

# EVOLUTION OF ACCOUNTING STANDARDS IN NIGERIA: A HISTORICAL PERSPECTIVE

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## ABSTRACT

*This study explored the history of accounting and evolution of accounting standard in Nigeria in relation to the country's adoption of the IFRS. The similarities and differences between the IFRS and the Nigerian local standard (SAS) were reviewed as well. The study was an exploratory research which made use of purely secondary data from extant literatures in the relevant area of interest; hence the explorative design method was adopted in conducting this research. It was observed that the IFRS is more robust and principle base, thus giving room for a sense of discretion on the part of preparers of financial statements. The study concludes by reiterating the importance of adopting IFRS which enables a country to speak a uniform accounting language as her other counterparts.*

**KEYWORDS:** Accounting, IFRS, SAS, History, Nigeria, Language

## 1. Introduction

The story of the tower of Babel signified that anything can be achieved when there is uniformity in language. In this same vein, the evolution of accounting (seen as the language of business) strives towards “a uniform language” which is the adoption of International Financial Reporting Standards in many countries of the world. Regulation of accounting information is aimed at ensuring that users of financial statement receive a minimum amount of information that will enable them make meaningful decisions regarding their interest in a reporting entity. Accounting standards, as explained by Okaro (2002), are authoritative statements aimed at narrowing the areas of differences and varieties in accounting practice. Accounting standards are not only seen as important regulatory devices but also act as a unifying template connecting the interest of the users of financial statement.

It is generally believed that accounting history can be traced to Luca Pacioli in 1494, however, the history of accounting dates back to period before the advent of the concept of money which is before Luca Pacioli Era. Although, the formal book keeping and accounting process was first documented by Luca Pacioli in 1494. The evidence of accounting's existence before the advent of the concept of money was supported by archaeologists and historians who discovered the oldest city of Jericho as a trade centre for salt. It was evidenced in this city that no complete accounting was there but the artefacts revealed remains of a temple priest taking inventory of the village livestock using tokens to keep track of the herd size and count the grain harvest (Mattessich, 1989). Through fossils and records discovered not only in Jericho but other parts of the world, it can be concluded that before men knew the concept of money, the process of stewardship was known.

Accounting therefore, can be said to be as old as civilization itself. In fact history suggests that accounting brought about the concept of writing. As such, Salisu (2011) opined that writing developed over 5,000 years ago and archaeological findings revealed that writing was in fact developed by accountants. Further look into the history, John (2002) opined that the development of the science of accounting has itself driven the evolution of commerce since it was only through the use of more precise accounting methods that modern business was able to grow, flourish and respond to the needs of its owners and the public.

However, in the year 1494, Luca Pacioli published *Summa de Arithmetica, Geometrica, Proportioni et Proportionalite* which was a summary of existing mathematical knowledge of the time and contained a section on "Details of Accounting and Recording" that described bookkeeping as used in Venice. Pacioli's *Summa* was the first complete description of double entry bookkeeping (Gaijsbeek, 1914). It was referred to as a memorandum book, journal, and ledger were required, with the journal and ledger similar to modern equivalents. A trial balance was used when the books were closed. The profit or loss was entered into the capital account to balance the balance sheet (Lemarchand, 1999; Paragallo, 1938). This further gave rise to the dawn of modern accounting practices where professional bodies were formed, accounting standard setters were established. These were established to ensure uniformity, understand-ability, and transparency of financial reports and accounts prepared by accountants and ensure their compliance.

In Nigeria, the history of accounting can be traced to an era before trade by barter, where kings took stock of their lands for territorial claims. Chibuikwe (2008) observed that the accounting profession in Nigeria received a formal reckoning in the mid 1960s. During that period, Nigerian accountants, mostly trained by professional accounting bodies in the United Kingdom, came together and formed a professional accounting body that is responsible of training accountants in Nigeria and fostering the development of the profession in the country.

