INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTION AND FINANCIAL PERFORMANCE OF PETROLEUM MARKETING ENTITIES IN NIGERIA

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Abstract

The research was carried out to statistically examine the effect of International Financial Reporting Standard (IFRS) adoption on the financial performance of petroleum marketing entities in Nigeria. The study is a comparative analysis that assesses corporate performance pre- and post-IFRS adoption in the petroleum marketing sector of Nigeria. A sample size of ten (10) Listed Petroleum Marketing companies in which their data were available on Nigerian Stock Exchange (NSE) as at December 31, 2015 was used. A time series research design was used for this study. One-way Analysis of Variance (ANOVA) and The One Sample t Test were the statistical tools used to test the hypotheses. The test of hypotheses and other breakdown of data were empirically completed by SPSS statistic 20.0. The findings of the study revealed that Pre-IFRS and Post-IFRS adoption have no significant effect on Return on Asset and on Return on equity; however, both Pre-IFRS and Post-IFRS adoption have a significant impact on Earnings Per share. The study concluded that there is no significant relationship between IFRS adoption and corporate performance of petroleum marketing entities in Nigeria. The study recommended that Institutional factors such as the government, financial reporting council of Nigeria, and Accounting Professional bodies should intensify education and training of accountants on IFRS implementation and interpretations. Also, management of corporate organizations should ensure effective and efficient management of resources at their disposal in order to maximize shareholders' wealth.

Keywords: IFRS, Return on Assets, Financial Performance, Modernization Theory, Standard.

Introduction

The implementation of International Financial Reporting Standard (IFRS) in many countries of the world is a subject of global significance due to pursuit for uniformity, reliability and comparability of financial statements of companies and expected improvement in the performance of corporate entity. In the past few years, many developed and developing countries have adopted IFRSs as their basis for financial reporting. The European Union (EU) took the lead in 2005. Listed Companies in the European Union started the adoption, implementation and reporting using IFRS as a basis since (Odia & Ogiedu, 2013). IFRSs are principle-based standards, interpretation and the framework adopted by the International Accounting Standard Board (IASB). IFRSs are designed as a universal language for business dealings so that company accounts are understandable and comparable across international boundaries. The objectives therefore, include, to develop excellence, understandable and enforceable global accounting standards in order to enhance the quality, ensure transparency and comparability of information to help businesses in the world's capital markets and other users (Smith, 2012).

Nigeria joined the League of Nations adopting IFRSs as at 2012. The Road-map indicated that, Public Listed Entities and Significant Public Interest Entities were mandatorily expected to report using IFRS as at December, 2012. All other Public Interest Entities were expected to mandatorily adopt the IFRS for statutory purpose by January, 2013 and Small and Medium – sized Entities adopted IFRS by January, 2014. Following the mandatory adoption of IFRS, coupled with its objectives and benefits, expectations of investors, management of corporations, shareholders, creditors, even the Nigerian economy were high, especially, in a time when the world economy is putting a distress look following the global economic catastrophe which led to the fall down of many workable institutions in some countries with increase in unemployment (Deloitte, 2015). The financial crisis has shown how difficult it is to maintain shareholders' confidence when they are uncertain about the information obtainable from the financial statements. By providing reliable and internationally comparable financial information, IFRSs seem to be the last hope of the investors.

In the face of this, there is surprisingly little research as to whether IFRS have actually improved accounting value and performance of companies that have adopted it in emerging economy especially in the African Countries (Umobong & Akani, 2015). There has been mixed feelings and evidence on whether IFRS have improved firm's performance. Highlights of IFRS Research by Cynthia & Murphy (2009) in different countries in Europe that have adopted IFRS supported this assertion. In Nigeria, studies by Umobong & Akani (2015), Abata (2015), Umobong (2015), Okoye, Jane & Raymond (2014), Umoren & Enang (2015) and a few others like Yahaya, Musa & Isah (2015), Okoye (2014) show the same mixed evidence – some findings revealed that IFRS adoption has not improved accounting quality and performance of firms, few others seem to give a supporting assertion that IFRS has to some extent improved performance of firms.

