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The Adoption Of IFRS And Value Relevance Of Accounting Information In Nigeria

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Abstract: ***This study examines whether the adoption of International Financial Reporting Standards (IFRS) has improved the quality of accounting information in the area of value relevance as it affects the Nigerian quoted firms. The study specifically investigates the perceptions of the preparers and users of financial statements on the effect of value relevance on quoted companies that have adopted IFRS in Nigeria. Regression method was used to analyse the data collected. The findings revealed that the adoption of IFRS has a positive and significant effect on the value relevance of accounting information. The study recommends that the government should empower the relevant bodies to incorporate more measures to improve the quality of the financial reporting in order to increase the value relevance of financial statements.***

Keywords: Accounting quality, IFRS adoption, Preparers and users of financial statements, Quoted firms, Value relevance

I. INTRODUCTION

With the increase in International Financial Reporting Standard (IFRS) adoption, researchers have not relented in their efforts at finding out how the standard has added value to financial information reported to users. Financial reporting on IFRS is expected to communicate higher information quality. In fact, the purpose of establishing IFRS is to develop an internationally accepted set of high quality accounting standards. Therefore, the quality of accounting information is determined by how well it meets the requirements of users. Hence, accounting information quality is influenced by accounting standards (Barzegari, 2011).

High quality accounting standards provide consistent, relevant, reliable and comparable financial information. In spite of this, for any significant investment to occur in Nigeria, investors need accounting information regarding share price, earnings, book value per share and other performance indicators to evaluate the usefulness and quality of financial statements. The accounting information provided by management (preparers) in evaluating the value of a firm is being relied upon by the investors (users), depending on its value relevance.

The IFRSs are standards set by the International Accounting Standards Board (IASB) responsible for monitoring the preparation of financial statements worldwide. Before IFRS came into being, many countries had their own local accounting standards issued by their accounting bodies (Okpala, 2012). Gordon, Loeb and Zhu (2012) opined that financial statements' preparation in line with IFRS enhanced the transparency of financial information and thus improving the value relevance of the affected companies. This indicates that IFRS adoption will give investors more assurance on the financial statements since they have been prepared in line with the international standards. Value relevance of financial information therefore is one of the measures used to determine accounting quality. According to Vishnani and Shah (2008), value relevance implies the ability of financial information contained in the financial statements to explain how the stock market is measured. A value relevant variable is that amount in the financial statements that guides investors in the investment decision.

Despite efforts to improving the quality of accounting information and financial markets in Nigeria, gaps still exist in the literature. Most studies on IFRS and the value relevance of accounting information focused on developed countries like

United States and United Kingdom (Lev & Zarowin, 1999; Francis & Schipper, 1999; Collins, Maydew & Weiss, 1997), where there are refined markets as compared to developing countries. Also, studies considered some value relevance variables like earning per share, book value of equity, share prices without considering other performance indicators like net assets and cash flow from operations (Muhibudeen, 2015). Similarly, Studies considered the significance of value relevance variables before and after IFRS adoption without paying attention to the perceptions of preparers and users of financial statements of quoted companies (Muhibudeen, 2015; Umoren & Enang, 2015; Nadia & Mohamed, 2014; Barzegari, 2011).

This research therefore examines whether the adoption of IFRS has improved the quality of accounting information in the area of value relevance. Specifically, the study seeks to investigate the perceptions of the stakeholders of financial statements on the effect of value relevance on quoted companies that have adopted IFRS in Nigeria. This is important so as to ensure a significant change in the value of accounting information which in turn will become more informative to equity investors in determining the companies' value following the adoption of IFRS.

II. LITERATURE REVIEW

This chapter discusses the adoption of IFRS and the concept of value relevance. It also presents the empirical and theoretical frameworks of the study.

A. THE ADOPTION OF IFRS AND CONCEPT OF VALUE RELEVANCE

The adoption of IFRS in Nigeria commenced in September, 2010 (Madawaki, 2012). The adoption started with Public interest Companies in 2012 and all stakeholders were expected to have complied at the close of year 2014. Today, quoted companies have fully implemented IFRS. The adoption is to ensure high quality accounting standards and to give investors more assurance on the financial statements.