In some countries, the professional bodies formulate the financial accounting standards, while in many others, governments and regulators establish these standards. In Nigeria, the development of accounting and accounting standards could be traced to the then Association of Accountants of Nigeria - AAN (now Institute of Chartered Accountants of Nigeria - ICAN). The AAN was formed on the 17th of November 1960 and granted official recognition on 28th September 1965, under the Federal Parliament Act number 15 of 1965, to regulate accountancy profession in the country. History suggests that ICAN was responsible for the formation of the Nigerian Accounting Standards Board (NASB) before it was taken over by government. (Josiah, Okoye, and Adediran, 2013; Basoglu and Goma, 2007)

The Nigeria Accounting Standard Board (NASB) was established in 1982 as a private sector initiative closely associated with the Institute of Chartered Accountants of Nigeria (ICAN). NASB first became a government parastatal in 1992 as a component of the then Federal Ministry of Trade and Tourism. The NASB issued a total of 32 Statement of Accounting Standards (SAS). The Nigerian Accounting Standards Board Act of 2003 provided the legal framework under which NASB set accounting standards. Membership includes representatives of government and other interest groups. Both ICAN and the Association of National Accountants of Nigeria (ANAN) nominate two members to the board.

The primary functions as defined in the Act were to develop, publish and update Statements of Accounting Standards (SAS) to be followed by companies in the preparation of their financial statement, and to promote and enforce compliance with the standards.

However, in 2010, it was observed that the NASB did not have adequate funding to achieve its statutory role such as hire new staff, re-train existing staff and offer more attractive pay (CIPFA, 2011). In June 2010 Mr. Godson Nnadi, the then Executive Secretary of Nigeria Accounting Standards Board, spoke in favour of a new body to set accounting and auditing standards for Nigeria and other African nations that would be independent of both ANAN and ICAN. (Egwuatu, 2010)

On June 3, 2011, President Goodluck Ebele Jonathan signed into law the Financial Reporting Council of Nigeria Act, No 6, 2011 and therein repealed the Nigerian Accounting Standards Board (NASB) Act No. 22, 2003. The Financial Reporting Council (FRC) Act, 2011 establishes the FRC as the Federal government agency charged with the responsibility for, among other things, developing and publishing Accounting and Financial Reporting Standards to be observed in the preparation of financial statements in Nigeria and for related matters. (Obazee, 2011; FRCN Act, 2011)

## **2. The rationale for the adoption of IFRSs**

It will not be totally wrong to conclude that the adoption of IFRS and the enactment of the Financial Reporting Council Act, 2011 were triggered by the nation's sense of belonging since IFRS has already been embraced by over 122 countries. This sense of belonging and not feeling left out can be seen as positive when the growth and development of the nation is at stake. According to Asein (2011), it was expedient and in the best interest of the nation to raise and benchmark the quality of its financial reporting on current global best practices by adopting IFRS in order to achieve its goal of becoming one of the twenty largest economies of the world by year 2020 (vision 20:2020 goals). It can be deduced from Obazee (2011), that the move towards adopting the IFRS was majorly triggered by the nation's objective to realise the full gains of cross border listing.

Since the 1960s, businesses have become more global and thus lost a significant part of their national identities. Nigeria's global players are reporting to global finance market, therefore it justifies the need to have global financial reporting benchmarks. Nigerian businesses are making more international transactions, cross border listing is now common place, accounting firms are beginning to follow their growing corporate clients into other countries in order to maintain services and governments are engaging in wide range reviews that recognize the importance of reassuring the markets and the public at large that corporate reporting and governance frameworks are sufficiently robust (Josiah et al, 2013). This rapid growth of international trade and internationalization of firms, developments of new communication technologies, and the emergence of international competitive forces have disturbed the financial environment largely. Under this global business scenario, the residents of the business community are badly in need of a common accounting language that should be spoken by all of them across the globe. A financial reporting system of global standard is a prerequisite for attracting foreign as well as present and prospective investors at home alike that should be achieved through convergence of accounting standards. It has been observed that people who invest overseas naturally want to be able to keep track of the financial health of the securities issuers. Convergence of accounting standards is seen as the only means to achieve this. Only by talking the same language one can understand each other across borders. (Hati and Rakshit, 2002; Nikhil, Bhagaban, and Alok, 2009)

Today, global commerce is increasingly polarised into Multi-National Corporations (MNCs) and national companies. Clearly, financial reporting is responding to this business dynamics by following in this direction. However, most national companies do not have foreign

subsidiaries while their financial statements are mainly for tax assessment purposes and possibly to provide information to local banks in order to secure credit facilities; whereas, MNCs play in different jurisdictions through their subsidiaries which prepare financial reports in compliance with various local GAAPs. This entails huge conversion costs of their financial statements during consolidation. Since these MNCs often seek finance from various capital markets, comparability of financial reports was a huge problem leading, in many cases, to inefficient and sub-optimal investment decisions. (Asein, 2011)