The success or failure of a firm can be measured using different quantifiable indicators. There are different perspectives on the dimension of corporate performance in strategic management writing. For instance, Ventrakaman & Ramanujam in Hasan, Goran & Azhar (2010) divided corporate performance into operational and financial performances. Operational performance includes (i) market share (ii) product quality and (iii) marketing effectiveness. Financial performance is broken down into two sub-topics; these are (i) market-based performance (e.g., stock price, dividend payout, earnings per share and (ii) accounting-based performance (e.g., return on assets and return on equity). The notion of corporate performance in accounting literatures normally means financial such as profit, return on assets (ROA), and Economic Valve Added (EVA), (Hasan, Goran & Azhar,, 2010). In financial market, the corporate performance endeavour to please shareholders.

The rest of the paper is organized as follows. The next section briefly surveys the relevant literature and specifies the main hypotheses of this study. Section three describes the procedure adopted for the empirical analysis. Section four presents the main results and the discussion of the empirical investigation. Section five contains concluding remark and recommendations.

Literature Review

New Institutional Theory (NIS)

Institutional theory indicates that, in order for organizations to survive, she must conform to the rules and belief systems prevailing in the environment. In the context of IFRS convergence initiatives, institutionalization can be seen as a social process through which a nation accept that local accounting standards are engrossed in the interests of international accounting harmonization (Rodrigues & Crag, 2007). Wahyunic (2012) added that when a country adopt IFRS and dump their previous accounting standard, the main motive should be economical such as IFRS will bring economic benefit to the country. The economic advantage can be a reduction in the cost of capital or an increase significantly in foreign investors to the country's capital market. Touron (2005) stated that companies in European Union faced a strong coercive pressure in adopting IFRS in 2003 when European Commission approved the proposal to adopt IFRS in 2005. These institutional factors include National Accounting Standard Board, government, financial reporting council, IFRS oversight body.

The researcher therefore concludes that the success of country adopting IFRS should mainly come from the structure available to operate on rather than coercive. Therefore, structural changes should be determinant factors for IFRS convergence by countries

IFRS Adoption in Nigeria

The Financial Reporting Council of Nigeria (FRCN), formerly the Nigerian Accounting Standards Board (NASB), is an organization charge with setting accounting standards in Nigeria.

NASB was established in 1982 as a private sector initiative closely associated with the ICAN. NASB became a government agency in 1992, reporting to the Federal minister of Commerce (Obazee, 2003). The NASB 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 ANAN nominate two members to the board. The primary function as defined in the Act of 10 July, 2003 were to develop, publish and update statements of accounting standards to be followed by Companies when they prepare their financial statement and to promote and enforce compliance with the standards (Ali & Nwang, 2000). On 18 May, 2011, the Senate passed the Financial Reporting Council of Nigeria Bill, which repealed the NASB Act and replaced it with a new set of rules.

The adoption of IFRS in many countries since 2005 requires standards-setters to understand the different regulatory and commercial environment in various countries (Madawaki, 2012). The roadmap on the adoption of IFRS (issued by the IASB) was used as guidance for the preparation of statutory financial statements in Nigeria. The roadmap also outlines specific milestones that if realized, could lead to the adoption of IFRS in three phases as follows;

Public Listed Entities and Significant Public Interest Entities in Nigeria by 2012,

Other Public Interest Entities by 2013,

1. Small and Medium-sized Entities by 2014.

Phase 1: public Listed Entities and Significant Public Interest Entities:
This means government business entities, all entities that have their equity or debt instruments listed and traded in the public markets. Examples include, Nigerian National Petroleum Corporation (NNPC), banks and insurance companies (Oyedele, 2011)

Phase 2: Other Public Interest Entities:
This refers to those entities other than listed entities (unquoted, private companies) which are of significant public interest because of their nature of business, size, number of employees or their corporate status which requires wide range of stakeholders.

