for the study were collected from published Annual Reports of the selected big five money depositing banks listed on Nigerian Stock Exchange spanning from 2009 to 2016.

5.2 Methods

The design used in this study is Ex Post Facto design. It is established to predict and envisage the effect of IFRS on financial performance of listed money depositing banks in Nigeria.

A Wilcoxon statistical test tool was explored and operated with SPSS version 20 in testing the hypotheses of the study.

5.3 Sample and Sampling Techniques

Purposive sampling technique was adopted in selecting 5 big money depositing banks in Nigeria. The selection was done using the Bankers' Magazine global rating (2016). The big five money depositing banks according to

Bankers' Magazine global bank rating (2016) includes Zenith Bank Plc (Zenith), First Bank of Nigeria Ltd, United Bank for Africa Plc (UBA), Guaranty Trust Bank Plc (GTB), Access Bank Plc.

5.3.1 Variable Measurement

Table 1. Variable Definition and Measurement

S/N	Variables	Measurement
1	IFRS	International Financial Reporting Standard Measured by comparing variables before and after adoption of IFRS in the banking sector
2	Liquidity	Current assets divided by total current liability
3	Performance Growth	Current year performance divided by prior year performance multiply by 100 (in percentage)
4	Return on Assets	Net operating profit (after adjustment for interest and tax) divided by total assets
5	Earnings per Share	Operating profit after tax minus preference dividend divided by total number of shares

Source: Researcher's Variables Measurement (2017)

6. Results and Discussion

The data (i.e variables) needed for the study was presented on the table 2 below as thus:

Table 2. The Financial Performance Parameters of Listed Money Depositing Banks prior to and after Adoption of IFRS.

Years	The Liquidity after IFRS adoption ₦	Years	The Liquidity before IFRS adoption ₦
2013	5.97	2009	5.62
2014	6.11	2010	6.28
2015	5.9	2011	5.81
2016	5.96	2012	6.3
Total	23.94		24.01
	The PERG after IFRS adoption		**The PERG before IFRS adoption**
2013	223.23	2009	1316.76
2014	385.3	2010	1113.12
2015	421.37	2011	123.15
2016	693.44	2012	26957.56
Total	1,723.34		29,510.59
	The ROA after IFRS adoption		**The ROA before IFRS adoption**
2013	9.66	2009	6.55
2014	8.5	2010	7.76
2015	5.94	2011	6.42
2016	5.6	2012	7.9
Total	29.7		28.63
	The EPS after IFRS adoption		**The EPS before IFRS adoption**
2013	486.31	2009	323.66
2014	1,241.82	2010	517.39
2015	705.21	2011	734.58
2016	1,002.44	2012	648.74
Total	3,435.78		2,224.37

Source: Researcher's computation from questionnaire survey (2017).

6.1 Test of Hypotheses

Wilcoxon statistical test tool was explored to test the linear relationship between the variables using SPSS version 20 as shown in the tables below:

Table 3: Result on effect of IFRS on Liquidity of Money Depositing Banks in Nigeria.

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The median of differences between The Liquidity after IFRS adoption and The Liquidity before IFRS adoption equals 0.	Related-Samples Wilcoxon Signed Rank Test	1.000	Retain the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

Table 4: Result on effect of IFRS on Performance Growth Of Money Depositing Banks in Nigeria

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The median of differences between The PERG after IFRS adoption and The PERG before IFRS adoption equals 0.	Related-Samples Wilcoxon Signed Rank Test	.144	Retain the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

Table 5: Result on effect of IFRS on ROA of Money Depositing Banks in Nigeria

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The median of differences between The ROA after IFRS adoption and The ROA before IFRS adoption equals 0.	Related-Samples Wilcoxon Signed Rank Test	.043	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

Table 6: Result on effect of IFRS on EPS of Money Depositing Banks in Nigeria.

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The median of differences between The EPS after IFRS adoption and The EPS before IFRS adoption equals 0.	Related-Samples Wilcoxon Signed Rank Test	.028	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

6.1 Results and Discussion

Ho$_1$: *IFRS adoption does not have a significant effect on liquidity of money depositing banks in Nigeria."*

From table 3 above, hypothesis one result shows that there is no significant difference on the liquidity of Nigerian banks before and after the adoption IFRS in the Nigerian Banking Sectors.

