
CHANGING ACCOUNTING STANDARDS AND BUSINESS SURVIVAL IN NIGERIA

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Abstract

As Business in the world continue to migrate to interconnected economy, the need to accommodate differences in accounting treatments, platform for comparism, standard for regulation, international transparency, enabling a level playing ground for investors, these innovations necessitate better understanding of morden accounting education. Financial analyst, government et cetera necessitated the need for change in accounting standard. This paper examined the changing accounting standard and business survival in Nigeria. Two (2) objectives were developed to guide the paper. The

following were discussed: Historical Background of the internationalization of accounting standards, Institutions fostering IFRS Adoption, Harmonization, Convergence and Adoption of IFRS: The Clarification, Benefits of IFRS Adoption, Differences between Nigeria GAAP and IFRS. Hence, made some empirical review. The paper adopted the Pure Impression Management Model (PIMM) of accounting propounded by Keppler in 1995. The paper revealed that the changing accounting standard are targeted at improving the business organizations as it will bring increased market liquidity and value, attraction of local and foreign investment; and wider access to funds. It concluded that the change in accounting standard to the survival business survival in Nigeria has lots of benefits as it will bring increases market liquidity, attraction of local and foreign investments and wider access to funds and finally, recommended amongst others that Suitable standards must be developed to facilitate recognition of the small and medium scale enterprises (SMEs) since most of the standards include complex and detailed disclosure issues application to larger companies which are listed in the stock exchange market.

Financial statements need to be harmonize companies with subsidiarized across countries with different currencies have to be converted to a common currency. The Financial Accounting Standards Board (FASB) has been working closely with the International Financial Reporting Standards (IFRS) in the past decades. As the world continues to migrate towards an interconnected economy, the market recognizes that it is easier to have one set of accounting rules to record economic transactions and facilitate cross-border capital flows.

Gliautier & Underdown (2011) stated that the need for the imposition of standards arose because of lack of uniformity existing as to the manner in which periodic profits were measured and the financial position of an enterprise presented. Standards are concerned either with how assets might be valued. People in every walks of life are affected by business reporting, the cornerstone upon which our process of capital allocation is built. An effective allocation process is critical to a healthy economy that promotes productivity, encourages innovation and provides an efficient and liquid market for buying and selling securities, obtaining and granting credit. Conversely, a flawed allocation process supports unproductive practices, denies cost effective capital to companies that may offer innovative products and services that add value, and determines the securities market. Reporting standards play an important role in helping the market mechanism work effectively for the benefit of companies, users and public.

Hendriksen & Brenda (2007) noted that although accounting policies are being established on an international level through the International Accounting Standards Committee (IASC), the compliance with its standards is limited to the acceptance of the standards by the representing professional accounting societies and by other organizations and government agencies within represented countries.

The Nigerian government, through the approval of the Nigerian Executive Council on 28th July, 2010, took a stand to adopt the International Financial Reporting Standard (IFRS) in Nigeria. The local accounting standard-setting body in Nigeria, the Nigerian Accounting Standards Board (NASB), subsequently published a road map for a staged implementation of IFRS adoption in Nigeria in September 2010, with January 2012 set to be the take –off date for publicly quoted companies and significant public interest entities (Adeyemo and Isenmilia,2013; Odi and Ogiedu, 2013; Ayuba, 2012). January 2014 was set to be the take-off period for Nigerian Small and Medium-sized Entitiess (SMEs) to adopt the IFRS. The Small and Medium-sized Entities Guidelines on Accounting (SMEGA) Level 3 issued by the United Nations Conference on Trade and Development (UNCTAD) was another financial reporting standard synonymous to the IFRS for SMEs. Arguments for mandatory IFRS adoption for publicly quoted organizations in Nigeria stem from the associated benefits such as result-comparison, compliance with global best-practice, opportunity for the attraction of foreign direct investments, amongst others. It becomes highly desirable for Nigerian SMEs to adopt by some countries in the continents of the world such as; South America, Caribbean, Central America, Africa, Asia, Middle East, Eurasia, Europe and North America (IFRS for SMEs fact sheet 2012). In this connection studies by Adetula, Owolabi and Onyinye 2014 reported that a major factor responsible for IFRS adoption by SMEs in Nigeria was that other countries around the world are adopting it. This paper therefore examined the changing accounting standards and business survival in Nigeria.