Phase 3: Small and Medium-sized Entities (SMEs)
Small and Medium-sized Entities (SMEs) refers to entities that may not have public accountability and their debt or equity instruments are not traded in a public market (Madawaki, 2012). They are not in the process of issuing such instruments for trading in a public market.
There are some areas of similarities between SAS and IFRS. Adekoya, (2001), reveals some of these areas as follows;

1. under both standards, a complete set of financial statements include a balance sheet and income statement and some sort of statement pertaining to non-operative income and expenses;

2. When preparing these statements, both SAS and IFRS require them prepared in the accrual basis as opposed to the cash basis.
3. Both SAS and IFRS required companies used the same policies of accounting that they did in the prior year unless they disclose in their statement any new policies

4. Also, companies are not required to prepared interim report
5. Both standards allow different cost method approach like standard cost method and retail method.

Furthermore, SAS promulgated by NASB were largely based on past IAS promulgated by IASC. Due to the increasing complexity of financial reporting requirements, some of the original IASs were reviewed resulting in their amendment or withdrawal. The SASs were not reviewed or updated with the IASs/IFRSs. The significant disparities between the Nigerian SASs and IFRSs have resulted in the SAS being regarded as outdated and incomplete as an authoritative and internationally accepted guide to the preparation of financial statements. This has significantly diminished the degree of confidence on Nigerian Standards especially by international users of financial statements produced in Nigeria (Umoren & Enang, 2015).

Umoren & Enang (2015) added that there are sixteen (16) IFRSs/IASs with no equivalent SASs: IFRS 1 (First time Adoption of International Financial Reporting Standards), IFRS 2 (Share-based Payment), IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), IFRS 7 (Financial Instruments: Disclosures), IFRS 9 (Financial Instruments), IFRS 13 (Fair Value Measurement), IFRS 14 Regulatory Deferral Accounts, IFRS 15 Revenue from contracts with customers, IAS 18 (Revenue), IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance), IAS 23 (Borrowing Costs), IAS 24 (Related Party Disclosures), IAS 29 (Financial Reporting in Hyperinflationary Economies), IAS 32 (Financial Instruments: Presentation), IAS 36 (Impairment of Assets) and IAS 41(Agriculture). Also SICs (1-33) and IFRICs (1-21) have no equivalent Nigerian interpretations. As a result of the inadequacy of the SAS, IFRS replaced it as at 2012 in Public Listed Entities.

Benefits of IFRS Adoption

The adoption of IFRS has several benefits. Madawaki (2012) outlined some of these benefits as follows;

1. Promotion of the compilation of meaningful data on the performance of various reporting entities at both public and private levels in Nigeria thereby encouraging comparability, transparency, efficiency and reliability of financial reporting in Nigeria.

2. Assurance of useful and meaningful decisions on investment portfolio in Nigeria. Investors can easily compare financial results of corporation and make investment decision.
3. Attraction of Foreign Direct Investment – countries attract investment through greater transparency and a lower cost of capital for potential investors.
4. Assurance of easier access to external capital local companies.
5. Reduction of the cost of doing business across borders by eliminating the need for supplementary information from Nigeria companies.

6. Facilitation or easy consolidation of financial information of the same company with offices in different countries.
7. Easier regulation of financial information of entities in Nigeria.
8. Enhanced knowledge of global financial reporting standards by tertiary institutions in Nigeria.
9. Better quality financial information for shareholders and supervisory authorities.
10. Government to be able to better access the tax liability of multinational companies.

In addition, Ahmed (2010) stated that, adopting IFRS reduces information asymmetry which would lower costs of equity and debt financing, it smoothens the communications between operators, shareholders, lenders and other interested parties resulting in lower costs. IFRS adoption, would offers comparability, lower transaction costs and greater international investment and reduces accounting manipulations and positively impacts firms' stock return and stock related financial performance measures (Epstein, 2009).

IFRS and Corporate Performance of Entities in Nigeria

The performance of Public Listed Companies in Nigeria is expected to improve as a result of IFRS adoption. As business responds to the demands and opportunities of IFRS conversion, revisiting its fundamental business performance management (BPM) processes will likely prove worthwhile (Rusnak, 2009). Corporate performance can be measured in various ways. For example, Ventrakaman and Ramanujam in Hasan *et al* (2010) divide corporate performance into operational and financial performances. Operational performance includes: (i) market share, (ii) product quality, and (iii) marketing effectiveness. Financial performance is broken down into two subcategories: (i) market-based performance (e.g., stock price, dividend payout and earnings per share) and (ii) accounting-based performance (e.g., return on assets and return on equity).