Conclusively, nations that are truly desirous of attracting more foreign direct investment, enhancing comparability and efficient investment, enhancing communication with stakeholders, ease of accessibility to funds, lower cost of preparing financial statements by MNCs, uniformity in accounting language, enhancing job opportunities and overall economic transformation are now aiming to free their countries from the limits of the present system. This requires re-appraisal of legal and regulatory framework, institutional framework, Human capacity building and the capacity building process. The FRC Act, 2011 ensued from the re-appraisal of the legal and regulatory framework with regard to the financial reporting regime in Nigeria. (Obazee, 2011; Asein, 2011)

### **3. Overview of the International Financial Reporting Standards (IFRSs)**

The term IFRS consists of International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB); International Accounting Standard (IAS) issued by International Accounting Standard Committee (IASC); and interpretations issued by the standard interpretations Committee (SIC) and the International Financial Reporting Interpretation Committee. The International Accounting Standard states how particular types of transactions and other events should be reported in financial statements. The standards issued by IASC were known as IAS. In 2000, IASC member bodies approved the restructuring of IASC's foundation and in March 2001, the new IASB took over the responsibility of setting the international Accounting Standards from IASC. IASB adopted the standards set by IASC and continued to develop new standards and called the new standards – IFRS. Both IFRS and IAS are equally enforceable. (Ikpefan and Akande, 2012)

The predecessor of the IASB, the International Accounting Standards Committee (IASC), was founded in June 1973 as a result of an agreement by accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States. By 1998, the IASC had expanded membership to 140 accountancy bodies in 101 countries. In 2001, the IASC was reconstituted into the IASB. The IASB has 14 full - time board members who deliberate on new financial reporting standards. The IASB is overseen by the International Accounting Standards Committee Foundation, which has 19 trustees who appoint the members of the IASB, establish the budget, and monitor the IASB's progress. The IASB is advised by the Standards Advisory Council, which is composed of about 50 members representing organizations and individuals with an interest in international financial reporting. (Robinson, Greuning, Henry, and Broihahn, 2009)

Fowokan (2011) opined that in early days, the IAS were aimed to promoting best practice in the preparation of financial statements whilst permitting different treatments for given transactions and events. The application of IAS in preparing financial statements did not always result into uniform and comparable financial information simply because similar transactions and events were not necessarily reported in a like way. With the dawn of globalization and increasing demand for transparent, comparable financial information in the markets, the IASC was restructured in 2001 by creating the international Accounting

Standards Board (IASB), among other changes. The IASB is responsible for developing, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements 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. The IASB objective is to require like transactions and events to be accounted for and reported in like way and unlike transactions and events to be accounted for and reported differently, both within an entity over time and among entities throughout the world. The choices in accounting treatment are continuously being reduced. Consequently, the IASB has, since its inception, issued a number of IFRSs and interpretations, and amended several IASs including interpretations issued under the previous Constitutions of IASC. In pursuit of its objectives, the IASB cooperates with national accounting standards setters to achieve convergence in accounting standards around the world. IFRSs are developed through an international due process that involves accountants, financial analysts and other users of financial statements, the business community, Stock Exchanges, regulatory and legal authorities, academics and other interested individuals and organizations from around the world. This due process is conducted by the IASB, which has complete responsibility for all technical matters including the publication and issuing of standards and interpretations. (Kakamanou and Nishiotis, 2005; Josiah et al, 2013)

Before the advent of FRCN, financial statements prepared for reporting in Nigeria were drawn up following the Statement of Accounting Standards (SAS issued by NASB). These Nigerian requirements are in most cases based on pronouncements issued in the past by the IASB, but are not necessarily fully aligned with the current pronouncements of the IASB. The adoption of IFRS is said to instigate Nigerian reporting entities in using the same reporting framework as their peers worldwide, which would enhance the relevance of their reports in the international arena. (Josiah et al, 2013)

In recent past, many countries in Africa, as well as the European Union countries have adopted IFRS as the financial reporting framework for their public interest companies. The Financial Accounting Standards Board (FASB) of the US has already agreed on a roadmap with the IASB on the convergence of US standards and IFRS. This can be seen as recognition by large economies of the need to have high quality standards that are used consistently around the world to improve the efficiency with which capital is allocated. This is particularly true even in Nigeria as was witnessed on 28 July 2010, when the Nigerian Federal Executive Council (FEC) approved January 2012 as the effective date for the convergence of accounting standards in Nigeria (SAS or NGAAP) to International Financial Reporting Standards (IFRS).