This means that after adoption IFRS, liquidity of banks significantly decreased. This supports the contingency theory of IFRS adoption, hence with result of our hypothesis one, adoption of IFRS may be considered if it is modified in some areas to reflect the local practice.

This finding is consistent with the conclusion of Akiwi (2010), Daske et al 2008 who found insignificant effect of global financial reporting standard on the performance of firms. However this finding is inconsistent with the result of Isenmila, and Adeyemo (2013) when the concluded that IFRS significantly affects firms liquidity.

H_{02}: *Adoption of IFRS does not significantly affect the performance growth of money depositing banks in Nigeria.*

Table 4 above shows that the adoption of IFRS does not significantly affect performance growth of Nigerian banks. That is there is no significant difference on the performance growth of Nigerian banks before and after adoption of IFRS in the Nigerian banking sector.

This confirms the view that IFRS adoption improves consistency in the financial reporting system thereby lower the growth of performance and the risk associated to it hence ensures consistent growth. However the P-value of our test (0.144) is higher than the significant level allowed for decision (.05). We therefore support the contingency theory of naturalistic of IFRS adoption.

This finding is in line with the observation of Akhidime (2010), Okafor and Killian (2011), and Armstrong et al (2008), when they pointed out that the performance of firms that adopt IFRS dependents on many factors. They argued that IFRS does not matter in determining firm's performance growth. However there is inconsistency in the findings of Chua and Taylor (2008), and Barth et al (2012) that argued that IFRS adoption encourage consistence and performance in the financial reporting of an entity.

H_{03}: *Adoption of IFRS has no significant effect on the return on asset of money depositing banks in Nigeria.*

From table 5 above, hypothesis three analyses gives significance evidence to reject the null hypothesis hence affirm that IFRS adoption significantly affects return on assets of Nigerian banks since the P-value of .043 is greater than the significant value of 0.05.

Chua and Taylor (2008), and Barth et al (2012), Isenmila, and Adeyemo (2013) findings are consistent with hypothesis three results. Their result shows that adoption of global financial reporting standard affects firm's performance. Our result fails to confirm the result of Akhidime (2010), Okoye et al (2014), and Armstrong et al (2008) that found insignificant effect of IFRS on firm's performance.

H_{04}: *Adoption of IFRS has no significant impact on the Earnings Per Share of money depositing banks in Nigeria.*

From table 6 above, the analyses of hypothesis four on whether adoption of IFRS affects Earnings Per Share, it was found that there is significant evidence to reject the null hypothesis and to accept the alternate hypothesis which states that IFRS adoption significantly affects earnings per share of Nigerian banks. This means that IFRS adoption significantly and positively affects earnings per share of Nigerian banks.

The result of this hypothesis is in tandem with the prior expectations of Barth et al (2012), Kennet (2012), Ajao and Wemembu (2012), and Onafalujo et al (2011), who argued that, globalization of accounting practice will improve capital formation and firms performance in a long run.

7. Conclusion

Based on the finding of this study, the study concludes that the adoption of IFRS has significantly influenced the financial performance of money depositing banks in Nigeria.

Financial ratios such as liquidity and performance growth of money deposit banks in Nigeria are insignificantly influenced by the adoption of IFRS. Return on Assets and Earnings Per Share on the other hand were also found positively and significantly influenced by the adoption of IFRS.

8. Recommendation

In view of the findings of the study, it is recommended that

- In view of insignificance nature of banks liquidity as per say IFRS adoption as affirmed by the study, it is recommended that accounting standard should not be a decision factor while making decisions on Liquidity, since IAS is adopted where IFRS has such provision or postulation.
- Based on the evidence in support of modernization theory, government should encourage and support banks in the adoption and application of IFRS in order to improve banks performance.
- Nigerian banks should fully adopt IFRS since it significantly influenced the performance (ROA) measurement of money depositing banks
- Nigerian banks should fully adopt IFRS as it is significantly related to money depositing banks performance (EPS) measurement.

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IAS - International Accounting Standards

IFSIC - International Financial Reporting Interpretation Committee

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