The concept of corporate performance in accounting literatures refers normally to financial aspects such as profit, return on assets (ROA) and economic value added (EVA), using the nick name of ―the bottom line (Hasan *et al,* 2010). Kaplan & Norton (1992) coined the extended measurement of corporate performance as balanced scorecard, where the core idea is to balance the domination of financial and non-financial aspects in corporate performance. Kaplan and Norton's extended corporate performance is in line with the measurement of corporate performance by Ventakraman & Ramanujam.

Simons [2000] defines corporate performance using an approach of market mechanism by which the company actively interacts with the financial, factor and customer product markets. In the financial market, the corporate performance strives to satisfy shareholders and creditors in the form of financial indicators. In the factor market, such as suppliers and other production owners, the corporate ability to pay in time and in agreed amount are important in evaluating corporate performance. Finally, from the perspective of customer product market, corporate performance will be evaluated by parties in the market based on the ability of the corporation to deliver value to customers with affordable price which is the net effect, in turn, will be indicated in the corporate revenue.

Empirical Reviews

Abata (2015) studied impact of IFRS on financial reporting practices in Nigeria (a case of KPMG). The study examined the impact of international financial reporting standard (IFRS) on financial reporting practices of corporate establishments in Nigeria. Data were collected from 50 employees of KPMG (a leading professional financial services provider) through the use of structured questionnaire and analyzed using mean scores, standard deviation and Pearson chi-square analysis. The findings revealed that IFRS provides better information for Regulators than GAAP. The finding further showed that IFRS directly affects how earnings and other key aspect of the business are accounted and reported for. However, the results of the study showed that changes in business processes and operations, financial position of companies and reduction in cost of finance were the least contributions of IFRS to financial reporting practices of KPMG. The results of Pearson chi-square analysis showed that financial reports prepared under IFRS enhanced best practices in a corporate organization; financial statements prepared in line with IFRS provides greater benefits than the former GAAP (SAS); the compliance with IFRS promotes cross border investment and access to and compliance with IFRS will relatively improve the performance of companies. The study therefore recommended that regulatory body should embarked upon enlightenment campaigns on the potential impacts of adopting IFRS in Nigeria.

Umobong & Akani (2015) investigated the differences in the quality of accounting information Pre and post IFRS adoption by manufacturing firms in Nigeria over a five year period. Multiple regression analysis was performed on accounting quality variables and t-test was carried out for equality of mean to compare pre and post IFRS. Results indicate a decline in accounting quality using earnings management, value relevance, and timely loss recognition as independent variables. Earnings and book value of equity are less value relevant and timely loss recognition is less in post-IFRS compared to pre-IFRS period

Umobong (2015) studied on IFRS adoption and firm's performance: a comparative analysis of quoted food and beverage manufacturing firms in Nigeria. Earnings per share, price earnings ratio and dividend yield were selected as performance criterion. Data were collected and divided into pre and post IFRS- comparative analysis and t test was done to ascertain influence of pre and post IFRS adoption on market performance of the firms. Findings indicate that differences on market performance between pre and post IFRS periods are not significant suggesting a weak correlation between adoption of IFRS and market performance of quoted food and beverage manufacturing firms in Nigeria stock exchange.

Yahaya, Joseph & Safiya, (2015) examined international financial reporting standards' adoption and value relevance of accounting information of listed deposit money banks in Nigeria. The paper examines post-IFRS adoption value relevance of accounting information using two models. First, a price model which used proxies such as market price per share, book value of equity per share, earnings per share and cash flow per share. Second, a return-model which used proxies such as annual return, earning per share, change in earning per share, were used. The results show that the explanatory power r^2 for the price model specification is 84% for the total sample and that all coefficients are statistically significant. a comparison of coefficients indicates that the eps of 3.47 has a higher explanatory power than any other variables. the results also demonstrate that explanatory power of accounting numbers increased from pre-adoption (60%) to post-adoption (78%). similarly, explanatory power (r2) for the return model specification is 13.4% for the total sample and just coefficient of eps level is statistically significant. the explanatory power for the return model increased from pre-adoption (15.6%) to post-adoption (16.4%). according to both sub-samples just a coefficient of eps level is statistically significant. so, the result of the return model also indicates adoption of IFRS improved relevance of accounting numbers in the deposit money banking sector.

