APPLICATION AND CHALLENGES OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN NIGERIA

Oseni, Michael
Department of Accountancy, The Polytechnic, Ibadan, Nigeria.

Abstract
The adoption of International Financial Reporting Standards (IFRS) in Nigeria like in many countries has obstacles and challenges. The study used content analysis method to highlight challenges that are peculiar to Nigeria. Different statutes that are apparently in conflict with the provisions of the standards are to be amended if Nigeria is fully adopting the International Financial Reporting Standards. Terms like balance sheet, value added statements and five-year financial summary recognized by the Companies and Allied Matters Act Cap C20, Laws of the Federation of Nigeria, 2004 are to be amended. Significant changes in respect of accounting standards are recommended to be incorporated into the syllabi of tertiary institutions offering accounting courses. Regulatory authorities should step up their supervisory functions on preparers of financial statements to ensure strict adherence to the full provisions of the standards.

Keywords: Statement of Financial Position, Statement of comprehensive income, Statement of changes in equity, Statement of Cash Flows, Generally Accepted Accounting Practices (GAAP), adoption, public interest entities

INTRODUCTION
The International Accounting Standards Board (IASB) being the global regulator of accounting standards has issued a set of standards which were known as International Financial Reporting Standards (IFRS). These standards had elicited reactions not only from the profession but the academia and the business world had made meaningful contributions to the debate. The business world had never had anything as commonly discussed in recent times as this IFRS save the millennium bug in the twilight of the 20th century. Primarily, the objective of financial statements as enunciated in IASB framework is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. These users are multifarious: managers, shareholders, prospective investors, financial institutions, suppliers, customers, employees, competitors, governments and even the general public have one or two things that generate their interest in the financial reports of firms.

In preparing financial reports, different procedures had hitherto been observed which are collectively known as Generally Accepted Accounting Practice (GAAP). GAAP are localized to suit local circumstances and this resulted in not having harmonized financial information of the parent companies in many countries including Nigeria.
In Nigeria, just of recent, the repealed Nigerian Accounting Standard Board (NASB) had as one of its primary duties to issue local accounting standards which are obligatory to be followed by accountants while preparing financial statements. Financial Reporting Council of Nigeria Act was enacted in 2011 to assume the responsibilities of the hitherto repealed Nigeria Accounting Standard Board. All the shortcomings which emanated in the NASB were addressed in this new Act.

There were some scandals that rocked the corporate financial circles in Nigeria in the late 1990s that seriously cast doubt on financial statements being prepared by these entities. Stocks manipulation was one of these scandals. Lever Brothers (now Unilever), Cadbury and IPWA plc had their own fair share of these wrongly prepared financial statements. Non-existing and obsolete stocks were often included in the financial statements of these entities to give inflated profits.

On the other side of the globe, the accounting profession was again rocked by series of scandals at the beginning of the 21st century. In the United States, to be precise, the Enron Corporation in 2001 acknowledged that for nearly five previous years, its financial statements were erroneously prepared by not following the generally accepted accounting practices. The company actually lost $586 million from 1997 to 2001. Closely followed by this scandal was that of WorldCom Inc which admitted that it had failed to report more than $7 billion in expenses over five quarterly periods. Its financial reports indicated that it had been profitable but it had actually lost $1.2 billion during the same period.

The aftermath of these accounting scandals was the passing of legislation that imposed strictest government oversight on the accounting profession by the US Congress. The Public Company Accounting Reform and Investor Protection Act of 2002 created the Public Company Accounting Oversight Board which among other things can investigate and penalize accounting firms that audit the financial statements of publicly traded companies in a substandard manner.

With the emergence of multinationals, the economy has become global. In assessing the operations of subsidiaries operating in another country, similar accounting principles and conventions are to be used to make meaningful financial reports.

New names that actually reflect the meanings of some financial statements were given in the IFRS. Balance sheet metamorphosed to Statement of Financial Position while Profit and Loss became Statement of Comprehensive Income.