Statement of the Problem

In recent times, there has been noticeable rise in the number of researches, including studies by Isenmila and Adeyomo (2011), on the adoption of IFRS by public companies, apparently because **IFRS** adoption has been a topical and burning issue in Nigeria for some time now, since the federal government announced a transitioning date of January 2012. SMEs are the life wire of any nation towards attaining sustainable development. (Muritala, Awolaya and Bako 2012, and financial reporting by them to communicate their performances to interested parties is an activity that is too important to be downtrodden or lightly-esteemed. As such, researches on IFRS adoption by them equally deserve well-accorded attention paid to the publicly quoted and large scale organizations.

As Nigeria enters the transition phase of IFRS adoption by business in Nigeria, there is need to assess the level of preparedness for IFRS adoption, as well as effect on survival of these business in Nigeria.

Objectives of the Study

This paper tried to examine the changing accounting standards and business survival in Nigeria. Specifically, it tried to:

- i. Examine the level of preparation of Nigerian SMEs for IFRS adoption.
- ii. Determine the overall effect of changing accounting standards on business survival in Nigeria

Significance of the study

The finding from this paper will be immense help and contribution to the wealth of knowledge on changing accounting standards as much has not been said in this regard. Financial experts, accountants, auditors, bankers, organizations, researchers and other users of information will benefit from this information.

Review of Related Literature

Conceptual Review

The proposed convergence of International Financial Reporting Standards (IFRS) has initiated numerous academic and policy debates. Opponents of IFRS argue that the less specific standards decrease the inter-firm comparability and provide opportunities for financial statement manipulation. The switch to more principal-based IFRS might provide aggressive accounting reporting opportunities to some management teams since they can interpret the accounting rules with less precise standard 2012.

The Concept of SMEs

Small and Medium Sized Enterprises (SMEs) occupy a vital position in the Nigerian economy, like they do in other countries, because they contribute to national development by employing labour, tax payment, use of local resources, exportation of their goods, innovativeness in meeting the needs of the society. Ezeani and Oladele, (2012) posited that many developing countries who wanted to be IFRS-compliant have the option of adapting, adopting or converging with the IFRS. Madawaki (2012) argued that IFRS helps to achieve high standard, transparency and comparability in financial reporting, which is a justification for adopting IFRS by over 100 countries around the world. The Good Practice guidance suggested that IFRS is increasingly becoming the primary generally accepted accounting principle (GAAP) for many global audit firms.

The Concept of IASC

The IASC (the issuer of IFRS) – for the purpose of IFRS for SMEs – defined SMEs to be entities that do not have responsibilities to account to the public; do not have their equity or debt instruments publicly traded; and do not primarily hold assets in fiduciary capacity for members of the public. Most firms regarded as SMEs in developing countries do not meet the definition adduced by IASC, and in order to address this limitation, it was recommended that entities who do not meet the IFRS

definition for SMEs may report using the Small and Medium-sized Entities Guidelines on Accounting (SMEGA) Level 3 issued by United Nations Conference on Trade and Development (UNCTAD). Adopting either the IFRS for SMEs or the SMEGA is aimed at ensuring small sized organizations benefits from internationally acceptable reporting practices that large organizations enjoy such as comparability, transparency, relevance and reliability of financial reports.

The Hong Kong Institute of Certified Public Accountants 2004 expressed concerns over cost vis-à-vis benefits to SMEs. The European Accounting Association Financial Reporting Standards Committee 2004 stated that IFRS issued by the IASB were influenced by the user needs of a traditionally Anglo-American corporate governance tradition, and, since the Continental model apply to most of Europe, the IFRS for SMEs will not address the reporting needs of SMEs in Europe (Joos and Lang, 1994; Zeghal and Mhedhbi 2006).

