IMPACT OF IFRS ADOPTION ON VALUE RELEVANCE OF FINANCIAL STATEMENTS

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Abstract
This study examines the impact of the adoption of International Financial Reporting Standards (IFRS) on the value relevance of financial information disclosed in financial statements of Banks listed on the Nigerian Stock Exchange. A sample of seven banks out of eleven Commercial Banks listed on the Nigerian stock exchange between the periods 2008 to 2015 was selected for the study. The period (2008 – 2011) represents the pre adoption while 2012- 2015 represent the post adoption period. Data were collected on published accounts of the banks studied. The data was analysed using description statistics and linear regression. The study found, among others, that the adoption of the International Financial Reporting Standards has led to the disclosure of more information in the financial statements than the local standards. The paper, therefore, recommended that tight legislature be put in place to encourage banks to strictly adhere to the requirements of International Financial Reporting Standards.

Keywords: Adoption, Bank information, Impact, Relevance, Standards, Value.

Introduction

In 2005 the IFRS was adopted for the first time by the European Union as a uniform accounting standard. Since then, over 120 countries have adopted the IFRS version (PwC, 2017). In spite of this huge adoption, there is yet no agreement as to effect of the adoption on financial reporting quality. While some scholars, including Barth et al (2008) and Nassar et al (2014), believed that the adoption of IFRS improves the amount of information disclose in financial statements, other scholars have argued that the adoption will undermine the quality of information disclosed in financial statements because the IFRS principle is open to manipulations.

In view of the scholarly conflicting opinions above, scholars have carried out studies to examine the impact that the adoption of IFRS has on the quality of financial statements. Different proxies have been used, which include the Accrual Model (e.g. Dechow et al, 1995), Qualitative Characteristics Model (Van Beest et al, 2009), and Value Relevance Model (Barth et al, 2001), among others. As a result, literature on the relationship between IFRS and reporting quality is enormous (e.g. Tang, 2008; Beest et al, 2009; Bassemir, and Novotny-Farkas). In relation to Nigeria, a number of studies (e.g. Abubakar et al, 2014; Uwuigbe et al, 2016; Clement et al, 2017) have been conducted using these models. However, most of these studies are either conducted pre-IFRS adoption or were not related to IFRS adoption.

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This study investigates the impact of the adoption of IFRS on the financial reporting quality of commercial banks listed on the Nigerian stock exchange. The rest of the study is divided into six sections. The section that follows gives the meaning and measurement metrics of the financial reporting quality. Section three discusses the Value Relevance Model of measuring financial reporting quality. Section four discusses the theoretical framework that underpins the study while section five discusses the methodology employed in the study. The sixth section discusses the study's findings. Section seven concludes the study.

Financial Reporting Quality

Depending on the objective of a research, several definitions of financial reporting quality have been proposed. These include the following:

> a). The precision with which financial reports convey information about the firm's operations, in particular its cash flow, in order to inform equity investors' (Verdi, 2006). B). The extent to which the financial statements provide true and fair information about the underlying performance and financial position (Tang et al, 2008); c). Full and transparent financial information that is not designed to obfuscate or mislead users (Jonas & Blanchet, 2000)

In line with the definitions above, information in a financial report is therefore said to be of high-quality if it is faithfully represented (Martinez-Ferrero, 2014), has reflected the underlying economic events of the entity (Chen & Jaggi, 2007) and allows users to compare and contrast two set of economic events (Platikanova & Perramon, 2009). In a clear term, the high quality information in financial statements positively the investment decisions of the various stakeholders and this turn enhances market efficiency (IASB, 2008).

Since 2001 when the International Accounting Standards Board (IASB) took over the responsibility of issuing IFRSs, various efforts were made in issuing standards that are tailored towards enhancing the quality of financial reporting. Currently, there are seventeen IFRSs in issued in addition to the already existing IASs (IASB 2018) and how effective hey impact on the quality of financial reports are being tested by scholars using different models as mentioned above.

Value Relevance Model

The concept of Value Relevance

This model studies the relationship between accounting numbers and securities prices (Holthausen & Watts, 2001). In other words, it measures the quality of financial reporting information by examining the relationship between accounting numbers and the reactions of the stock price (Barth et al, 2001; Nichols & Wahlen, 2004), with accounting numbers representing book value of the firm while the stock price representing the market value of the firm. The model assumes reported earnings to be relevant and reliable when changes in the book value of the firm correspond to changes in the market value of the firm (Nichols & Wahlen, 2004). In addition, this model is also used in assessing earnings predictability and variability.