In 2005 many countries adopted International Financial Reporting Standards. Companies in Nigeria have been complying with Standards issued by the Nigerian Accounting Standard Board. These Standards issued represent Nigerian Generally Accepted Accounting Standards (Nigerian GAAP). It was in September 2010 that the NASB announced its roadmap to convergence with IFRS. Nigerian listed companies and significant public interest entities (“PIEs”) will be required to comply with IFRS for periods ending after 1 January 2012. Other PIEs will be required to comply for periods ending after 1 January 2013 and small and medium sized entities will need to comply for periods ending after 1 January 2014. Are corporate entities in the Nigeria prepared for this? What are the challenges envisaged in preparing financial statements in accordance to IFRS? What are the benefits that will accrue to the stakeholders, most especially, the shareholders when financial statements are prepared in accordance to IFRS format? These are some of the issues that will be addressed in this paper.
CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

Conceptual framework

Formal records of financial activities of an entity are expressed in the financial statements which quantify the financial strength, performance and liquidity of the entity. The four main types of financial statements are Statement of financial position, Statement of comprehensive income, Statement of changes in equity and Statement of cash flows.

Statement of financial position

The financial position of an entity presents the financial position of the entity at a given date. It normally comprises assets, liabilities and equity. Users of financial statements are able to assess the financial soundness of an entity in terms of liquidity risk, financial risk and business risk. An asset is something that an entity owns or controls in order to derive economic benefits from its use. Assets are also classified as current and non-current assets. An asset which will deliver economic benefits to the entity over a long term is classified as non-current whereas those assets that are expected to be realized within one year from the reporting date are classified as current assets.

An obligation that a business owes to someone which settlement involves the transfer of cash or other resources is known as a liability. Liabilities classified in the statement of financial position as current or non-current depending on the duration over which the entity intends to settle the liability. A liability which will be settled over the long term is classified as non-current whereas those liabilities that are expected to be settled within one year from the reporting date are classified as current liabilities. What the business owes to its owners is equity. This is derived by deducting total liabilities from the total assets. It comprises share capital, retained earnings and revaluation reserve.

The statement of financial position hitherto called balance sheet is arranged to always balance when the total assets of a business must be equal to the sum of equity and liabilities. This gives the accounting equation of Assets = Liabilities + Equity.

Statement of comprehensive income

The statement of comprehensive income illustrates the financial performance and results of operations of a particular company or entity for a period of time. Comprehensive income is the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources.

Statement of changes in equity

The statement of changes in equity presents the transactions with the owners in their capacity as owners. There is usually reconciliation between the carrying amount at the beginning and the end of the period for each component of equity, disclosing each change separately.
Statement of cash flows

The statement of cash flows contains information about activities that generate and use cash. The statement of cash flows reflects inflows and outflows of “cash and cash equivalents”. The movement in cash flows is classified into the following segments:

- Operating Activities: Represents the cash flow from primary activities of a business.
- Investing Activities: Represents cash flow from the purchase and sale of assets other than inventories (e.g. purchase of a factory plant) and
- Financing Activities: Represents cash flow generated or spent on raising and repaying share capital and debt together with the payments of interest and dividends.

Generally accepted accounting practices (GAAP)

Procedures for computing financial results in a particular region or country are known as Generally Accepted Accounting Practices (GAAP). GAAP is the framework which accountants in any country record and summarise transactions and present them as financial statements. It is made up of conventions, rules and guidelines regarding preparing financial statements of any organization. It ensures that financial reports of different entities can be compared and analyzed without any ambiguity. Presence of GAAP ensures that financial reports of different companies can be compared and analyzed without any ambiguity and this is a major advantage to Banks, financial experts and tax officials and even to shareholders and potential investors who can compare the results and decide upon better performing companies.

Literature review

Stakeholders round the globe had contributed to the emerging issues in respect of the challenges that are to be encountered in the application of the provisions of the International Financial Reporting Standard. Many consulting firms had organised trainings and seminars on it. Companies in Nigeria are expected to comply fully with its provisions as from 2013 financial year. What this translates is that all financial statements presented to the shareholders are to be IFRS compliant. Affirmative statement of compliance to the provisions of IFRS is to be expressly stated in the financial statements of companies in Nigeria. This being so because it is the responsibility of directors to prepare financial statements (CAMA, 2004).

