

Impact Of IFRS Adoption On The Financial Performance Of Listed Food And Beverage Firms In Nigeria

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THE BACKGROUND

Growing economic integration, cross border trades, international capital flows and increase foreign investments opened up the need for a globally integrated systems in trade and investments. This need also become felt in accounting for some form of international standards to aid business comparability (Carlson, 1997, Ntim, 2012). Some form of international Standards have been on grounds since early 1970s (Larsen, 2008). For example, International Accounting Standards Committee (IASC) was created in 1973 by International Federation of Accounting. This body developed the first set of international standards known as International Accounting Standards between 1973-2001, (Abata, 2015, Hoyle, Schaefer and Doupnik, 2009, Baker, 1997). Following the takeover of IASC by International Accounting Standard Board (IASB) in 2007, the body published standards in a series of pronouncements called International financial reporting standards. The IASB also adopted the standards issued by IASC and those standards are designated as "International Accounting Standards" IAS (Abata, 2015).

International Accounting Standard Board has its objective the development of standards for financial reporting. Initial acceptance was regional, but these standards have become popularized because of globalization and internationalization of the capital market (Agienohulva, and Ilaboya, 2018, Odoemelan, Okafor and Ofoegbu (2019), Isabokke and Chen 2019). The standards, a set of principles-based accounting pronouncements, have now become a global standard developed and issued by the International Accounting Standards Board (IASB) for the preparation of public company financial statements (Barth and Li, McClure 2017). As at February 2012, approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies of which 90 countries have fully conformed to IFRS standard requirements (AICPA/www.IFRS.com).

With the global acceptance of IFRS, many countries have adopted or require their nations and companies to adopt or adapt the standards. Adoption entails complete change over from the previous reporting standards to IFRS in reporting countries whereas adaptation involves selected adoption of suitable standards or gradual adoption of IFRS. Many advantages are associated with adoption of IFRS, some of these include, ease of comparability of business, ability of investors to

evaluate potential investors in foreign countries, simplicity for multinational companies to evaluate possible foreign takeover targets, reduction in cost of preparing consolidated financial statements and ease of transferring accounting staff between countries for multinational firms (Nulla, 2014. Dimitropoulos, et al 2013, Odoemelum , Okafor & Ofoegbu, 2019).

In Nigeria, the consideration for the adoption of IFRS commenced in 2010, and the road map to IFRS was launched in 2012 with adoption done in phrases (Odo, 2018). Eight years after, there is need to conduct an empirical evaluation of the standards to assess the extent it has added value to the quality of financial statement in Nigerian industries, especially in term of value relevance. Many studies have been conducted already in this aspect, but this study seek to deploy recent data and extended period of years in conducting the analysis to establish the value relevance of IFRS adoption. This approach, we believe, will give additional input to the ongoing debate on the relevance of adoption of IFRS. It will equally provide input to the standards setting bodies for possible future reference. More so, teaming accounting scholars and researchers may find it useful in their further discourse on adoption of IFRS.

The study is written in four sub-sections namely, the background, literature review, methodology, results and discussion, and conclusion and policy recommendations.

The main objectives of the study is to compare accounting quality in terms of value relevance before and after the adoption of IFRS. Specific objectives are;

1. to assess the effects of the adoption of IFRS on asset growth of listed Food and Beverage companies in Nigeria
2. to assess the effects of the adoption of IFRS on the returns on Assets on the listed Food and Beverage companies in Nigeria
3. to assess the effects of the adoption of IFRS on the liquidity of Listed Food and Beverage Companies in Nigeria.

The following hypotheses are developed for the study

1. The adoption of IFRS has no significant effect on asset growth of listed Food and Beverage Companies in Nigeria
2. The adoption of IFRS has no significant effect on the returns on asset of listed Food and Beverage Companies in Nigeria
3. The adoption of IFRS has no significant effect on the liquidity of listed Food and Beverage Companies in Nigeria

LITERATURE REVIEW

In Nigeria, the stakeholders' Committee on the Roadmap to the Adoption of IFRS was inaugurated on October 22, 2009 (Umoren and Enang, 2015). The Nigerian Federal Executive Council approved the Roadmap to the Adoption of IFRS in Nigeria in July 2010. This was followed with the enactment of Financial Regulation Council of Nigeria Act in 2011 which led to the transformation of the Nigeria Accounting Standard Board (NASB) to Financial Regulation Council (FRC) (Taiwo and Adejare, 2014). The FRC is a unified independent regulatory body for accounting, auditing, actuarial, valuation and corporate governance. The transition to IFRS was to be carried on in three phrases. Phase 1 relates to the publicly listed entities and significant public interest entities. They were expected to prepare their financial statements using applicable IFRS by January 1, 2012. Phase 2 relates to other public interest entities, which were expected to mandatorily adopt IFRS, for

statutory purposes, by January 1, 2013. Phase 3 relates to Small and Medium-Sized Entities (SMEs) which were expected to mandatorily adopt IFRS for SMEs by January 1, 2014 (Odoemelan, Okafor, and Ofoegbu, 2019).