The Association of Finish Accounting Firms 2007 contended that the IFRS for SMEs was more stripped-down version of the IFRS for large companies; it was too complex for SMEs to adopt. The Institute of Chartered Accountant in Australia and that the financial reporting needs of key stakeholders in Australia were not taken care of. The Institute for Chartered Financial Analysts commented that the proposed IFRS for SMEs would create non-comparable information. The Italian Organismo Italiano di Contabilita and The Hundred Group of Finance Directors Standard Board of the UK commented that the exposure draft is only applicable to larger companies in the SMEs sector. The Mouvement des Enterpries de France and ICAC (Spain) suggested more simplification of the standard 2009. The United Nation (2008) maintained that in developing countries, compliance with global reporting standard for SMEs is believed to be more difficult than elsewhere, possibly because the standard setter (IASB) do not necessarily accommodate the peculiarities (such as the unique challenges and the heterogeneous nature) of the developing countries (Simpson, (2008;) Oberholster, (1999). And Sacho and Oberholster (2008) opined that developing countries do not usually develop indigenous accounting standards and are required to apply IFRS, which might result in distorted results.

Positive Accounting Theory (PAT)

PAT has created avenue for significant accounting research. It began in the 1960s when Ball and Brown (1968) initiated the use of empirical finance methods for financial accounting research which led to the information perspective. According Watts and Zimmerman (1980) the information perspective gave much enlightenment on the use of accounting numbers for market analysis but could not provide explanations for accounting choices except for inventory valuation methods. Fields, T. D., Lys, T. Z & Vincent, L. (2001), posit that studies in the last two decades made inadequate progress in the expansion of knowledge and understanding of accounting choice due to constraints in research design and most of the research were replicated rather than

extending the frontiers of PAT research and knowledge. PAT has been criticized for restricting the boundaries of accounting research by edging out normative accounting research although it is still useful for advancing accounting practice. For this, Sue, D.W. (2008) argues that PAT has slim the scope of accounting research and thus, narrowed the focus and vision of accounting researchers. However, PAT has made significant contribution to accounting research especially with adventure of information perspective and the mass of the research in the area.

Historical Background of the Internationalization of Accounting Standards

The first move towards accounting standards convergence was the proposal to create the Accountants International Study Group (AISG) by the professional accountancy bodies in Canada, the United Kingdom and the United States in 1966. This was formed in order to develop comparative studies of accounting and auditing practices in the three nations. The AISG was eventually created in 1967. It published 20 studies until it was disbanded in 1977. Sir Henry Benson put forward the proposal for the setting up of the International Accounting in Sydney in 1972. After discussions and signature of approval by the three AISG countries and representatives of the professional accountancy bodies in Australia, France, Germany, Japan, Mexico and the Netherlands, the IASC was established in 1973. Sir Henry Benson was the first elected Chairman while Paul Rosenfield was the first secretary of the IASC countries (Germany) did even a relatively small number of listed companies used IASs to report to domestic Investors.

The primary goal of IASC formation was to develop a single set of high quality International Accounting Standard (IASs) to place national standards. Between 1973 and 2001, the IASC issued 41 standards or IASs before it was replaced by International Accounting Standards Board (IASB). All listed companies in France, Germany, the Netherlands and the UK and other 21 countries were mandated by the European commission to adopt IASs or the International Financial Reporting Standards (IFRS) from 2005. The Australian government and standard setter had put up an adoption policy of IAS by 2005. The US roadmap for adoption is 2014-2016. Canada and Japan are also considering convergence with IFRS.

A Memorandum of Understanding (MOU) was agreed between the United State Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB), towards the convergence of US GAAP and the IFRS in 2002. In the Norwalk Agreement, both the FASB and IASB pledged their joint commitment towards the development of high quality, compatible accounting standards for both domestic and cross border financial reporting. In fact it is believed that accounting harmonization is necessary for the globalization of capital market Quegley (2007) IFRS adoption is believed to have the most significant impact on accounting and financial reporting function, enhanced greater transformation and disclosure in financial statement Epstein, (2009)

Institution fostering IFRS Adoption

On the international level front, the World Bank, the International Monetary Fund (IMF), the G8, the G7 Finance Ministers and Central Bank Governors, International Organization of Securities Commissions (IOSCO), Basel Committee on Banking Supervision, the United Nations (UN) and the organization for Economic Cooperation and Development (OECD) have publicly recommended the adoption of a single set of global accounting standards per the 'IAS. The US SEC Concept released in 2000 on the International Accounting Standards also encouraged the convergence towards a high quality global financial reporting framework internationally that will enhance the vitality of capital markets. The European Commission saw in 2002 a common set of accounting standards as a critical pillar in building a united capital market in Europe (Mc Creevy, 2006). On the national level many government and tax authorities want a global accounting standards to regulate and tax business that operate within their countries. In Nigeria, besides the government's readiness, the Nigerian Accounting Standards Board (NASB) now the Financial Reporting Council (FRC), Nigerian Stock Exchange, (NSE) and Central Bank of Nigeria (CBN) were among the major agents for IFRS adoption in 2012.