Umoren & Enang (2015) investigated on IFRS Adoption and Value Relevance of Financial Statements of Nigerian Listed Banks. The sample comprises of twelve listed banks in Nigeria. Specifically, financial statement figures of 2010 and 2011 (pre-adoption period) and 2012 and 2013 (post-adoption) were utilized. Descriptive statistics and least square regression were conducted to analyze the effect of IFRS adoption on the accounting quality. The result indicates that the equity value and earnings of banks are relatively value relevant to share prices under IFRS than under the previous Nigerian SAS. Results also indicate that earnings per share is incrementally value relevant during post-IFRS period while book value of equity per share is incrementally less value relevant during the post-IFRS period.

Okoye, Jane, & Raymond, (2014) Impact of the IFRS Adoption on Stock Market Movement in Nigerian Corporate Organization. Descriptive design was adopted using the stock price and shares traded during two years periods. SPSS Version 7.0 was also used to obtain the mean, variance and Std. Deviation. It observed that the adoption of IFRS in Nigeria will enhance credible financial statements that will also provide a basis for the strength of a corporate entity in capital market hence is a welcome development in Nigerian economy.

Hypotheses

The foregoing empirical discussion provides the context for two vital hypotheses that pin-down the effect of IFRS and financial performance of petroleum marketing entities in Nigeria, formulated in the null form, to wit:

Ho_1: Pre- IFRS adoption has no significant effect on returns on assets in Nigeria
Ho_2: Post-IFRS adoption does not significantly impact on returns on assets in Nigeria

Research Methodology

This section shows the research methodology used to evaluate the effect of IFRS and short run dynamics in the financial performance and if any to achieve the set objectives of the study. A time series design was adopted (Pratt, 2014). This is chosen because of its behavioural, descriptive and quantitative research capabilities in studying social trends. Time series data regarding the variables were sourced from corporate financial statement of the companies, Nigerian stock exchange and the websites of the companies (Yahaya et al, 2015; Umoren & Enang, 2015; Umobong & Akani, 2015).

We utilized the descriptive statistics in the firm of tables to present the pre and post IFRS adoption performance and the one-way analysis of variance (ANOVA) was used to test the hypotheses. With the aid of special package for social sciences 20.0

Model Specification

The study compares the financial performance numbers reported under NGAAP will financial performance numbers reported under IFRS. The following models were tested to determine effect of IFRS adoption in the performance of corporate entities in Nigeria; consequently, the model specification was formulated in the functional form thus:

ROA = ∫(PRE IFRS) - - - i

ROA = ∫(POST IFRS) - - - ii

Expanding the functional form into mathematical form thus:

ROA = $\alpha_o + \alpha_1$ PreIFRS - - - iii

ROA = $\alpha_o + \alpha_1$ PostIFRS - - - iv

Econometrical expression of the model

ROA = $\alpha_o + \alpha_1$ PreIFRS+μ - - - v

ROA = $\alpha_o + \alpha_1$ PostIFRS+μ - - - vi

Where: α_o = Constant. α_1 Coefficient or slope. PreIFRS = PreIFRS Adoption. PostIFRS = Post IFRS Adoption. ROA = Return on Assets μ = Error term. RR = A dummy variable representing the regulatory regime.

Empirical Results and Discussion

The study adopted the one-way analysis of variance (ANOVA) and the one sample ‘t’ test as the statistical tools with the aid of statistical package for social sciences (SPSS) statistic version 20.

Descriptive Statistics

The descriptive information of the variables utilized within the scope of this statistical analysis is conveyed in table 4.1. Regarding the period of this dissertation stretching from 2008 – 2011 Pre – IFRS Adoption and 2012 – 2015 Post – IFRS Adoption., the table presents the minimum (Pre and Post), maximum (Pre and Post) and mean (Pre and Post) values in addition to the standard deviation(Pre and Post) of variables employed in the statistical models.