Adeyemi (2012) is of the view that financial reporting has increasingly been viewed as a vital infrastructure for the growth of emerging capital markets. He further postulated that accounting standards are also viewed as cornerstones engendering credibility in the preparation of financial statements used in making financial investment decisions. He found out that many of the accounting standards relied upon in preparing financial statements had actually been outdated in relation to their International Accounting Standards (IASs) and International Financial Reporting Standards equivalents.

No country can stand in isolation from the growing acceptance of a common financial reporting language. If every country speaks a different accounting language, difficulty will arise in translating the financial reports and additional cost of translation had to be borne by the investors. Participants of the capital market in Canada, according to Cherry (2008), were increasingly uncomfortable with Canadian standards that were neither IFRS nor U.S. GAAP, but a mix of both. He then opined that the move to IFRS by Canada will then place the country on the same reporting playing fields as the country accounted for less than 4% of the global capital markets.
The use of accounting information cuts across borders when common yardsticks are used in preparing the financial statements. This was corroborated by Nyor (2012) when he posited that Nigerian companies should converge to IFRS in view of the fact that it will enhance better accountability and transparency and improve quality of reporting. Because of cumbersomeness and the initial anticipated problems of the IFRS, the study carried out by him recommended that Nigeria should adopt IFRS for group accounts of listed companies only while Nigerian GAAP should still be mandatory for individual company’s accounts of listed companies and optional for group accounts of non-listed companies as it is the practice with Germany. Akinyemi (2012) is of the opinion that as foreign direct investments had increased in emerging economies of the world and cross border of capital inflows are involved due to acquisition and mergers of multinationals, effective financial reporting, harmonization of different practices in accounting and acceptance of standards had arisen.

The need to continuously research for required framework to prepare financial statements that will be acceptable globally gave rise to IFRS in the early 21st century. This continuous research is necessary in order to harmonize and converge with the international standards through mutual international understanding of corporate objectives and the building of human capacity that will support the preparation of financial statements in organization (Ikpefan and Akande, 2012).

It has been discussed that a number of benefits will accrue to stakeholders when IFRS is adopted. Among these benefits are more confidence being imposed in the information presented in financial statements which can easily be understood by the local and foreign investors, creation of better access to the global capital markets by policy makers and higher standard of financial disclosure for national regulatory bodies. But Iyoha and Faboyede (2011) mentioned ethical environment and the ability to protect qualified and competent employees from being poached by other companies due to challenges being faced by companies in the process of adopting the provisions of International Reporting Standards.

Ikpefan and Akande (2012) highlighted the initial inconsistencies of IFRS with local laws in different countries. In Nigeria, the legal frameworks for preparing financial statements are spelt out by Companies and Allied Matters Act Cap C20, Laws of the Federation of Nigeria, 2004. Businesses in banking and insurance are subjected to Banks and Other Financial Institutions Act, (BOFIA) and Insurance Act respectively. The IFRS provisions do not recognize these local laws. There is a need to amend these laws if IFRS is to be fully applied in Nigeria. To be addressed also is the issues of cultural setting. Provisions have to be made in respect of Islamic banking which eliminates interest in all banking operations and requirement to contribute a certain amount of their wealth yearly by way of an alms tax for the less privileged members of the society.

Muhammad (2012) is of the opinion that external auditors have vital roles to play in ensuring strict compliance to the provisions of the standards. In his assessment of some selected Nigerian banks that are quoted on the Nigerian stock market, it was found out that firms recognized losses more frequently in the post adoption period than they do in the pre adoption period. He therefore concluded that accounting quality improves after the adoption of IFRS.

With the adoption of IFRS, companies are mandatorily required to give more information on the financial statements being reported upon. Individual countries which have their own peculiar GAAPs are now required to comply with the IFRS provisions which may be strange to them. In emerging economies with non-democratic history, challenges to be faced in the adoption of IFRS will not be limited to only the culture of secrecy but that of fraud (Irvine and Lucas, 2006).
RESEARCH METHODOLOGY
Research Methodology
This study being a theoretical analysis, secondary data were used. Available literatures on International Financial Reporting Standards (IFRS) as they are applicable to Nigeria were exhaustively used. Relevant materials sourced from textbooks, Journals, Newspaper and other official documents were taken into consideration.

