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The Relevance of International Financial Reporting Standards in the Preparation and Presentation of Financial Statements in Nigeria

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Abstract

The language of business is accounting and Financial Reporting is the medium through which the language is communicated. Accounting and Financial reporting should be regulated and this is done by Generally Accepted Accounting Principles (GAAP) comprising of accounting standards, company law, stock market regulations, and so on.

The global GAAP have been seeking to unify accounting and financial reporting worldwide which resulted into the birth of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs); Standing Interpretations Committee (SICs) pronouncements, and International Financial Reporting Interpretation Committee (IFRICs) guidelines. Thus, Accounting Framework has been shaped by International Financial Reporting Standards (IFRS) to provide for recognition, measurement, presentation and disclosure requirements relating to transaction and events that are reflected in the Financial Statements. IFRS was developed in the year 2001 by the International Accounting Standard Board (IASB) in the public interest to provide a single set of high quality, understandable and uniform accounting standards. However, the study tend to examine the relevance of International Financial Reporting Standard in the preparation and presentation of financial statement in Nigeria

The findings shows that the adoption of IFRS will increase the level of confidence of global investors and investment analysts in the financial statements of companies in Nigeria which will assist them to generate more funds from foreign sources. However, the study recommends that Government should release more fund to Financial Reporting Council(FRC) to educate all stakeholders with special reference to the academic, staff and accounting students who will uphold the future of IFRS in the country and also develop a plan to help properly equip companies for upcoming changes; and the regulators should ensure that there is availability of training facilities and materials for Professional Accountants on the concept of IFRS and issues relating to its implementation conversion

Keywords: General Accepted Accounting Principle (GAAP), International Financial Reporting Standard (IFRS), International Accounting Standard Board (IAS), Standing Interpretations Committee (SICs) pronouncements, and International Financial Reporting Interpretation Committees (IFRICs)

1.0 INTRODUCTION

Globalization is real. Geographical boundaries are rapidly diminishing in influence as more and more business competes globally. Sovereign control is diminishing rapidly. Harmonized accounting standards have been eventually agreed on. Harmonized taxation and corporate law will be sought. The complex structures of global organizations and the multiple markets in which they will compete with present huge opportunities to internationally recognized professionals (Adejola, 2011)

Financial services is transcending national boundaries and becoming global. Professionals require training to universal educational levels; utilize even more harmonized accounting and business standards and report in US$ as well as their local currencies. The losers will be nations, enterprises and professionals who fail to meet the challenges of globalization.

Adejola, (2011) also asserted that there is need for a set of accounting and financial reporting standards if comparability between and among firms is of any importance. He therefore said that as a result of diversities in laws, norms and standards in different nations on the earth; it is almost impracticable for a PhD holder in accounting who possesses professional certificate in accounting in one country to practice as an Accountant where he finds himself in another country. Surprisingly, Debit and Credit as well as the Double entry Principle where it emanated from, as published by the Italian Priest-Luca Pacioli in 1494 is the same all over the world.

It was Shakespeare (Romeo and Juliet) who asserts “What’s in a name? That which we call a rose by any other name would smell as sweet”. One wonders if the same can be said of Financial Statements prepared in different jurisdiction of the world. Not too far in the distant past, countries and economic regional blocs, such as Europe, would not be swayed by the thought of converging to a single set of global accounting standards and due nationalistic approaches to accounting standard setting, a financial statement issued in Nigeria, for instance

(Under the Nigerian Accounting Standards) was vastly different in terms of accounting treatments and disclosure compared to a Financial statements issued in other major parts of the world, say, in United States where USA accounting standards were used. In other words, the "name" that was given to the set of accounting standards used in preparation of Financial statements did matter for several countries since their national standard setters strongly believed that their own (national) accounting standards were suitable for their needs and were compatible to other globally preferred accounting standards.

Globalization, the falling of the erstwhile herculean trade barriers between nations, and more recently the much-awaited response to the global financial crisis, together with intervention by world leaders have changed things dramatically in terms of the preferred set of standards of accounting globally. The accounting and financial world is now seriously considering the notion of using a single set of accounting and financial reporting standards that would be used by most, if not all, the nations around the globe, it appears that in all, likelihood the set of global accounting standards in International Financial Reporting Standards (IFRS).