Prior to full convergence to IFRS in 2012, accounting practice was regulated in Nigerian by National Accounting Standard Board (NASB) which issued Statement of Accounting Standards (SAS). Initially floated as a private sector driven organization, NASB was taken over by government in 1992 reporting to Federal Ministry of Commerce (Taiwo and Adejare, 2014). Its legal backing was entrenched in Section 335 (1) of CAMA1990 which spelt out some disclosure requirements of accounting for companies operating in Nigeria. NASB enjoyed full autonomy as a legal entity with the enactment of Nigerian National Standard Board Acts of 2003. From extant literature, SAS was plagued with a number of limitations some of which include omission of some equivalent standards in International Accounting Standard (IAS) and poor compliance by business operators (Taiwo and Adejare, 2014, Umoren and Enang, 2015). International Financial Reporting Standards (IFRS), therefore, came as a comprehensive pact to the Nigerian accounting practice. The need for the full convergence of IFRS was reiterated in the adoption report: It will be in the interest of the Nigerian economy for reporting entities in Nigeria to adopt globally accepted, high-quality accounting standards by fully converging Nigerian national accounting standards with International Financial Reporting Standards (IFRS) (FRCN, 2020)

From 2012, public firms have been reporting based on IFRS. Their annual reports have been tailored to the demands of IFRS and after several years down the line reflects IFRS requirements. In navigating the terrain of IFRS adoption in Nigeria, this academic writ is focused on corporate financial performance, its measures and its linkages with value relevance of accounting data/variables. In evaluating the key variables of organizations, the annual reports provide the unbroken records of corporate financial performance disclosing wealth created, value obtained or returns generated for stakeholders with a combined force of men, material, money and methods. Corporate financial performance is the scorecard of a company disclosing performance in terms of profitability, efficiency and solvency. Measuring performance with respect to profitability connotes evaluating the outcome of a business in terms of returns and margins (Brigham and Davis, 2002).). Generally, the higher the returns, the better for the firm. One measure which have been consistently used in measuring profitability is the returns on assets, ROA. Returns on asset (ROA) is a measure of how assets are utilized to generate income (Pandey, 1999). ROA is determined by the velocity which is sales divided by assets (Van Horne, 2001). Another important measure of corporate financial performance is efficiency - the ability of an entity to deploy assets to generate revenue. Asset growth is a measure of efficiency. It is determined as the difference between two years asset divided by the base year. The higher the efficiency ratio of a firm, the better for that firm because it shows that assets are well deployed for business operations.

Corporate financial performance can also be assessed by means of solvency index. This connotes its ability to meet maturing obligations and legitimate commitments. The solvency need of a firm in the short run is liquidity which can be determined using current ratio or acid test ratio. While current ratio is measured by dividing the current assets of a firm by its current liabilities, quick ratio is determined by subtracting inventories from current assets before division by current liabilities (Van Horne, 2001, Pandey, 1999) Our interest is centered on profitability as measured by ROA, efficiency as measured by asset growth and solvency as measured by the liquidity - current ratio.

One benefit which scholars have advanced for the adoption of IFRS is improvement in quality and quality in accounting can be measured by value relevance (Yurt and Ergun, 2015). Value relevance is the explanatory power of accounting variables, such as earnings and book value of equity, cash flows, or other relevant variables selected by the author (Beisland, 2009, , Baker, Lembke and King, 2009, Jahmani, Choi, Park, and Wu, 2017, Camodeca, Almici, and Brivio, 2014). The question surrounding value relevance in the context of standard change is, what value addition can be gauged or measured in the elements of accounting data following a switch from an old standard to a new standard? Since one measure of quality is value relevance, it is needful to examine if the adoption of IFRS has actually improved accounting quality.