Table 1: Extract of the Summary of Descriptive Statistics of Financials Pre- and Post-IFRS Adoption

Variables	ROA
Minimum statistic – Pre	-1747.00
Minimum statistic – Post	-70.68
Maximum statistic – Pre	42.95
Maximum statistics – Post	138.08
Mean statistics – Pre	-41.18
Mean statistics – Post	4.81
Standard Deviation – Pre	277.58
Standard Deviation – Post	27.06
N-statistic	80

Starting with the mean which represents the normal state of variables, it can be discovered the average ROA (pre) is 41.17%(-ve), With standard deviation of approximately 277.58% while The average ROA (post) is 4.81%, with standard deviation of approximately 27.06%. The maximum ROA (pre) recorded is 42.95% and the minimum ROA (pre) recorded is 1747% (-ve) while, the maximum ROA (post) recorded is 138.1% and the minimum ROA (post) recorded is 70.68% (-ve) which depict that Post-IFRS ROA was better than Pre-IFRS ROA.

Paired Sample *t*- Test

This shows the level of correlation between Pre and Post variables and the direction of movement amongst them. The table 4.2 below is extracted from the SPSS statistic version 20.

Table 2: Paired samples test correlations

		N	Correlation	Sig
Pair 1	PRE & POST	3	-.308	.800

From table 2 the results reveal a moderate downhill correlation ($r = -.308$, $p < .000$) between the Pre and Post – IFRS financials. The probability (Sig. 2-tailed) value is .800. Since the value is greater than 0.05, the study concludes that there is no statistical significant difference between pre- and post-IFRS adoption financials.

H_{01}: The first hypothesis of the present study posits that "Pre- IFRS adoption has no significant effect on returns on assets in Nigeria". Utilizing the result of the one sample t test above, the test value is -.938 while the critical *t* value from the *t* distribution table with degree of freedom *df* = 39 (40-1) and at confidence level 0.05% = 1.6849 (see appendix VI). Since the calculated t value (-.938) < critical t value (1.6849) and Sig. (2-tailed) is .354 which is greater than 0.05% significance level. The study therefore accepted the null hypothesis and concludes that Pre-IFRS adoption has no significant effect on returns on assets in the Petroleum Marketing Entities in Nigeria during the period of the study.

H_{02}: Hypothesis four states that "Post-IFRS adoption does not significantly impact on returns on assets in Nigeria". From the coefficient table above, the test value is 1.123 while the critical *t* value from the *t* distribution table with degree of freedom *df* = 39 (40-1) and at confidence level 0.05% = 1.6849 (see appendix VI). Since the calculated t value (1.123) < critical t value (1.6849), then the null hypothesis is accepted. The study concludes that Post-IFRS adoption does not significantly impact on returns on assets of Petroleum Marketing Entities in Nigeria during the study period.

Concluding Remark and Recommendations

In line with the analysis and testing of the hypotheses stated to examine the effect of IFRS adoption on Performance of Petroleum Marketing entities in Nigeria, the study concludes that:
Pre- IFRS adoption has no significant effect on returns on assets in the Petroleum Marketing Entities in Nigeria during the period of the study.

Post-IFRS adoption does not significantly impact on returns on assets of Petroleum Marketing Entities in Nigeria during the study period.

In the light of the findings and the conclusions drawn there from, it is quite imperative to make the following recommendations with a view to improving the adoption of IFRS which will in turn positively affect the performance of corporate entities in Nigeria.

1. Institutional factors such as the government, financial reporting council of Nigeria, and Accounting Professional bodies should intensify education and training of accountants on IFRS implementation and interpretations. This is necessary because the success of country adopting IFRS mainly comes from the structure isomorphism rather than coercive isomorphism. Therefore, structural changes should be determinant factors for IFRS convergence by Nigeria.

2. The adoption of IFRS does not automatically leads to improved corporate performance; as such management of corporate organizations should ensure effective and efficient management of resources at their disposal in order to maximize shareholders' wealth. Also, management of Petroleum marketing entities should reduce their short term borrowing (current liabilities) so has to improve on Return on Capital Employed. The decline in returns was due to losses made by Oando oil for 2014 and 2015, Capital Oil for 2013 and 2014 and Japual Oil for 2014 and 2015 respectively as well as high current liability level.

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