Researchers have variously classified value relevant studies into different categories. One such categorisation is that of Holthausen and Watts (2001). They categorise value relevance model into three categories of relative association tests, incremental association tests, and marginal content studies. The relative association tests compare the association between accounting numbers that are prepared under different sets of accounting standards and stock returns or market value. The greater the R^2 (Coefficient of determination) for accounting numbers, the more value relevant they are. Incremental association tests examine the usefulness of accounting numbers in explaining stock market values or returns given some specified variables. If the estimated regression coefficient is significantly far from zero, then the accounting numbers is described as value relevant. This test is most appropriate for testing the reconciliation adjustments from one set of standards to the other. The marginal information content studies is use to test whether accounting numbers are additions to already available information. Any accounting numbers released is value relevant if it leads to changes in market prices of stock.

Despite its popularity among researchers, the Value Relevance Model is still deficient because stock market might not be completely efficient. As noted by Nichols and Wahlen (2004), stock prices might not be a true reflection of the market value of the firm.

Empirical Review on Value Relevance

There is no agreement on studies examining the effect of mandatory adoption of IFRS on financial reporting quality using the value relevance model. Quite a lot of studies were conducted (e.g., Amir et al, 1993;Tharmila & Nimalathasan, 2013) and the results are mixed. For example, in their studies, Vijitha and Nimalathasan (2014) found a positive correlation between the adoption of IFRS and value relevance. On the other hand, Schiebel (2007) found a negative association. Still further, some researchers including Callao et al (2007) and Tsalavoutas et al (2012) found no association between the adoption of IFRS and value relevance.

Studies conducted in Nigeria also revealed contradictory results. For example, examining the association between mandatory adoption of IFRS and value relevance of financial reports, Umoren and Enang (2015) found that reported equity and earnings of deposit money banks have value relevance to share price post-IFRS than pre-IFRS period. Similarly, Adebimpe and Ekwere (2015) examined the impact of the adoption of IFRS on the value relevance of information in the financial reports of listed banks in Nigeria. They found that the equity value and earnings of banks are relatively value relevant to share prices post-IFRS than under Nigerian SAS. Their findings also showed that earnings per share are incrementally value relevant after the adoption of IFRS. On the other hand, Pavtar (2017) investigated the effect of the adoption of IFRS on value relevance of accounting information of deposit banks in Nigeria and found no significant impact of post-IFRS earnings per share and the book value per share on the share price of banks.

Theoretical Framework

A number of theories support the argument that the relationship between the adoption of IFRS and financial reporting quality **xxxxxxxx**. This study is guided by two main theories, namely: the agency and the signaling theories.

Agency Theory

The agency theory involves the study of the delegation of responsibilities between principals and agents who have conflicting interests. The principal, according to Linder and Foss (2013), delegates responsibility to the agent who lack of knowledge or abilities to perform the work by himself. However, such delegation may give rise to two types of information asymmetric, viz: hidden characteristics and hidden action. The hidden characteristics occur when the agent is aware of something about itself which is unknown to the principal. On the other hand, hidden action occurs when agent takes action that affects the principal but cannot be observe by the principal. Thus, information asymmetric is likely to put the principal at informational disadvantages.

Corporate shareholders are prepared to take risk but might not have the interest and time to take part in the day to day operation of the company (Brealey et al. 2011). Therefore, a contractual relationship is created in which the agent, who is the manager, is delegated by the principal, the shareholder, to manage the affairs the company on his behalf (Fama & Jensen, 1983). However, due to separation ownership from control and the differences in risk preferences of the shareholder and the agent, it is not likely that managers will act in the best interests of the shareholder (Lan & Heracleous, 2010). This is because the separation of ownership from control has given the managers the inducements for moral hazard and opportunistic behaviours (Demsetz & Lehn, 1985)

According to Eisenhardt (1989), the agency theory is designed to address the problem of moral hazard involved by managers using a number of measures which include incentives and monitoring. In this regard, when managers engage in moral hazard, the shareholders who are not in a position to observe this behavior of the managers can thus rely on financial reporting as a monitoring tool to reduce their agency costs (Bassemir & Novotny-Farkas, 2018). The mandatory adoption of IFRSs has, Fields et al (2001) noted, made firms to be acting optimally and in the best interests of the shareholders. This assertion has to some degree suggests that the adoption of IFRS would reduce the problem of information asymmetry between the principal and the agent (Bushman & Smith, 2001). However, being that the IFRS is principle-based, which gives management the choice of accounting practice, there is still opportunity for managerial opportunism.

4.2 Signaling Theory

The signaling theory is one of the theories that are used in explaining the reaction of the stock market to information that are disclosed in financial statements. The signaling theory assumes that efficient firms tend to offer the capital market with relevant and reliable information relative to firms that are either not efficient or less efficient so as to raise capital (Francesco et al, 2014). For this reason, the signaling theory is said to be appropriate for solving the problem of information asymmetries (Morris, 1987).