The roadmap for the adoption of IFRS in Nigeria as recommended by the committee on the roadmap for the adoption of IFRS in Nigeria in 2010 is as follows:

**January 2012:** Significant public interest entities are required to commence implementation by January 2012. This group is made up of companies that are quoted on the Nigerian Stock Exchange with a minimum of ₦500 Million in shareholders' funds.

**January 2013:** Other Public Interest entities are required to commence implementation by January 2013. This group is made up of companies quoted on the Nigerian Stock Exchange but with Share holders' funds below ₦500 Million.

**January 2014:** All Small and Medium Scale Enterprises (SMEs) are required to commence implementation by January 2014.

#### **4. Overview of Financial Reporting Council of Nigeria (FRCN)**

The Financial Reporting Council of Nigeria (FRCN) was established by the Financial Reporting Council Act, 2011(Section 1). The Act established for the council a board which shall have overall control of the council and further gave the composition of the board as follows (Section 2):

A Chairman who shall be a professional accountant with considerable professional experience in accounting practices, the Executive Secretary of the Council, two representatives from the Association of National Accountants of Nigeria, two representatives from the Institute of Chartered Accountants of Nigeria, and one representative from each of the following:

Office of the Accountant General of the Federation, Office of the Auditor General for the Federation, Central Bank of Nigeria, Chartered Institute of Stockbrokers, Chartered Institute of Taxation of Nigeria, Corporate Affairs Commission, Federal Inland Revenue Service, Federal Ministry of Commerce, Federal Ministry of Finance, Nigerian Accounting Association, Nigerian Association of Chambers of Commerce, Industries, Mines and Agriculture, Nigerian Deposit Insurance Corporation, Nigerian Institute of Estate Surveyors and Valuers, Securities and Exchange Commission, National Insurance Commission, Nigerian Stock Exchange, and National Pension Commission.

Section 8 of the Act stipulates the functions of the Council as follows:

Develop and publish accounting and financial reporting standards to be observed in the preparation of financial statement of public interest entities;

Review, promote and enforce compliance with the accounting and financial reporting standards adopted by the Council;

Receive notices of non-compliance with approved standards from preparers, users, other third parties or auditors of financial statements;

Receive copies of annual reports and financial statements of public interest entities from preparers within 60 days of the approval of the Board;

Advise the Federal Government on matters relating to accounting and financial reporting standards;

Maintain a register of professional accountants and other professionals engaged in the financial reporting process;

Monitor compliance with the reporting requirements specified in the adopted code of corporate governance;

Promote compliance with the adopted standards issued by the International Federation of Accountants and International Accounting Standards Board;

Monitor and promote education, research and training in the fields of accounting, auditing, financial reporting and corporate governance;

Conduct practice reviews of registered professionals;

Review financial statements and reports of public interest entities;

Enforce compliance with the Act and the rules of the Council on registered professionals and the affected public interest entities;

Establish such systems, schemes or engage in any relevant activity, either alone or in conjunction with any other organization or agency, whether local or international, for the discharge of its functions; and

Receive copies of all qualified reports together with detailed explanations for such qualifications from auditors of the financial statements within a period of 30 days from the date of such qualification and such reports shall not be announced to the public until all accounting issues relating to the reports are resolved by the Council.

## **5. IFRS versus SAS: An Overview**

Preparation and presentation of financial reports under IFRS and SAS have substantial differences. In the opinion of Ikpefan and Akande (2012), the major difference between IFRS and SAS is that the former is a more robust and principle based set of accounting standards with detailed disclosure requirements. While Michel, François-Éric and Jean-Yves (2011) identified the main characteristics of IFRS to include a principle-based approach, fair-value orientation, the concept of comprehensive income, the entity theory underlying consolidation, and improved transparency.