2.0 BACKGROUND INFORMATION TO ADOPTION OF IFRS WORLDWIDE

Accounting is the language of business while Financial Reporting is the medium through which the language is communicated. Accounting and Financial reporting are regulated by Generally Accepted Accounting Principles (GAAP) comprising of accounting standards, company law, stock market regulations, and so on. GAAP for accounting and financial reporting gives answers to difference in business communication between countries. The global GAAP that is seeking to unify accounting and financial reporting World is the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs); Standing Interpretations Committee (SICs) pronouncements, and International Financial Reporting Interpretation Committee (IFRICs) guidelines.

Accounting Framework has been shaped by International Financial Reporting Standards (IFRS) to provide for recognition, measurement, presentation and disclosure requirements relating to transaction and events that are reflected in the Financial Statements. IFRS was developed in the year 2001 by the International Accounting Standard Board (IASB) in the public interest to provide a single set of high quality, understandable and uniform accounting standards. Users of Financial Statements would require sound understanding of Financial Statement but this can only be made possible if there is General Accepted Accounting Practice (GAAP). With globalization of finance gaining ground, it will enable the world to exchange financial information in a meaningful and trustworthy manner. Investors from all over the world rely upon financial statements before taking decisions and different countries adopt accounting treatments and disclosure patterns with respect to the same economic event. And as such, it will surely create confusion among the users while interpreting Financial Statements.

However, Ajibade (2011) disclosed that in 1973, the International Accounting Standards Committee (IASC), the professional accounting bodies of major countries comprising UK, Ireland, United States (US), Australia, Canada, France, Germany, Japan, Mexico, Netherlands agreed to develop a uniform set of accounting principles that would be applicable globally and supersede the International Accounting Standards (IAS) which allowed for different treatments of transaction and events making comparative analysis difficult. Membership of IASC expanded to 140 professional bodies including the International Federation of Accountants (IFAC) under which Nigeria belongs. Because of globalization and to address comparability issues, IASC was restructured leading to the creation of International Accounting Standard Board (IASB) that issues IFRS.

In his own view, Adejola (2011) said International Financial Reporting Standards (IFRS), which were initially called International Accounting Standards (IAS), are gaining acceptance worldwide. In the last few years, the International Accounting Standard setting process has been able to claim a number of successes in achieving greater recognition and use of IFRS.

A major breakthrough came in 2002 when the European Union (EU) adopted legislation that required listed companies in Europe to apply IFRS in their consolidated financial statements. The legislation came effect in 2005 and applies to more than 8,000 companies in 30 countries, including France, Germany, Italy, Spain, and the United Kingdom. The adoption of IFRS in Europe means that IFRS have replaced national accounting standards and requirements as the basis for preparing and presenting group financial statements for listed companies in Europe.

Outside the Europe, many other countries also have been moving to IFRS. By 2005, IFRS had become mandatory in many countries in Africa, Asia and Latin America. In addition, countries such as Australia, Hongkong, New Zealand, Philippines and Singapore have adopted national accounting standards that mirror IFRS. According to estimates, currently more than 100 countries require or permit IFRS in preparing and presenting financial statements, and many other countries are expected to adopt or apply IFRS in the coming years. In the period 2011-2012 several major players such as Canada, India and Nigeria have adopted IFRS.

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3.1 IASB'S OBJECTIVES FOR INTRODUCING IFRS

The importance and the objectives of IASB for introducing IFRS are:

- ✓ To develop, in the public interest, a single-set of high quality, understandable and enforceable global accounting standards that require high quality transparent and comparable information in financial statement and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions.
- ✓ To promote the use and rigorous application of those standards.
- ✓ To work actively with National Standard-setters to bring about convergence of national accounting standards and IFRS to high quality solutions.

3.2 ADOPTION OF IFRS IN NIGERIA

In 2010, the Federal Government of Nigeria accepted the adoption of International Financial Reporting Standards (IFRS) in Nigeria. The adoption of IFRS also facilitated the name change of the local accounting standards setter, the Nigerian Accounting Standard Board (NASB) to the Financial Reporting Council (FRC) that will ensure that corporate entities align with the globally accepted, high quality accounting standards by fully converting the current National Accounting Standards to International Financial Reporting Standards (IFRS) (David, 2013). He further stressed that the phase transition to the adoption of IFRS proposed by the FRC will see in Phase 1, Publicly Listed Entities and significant Public Interest Entities (mostly companies quoted in the Nigerian Stock Exchange prepare) Financial Statements to comply with IFRS by 31st December, 2012. Phase 2, is mandatory adoption by other Public Interest Entities from January 2013 and IFRS for Small and Medium-sized Entities (SMEs) by 31st December, 2014 to complete the phase transition.