Since firms have more information than the investors, the problems of information asymmetries can be reduced if the firms signal to the investors. In this way, managers of efficient firms most often wish to distinguish themselves from the managers of less efficient firms via improved disclosure of information in the financial statements. In other instances, managers may have some special interests in signaling to the market an increase in firm's value or decrease in firm's cost of capital (Sengupta, 1998). Notwithstanding their interests, the managers must ensure that the information being signaled is reliable as the true quality of the firm will be verified eventually. Therefore, if the information is discovered to be false, any subsequent disclosure from the firm will not be seen as reliable.

It is evidenced that the adoption of the IFRS has improved the signaling power of companies in terms of improved financial reporting quality as well as the provision of value relevant information to the stock market (Watts, 2006). This finding confirms the theoretical suggestion that signaling theory is fundamental for companies (Kreps & Sobel, 1994). However, because of the conflicting interests of the principal and the agent, managers tend to give more emphasis on the signal they send to the market. This, therefore, calls for investigation into the reliability and relevance of the information.

Methodology

The samples for this study were from commercial banks listed on the Nigerian stock exchange. There are currently eleven commercial banks listed on the Nigerian stock exchange between the periods 2008 to 2015 out of which seven banks were observed in this study. Data were collected via the published accounts of the banks and were divided into pre and post IFRS adoption periods of 2008-2011 and 2012-2015 respectively

A cross sectional research was used in which data for all the years observed was collected on the last day of the year. The data covered eight-year period between 2008 to 2011 with 2008-2011 pre-adoption period and 2012-2015 post-adoption period.

Value Relevance

Consistent with prior studies (e.g. Adebimpe & Ekwere, 2015) this study adopts the Ohlson model which provides for a link between share price and two accounting variables of book value of equity and earnings per share with a modification to capture the effects of the adoption of IFRS. This model divides the financial statements into two sections, viz; statement of comprehensive income and statement of financial position. Using the adjusted coefficient of determination (R^2) to measure the value relevance of book value of equity and earnings per share, the study, in line with Adebimpe and Ekwere (2015), employed value relevance metric based on the explanatory power of regressed share price on the book value of equity and earnings per share as in the equation below.

$$SP_{it} = \alpha_0 + \alpha_1 BVPS_{it} + \alpha_2 EPS_{it} + \varepsilon_{it} \quad \text{.......} (1)$$

Where,

SP_{it} = Stock price at year end

BVPS = Book value per share

EPS = Earnings per share

In order to analyse the explanatory power that earnings per share and book value of equity have separately for share price, the following two equations are estimated

$$SP_{it} = \alpha_0 + \alpha_1 EPS_{it} + \varepsilon_{it} \quad \text{.......} (2)$$

$$SP_{it} = \alpha_0 + \alpha_1 BVPS_{it} + \varepsilon_{it} \quad \text{.......} (3)$$

With equation (2) examining the relationship between share price and earnings per share and equation (3) the relationship between share price and book value of equity, the three equations (1, 2 &3) emphasis on the degree to which share price can be explained by the two accounting variables of earnings per share and book value of equity. The expectation is that reported equity and earnings of banks have value relevance to share price post-IFRS than pre-IFRS period.

Findings

~~The population of this study consists of commercial banks listed on the Nigerian stock exchange. There are currently eleven commercial banks listed on the Nigerian stock exchange between the periods 2008 to 2015 out of which seven banks were observed in this study. Data were collected via the published accounts of the banks and is divided into pre and post IFRS adoption periods of 2008-2011 and 2012-2015 respectively~~

~~**Descriptive Statistics**~~

Table 1 presents the descriptive statistics of the three variables: share price, book value of per share and earnings per share for the pre and post IFRS adoption.

Table 1: Descriptive Statistics for Pre and Post IFRS Adoption

IFRS Adoption	Minimum	Maximum	Mean	Std. Deviation
Pre IFRS Adoption:				
Share Price (SP)	.5200	22.0000	8.065357	6.0819316
Book Value Per Share (BVPS)	-.0043	.0204	.007191	.0055735
Earnings Per Share (EPS)	-573.0000	345.0000	57.250000	154.6251441
Post IFRS adoption:				
Share Price (SP)	.5000	29.4400	8.730357	9.0299557
Book Value Per Share (BVPS)	.0001	.0174	.009059	.0049293
Earnings Per Share (EPS)	-42.0000	351.0000	145.139286	124.1837448

Source: Author's computation from field data

~~**Table 1: Descriptive Statistics Pre IFRS Adoption**~~

~~Pre IFRS Adoption~~	~~Minimum~~	~~Maximum~~	~~Mean~~	~~Std. Deviation~~
~~Share Price (SP)~~	~~.5200~~	~~22.0000~~	~~8.065357~~	~~6.0819316~~
~~Book Value Per Share (BVPS)~~	~~-.0043~~	~~.0204~~	~~.007191~~	~~.0055735~~
~~Earnings Per Share (EPS)~~	~~-573.0000~~	~~345.0000~~	~~57.250000~~	~~154.6251441~~