The value of a firm as described by Lawani, Umanhonlen and Okolie (2015), is the total value of a company's stock and accounting numbers. They are value relevant if they can measure information that affects the value of a company's stock. Runstem (1998) suggests three concepts of value thus: accounting value, market value and economic value. He defines accounting value as the book value of equity found in the statement of financial position. Market value is the value or current quoted price (most recently quoted price) of a firm on the stock market (Barth, Mary, William, Beaver & Wayne, 2001). He opined also that economic value is when the value of an asset equals to the future cash flows that can be gained from the asset.

Value relevance is one of the measures used to evaluate accounting quality (Muhibudeen, 2015). It is the ability of information disclosed by financial statements to explain how the value of firm is measured. Value relevance can be measured through information provided by financial statements and stock market value (Kargin, 2013). It is, therefore, regarded as the extent to which accounting information summarises business transactions, predict future earnings, and modifies investors' belief about future cash flows and measures information that impacts the value of company's stock.

B. EMPIRICAL REVIEW

In Nigeria, quite a number of studies have dealt with value relevance. In the study of Adaramola and Oyerinde (2014) on the measurement of the value relevance of accounting information of quoted companies, using trend analysis with the ordinary Least Square regression method. The study shows that accounting information on quoted companies in Nigeria is value relevant. In another study by Pius, Jane and Raymond (2014) on the effect of IFRS on stock market trend in Nigerian capital market. Findings reveal that IFRS adoption in Nigeria enhances credible financial statements and improves the strength of corporate organisations in the capital market.

Adebimpe and Ekwere (2015) also examines whether the mandatory adoption of IFRS improves the value relevance of financial information of banks in Nigeria. Result shows that the equity value and earnings of banks are relatively value relevant to share prices under IFRS. Also, Muhibudeen (2015); Umoren and Enang (2015) investigate the adoption of IFRS and value relevance of accounting information in quoted cement firms in Nigeria. Findings reveal that earning per share and other performance indicators significantly improved following IFRS adoption.

A prior study by Armstrong, Barth, Jagolinzer and Riedl (2010) and Li (2010) indicate that IFRS contribute in reducing information asymmetry and the cost of capital. The study by Bartov, Goldberg and Kim (2005) analyse a sample of German firms. Their findings support the enhancement of accounting information quality for firms switching to IFRS. Using a sample of UK firms, Latridis (2010) result shows that introducing IFRS decreased the level of earnings management and improved the relevance of accounting figures.

Kamath and Desai (2014) investigate the effect of IFRS adoption on financial activities of Indian firms. The results show that financial indicators have been significantly affected by IFRS adoption. In China, Chunhui, Yao, Lee and Liu (2011) reveal that the quality of earnings, significantly improved with the introduction of IFRS. In Greece, Karampinis, and Hevas (2009) test the effect of the mandatory adoption of IFRS on the value relevance of earnings and book values. They find that the adoption of IFRS positively impacted on the value relevance of net income and book value of assets. Andriantomo and Yudianti, (2013) provide evidence concerning value relevance of earnings and book values to stock prices in the Stock Exchange of Indonesia. The research shows that earnings and book values are relevant in explaining stock prices.

Vijitha and Nimalathasan (2013) also examine the relationship between share prices and explanatory variables for the period of five years at Columbo Stock Exchange in Sri Lanka. They observe that the value relevance of accounting information significantly impacted on share price. Callao, Jarne and Lainez (2007) investigate the book-to-market ratio

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of Spanish companies before and after the IFRS adoption in Spain. The market value of shareholders' equity and book values' disparity are value relevant.

In Sweden, Paananen (2008) examines the quality of financial reporting after the mandatory adoption of IFRS. The result, however, suggests a reduction in accounting quality of the IFRS adoption. Niskanen, Kinnunen, and Kasanen (2000) also examine the value relevance of earnings under Finnish accounting standards with IFRS. The result shows that the change to IFRS does not improve the value relevance of accounting information.