Many theories have sought to explain why firms pursue better performance through the pursuit of value addition. One of such theories which have offer explanation is value maximization theory. This theory is anchored on the initial work of Michael C. Jensen and Meckling . The theorists posit that the primary objective of an existing firm is to get the most for its shareholders (Jensen and Meckling, 1976). The Jensen further explains that all activities of a firm are geared towards increasing accounting earnings so as to increase shareholders value. Hence, many investors are interested in firms with increase earnings as a means to maximizing their value or wealth. An improvement in performance is an indicator of growth in value generation.

Several studies have been conducted to evaluate the effects of IFRS adoption on accounting variables/measures. Few of these studies are reviewed in this research. For instance, Isaboke and Chen (2018) conducted a study with the objective of evaluating the relationship between value relevance of financial information of non-financial companies listed in China. Panel data of 28,723 firm years was used to determine the value relevance of none-state firms compared with state-owned institution. The companies selected were those listed from 1998 to 2016. Both descriptive and inferential statistic were used. Descriptive statistic consisting of means and standard deviation were employed. Inferential statistic, the least square regression was deployed. Both price and returns model were used. The finding, using the price model, showed a reduction in explanatory power of book value and an increase in earnings. The return model disclosed increase in earning value but with insignificant effect. Overall, a negative impact on value relevance was recorded.

Umoren and Enang (2015) examined IFRS adoption and value relevance of financial statements of Nigerian Listed banks. The main objective of the study was to find out if the adoption of IFRS has improved the quality of accounting information. Twelve Banks in Nigeria were sampled for the period 2010 & 2011 (pre-adoption) and 2012 & 2013 (post adoption).. Descriptive statistic, ordinary least square regression, Ohlson model were used to evaluate the effect of the adoption of IFRS on accounting quality. The overall conclusion drawn is that equity value and earnings have relative value relevance to share prices under IFRS than under the previous Nigerian Statement of Accounting Standards (SAS).

Almodel (2018) evaluated the impact of IFRS adoption on the value relevance of accounting information with evidence from Insurance Sector. The objective of the study was to examine whether the adoption of IFRS has increase accounting information quality. . Both Ohlson (1995) model and Easton and Harris valuation model (1991) were used. Twenty one Insurance firms listed on Saudi Stock Market for the period 2007-2014 which covered pre IFRS and post IFRS period were used. Both returns and price models were used for analysis. The Easton and Harris valuation model

(1991) as well as Feltham and Ohlson's (1995) model were used. The findings from the regression results of the two models show that the accounting information as reflected in the financial statements is not value relevant for the investors in the Saudi stock market.

For Olajide, Rotimi and Monsurat (2018), the objective of their study was to compare the pre and post adoption of IFRS for Nigerian companies. A survey questionnaire with Likert Scale designed was employed to elicit data from 121 purposively selected Stock brokers at the Nigerian Stock Exchange. Primary data, chi-square statistic were employed in data analysis. Accounting data or variables for the study include earnings per share (EPS), profit after tax, operating income, net assets, dividend per share, and the findings showed that stockbrokers at NSE accept that IFRS disclose more value relevance than the former Nigerian Statement of Accounting Standards (SAS).

Abata (2015) evaluated the impact of IFRS on financial reporting practices in Nigeria, using KPMG as a case study. Data were obtained from employees of KPMG, a leading professional financial service provider. The total was seven hundred and fifty one (751). KPMG operates in four divisions namely: Auditing division, Advisory division, Tax division and Central Management division (Administrative division). Strategic random sampling technique was used in administering fifty (50) questionnaire with questions designed using the five-point Likert scale A Standard questionnaire was used and data analysis were carried using means scores, Standard deviation, Pearson correlation and Chi-square analysis. His findings revealed that IFRS provides better information for regulations than GAAP.

Aderin and Otakefe (2015) wrote in IFRS and financial reporting quality in Nigeria. The objective of the study was examine the impact of the adoption of IFRS on the quality of financial reporting using three proxies namely, value relevance, earnings quality and earnings management. Regression models and R^2 were used for the analysis. Data were gathered from annual reports and financial statement of 23 companies listed under the agriculture, conglomerate, construction, healthcare section of the Nigerian Stock Exchange for a four years pre and post IFRS adoption. The conclusion drawn shows that the adoption of IFRS has enhanced financial reporting quality while reducing earnings management practices.