~~**Table 2: Descriptive Statistics Post IFRS Adoption**~~

~~Pre IFRS Adoption~~	~~Minimum~~	~~Maximum~~	~~Mean~~	~~Std. Deviation~~
~~Share Price (SP)~~	~~.5000~~	~~29.4400~~	~~8.730357~~	~~9.0299557~~
~~Book Value Per Share (BVPS)~~	~~.0001~~	~~.0174~~	~~.009059~~	~~.0049293~~
~~Earnings Per Share (EPS)~~	~~-42.0000~~	~~351.0000~~	~~145.139286~~	~~124.1837448~~

From tables 1, the EPS in the pre IFRS adoption period ranges from –N573.00 to N345.00, with a mean of N57.25 and a standard deviation of N154.63. On the other hand, the post IFRS adoption period showed an EPS minimum value of –N42.00 and a maximum of N351.00, a mean of N145.14 and standard deviation of N124.18. Based on these figures, the EPS on average has increased significantly post IFRS period relative to the pre IFRS period. Similarly, the post IFRS standard deviation indicates that the EPS of most the banks were very close to the groups mean compared to the pre IFRS period.

In relation to BVPS, the post IFRS indicate an increase in the mean and a slight decrease in standard deviation. This suggests that the average BVPS was better after the adoption the IFRS. Not only that, the lower relative standard deviation tells that most of the banks studied have BVPS close to the group mean. Furthermore, the share price pre IFRS period ranges between N0.52 to N29.44 with a mean of N8.73 and a standard deviation of N6.08 in the post IFRS period, the minimum value was N0.50 and the maximum was N29.44 with a mean of N8.73 and standard deviation of N9.03. Again this picture suggests that the post IFRS was better.

Regression analysis

The regression results for explanatory power of the variables studied are presented in table 2 for pre and post IFRS adoption periods.

Table 2: Value Relevance for Variables used Pre and Post IFRS period

Model 1	**Regression coefficient**			
Pre IFRS	**BVPS**	**EPS**	**Adjusted R^2**	**F Value**
1	0.562	-0.230	0.125	2.935
2	0.403		0.130	5.052
3		0.160	-0.012	0.687
Model 2				
Post IFRS				
1	0.058	0.830	0.743	40.068
2	0.668		0.425	20.923
3		0.872	0.751	82.646

Source: Author's computation from field data

~~**Table 4: Value Relevance for Variables used Post IFRS period**~~

~~Model~~	~~Regression coefficient~~		~~Adjusted R^2~~	~~F Value~~
	~~BVPS~~	~~EPS~~		
~~1~~	~~0.058~~	~~0.830~~	~~0.743~~	~~40.068~~
~~2~~	~~0.668~~		~~0.425~~	~~20.923~~
~~3~~		~~0.872~~	~~0.751~~	~~82.646~~

Tables 2 shows the regression results for pre and post IFRS relative value relevance respectively. Model 1 and model 2 show an increase in the adjusted R^2 from 12.50% to 74.30%. This suggests that the BVPS and EPS post IFRS adoption explain more about SP compared to pre IFRS adoption BVPS and EPS. On the other hand, the coefficient of the BVPS decreased from 0.562 to 0.058 while that of EPS increased from -0.230 to 0.830 post IFRS adoption. The implication here is that the market participants have changed in their behaviours towards share pricing. Accordingly, the two variables of BVPS and EPS might or might not be relevant.

Models 2 and 3 relate to univariate regression outputs of the variables under study. The results revealed that while the BVPS was significantly related to SP pre IFRS adoption it is not post IFRS adoption. On the other hand, EPS was not significantly related to the SP pre IFRS period but significantly related post IFRS period. However, the adjusted $R^{2 \text{ for}}$ both the BVPS and the EPS have increased during the post IFRS adoption period from 13% and -1.2% to 42.5% and 75.1% respectively. These results suggest that the explanatory power of both the BVPS and EPS post IFRS adoption are higher.

Conclusion

This study examined the value relevance of published accounts of commercial banks listed on the Nigerian stock exchange (NSE). The period covered is divided into pre and post IFRS adoption periods. The results reveal that the variables studied namely share price, earnings per share, and book value per share have improved significantly post IFRS adoption period. Accordingly, it is the conclusion of this study that earnings per share and book value per share are very important elements in determining share prices. Similarly, it is the conclusion of this study that the adoption of the IFRS has led to the disclosure of more value relevant information in the financial statements than the local accounting standards. Finally, this study recommends that banks should strictly adhere to the provisions of the IFRS in line with government's directives.

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