C. THEORETICAL FRAMEWORK

The theory underpinning this study hinges on agency theory. Agency theory is based on the idea that when a company is first established, the owners are usually its managers (ICAN, 2014). As a company becomes bigger, the owners appoint managers to run the company's affairs. The owners also expect the managers to run the company in the best interests of the owners. A form of agency relationship therefore exists between the owners and the managers, who communicate to the users of financial reports.

This theory was adopted by Kipchoge, (2015) on the ground that managers (agents) have better access to company's accounting information and can communicate to the market in order to enhance the value of the firm. Through financial reporting, managers as agents communicate to the users of financial reports information that is useful in making economic decision. This study, therefore adopts the agency theory as the financial information disclosure shows the function of an agent (manager) to his principal leading to communication of information to users. This theory also agrees with the study carried out by Musa and Shehu (2014).

The adoption of IFRS by Nigeria is part of the economic reform programmes by government and standard setters to improve the quality of accounting information in the area of value relevance. This is why it is necessary to research whether IFRS has yielded positive result in relation to the value relevance of accounting information on companies that adopted it in Nigeria. The above and prior findings with regard to the effect of the adoption of IFRS on the value relevance of accounting information lead to the following hypotheses that:

H_1: there is no significant relationship between the adoption of IFRS and value relevance of accounting information.

H_2: there is no significant effect of value relevance's performance indicators on quoted companies that have adopted IFRS in Nigeria.

III. RESEARCH METHODS

The study adopted a survey research design method to ensure that the researcher cover a larger population aimed at obtaining a subjective opinion of the respondents. Primary method of data collection was adopted to determine the perceptions of the preparers and users of financial statements of quoted firms in Nigeria that consist of the population. The preparers are (244) active quoted companies in Nigerian Stock Exchange represented by Finance Managers responsible for financial statements' preparation. They are selected as respondents due to their experience in IFRS and can act on behalf of the shareholders. The users of financial statements are (225) investors represented by Investment analysts firms generated from the list of Capital market operators (Iyoha & Faboyede, 2011). Investment Analysts are picked as respondents for the fact that they are major users of annual reports (Mangena, 2004), they equally have good investment knowledge (Baker, 1998) and they also provide analytical information that meets the needs of their clients (Gebhardt, Reichadt & Wittenbrink, 2004).

Stratified random sampling technique was adopted as the population was grouped into two categories of preparers and users of annual reports. A sample of 216 respondents was selected at random, representing 46% of the population with the use of Yaro Yamane sampling determination technique on population size of four hundred and sixty nine respondents. A computer package, on excel, was programmed to select 216 random numbers within the specified range in proportion to the stratified share of the total population. The number generated was utilised to choose the preparers and users of annual reports from the study sample. This is to ensure the robustness of the study and representativeness of the sample.

The instrument used was a survey questionnaire designed on a 5-point Likert scale options divided into two sections, from strongly agree to strongly disagree. A total number of 112 questionnaires were returned by the preparers out of which 88, representing 79% were useable. For the users, 104 questionnaires were returned out of which 92, representing 88% were found useable. The validity of the questionnaire was confirmed by professionals and pilot survey was adopted for the reliability test and it yielded a correlation coefficient of 0.74 (74%). The Ordinary Least square Regression was used to analyse the data.

A. MODEL SPECIFICATION

For the purpose of measuring the relationship between dependent and independent variables, an econometric model adapted from the work of Uthman and Abdul-Baki (2014) is hereby specified:

$$UFS = f(PFS) \dots\dots\dots\dots\dots\dots\dots\dots \quad 3.2$$

The functional form of the model could be presented explicitly as:

$$UFS = \beta_0 + \beta_1 PFS + e_0 \dots\dots\dots\dots\dots\dots\dots . \quad 3.3$$

Where:

UFS = Users of financial statements (Investment Analysts) as a proxy for value relevance of accounting information (VR).

PFS = Preparers of financial statements (Finance Managers) as a proxy for IFRS adoption.

$\boldsymbol{\beta_0}$ is the intercept of the regression line; $\boldsymbol{\beta_1}$ is the slope of the regression line.

$\mathbf{e_0}$ is the stochastic random error term.

The model specified above captured users of financial statements (VR) as dependent variables while preparers of annual reports (IFRS) as an independent variable.