Other key areas of differences include: change in format, components and nomenclature of certain items of financial statements. These differences are further explained below:

### **I. The financial statement Presentation:**

The financial statement presentation differs under the local accounting system when compared with the international accounting system. According to SAS 2-Information to be disclosed in the Financial Statements, income statement/profit and loss account, balance sheet, cash-flow statement, value added statement, five year financial summary, accounting policies and notes constitute minimum financial statements requirement for a public limited liability company. In the case of international accounting system (IAS 1-Presentation of Financial Statements), statement of comprehensive income (including income statement), statement of financial position (balance sheet), statement of cash flow, statement of changes in equity, accounting policies, notes and significant management estimates and judgments constitute financial statement requirements. This also constitute a difference between international and national accounting systems.

### **II. Fair Value Measurement**

A higher reliance on fair value accounting in IFRS represents a substantial difference compared with SAS. It represents a departure from the traditional historical cost principle. IFRS puts a much greater emphasis on fair value than that rendered under SAS. It primarily responds to the needs of investors which are given deliberate importance in IFRS compared to other users (IASB, 2001; Chua and Taylor, 2008). Since investors need market-based

values to make decisions regarding buying or selling stocks, many items in financial statements are required or eligible for fair value accounting under IFRS.

Fair value ordinarily is no new concept under local accounting system as SAS 3 (Accounting for PPE), SAS 11 (Lease) and SAS 8 (Accounting for Employees Retirement Benefits) made reference to its usage in some accounting treatments. According to SAS 3, fair value is the amount for which an asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction. This has often been interpreted to be market price of an asset or liability under SAS. However, IFRS 13-fair value measurement is considered relatively unique in that it discloses valuation techniques pertaining to different categories of inputs through a 'fair value hierarchy' and its Estimate involves various degrees of subjectivity depending on the availability of an active market for the assets and liabilities in question.

In general, fair value is mandatory in measuring transactions at initial recognition under IFRS. However, items such as financial instruments held-for-trading, derivatives, assets and liabilities are required to be re-measured at fair value.

### **III. Comprehensive Income**

Comprehensive income is seen as a major development in the recent evolution of accounting standards and a central notion in the conceptual framework of IFRS. It reflects all revenues, expenses, gains and losses that are to be recognized according to accounting standards during a period, and is summarized in a separate financial statement named the Statement of Comprehensive Income called Trading, Profit and Loss Account under SAS. The Statement of Comprehensive Income is seen as an upgrade to the Trading, profit and Loss Account.

The Statement of Comprehensive Income has two components. The first corresponds to the bottom line (profit or loss) of the income statement as it is commonly measured, incorporating gains and losses on transactions with outside parties and a number of unrealized gains and losses on items measured at fair value through profit or loss. The second component of the statement of comprehensive income relates to unrealized gains and losses caused primarily by fair value adjustments. This component is designed to bypass the income statement. In order to do that, a new category of accounting adjustment has been introduced known as other comprehensive income (OCI), which is presented directly in shareholders' equity. OCI may be seen as a buffer that allows the use of fair value accounting without its direct impact on the income statement. The profit accumulates in retained earnings; the annual variation of the OCI accumulates directly in shareholders' equity, whereas the sum of annual profit and annual variation of OCI forms the comprehensive income. It should be noted that the separate reporting of comprehensive income was introduced in U.S. accounting standards in 1997 (SFAS No. 130 Reporting Comprehensive Income) and in Canadian accounting standards in 2005 (*CICA Handbook*: Section 1530 Comprehensive Income).

While IFRS prohibits the presentation of extraordinary items in statement of comprehensive income or in the notes, SAS requires extraordinary items to be presented in the profit and loss statement of the entity distinct from the ordinary income and expenses for the period. They are considered in determining the profit and loss for the period.

### **IV. Consolidation**

The entity theory underlies the application of the consolidation technique in IFRS. It requires that assets and liabilities of subsidiaries be measured at their full fair value on the date of



acquisition. Consequently, minority interest (called non-controlling interest) is measured at fair value at the same date. This is a major difference compared with SAS which does not recognize the fair value adjustments related to minority interest (IFRS 10 and SAS 27).