Salah and Abdel-Sulam (2019) carried out a research on the effects of IFRS on financial reporting quality. The objective of the study was to investigate whether IFRS adoption has improved quality than local GAAPs for firms listed on Taiwan Stock Exchange. Three measures were used namely, timely loss recognition, earning of management, and value relevance. Ordinary least square (OLS), Z-test and Binary Logistic regression were employed to investigate the pre-IFRS (2008-2010) and post IFRS 2012-2014. In this study, a sample of 426 manufacturing firms from 8 industries listed in Taiwan Stock Exchange for six years. Regression analysis and chi-square statistic and description statistic were used for data analysis.. The conclusion drawn is that there is no significance difference in the value relevance of accounting in the pre and post IFRS.

From the review conducted, we notice some gaps that make room for new works: This study differs in that data were obtained from Food and Beverage Industries in Nigeria, the duration of the study is longer, that is, eight years before and after IFRS adoption and the data is as recent as 2019. Besides, independent t test is the statistical technique used for the comparative analysis. It is our belief that the findings will offer some contributions or give value addition to research in this area.

METHODOLOGY

Pooled cross sectional panel data were drawn from firms from listed Food and Beverage industry in Nigeria. As at 2019, there are fourteen listed firms from which seven were purposively selected. Data for this research were obtained from secondary sources mainly from annual reports of listed firms selected and pockets of information from the Nigerian Stock Exchange archives. Seven companies were selected for pre and post IFRS adoption for seven years which resulted in 49 observations from pre and post IFRS. Basic data required for computation of variables are total assets, profit after tax, current assets, and current liabilities.

Three accounting variables were selected from three major groups of ratio and financial statement analysis of profitability, efficiency and solvency, there are returns on assets (ROA), Assets growth (ASG) and liquidity (current ratio). These variables are statistical defined as shown in table 3.1.

Variable Measurement and Definition

Variables	Definition	Measurements	Source/References
ROA	Returns on Assets	Profit after tax/Total Assets	Van Horne (2001).
ASG	Asset Growth	Total Assets ₂ -Total Assets ₁ /	Rainbury, Diego and Walker (2010)
LIQ.	Liquidity Ratio	Current Assets/Current Liability	Pandey (1999)

Source: Compiled by the Researcher

Model Specification

Due to our interest in examining the effect of International Financial Reporting Standards (IFRS) on corporate financial performance measured by returns on asset (ROA), asset Growth and Liquidity, the functional relationship is given as follows. IFRS (ROA, ASG, Liq)

The study model as derived from this relationship is presented as follows

- PreIFRS (ASG, ROA, Liq)
- PostIFRS (ASG, ROA, Liq)
- Independent t-test with SPSS package were used to analyze the pre IFRS and post IFRS of the financial performance of the companies selected.

RESULT AND DISCUSSION

The result of the analysis are presented on two tables, 4.1 and 4.2. Table 4.1 shows the descriptive statistic of the variables in the pre and post IFRS period with the mean value, standard deviation and standard errors. Table 4.2 shows the result of the independent t-test with the computation of the mean difference, the F statistic and the PVs. Following the tables presentation are the test of hypotheses and the discussions of findings.

Table 4.1 Descriptive Statistic of Variables

Variables	Obs	Mean	Standard Deviation	Standard Error
ASG	49			
(Pre)	49	2855.4112	7263.63911	1037.66273
(Post)	49	33381.6889	237296.6192	33899.51702
ROA	49			
(Pre)	49	0.2979	0.68570	0.09796
(Post)	49	0.0902	0.09783	0.01398
LIQ.	49			
(Pre)	49	1.1008	0.69094	0.09871
(Post)	49	1.7452	1.90529	0.27218

Source: SPSS Output

As shown in table 4.1, the asset growth had a mean value of 2855.4 for pre-IFRS and 33381 for post-IFRS, it had a standard deviation of 7263.6 for pre-IFRS and 237296.6 for post-IFRS. Both showed wide dispersion between the two periods under consideration. The mean value for returns on asset (ROA) for the pre-IFRS was 0.2979 and 0.0902. The value for standard deviation was 0.68570 for pre-IFRS and 0.097883 for post-IFRS.

The dispersion is also wide in terms of ROA for the pre-IFRS and post-IFRS. The mean value for Liq. was 1.1008 for pre-IFRS and 1.7452 for post-IFRS while the standard deviation for pre-IFRS was 0.69094 and post-IFRS was 1.90529. The wide dispersion of variables in the descriptive statistic shows that some of the firms are small compared to others which are relatively large.