A. RESULT AND DISCUSSION

The result of the regression analysis for hypotheses is presented below.

TEST OF HYPOTHESIS

HYPOTHESIS ONE

H_1: There is no significant relationship between the adoption of IFRS and value relevance of accounting information.

Dependent Variable: UFS
Method: Least Squares
Date: 04/27/16 Time: 13:33
Sample: 1 15
Included observations: 15

Variable	Coefficient	Std. Error	t-Statistic	Prob.
PFS	0.985642	0.097677	10.09078	0.0000
C	1.052708	3.042147	0.346041	0.7348

R-squared	0.886783	Mean dependent var	18.40000
Adjusted R-squared	0.878074	S.D. dependent var	27.83831
S.E. of regression	9.720550	Akaike info criterion	7.509927
Sum squared resid	1228.358	Schwarz criterion	7.604334
Log likelihood	-54.32445	Hannan-Quinn criter.	7.508922
F-statistic	101.8238	Durbin-Watson stat	2.433545
Prob(F-statistic)	0.000000		

Source: E-view 7.0 Output

Table 4.2: Regression Result

The result of the findings from table 4.2 is based on the response of the respondents on 5-point likert scale option for the test questions (1-3) as regards the preparers and users of financial statements respectively. The findings revealed that the coefficient of determination (R^2) stood at approximately 0.8868. This implies that 88.68% is explained by the preparers of financial statements in relationship to users of financial statements while 11.32% is also explained by the disturbance error term which is unobservable in the model. The value of the adjusted (R^2) explains the true behaviour of the R^2. Thus, the model shows a good fit.

The findings also revealed that the p-value of the t-statistic is less than the test of significance at 5%; this implies the significant effect of the variable. The overall test of significance, the F-statistic, revealed p-value as being less than 0.05. Also, the value of Durbin-Watson statistic is within the acceptable limit for zero autocorrelation which reinforces the acceptance of the null hypothesis of no serial correlation in the residual of the model.

DECISION: Based on the result that p-value is less than the test of significance at 5%, we, therefore, reject the null hypothesis (H_1), and conclude that there is significant relationship between the adoption IFRS and value relevance of accounting information within the scope of survey considered.

HYPOTHESIS TWO

H_2: there is no significant effect of value relevance performance indicators on companies that have adopted IFRS in Nigeria.

Dependent Variable: UFS_1
Method: Least Squares
Date: 04/27/16 Time: 13:35
Sample: 1 15
Included observations: 15

Variable	Coefficient	Std. Error	t-Statistic	Prob.
PFS_1	1.136151	0.024324	46.70976	0.0000
C	-1.596255	0.704742	-2.265020	0.0412

R-squared	0.994077	Mean dependent var	18.40000
Adjusted R-squared	0.993621	S.D. dependent var	27.14722
S.E. of regression	2.168162	Akaike info criterion	4.509202
Sum squared resid	61.11204	Schwarz criterion	4.603609
Log likelihood	-31.81902	Hannan-Quinn criter.	4.508197
F-statistic	2181.802	Durbin-Watson stat	2.324641
Prob(F-statistic)	0.000000		

Source: E-view 7.0 Output

Table 4.3: Regression Result

The result of the findings from the above table 4.3 is based on the response of the respondents on 5-point likert scale option for the test questions (4 to 6) as regards preparers and users of financial statements respectively. The findings revealed that the coefficient of determination (R^2) stood at approximately 0.9941. This implies that 99.41% is being explained by the PFS_1 in relationship to UFS_1 while 0.59% is explained by the disturbance error term which is unobservable in the model. The value of the adjusted (R^2) explains the true behaviour of the R^2. Thus, the model shows a good fit.

The findings also revealed that the p-value of the t-statistic of PFS_1 is less than the test of significance at 5%. It, therefore, shows the significant effect of the variable. The overall test of significance, the F-statistic, revealed that the p-value against its calculated value is less than 0.05. Also, the value of Durbin-Watson statistic is within the acceptable limit for zero autocorrelation and it is considered interesting because it reinforces the acceptance of the null hypothesis of no serial correlation in the residual of the model.

