INTERNATIONAL FINANCIAL REPORTING STANDARDS AND FINANCIAL REPORTING QUALITY AMONG NIGERIAN LISTED COMPANIES

BY

AUWALU MUSA

817203

Thesis Submitted to Othman Yeop Abdullah Graduate School of Business, Universiti Utara Malaysia, In Fulfillment of the Requirement for the Degree of Master of Science (International Accounting)

November 2015
PERMISSION TO USE

In constructing this thesis, which serves as a partial fulfillment of the requirements for the award of postgraduate degree from Universiti Utara Malaysia (UUM), I hereby consent for the university library to make it unconditionally accessible for verification. I further agree that approval to obtain this thesis, either in part or in whole, for academic pursuits may be given by my supervisor Dr. Nor Asma Lode or the Dean Othman Yeop Abdullah, Graduate School of Business. Similarly, utilization of this thesis or parts thereof for financial benefit shall not be allowed without prior written approval. In addition, due acknowledgement should be given to me and to Universiti Utara Malaysia for any academic utilization, which may be made of any material, derived from this thesis. Demand for authorization to duplicate or to make other utilization of material in this thesis, in its entirety or to a limited extent, ought to be tended to:

Dean Othman Yeop Abdullah, Graduate School of Business

Universiti Utara, Malaysia

06010 Sintok

Kedah Darul Aman
ABSTRAK


Kata kunci: Laporan kewangan, Nilai relevan, Ketepatan masa, IFRS dan Nigeria.
ABSTRACT

This research investigates International Financial Reporting Standards (IFRS) and financial reporting quality among Nigerian listed companies. The research focused on qualitative characteristics of financial reporting (value relevance and timeliness). The study determined the financial reporting quality of 77 sample companies listed on Nigerian stock exchange. The study was limited to one year financial statement, which used UUM-Data stream in collecting the relevant data. The regression result of value relevance of financial reports reveals that there is a positive and significant relationship between stock price with book value of equity and net income after the adoption of IFRS. Similarly, timeliness of financial information regression results also revealed that return on assets and returns on equity are positive and significantly associated with stock returns after IFRS adoption in Nigeria. The findings implied that the financial reporting of Nigerian listed companies were value relevant and timelier after the adoption of IFRS. The significant positive relationship between accounting measures on stock price and stock returns shows that investors’ can predict future market value of individual securities, as the efficient market theory posits that securities prices disclose a significant amount of information from many different sources in the securities market and important current financial information of companies. Investor receives considerable information simply by knowing the price information on time which found more value relevant.

Keywords: Financial reporting, Value relevance, Timeliness, IFRS and Nigeria.
ACKNOWLEDGEMENT

In the name of Allah, the Beneficent and the Merciful. Power and authority belongs to Allah along, who can decide a future to be certain, and who gave me the opportunity to undertake this study and eventually make it possible.

I would like to start with special appreciation to my lecturers in the School of Accountancy, College of Business in the Graduate School of Business (OYA) as a whole, especially those who taught me in one course or the other. My profound gratitude goes to my amiable supervisor Dr. Nor Asma Bt Lode for her kindly assistance, constructive criticisms and advices which made this research successful.

I wish to express my indebted gratitude and acknowledgement to my parents in person of Musa Sani and Khadijah Ibrahim for their caring, loving, support and concern given to me throughout my life. My propound appreciation also goes to my brothers, sisters and the entire family members for their support and prayers.

I do acknowledge the assistance and support given to me by Bauchi state university, Gadau throughout the period of this study. Finally, my profound acknowledge to my colleagues especially in person of Muhammad Inuwa, Yusuf Ibrahim Karaye, Abubakar Hassan Idris, Usman Bello Baba, Muhammad Auwal Kabir, Abdulkadir Abubakar, Dr. Bashir Jumare, Mal. Ibrahim Mahmoud (HOD) Dr. Aminu Ahmed, Shehu Abdurrahman and the entire staff of Accounting Department of Bauchi State University, Gadau for their encouragement throughout the period of this study.

May the blessing of Allah be upon us in the here and here-after.
# TABLE OF CONTENTS

| PERMISSION TO USE | iii |
| ABSTRAK | iv |
| ABSTRACT | v |
| ACKNOWLEDGEMENT | vi |
| TABLE OF CONTENTS | vii |
| LIST OF TABLES | x |
| LIST OF FIGURES | xi |
| LIST OF ABBREVIATIONS | xii |

## CHAPTER ONE: INTRODUCTION

1.1 Background of the Study   1
1.2 Problem Statement   5
1.3 Research Objectives   8
1.4 Research Questions   8
1.5 Scope of the Study   9
1.6 Significance of the Study   9
1.7 Summary of the Chapter   10

## CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction   11
2.1 The Concept of Financial Reporting   11
  2.1.1 Qualitative Characteristics of Financial Reports   12
2.2 International Financial Reporting Standards (IFRS)   13
2.3 Fair Value Accounting   16
2.4 IFRS in Nigeria   18
2.5 Financial Reporting Quality   19
  2.5.1 Value Relevance   22
  2.5.2 Timeliness of Financial Information   26
2.6 Research Framework   30
2.7 Underpinning Theories   31
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table Number</th>
<th>Table Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Sample Composition of Industry</td>
<td>39</td>
</tr>
<tr>
<td>4.1</td>
<td>Descriptive Statistics</td>
<td>54</td>
</tr>
<tr>
<td>4.2</td>
<td>Pearson Correlation Coefficient of Variables</td>
<td>56</td>
</tr>
<tr>
<td>4.3</td>
<td>Multicollinearity</td>
<td>58</td>
</tr>
<tr>
<td>4.4</td>
<td>Normality Test</td>
<td>59</td>
</tr>
<tr>
<td>4.5</td>
<td>Multiple Regression Analysis</td>
<td>60</td>
</tr>
<tr>
<td>5.1</td>
<td>Summary of Findings</td>
<td>67</td>
</tr>
</tbody>
</table>
## LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure Number</th>
<th>Figure Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.6.1</td>
<td>Research Framework</td>
<td>31</td>
</tr>
</tbody>
</table>
**LIST OF ABBREVIATIONS**