#### **V. Assets held for sale and discontinuing Operations:**

IFRS introduced and recognized Assets Held for Sale and Discontinued Operations which are considered separate disclosures under non-current and current assets. It provides accounting treatments and recognition of Assets held for sale and discontinued operations in line with IFRS 5-Non-Current Asset Held for Sale and Discontinued Operations which is separate from IAS 16-Property, Plant and Equipment. IFRS 5 sheds lights on the concepts of Assets held for sale and the disposal group (i.e. group of assets to be disposed of, by sale or otherwise) which are to be presented separately in the Statement of Financial Position and are to be measured at lower of carrying amount and fair value less costs to sell and depreciation on such assets to cease. In the case of classification as ‘Discontinuing’, the disclosure requirement, criteria and measurement are also disclosed in IFRS 5. SAS on the other hand does not provide a separate standard for recognizing such assets as they are classified into the appropriate asset subheadings and treated in line with the appropriate SAS (for instance equipment treated in line with SAS 3-Accounting for Property Plant and Equipment).

#### **VI. Impairment of Assets**

Impairment according to IAS 36-Impairment of Assets, is viewed as when an asset’s carrying amount exceeds its recoverable amount. While carrying amount is the amount at which an asset is recognized in the balance sheet after deducting accumulated depreciation and impairment losses, recoverable amount on the other hand is the higher of an asset’s fair value less costs to sell (sometimes called net selling price) and its value in use. The objective of taking impairment into consideration is to ensure that assets are carried at no more than their recoverable amount. Hence, its emphasis on impairment testing for assets particularly Property Plant and Equipment. Impairment is not only limited to non-financial assets as IAS 39-Financial Instruments: Recognition and Measurement also provides disclosures for treatment of impairment in financial assets. This is an issue which SAS is silent on.

#### **VII. Segment Reporting**

Under SAS, a segment is viewed as a distinguishable component of the company that is engaged either in providing related products or services (business segments). Therefore, SAS 24 (Segment Reporting) discloses operating segments in terms of geography. IFRS considers operating segments based on management’s view and suggest thresholds for reportable segments. Beyond geographical segmentation IFRS 8 (Operating Segments) discloses information about reported segment profit or loss and other disclosures as contained in the standard.

#### **VIII. Non-financial disclosures and Related Party transaction:**

Generally, non-financial disclosures are observed to be more under IFRS when compared with SAS. Also in the case of related party transaction, SAS expects disclosure but this however is limited. IFRS sets out detailed guidance on identification of related parties and

detailed disclosure of related parties and transactions as contained in IAS 24-Related Party disclosures.

#### **IX. Employee Retirement Benefit:**

IFRS recognizes the undiscounted amount of short term employee benefits and presents a complex picture of accounting and recognizing employee benefits. The simplistic nature of disclosing employee retirement benefit obligation under SAS differs from the complex actuarial disclosure of the same item under IFRS. IAS 19 gives three choices for the treatment of actuarial gains or losses arising on measurement of employee benefits. These choices include: to recognise actuarial gains and losses immediately in other comprehensive income, it is recognised under the income statement approach immediately in profit or loss and under the corridor approach, any actuarial gains and losses that fall outside the higher of 10% of the present value of the defined benefit obligation or 10% of the fair value of the plan assets (if any) are amortised over no more than the remaining working life of the employees. While under SAS, Actuarial gains and losses should be recognized immediately in the statement.

#### **X. Petroleum Activities in the Downstream:**

Currently issues relating to Petroleum Activities-Downstream Activities are adequately covered by SAS 14. While IFRS 6 (Exploration for and Evaluation of Mineral Resources), has limited disclosures with respect to oil exploration.

#### **XI. Telecommunication Activities:**

SAS 25-Telecommunication Activities gives detailed disclosures, recognition and measurement to transactions relating to telecommunication companies. This is because like Oil exploration companies, their businesses are uniquely different and can not be treated like other entities that engage in production of goods/service delivery. Currently IFRS has no standard for telecommunication activities.

#### **XII. Foreign currency conversion and Translation:**

Although SAS 7-On foreign Currency Conversion and Translation establishes the need for a 'reporting currency' which in the case of IAS 21-The Effects of Changes in Foreign Exchange Rates is called 'presentation currency', both do not provide the same methods of foreign currency translation. While SAS 7 suggests methods (i.e. closing, temporal, monetary and non-monetary methods) of translating accounts of foreign operations, IAS 21 differentiates functional currency from presentation currency and goes further to provide guidelines for treating foreign currency transactions taking into consideration the nature of the items (monetary and non-monetary), translations from functional currency to presentation currency, considering the effect of inflation (making reference to IAS 29-Financial Reporting in Hyperinflationary Economies) and exchange differences. In addition, IFRS also considers the effects of exchange differences on the disposal of foreign operations.