DECISION: On the basis of the above result, we, therefore, reject the null hypothesis (H_2) and conclude that there is significant effect of value relevance performance indicators on companies that have adopted IFRS in Nigeria within the scope of survey considered.

B. DISCUSSION OF RESULT

The research work is on the effect of the adoption of IFRS on value relevance of accounting information in Nigeria. The results of hypotheses tested revealed positive and statistical significance between the adoption of IFRS and value relevance of accounting information in Nigeria. This will increase the confidence of equity investors and help them to have assurances on the value of companies following IFRS adoption. It will also assist the standards setters and Nigeria to know which accounting standards are of higher quality (Muhibudeen, 2015).

In addition, the results also showed a significant effect of value relevance performance indicators on companies that have adopted IFRS in Nigeria. This significant effect enhances economic development of quoted companies that adopted IFRS in Nigeria. The overall evidence strongly suggests that the adoption of IFRS led to a significant increase in value relevance of accounting information which is consistent with the primary objective and in agreement with Kamath and Desai (2014); Chunhui, Yao, Lee & Liu (2011); Latridis (2010); Jermakowizc, Prather-Kinsey and Wulf (2007) and Bartov, Goldberg and Kim (2005) that IFRS adoption in Germany, UK, India and China is value relevant and has significantly improved.

IV. CONCLUSION AND RECOMMENDATION

A. CONCLUSION

This study examines the effect of the adoption of IFRS on value relevance of accounting information in Nigerian quoted firms. The agency theory was used to develop the hypotheses tested in the study. On the basis of the overall result, it could, therefore, be concluded that the adoption of IFRS positively and significantly improved the quality of accounting information in the area of value relevance which is consistent with its primary objective and in agreement with Kamath and Desai (2014); Chunhui, Yao, Lee & Liu (2011); Latridis (2010); Jermakowizc, Prather-Kinsey and Wulf (2007) and Bartov, Goldberg and Kim (2005) that IFRS adoption in Germany, UK, India and China significantly improved the value relevance of accounting information.

B. POLICY IMPLICATION

The result showed a positive and statistical significance between the adoption of IFRS and value relevance of accounting information in Nigeria. There is also a significant effect of value relevance performance indicators on quoted companies that have adopted IFRS in Nigeria. This shows that the adoption of IFRS leads to a significant improvement in value relevance of accounting information. There is, therefore, the need for a policy shift in favour of value relevance of accounting information in Nigeria if IFRS is to stand the test of time.

C. POLICY RECOMMENDATION

Based on the above, it is, therefore, recommended that the government should empower the relevant bodies to incorporate more measures to improve the quality of the financial reporting in order to increase the value relevance of accounting information. This process will produce a more credible qualitative financial statements that will not only be uniform but also provide a basis for relevance, consistency, comparability and reliability. This invariably will strengthen the confidence of investors and provide assurances on the value of companies following the adoption IFRS.

S/N	Test Questions	Preparers of financial Statements (Finance Managers)					Users of financial Statements (Investment Analysts)				
	The relationship between IFRS adoption and Value Relevance of Accounting Information	**SA**	**A**	**I**	**D**	**SD**	**SA**	**A**	**I**	**D**	**SD**
1	IFRS adoption has significant effect on value relevance variables	60	20	5	2	1	81	7	2	1	1
2	IFRS adoption enhances positive contribution to the increase of value relevance of accounting information	76	12	0	0	0	58	27	0	7	0
3	IFRS increases the quality of Financial statements coupled with strengthening corporate entities in capital market	66	15	3	1	3	70	16	3	2	1
	The effect of Value Relevance on companies that adopted IFRS										
4	The increase in value relevance of accounting information enhances economic development of quoted companies that adopted IFRS in Nigeria	68	15	0	4	1	74	15	0	2	1
5	Value relevance of accounting information has significant effect on share price and other performance indicators	61	11	8	6	2	66	11	8	5	2

6	Value relevance of accounting information helps to predict future earnings, assess the usefulness and quality of financial statements	59	15	7	3	4	70	14	2	4	2

Appendix 1: Respondents' responses on administered questionnaire

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