David (2013), said the adoption of IFRS is more than changing the accounting rules or simply applying new accounting rules or simply applying new accounting standards. It involves commercial awareness of various industries to enable correct and right interpretations and judgment as the circumstance arises. IFRS adoption will be one of the most fundamental changes that corporate entities will have to deal with over the transition period outlined by FRC. It is a momentous change that will come with both risk and opportunities. As such, businesses and their regulators need to be prepared and brace up to the new responsibilities that will be posed by the change.

3.3 WHAT IS IFRS

According to Adejola (2011), IFRS is a set of standards promulgated by the International Accounting Standards Board (IASB), an International Standard setting body based in London, United Kingdom. The IASB places emphasis on developing standards based on sound, clearly-stated principles, on which interpretations may be required (sometimes referred to as principles-based standards).

These however contrast with sets of standards of the United States, which contain significantly more application guidance. These standards are sometime referred to as rule-based standards, but that is really a misnomer as US standards also are based on principles - they just contain more application guidance.

Another school of thought said IFRS is the totality of standards issued by International Accounting Standards Board (IASB) and those taken over from its predecessor (International Accounting Standard Committee – IASC). They comprise all IAS (International Accounting Standards), SIC (Standing Interpretation Committee) issued between 1973 to 2000 and all the IFRS (International Financial Reporting Standards) and IFRIC (International Financial Reporting Committee issued to date.

3.4 WHAT IS FINANCIAL REPORTING

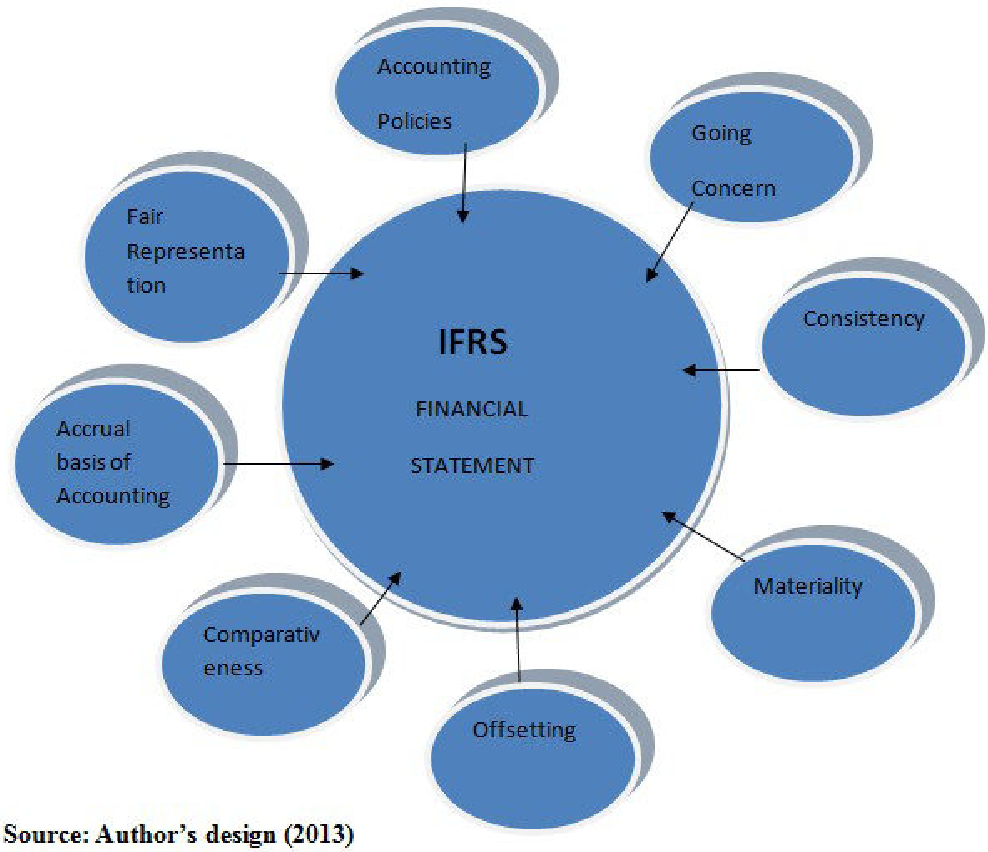
- ➢ Financial reporting is the provision of financial information about an entity to external users that is useful to them in making economic decisions, and for assessing the effectiveness of the entity's management.
- ➢ Typically, this information is made available annually, half yearly or quarterly and is presented in formats laid down or approved by the government and other regulators in each national jurisdiction.
- ➢ The principal way of providing Financial Information to external users is through the annual financial statements – Financial statements are the summary of the performance of an entity over a particular period and its financial position at the end of that period.