<table>
<thead>
<tr>
<th>Abbreviations</th>
<th>Description of Abbreviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accountant</td>
</tr>
<tr>
<td>ASA</td>
<td>American Securities Association</td>
</tr>
<tr>
<td>ASX</td>
<td>Australian Stock Exchange</td>
</tr>
<tr>
<td>BVE</td>
<td>Book Value of Equity</td>
</tr>
<tr>
<td>C</td>
<td>Coefficient</td>
</tr>
<tr>
<td>CAC</td>
<td>Corporate Affairs Commission</td>
</tr>
<tr>
<td>CAMA</td>
<td>Companies and Allied Matters Act</td>
</tr>
<tr>
<td>E</td>
<td>Earnings</td>
</tr>
<tr>
<td>$\varepsilon$</td>
<td>Error Term</td>
</tr>
<tr>
<td>FAS</td>
<td>Financial Accounting Statement</td>
</tr>
<tr>
<td>FASB</td>
<td>Financial Accounting Standard Board</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FIFO</td>
<td>First In First Out</td>
</tr>
<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Principle</td>
</tr>
<tr>
<td>H</td>
<td>Hypothesis</td>
</tr>
<tr>
<td>IAS</td>
<td>International Accounting Standards</td>
</tr>
<tr>
<td>IASB</td>
<td>International Accounting Standards Board</td>
</tr>
<tr>
<td>IASC</td>
<td>International Accounting Standard Committee</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>ISE</td>
<td>Istanbul Stock Exchange</td>
</tr>
<tr>
<td>LIFO</td>
<td>Last In First Out</td>
</tr>
<tr>
<td>Max</td>
<td>Maximum</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Min</td>
<td>Minimum</td>
</tr>
<tr>
<td>MVE</td>
<td>Market Value of Equity</td>
</tr>
<tr>
<td>NASB</td>
<td>Nigerian Accounting Standard Board</td>
</tr>
<tr>
<td>NCC</td>
<td>Nigerian Communication Commission</td>
</tr>
<tr>
<td>NGAAP</td>
<td>Nigerian Generally Accepted Accounting Principle</td>
</tr>
<tr>
<td>NGN</td>
<td>Nigerian Naira</td>
</tr>
<tr>
<td>NI</td>
<td>Net Income</td>
</tr>
<tr>
<td>NSE</td>
<td>Nigerian Stock Exchange</td>
</tr>
<tr>
<td>Obs</td>
<td>Observation</td>
</tr>
<tr>
<td>OLS</td>
<td>Ordinary Least Square</td>
</tr>
<tr>
<td>ROA</td>
<td>Returns on Assets</td>
</tr>
<tr>
<td>ROE</td>
<td>Returns on Equity</td>
</tr>
<tr>
<td>SAS</td>
<td>Statement of Accounting Standard</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission</td>
</tr>
<tr>
<td>Sig</td>
<td>Significant</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>SMS</td>
<td>Small and Medium Size</td>
</tr>
<tr>
<td>SON</td>
<td>Standard Organizations of Nigeria</td>
</tr>
<tr>
<td>SP</td>
<td>Stock Price</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
</tr>
<tr>
<td>Std Error</td>
<td>Standard Error</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>Standard Deviation</td>
</tr>
<tr>
<td>STR</td>
<td>Stock Returns</td>
</tr>
<tr>
<td>US</td>
<td>United States</td>
</tr>
<tr>
<td>UUM</td>
<td>Universiti Utara Malaysia</td>
</tr>
</tbody>
</table>
VIF Variance Inflation Factor
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

International Accounting Standards Board (IASB) has developing accounting conceptual framework in order to provide for recognition, measurement, presentation and disclosure of requirements relating to transactions and events that are reflected in the financial statements of businesses (Adetoso & Oladejo, 2013). A financial statement should provide information about the financial position, performance and changes of an entity in a standardized and accurate form to investors, regulators, financial analyst and other users for making economic decisions (IASB Framework). Accounting standards are set of rules that companies should be abide by when preparing and presenting financial reports of an entity in order to ensure uniformity of the standards across the market. Companies listed on stock exchanges must published financial statements in accordance with the relevant accounting standards (Hung & Subramanyam, 2007).

Accounting standards are aimed at providing creditors and investors with relevant, reliable and timely information in consistent with the IASB accounting conceptual framework for the preparation and presentation of financial statements (Outa, 2011). Accounting quality is the extent to which financial statement information reflects the underlying economic situation of an entity (Chen, Tang, Jiang, & Lin, 2010). The concept of accounting quality is based on IASB Framework which is two fundamental qualitative characteristics and four enhancing qualitative characteristics.
The contents of the thesis is for internal user only
REFERENCE


73


Ernst & Young, (2005). How fair is Fair Value? IFRS Stakeholder Series. EYGM Limited, Becket House, 1 Lambeth Palace Road, London SE1 7EU.


Tracy, J. A. (2013). Accounting for Dummies (5th ed.). *New Jersey: John Wiley and Sons*