#### **XIII. Entities Operating in Hyper- Inflationary Economies**

IAS 29 - Financial Reporting in Hyper inflationary economies prescribes reporting requirement for entities operating in hyperinflationary economies. There is no equivalent standard under SAS.

#### **XIV. IAS 41: Agriculture**

IAS 41- Agriculture establishes standards of accounting for agricultural activities; the management of the biological transformation and harvest of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). There is no equivalent specific standard on agriculture under SAS.

### **XV. Goodwill**

Goodwill is not amortized under IAS 38 but is subject to annual impairment test under IAS 36 while SAS 9 provides that goodwill arising on amalgamation in the nature of purchase is amortized over a period of 5 years.

### **XVI. Revaluation of Assets**

Under IFRS, if an item of property, plant and equipment is re-valued, the entire class of assets to which that asset belongs should be re-valued. While under SAS an entire class of assets can be re-valued, or selection of assets for revaluation can be made on a systematic basis.

### **XVII. Contingent Asset Disclosure**

IFRS stipulates that Contingent assets should be disclosed in the financial statements only if the inflow of economic benefit is probable. While under SAS, Contingent assets are disclosed as part of the director's report and not disclosed in the financial statement but as note (that is, off balance sheet items).

## **6. Theories of Accounting Standards Harmonisation**

### **I. Innovation Diffusion Theory**

Mahajan and Peterson (1985) defined an innovation as "any idea, object or practice that is perceived as new by members of social system" and defined diffusion of innovation as "the process by which the innovation is communicated through certain channels over time among members of a social system". Diffusion of innovation theory tries to explain and describe the mechanism of how a new invention, in this case International Financial Reporting Standards (IFRSs), is adopted and becomes successful (Clarke, 1999). Sevcik (2004) stated that not all innovations are adopted, even if they are good, and it might take a long time for an innovation to be adopted. He added that resistance to change may be an obstacle to diffusion of innovation. Although it might not stop the innovation, it will slow it down. Diffusion scholars recognise five qualities that determine the success of an innovation. (Rogers, 1995; Robinson, 2009)

**Relative advantage:** If an innovation has a higher relative advantage, it will be adopted more rapidly.

**Compatibility:** If an innovation is perceived to be consistent with existing values, past experiences, and needs of potential adopters, it will be easier to adopt.

**Complexity:** New ideas that are simple to understand are adopted more rapidly than those which require the innovator to develop new skills and understanding.

**Trialability:** New ideas that can be tried represent less uncertainty to the individual who is considering its adoption, as s/he can evaluate the idea and decide whether to adopt it or not.

**Observability:** This is the degree to which the results of an innovation can be seen by others. If the results of an innovation are observed easily, it will if perceived a success be adopted faster.

Based on these qualities, the rate of adoption of IFRSs depends on how countries and organisations perceive its relative advantage, compatibility, trialability, observability and complexity. If Nigeria strives toward reaping the benefits of the adoption of IFRSs, they will adopt the innovation. Multinational corporations will adopt the innovation faster than other organisations.

## **II. Institutional Change Theories**

The father of institutional theory, Philip Selznick, observed that organisations adapt not only to the strivings of their internal group but also to the values of external society (Hatch, 1997). Richard Scott defined institutionalization as “the process by which actions are repeated and given similar meaning by self and others” (Hatch, 1997). Hatch (1997) explained that some actions are repeated because explicit rules or laws exist to ensure their repetition such as the legal and political influences, while other actions are supported by norms, values, expectations, and cultural influences; sometimes actions are repeated because of a desire to be or look like another institution. These actions are governed by social influences.

Trying to answer the question of what makes organisations similar or homogeneous, DiMaggio and Powel (1983) identified three mechanisms (theories) of institutional change, which are: coercive, mimetic and normative isomorphism.