  Financial statements are designed to meet the common needs of a wide range of users and therefore are not tailored to the needs of any particular user group.

4.1 MEANING OF FINANCIAL STATEMENTS

Alistair (2011) defined IFRS as a series of accounting pronouncement published by the International Accounting Standard Board (IASB) to help prepare "Financial Statements" throughout the world, to provide and present high quality, transparent and comparable Financial Information.

COMPONENTS OF IFRS FINANCIAL STATEMENTS



Source: Author's design (2013)

According to Essien-Akpan (2011), the components of IFRS Financial Statements includes fair representation, accounting policies, going concern, accrual basis of accounting, consistency, materiality, offsetting, comparativeness as set out in the diagram above and described below:

a. **Fair Presentation:** Is the appropriate application of IFRS result in financial statements that achieve fair presentation resulting from the selection of appropriate accounting policies and application.
b. **Accounting Policies:** are the specific principles, bases, convention, rules and practice adopted by an entity in preparing and presenting financial statements. Policies selected must comply with the interpretation of IFRIC. A company's Financial Statements should disclose the accounting policies that have been selected and used.
c. **Going Concern:** Is described as an entity's ability to continue operating in the foreseeable future, usually one year and especially if certain conditions ceases to exist. An entity prepares financial statement on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternatives but to do so. Management, when preparing financial statement, makes an assessment of an entity's ability to continue as a going concern.
d. **Accrual Basis of Accounting:** Recognizes transaction and events when they occur and not when cash is received or paid. They are recorded in accounting records and reported in the Financial statements of the period to which they relate. An enterprise should prepare its financial statements under the accrual basis of accounting except for cash flow statements. Cash flow statements look at the cash transaction within the period.
e. **Consistency:** Arises when an item's presentation and classification is returned from one period to the next.
f. **Materiality:** Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statement. Each material class of similar items should be presented separately in the financial statements. Materiality depends on the size and nature of the item. Items of dissimilar nature shall be presented separately unless they are immaterial.
g. **Offsetting:** Emphasizes that assets and liabilities and income and expenditures shall not be offset unless required or permitted by a standard or interpretation.
h. **Comparativeness:** Should be provided for all numerical information except when a standard offers an

exemption.

4.2 USERS OF FINANCIAL STATEMENTS

- Investors
- Employees
- Employers (Adetoso,2013)
- Lenders
- Suppliers and other trade payables
- Customers
- Government and their agencies
- The public

4.3 QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

- Understandability
- Relevance
- Reliability
- Comparability

a. **Understandability:** Information in Financial Statements should be understandable by users. This will, in part, depend on the way in which information is presented. Financial statements cannot realistically be understandable to everyone and therefore it is assumed that users have a reasonable knowledge of business and accounting and a willingness to study with reasonable diligence.

b. **Relevance:** Relevant Information influences the economic decisions of users, helping them to evaluate past, present and future events or to confirm or correct their past evaluation. The relevance of information is affected by its nature and materiality. Information is considered to be material if its omission or mis-statement could influence Financial Statements

c. **Reliability-** Reliable information is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. The following factors contribute to reliability;

i. Faithfull representation
ii. Substance over form
iii Neutrality
iv. Prudence
v. Completeness

d. **Comparability-**Information should be presented on a consistent manner overtime and in a consistent manner between entities to enables users to make significant comparisons

4.4 ELEMENTS OF FINANCIAL STATEMENTS

Okoye and Akeabor (2013) listed the followings as elements of Financial statements;

a. **Assets-** Resources controlled by the entity as a result of past events from which future economic benefits are expected to flow the entity
b. **Liabilities**-Present obligations of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
c. **Equity**-The residual interest in the assets of an entity after deducting all its liabilities (may be referred to as shareholders funds)

The following elements of financial statement are directly related to the measurement of performance;

a. **Income-**Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets, or decreases of liabilities that result in an increases in equity (other than those relating to contributions from equity participants). Income comprises both revenue and gains.
b. **Expenses-** Decreases in economic benefit during accounting period in the form of outflows or depletion of assets, or decreases of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

   Initial Recognition of Elements- Elements(assets ,Liabilities, equity, income and expenses)should only be recognised in the financial statement if

   i. it is probable that any future economic benefit associated with the item will flow to or from the entity; and
   ii. the item has a cost or value that can be measured with reliability.