FINDINGS AND DISCUSSIONS
The adoption of IFRS is aimed at promoting transparency, increasing quality and efficiency of financial reporting, providing financial statements that will engender investors’ confidence (due to the robust disclosure requirements of IFRS) and facilitating cross-border stock exchange listing. In order to achieve these objectives, many corporate entities have employed consultants to assist in implementation. As the conversion requires technical support, consultancy and training outfits are expected to meet the challenges of conversion and this will invariably create opportunities and training facilities for personnel who will be involved in implementation (Sterling Bank, 2013).

The challenges imminent in the conversion processes for listed companies to be IFRS compliant were acknowledged by the Nigerian Stock Exchange. Due to the fact that many listed companies would not be able to meet the deadline for presenting periodic filings in accordance to the provisions of the IFRS, a 30 day extension was granted to offer relief to businesses and advisors challenged with the adoption of International Financial Reporting Standards (Martins and Akpolo, 2013). Even in Malaysia, the local accounting standard board announced that it will permit agriculture and real estate companies to defer the adoption of Malaysia's IFRS-compliant standards for a further year, until annual periods beginning on or after 1 January 2015 (Malaysian Accounting Standards Boards, 2013).

Tax from corporate world is one of the main sources of revenue to governments. The conversion to IFRS will bring a significant change to tax accounting methods, taxable profits and tax liabilities. This will arise as a result of certain differences between Nigerian Generally Accepted Accounting Standards and the IFRS. If the existing tax rules are not amended many companies would find themselves with unbudgeted huge tax liabilities while the government may suffer a significant reduction in tax revenue. But the tax limitation of IFRS according to Oyedele (2012) can be surpassed by the introduction of fiscal filters to cushion the tax burden.

In order to benefit fully from the adoption of IFRS, some organizations in other parts of the world have reasonable period of conversion plan. The Nigerian Federal Executive Council approved 1 January 2012 as the effective date for convergence of accounting standards in Nigeria with International Financial Reporting Standards (IFRS) on 28 July 2010. The Nigerian Accounting Standards Board (NASB), under the supervision of the Nigerian Federal Ministry of Commerce and Industry was then directed to take further necessary actions to give effect to Councils' approval. Individual sectors of the economy now direct their members on modalities of adoption of the provisions of the IFRS. It was in 2010 that partial adoption of the International Financial Reporting Standards (IFRS) in the Nigerian banking system began. In a bid to integrate the banking system into the global best practices in financial reporting and disclosure, the Central Bank of Nigeria (CBN) commenced partial adoption as from 2010. The move, according to the CBN, was to enhance market discipline and reduce uncertainties which limit the risk of unwarranted infection (Oduware, 2012).
The National Insurance Commission (NAICOM) expects its members to ensure a seamless transition to the new financial reporting regime. Specifically, the commission directed that all insurance and reinsurance companies to submit their plan for conversion to IFRS by 1st April, 2011. Thereafter, information as regards to IFRS awareness and knowledge acquisition, conversion management and outline of conversion plan are to be provided by all companies being regulated by the commission in their statutorily returns. But eight months into 2013, most insurance companies have failed to prepare their annual accounts for the year ended December 2012. Most insurance companies are finding it difficult to prepare their accounts in line with the International Financial Reporting Standards (IFRS) due to skill gaps on the part of consultants (Anaesoronye, 2013).

SUMMARY, CONCLUSIONS AND RECOMMENDATION

This paper examined the preparedness of Nigeria in respect of the adoption of the International Financial Reporting Standard. The imminent problems associated with conversion from one system to another were discussed. The paper being a review one used secondary data to highlight how Nigeria 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 word should also be introduced to the students of the tertiary institutions. The syllabi in respect of accounting courses in higher educational institutions should incorporate the provisions of the standards. 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. Therefore it is necessary that lecturers are well equipped to train the students. Laws that are inconsistent with the IFRS have to be amended. Items like balance sheet and valued added statements which are incorporated in the Companies and Allied Matters Act Cap C20, Laws of the Federation of Nigeria, 2004 should be amended.

REFERENCES