Harmonization, Convergence and Adoption of IFRS: The Clarification

The concerns for harmonization of accounting standards and later convergence in the 1990s with IFRS are due to the globalization of the capital markets. In fact, it is believed that accounting harmonization is necessary for the globalization of capital markets (Quigley, 2007). Investors now seek investment opportunities all over the world. Many business entities continue to expand their operations across national borders. Companies are seeking capital at the lowest cost any were. Securities markets are crossing national boundaries (and increasing cross – border capital flow). Merger talks among some of the world's largest stock exchanges continue and the glowing investment transaction via the internet. There is need for transparency in company reports so that investors, lenders and other users of financial information of companies could compare their performance from one country to another. There is the need to provide information that are relevant, reliable and understandable meet to provide information that are relevant, reliable and understandable to meet the needs of investors, for easy comparability of companies' performance and the decision to buy, hold or sell made easy through reduction or elimination of differences in accounting policies and principles between countries.

The term harmonization means "the reconciliation of different accounting and financial reporting systems by fitting them into common broad classifications, so that form becomes standard while content retains significant difference" (Matthew & Perera, 1996). Convergence means the process of converging or bringing together international standards issued by the IASB and existing standard issued by national standard setters, with the aim of eliminating alternatives in accounting for economic

transactions and events. The ultimate objective of convergence is to achieve a single set of internally consistent, highly quality global accounting standards, issued by the IASB and adopted by all the national standard setters (IASB, 2003).

The need for global convergence of accounting standard or for an international standard setter is to:

- i. Recognized the growing need for international accounting standards.
- ii. Ensure no individual standards setter has a monopoly on the best solutions to accounting problems.
- iii. Ensure no national standard setter is in a position set accounting standards that can gain acceptance around the world.
- iv. Clarify that there are many areas of financial reporting in which a national standards setter funds it difficult to act alone. Topazio (2008)

Convergence is the process by which standard setters across the globe discuss accounting issues drawing on their combined experiences in order to arrive at the most appropriate solution. Obazee (2007) suggests that convergence could be either by adoption (a complete replacement of national accounting standard with IASB's standards) or by adaption (modification of IASB's standards to suit peculiarities of local market and economy without compromising the accounting standards and disclosure requirements of the IASB's standards and basis of conclusions). Convergence was meant to bring standard like the US GAP and IFRS closer or harmonize them; to produce identical standards. According to SEC (2010), there are two approaches to IFRS adoption around the world: convergence and endorsement approaches. SEC (2010) classifies jurisdictions which do not adopt IFRS as issued by the IASB as following the convergence approach.

Benefits of IFRS Adoption

The adoption of IFRS will lead to:

1. Greater transparency and understandability, (2) Lower cost of capital to companies and (3) Higher share prices (due to greater confidence of investors and transparent information), (4) Reduced national standard-setting costs, (5) Ease of regulation of securities markets, easier comparability of financial data across borders and assessorly investment opportunities, increased credibility of domestic markets to foreign capital providers and potentials foreign merger partners, and to potential lenders of financial statements from companies in less-developed countries. It will also facilitate easier international mobility of professional staffs across national boundaries. For the multinational companies, it will help them to fulfill the disclosure requirement for stock exchanges around the world (Armstrong, Barth, Jagolizer & Riedl, (2007), Covering, Defond & Hung 2007, Daske, H. Hail, L. C& Verdi (2008). Other benefits include: the lower susceptibility to political pressures than national standards, continuation of local implementation guidance for local circumstances and the tendency for accounting standards to be raised to the highest possible quality level throughout the

world. Choi F; Forst D.S. Carol A; and G.T (1999) Alfredson R.,Leo, K Picker, R. Pacter P, & Raford J (2004). The net market effect of convergence is a function of two effects. The first is the direct informational effect – whether convergence increases or decreases accounting quality. The second is the expertise acquisition effect or whether investors become experts in foreign accounting, which depends on how costly it is to develop the expertise. The ex ante net market effect of convergence is uncertain.