5.0 BENEFITS OF IFRS TO THE ECONOMY OF NIGERIA

According to Okoye and Akeabor (2010), the major strength of IFRS is that it offers a lot of benefits to corporate and public entities in series of cost, easy consolidation of Financial Statements, better management control of internal, consistencies of reporting, improved access of global financial capital markets, ability of international investors to make meaningful comparison of investment portfolios in different countries and Promotion of trade within regional economic groups.

In his own contribution, Gambari (2010), identifies the following factors as supporting the adoption of IFRS;

i. Continuous integration of world economy
ii. Increased interdependence of the international financial markets
iii. Absence of barriers of capital flow across national boundaries
iv. Increased mobility of capital across national boundaries
v. Multiple listing by companies in capital markets within and outside their home jurisdiction
vi. Continuous demand by stakeholders for quality information and greater disclosures

5.1 PROBLEM OF IFRS ADOPTION

There are however some inherent problems with aligning with international accounting standards, Ukpai (2002) pointed out that International accounting clearly has a language problem. The word "asset" in French may also connote "active". The German language has no reasonable single-word counterpart for the term Fair. Since accounting itself is not readily translatable into Dutch, people in Holland simply use the "accounting" as part of their native language.

Another problem is the universal tendency to resist change. Too often, cooperation comes only from compromise and sometimes to the detriment of quality (NASB, 2010)

FINDINGS

The findings are summarised as follows;

- The adoption of IFRS will increase the level of confidence of global investors and investment analysts in the financial statements of companies in Nigeria
- The adoption of IFRS is an effective tool for enhancing the uniformity and comparability of financial statement of companies in Nigeria.
- The quoted companies which have adopted IFRS will be able to generate more funds from foreign sources
- There are still some challenges militating against the success adoption and implementation of IFRS but government has put adequate infrastructure and regulatory framework in place to address those issues.
- IFRS adoption has not made much impact on making available timely and accurate financial reports.

CONCLUSION

In this paper, attempts were made to assess the relevance of IFRS in the preparation and presentation of financial statements in Nigeria. Based on the findings, it was concluded that adoption of IFRS is a right step in the right direction which actually has been more relevant in the preparation and presentation of financial statements in the Nigerian. Although, there are many issues and challenges facing implementation, the benefits outweigh the challenge. With adoption, Nigerian Companies will produce a more credible financial statements that will not only be informed but also provide a basis for better interpretation. This invariably will boost investors confidence and attract cross border financial transactions which is the basis for economic growth

RECOMMENDATIONS

Abstracting from the above mentioned, the paper makes the following recommendation to ensure a successful adoption and implementation of IFRS in Nigeria.

- Government and the regulators should ensure that there is availability of training facilities and materials for Professional Accountants on the concept of IFRS and issues relating to its implementation conversion
- Compliance with IFRS timetable should be mandatory and failure should be marched with appropriate sanctions.
- Government should release more fund to FRC to educate all stakeholders with special reference to the academic, staff and accounting students who will uphold the future of IFRS in the country and developing a plan to help properly equip the company for upcoming changes
- Professional accounting bodies in Nigeria should made IFRS training a part of MCPE at a reduce cost
- While monitoring the IFRS implementation timetable, the government, the Central bank of Nigeria and other regulatory bodies should ensure that ethical environment and Corporate transparency are observed
- IFRS should be included in universities, Polytechnics and Professional accounting bodies in Nigeria Curriculum so a s to build human capacity that will support the preparation of Financial Statements in Organization.

- A continuous research is in fact needed to harmonize and converge with the International Standard through mutual International understanding of Corporate objectives
- Since tax laws of different nations gives rise to varied tax liabilities, IFRS under the auspicious of FRC in conjunction of IASB should also resolve the question of tax liabilities as a result of convergence

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LIST OF ACRONYMS

IFRS:	International Financial Reporting Standard
IASB:	International Accounting Standards Board
IASC:	International Accounting Standard Committee
IAS:	International Accounting Standards
SIC:	Standing Interpretation Committee
IFRIC:	International Financial Reporting Committee issued
FRC:	Financial Reporting Council