### **A. Coercive Isomorphism**

According to Carpenter and Feroz (1992), coercive isomorphism results from political influence and problems of legitimacy. Formal and informal pressures will be exerted on the organisation by other organisations or by cultural expectations in the society in which the organisation is a member. These can take the form of governmental mandates or statutory requirements or cultural expectations. Therefore, coercive isomorphism is a form of forced selection where a company is forced by powerful organisations such as Financial Reporting Council of Nigeria, to adopt an innovation, such as IFRS, regardless of its benefit to the organisation (Xiao et al., 2004; Aly, 2008).

### **B. Mimetic Isomorphism**

Mimetic isomorphism is said to occur when organisations model themselves after others (Carpenter and Feroz, 1992). In this case, companies follow earlier adopters from the same sector as a result of uncertainty about organisational technology. It is a form of fashion, where companies imitate others (Xiao et al., 2004). DiMaggio and Powel (1983) emphasized that organisations tend to mirror other organisations in the same field that are perceived to be more legitimate or successful or when there is a greater uncertainty about what is the correct way to handle technology. (Aly, 2008)

### **B. Normative Isomorphism**

Normative isomorphism results from professionals (Carpenter and Feroz, 1992). They create standards and homogeneous organisational practices to be followed (Xiao et al., 2004). DiMaggio and Powel (1983) explained that there are two features of professionalization which are considered important sources of isomorphism; the first is related to the formal education produced by university specialists and the second is related to the growth and

expansion of professional networks across which new models diffuse rapidly, such as Institute of Chartered Accountants of Nigeria (ICAN). Universities and professional training institutions are important centres for the adoption of innovation. Professional and trade associations are another vehicle for the spread of normative isomorphism, as they enable individuals working in same positions to exchange ideas. (Aly, 2008)

## **6. Impediments to IFRS Adoption**

The major criticism of IFRS has been that it brings much volatility into the income statement thereby making it difficult to judge and compare company's performance (Jermakowicz and Gornik – Tomaszewski, 2006; KPMG, 2007). This is because IFRS makes extensive use of fair value accounting which can give rise to volatility in terms of fair value changes.

Therefore, organizations will need to change their accounting processes and systems to recognize fair value of some accounting items. For example, Zambia regulatory authorities adopted IFRS on 1<sup>st</sup> January 2005, especially for banks and financial institutions. The major challenge Zambian companies faced was the lack of an active market where markets prices can be obtained in order to comply with IFRS fair value accounting rules (Mwape, 2010). This gave them problems with implementing IAS 39 which deals with financial instruments (Nyor, 2012). In Nigeria also, there is lack of an active market which implies that implementation of IFRS 13 becomes a major challenge.

Transparency represents another major characteristic of IFRS. It relates to the assumption that markets are efficient and that all of the information communicated to users of financial statements is accurately and reliably incorporated in stock prices. This represents the qualitative characteristic of completeness (IASB, 2001) which allows users, particularly investors, to make decisions based on all the relevant information. One of the consequences of completeness, though, is an overload of information as notes accompanying financial statements are numerous and complex and sometimes hard to analyse in their entirety (Michel, François-Éric and Jean-Yves, 2011). The assumption of efficient market may not always be true especially for a developing economy as Nigeria.

Adopting IFRS has a huge cost outlay; these include the cost of training personnel to understand the new global standards, cost of acquiring new accounting packages and cost of discarding former packages that are incompatible with IFRS (Nyor, 2012). Jermakowicz and Gornik – Tomaszewski (2006) found out in their study of 112 publicly traded companies on major European Stock Exchanges that implementation of IFRS was seen as costly, complex and burdensome. Number of studies conducted also indicate that a number of impediments to IFRS adoption also exist for preparers, in terms of complexity of standards and the lack of guidance on their application (Larson and Street, 2004).

## **7. Conclusion**

Globalization and international trade have made it pertinent the development and issuance of global financial accounting standards, to harmonize accounting and financial reporting practices around the world. Nigeria, in its bid to enjoying some of the benefits of IFRS adoption decided, beginning from 2010 to translate its financial statements to IFRS compliance. The role of accounting standards and their evolution as important regulatory devices and unifying template that corrects the interest of financial statement users has been examined in-depth in this research paper. It has been noticed that, just as change is not easy

to adopt, the adoption of IFRS has not been a bed of roses as this has brought along certain associated costs. It is noteworthy to realise that the provisions of IFRS is not entirely new to Nigeria as some of its provisions were already in existence and in practice as a result of the SAS in operation. However, some major areas of differences have been reviewed in this paper.

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