Armstrong, C. Barth, M. Jagolizer, A. & Riedl, E. (2007) found that investors expected net benefits to IFRS adoption in Europe associated with increases in information quality, decreases in information asymmetry, more rigorous enforcement of the standards, and convergence. They found (1) an incrementally positive reaction for firms with lower quality pre-adoption information, which is more pronounced in banks, and with higher pre-adoption information asymmetry, consistent with investors expecting net information quality benefits from IFRS adoption (2) an incrementally negative reaction for firms domiciled in code law countries, consistent with investors' concerns over enforcement of IFRS in those countries and (3) a positive reaction to IFRS adoption events for firms with high quality pre-adoption information, consistent with investors expecting net convergence benefits from IFRS adoption. Gordon (2008) listed the benefits from adoption of IFRS over the world to include: better financial information for shareholders and regulators, enhanced comparability, improved transparency of results, increased ability to secure cross-border listing, better management of global operations and decrease cost of capital.

Difference between Nigerian GAAP and IFRS

The International Accounting Standard Board (IASB) developed the IFRS and the Nigeria GAAP was developed by NASB called Statement of Accounting Standard (SAS). There are some significant differences that exist between the two. The details of the differences as presented in table 1 was explained by Daske,(2006).

Table 1 : Differences between IFRS and Nigerian GAAP

AREAS	NG-GAAP	IFRS
Financial Statement Presentation	Income statement Balance sheet cash flow statement Accounting policies Note to account	Statement of comprehensive income Statement of financial position (balance sheet) Statement of changes in equity Statement of cash flows Accounting policies Notes Significant management estimates and judgment
Property, plant and equipment	Directors report Measured using cost model	Measured using cost model with detailed guidance regarding; Componentization Useful life Residual value Impairment calculations and identifying cash generating unit
Related parties	Limited disclosure but expected	Detailed guidance on identification or related parties and detailed disclosure of related parties and transactions.
Segment reporting	More on geography	Operation segment based on management view threshold for reportable segments is result or assets of an individual segment should be 10% or more of all segments. If the aggregate revenue of all reported segments on this basis is less than 75% of total, then more segment required until 75% threshold is reached.
IFRS – first time adoption	Not applicable	Provide guidance and requirements on the transition to IFRS. Also provides relief for certain items in the preparation for opening balance sheet
Financial guarantee	Disclosed as contingent liabilities	Requirement financial guarantees to be recognized at their fair value
Scope of consolidation	General principles	Investment under control is consolidated.
Employee benefits	General expenses and disclosure on pension	Complex criteria of accounting Recognize the undiscounted amount of short term employee’s benefit.
		Credit risk, Liquidity risk, Price risk

Risk management disclosure	Limited disclosure on foreign, exchange and credit risk.	Capital risk management, Risk management
Leases	Based on general guidance, operating and finance lease	Fair value and amortized cost are used in valuation. Certain transactions/contracts containing hidden leases which needed to be accounted for.
Impairment	No specific standard	Carry out impairment test based on trigger vent IFRS 36 impairment on non-financial assets IAS 39 impairments on financial assets
Financial	Classification includes; cost and amortized cost	Classification included; amortized cost, fair value cost. This is driven by the business model and the nature of instrument.

Source: Adekoya, (2011) in Abdulkadir (2013)

Empirical Review

In a study carried out by Nwakaeze (2010) title “regulation of financial reporting for accountability in public companies in Nigeria, sought to correlate the non compliance with the financial standards and governance code in 20 selected public quoted companies on the Nigerian stock exchange (NSE) in the Delta State. The population of the study was made up of 20 public companies quoted on NSE. The instrument for data collection was questionnaires. Data collected was analyzed using percentages and chi-square. The study revealed that there is none compliance by the general public at large. The authors recommend that stipulated penalties go to deviants as to enforce a credible reporting system. In another study it was found that behavioral accounting recognizes the extent to which internal and external influences in the course of operating the system of accounting changes corporate objectives of the organization. It recommended the governance to emphasize the effectiveness of what is submitted to them.