Table 4.2 Independent t-test Analysis

	ASG	ROA	LIQ
Description	Mean	Mean	Mean
Pre-IFRS Adoption	2855.4112	0.2979	1.1008
Post-IFRS Adoption	33381.6889	0.0902	1.7452
*Mean difference	30526.2777	(0.2077)	(0.6444)
F-Value	3.962	9.177	8.869
Probability Values	0.049	0.002	0.004
*Post adoption less Pre-adoption			
Source: SPSS Output			

Test of Hypotheses and Discussion of findings

H0₁: The adoption of IFRS has no significant effect on asset growth of listed Food and Beverage Companies in Nigeria

The summary of the independent t-test as shown in table 4.2 indicates that asset growth was 2855.41 million for pre-adoption and 33381.69 million for post adoption resulting in a positive mean difference of 30526.27 million. The F statistic is 3.962 while the PV value is 0.049. This shows that the adoption of IFRS have a positive effect on the asset growth of listed Food and Beverage firms in Nigeria. A similar findings was made by Adern and Otakefe (2015) who found that IFRS has positive impact on accounting quality compared to former accounting standards.

H0₂: The adoption of IFRS has no significant effect on returns on assets of listed Food and Beverage Companies in Nigeria.

The summary of the independent test in table 4.2 shows that the mean value of ROA in pre-adoption is 0.2979 million while the post adoption value is 0.0902 million. This results in a negative mean difference of -0.2077 million. The F-value is 9.77 and the PV value is 0.002. This implies that the adoption of IFRS have a significant negative effect on ROA of listed Food and Beverage firms. Almodel, 2018, Isaboke and Chen 2018 also made similar findings. Their studies revealed that IFRS adoption did not affect value relevance positively.

H0₃: The adoption of IFRS has no significant effect on the liquidity of listed Food and Beverage Companies in Nigeria.

The summary of independent test as shown in table 4.2 shows that the mean value for liquidity in the pre-adoption of IFRS is 1.1008 million while the post adoption of IFRS show a mean value of 1.7452 with a positive mean difference of 0.6444 million. The F statistic is 8.869 while the PV value is 0.004. This implies that the adoption of IFRS has positive and significant difference on the liquidity of listed Food and Beverage firms in Nigeria. This is in line with the findings of Umoren and Enang (2015) who found that IFRS is an improvement over SAS.

CONCLUSION AND POLICY RECOMMENDATIONS

We examined the effect of the adoption of IFRS on asset growth, ROA and liquidity of listed Food and Beverage Firms in Nigeria for a period of 14 years 2006 to 2019, covering nine firms. The findings from the descriptive statistic and independent t- test conducted showed that IFRS adoption had significant effects on the three proxies, asset growth, ROA and Liquidity. Our findings showed that IFRS adoption has significant positive effect on asset growth and liquidity in the period, but significant negative effects on ROA. Overall, IFRS adoption has a positive effect on the corporate financial performance of listed Food and Beverage firms. In view of the limitation posed by this sectorial study, we cannot conclude this for manufacturing firms but rather suggest that further studies be conducted for listed manufacturing firms in the country. Also, we suggest that further studies could be conducted for companies listed under agriculture, conglomerate, construction, healthcare sector of the Nigerian Stock exchange. Besides, other comparative techniques apart from independent t-test should be explored. We recommend that Listed Food and Beverage should work on improvement of earnings and asset base for positive impact on returns on asset, while policy makers of IFRS should maintain continuous evaluation of the standards to improve accounting quality.

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APPENDIX**Group Statistics**

CODE		N	Mean	Std. Deviation	Std. Error Mean
ASG	PRE	49	2855.4112	7263.63911	1037.66273
	POST	49	33381.6889	237296.6192	33899.51702
ROA	PRE	49	.2979	.68570	.09796
	POST	49	.0902	.09783	.01398
LIQ	PRE	49	1.1008	.69094	.09871
	POST	49	1.7452	1.90529	.27218

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
ASG	Equal variances assumed	3.962	.049	-.900	96	.370	-30526.27774	33915.39471	-97847.80415	36795.24868
	Equal variances not assumed			-.900	48.090	.373	-30526.27774	33915.39471	-98714.45423	37661.89876
ROA	Equal variances assumed	9.177	.003	2.099	96	.038	.20771	.09895	.01130	.40413
	Equal variances not assumed			2.099	49.953	.041	.20771	.09895	.00896	.40646
LIQ	Equal variances assumed	8.869	.004	-2.226	96	.028	-.64447	.28953	-1.21918	-.06976
	Equal variances not assumed			-2.226	60.410	.030	-.64447	.28953	-1.22353	-.06541