Theoretical Framework

This paper was based on the theory of the pure – impression – management model (PIMM) of accounting propounded by Keppler in 1995. The theory states that accountability serves as a linkage construct by continually reminding people of the need to;

- A) Act in accordance with the prevailing form and content of financial reporting.

B) Advance compelling, justification/excuse for conduct that deviate from the form and content of financial reporting.

In the real sense, financial reporting cannot be accepted by general public or would – be investors if certain guidelines/standards that are generally expected are not followed and observed. This theory on the other hand, recognizes that uniformity and observance of relevant standards are meant for the smooth functioning of the public companies. This theory is relevant to the present study in that it focuses on behavioural aspect of accounting. Accountability is the missing link in the seemingly perpetual level of analysis controversy, the connection between individual decision makers and the collectives within which they live and work.

The concept accountability serves as a linkage construct by continually reminding people of the need to;

- a) Act in accordance with the prevailing norms.
- b) Advance compelling justification or excuses for conducts that deviates from those norms

The PIMM recognize that a large of trust and self- accountability is necessary to the smooth functioning of institutions. Therefore, if PIMM of accountability is properly utilized by the management of companies or institutions in Nigeria, it will fetch a good result on public accountability.

Issues/Gaps and Outcome

Discussion on strategies

This paper tried to examine the changing accounting standards and business survival in Nigeria. This paper developed two objectives that guided the work which include:

- i. Examine the level of preparation of Nigeria SMEs for IFRS adoption.
- ii. Determine the overall effect of changing accounting standards on business survival in Nigeria.

Discussion of Empirical Reviews

The paper made effort to look at studies carried out by other researchers. The work of Nwakaexe (2010) revealed that there is a general problem of accurate finance reporting of accounts of some public companies which resulted in misleading of the prospective investors and the general public at large, and therefore recommended that stipulated penalties go to deviants as to enforce a credible reporting system. Another study, Oladimeji (1997) found that behavioural accounting recognizes the extent to which internal and external influences in the course of operating the system of accounting changes corporate objectives of the organization. It therefore recommended that government should emphasize the effectiveness of what is submitted to them.

Discussion on Theoretical Framework

The paper made use of Pure Impression Management Model (PIMM) of accounting propounded by Keppler in 1995. Hence, tend to remind people to act in accordance with the prevailing norms and advance compelling justifications or excuses for conducts that deviates from those norms.

Summary of Findings

The following findings were revealed by the study that (1)the changing accounting standards are targeted at improving the business organizations as it will bring increased market liquidity and value (2) changing accounting standards leads to attraction of local and foreign investments; (3) wider access to funds is made possible.

Conclusion

The change in accounting standards to the survival of business survival in Nigeria has lots of benefits as it will bring increased market liquidity and value, attraction of local and foreign investments, and wider access to funds. In spite of the acknowledged necessity for the IFRS adoption such as quality-improvement, and reliability-enhancement in financial reporting, the level of preparedness for IFRS adoption by business organization in Nigeria seem to below, partly because of the factors hampering adoption, especially the short time frame and high cost of acquiring requisite technological infrastructures that support an IFRS-compliant accounting systems and internal business process. Aside these effects to IFRS-for SME adoption, other perceptual factors such as necessity for adoption, perceived benefits, and personal qualities such as work experience significantly affect the level of preparedness for IFRS adoption by business organizations in Nigeria.

Recommendations

The paper therefore recommended that;

1. Adequate resources should be put in place to support the sustainable implementation of IFRS. This includes having consultative groups available to respond promptly to concerns by users and to provide or their ongoing training. Assisting key stakeholders, including regulators with training, and possessing the required resources to interpret and apply the requirements of IFRS is a critical element underlying the successful implementation of IFRS.
2. Suitable standards must be developed to facilitate recognition of the small and medium scale enterprises (SMEs) since most of the standards include complex and detailed disclosure issues applicable to larger companies which are listed in the stock exchange.

3. Continual training of auditors, regulators, analyst and other users is an important factor in the transition to IFRS. In fact, capacity building of the various stakeholders by the accounting profession is a necessity.
4. Strong accounting institution framework must be in place to champion and manage the IFRS change process.

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