ISSN No:-2456-2165

Accounting Standard, Inflation Rate and Financial Performance of Listed Deposit Banks in Nigeria

IDOWU Abiola, & OYELEYE Olufunke Adebisi
Department of Management and Accounting,
Ladoke Akintola University of Technology, Ogbomosho, Oyo State, Nigeria

Abstract:-This study examined the impact of Accounting Standards (AS) on financial performance of listed deposit money banks in Nigeria, specifically examined the trend in operating profit in the pre and post International Financial Reporting Standards adoption and also assess the impact of accounting standards on financial performance of the banks, The study population was fourteen banks as at 2021, and the sample size was thirteen (13) banks. Data were extracted from financial statements of the listed banks while tables, and line graph were used to determine the trend in real operating profit in the pre and post IFRS era, Multiple regression analysis was used to assess the relationship between Accounting Standard and financial performance. Study revealed that real operating profit was higher in the post IFRS adoption years, than that of the pre adoption years. Current Ratio revealed that significant relationship exists between accounting standards and financial performance with R^2 of 0.187 and p-value was 0. 000. It was concluded that real operating profit was higher in the post IFRS adoption years, than pre adoption years. It was recommended that government should reduce inflation in order to improve the financial performance of the listed deposit money banks in particular and the national economy at large. Likewise, the government and the stakeholder should enforce the usage of IFRS in other to increase the financial performance of banks.

Keywords:- *Accounting Standards, Financial performance, Inflation, Real Operating Profit, Return on Assets, Return on Equity.*

I. INTRODUCTION

Periodicity is one of the principles of accounting that stipulates compulsory report of an entity every twelve calendar months. Stakeholders in any organization will want to be informed about the performance of the organization. The information can be gotten through the published financial statement. Before the last two decades different accounting standards were employed by different nations as developed by each nation. Diversification of rules and regulations guiding preparation of financial statements by different countries for disclosure and measurement did not make comparison of financial statements between different countries to be fair (Adelusi and Ibigbami 2017). The difficulty in comparison of financial statements led to the search and development of International Financial Reporting Standards (IFRS) which is a globally accepted rules and principles instead of the individual national standards.

In the year 2012, the Federal government of Nigeria mandated the usage of IFRS and the subsequent abolition of Statement of Accounting Standard (SAS) from January 1st 2012, (Olugbenga, Oluwafemi and Akanfe, 2016). The development is to ensure availability of reliable performance reporting to users of financial statement. (Kenneth 2012, Michaela and Josef 2013 and Adeuja 2015.)

II. STATEMENT OF THE PROBLEM

Users of financial statement such as investors', customers, regulators, creditors and general public are interested and will want to be certain that financial reports produced by organisations are of high quality in term of fair view, that is, the true position is shown by the statement produced. A lots of work had been undertaken in developed economies. (Rees and Weisbach, 2002; Blanco and Osma, 2008; Robyn and Graeme, 2009), as well as number of studies on IFRS and performance carried out in developing countries, despite the many researches that had been done on the subject, discrepancies still exist. (Iyoha and Faboyede, 2011; Ojeka and Mukoro, 2011).

Researchers have reported positive impact of IFRS on operating profit of companies (Bushman and Landsman, 2010), while others posited that IFRS does not change the operating profit of an entity. Results from some studies also asserted that impact of IFRS is negative on the operating profit because of the cost involved in preparation of globally comparable financial statement. (Binaj, Binaj and Limaj 2012; George, Ferguson and Spear 2013; Ibiamke and Ateboh-Briggs 2014; Pius and Raymond 2014).

Inconclusiveness of the result of past researches on IFRS impact andthe asymmetry information in the reports of researches prompted this study to examine other factors that can affect financial performance of organisations by introducing inflation. Furthermore, the study examined the relationship between Accounting Standards and financial performance of banks in the pre and post IFRS era in the Nigerian banking sector. It was noted that Period studied in the previous studies ranged between two to eight years which may be the reason for non-convergence of the past studies. Therefore, in order to fill the gap identified this study looked at a longer period (16 years), from 2004 to 2019.

A. Research questions

1. What is the trend of real value in operating profit in pre and post International Financial Reporting Standards' adoption?
2. Is there any significant relationship between accounting standard and financial performance of listed deposit money banks?

B. Research Hypotheses

The following hypothesis were tested based on the above questions

H_{01}: There is no significant difference between pre and post IFRS operating profit in the listed deposit money banks.

H_{02}: There is no significant relationship between accounting standards and financial performance of the listed deposit money bank.

III. LITERATURE REVIEW

The principle of periodicity which enforced every entity to give report of their undertaking every twelve calendar months has been in operation for a long time. It is for the fulfillment of this principle that all managers prepare financial statements to be published yearly. Before the advent of International Financial Reporting Standard (IFRS) all organizations prepared and measured items in the financial statements based on the accounting standards stipulated by their national Accounting and Auditing Boards, the individual national standards led to differences in the financial report presented (Adelusi and Ibigbami, 2017).

A lot of studies such as Punda 2011, Okoye, Okoye and Ezejiofor (2015), Onipe, Onyabe and Usman (2015) and Ezeagba (2017), studied the impacts and effects of international financial reporting standard. These studies reported that information in financial statement had improved and become more reliable after the adoption of IFRS.

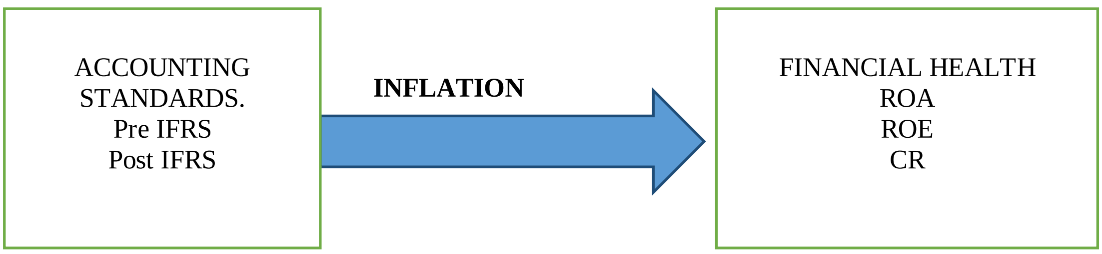
Despite the numerous advantages of IFRS as reported by researchers. Rehman and Mangala (2010); Brown, (2013) and Ueng (2016) posited that IFRS adoption cannot singularly increase quality of information, nor influence in its totality, the judicious use of organization scarce resources to increase performance. It is also a known fact that aside the internal factors like how a firm is regulated and monitored internally. External factors such as interest rate policy, foreign exchange rate, macro economy and inflation can have a significant effect on firm's financial soundness or health.

Yahaya, Fagbemi and Oyeniyi (2015) studied effect of International Financial Reporting Standard on profitability of Nigerian banks.Findings from the research showed that there is no significant different between the mean and median of financial statements figures and ratios under Nigerian GAAP and international financial reporting standards meanwhile, Pawel (2011) in his study on the impact of IFRS adoption on key financial ratios using listed companies in United Kingdom, revealed that profitability ratios increased after the transition from U.K. GAAP to IFRS, while, price per earnings ratio decreases.

Zayyad, Ahmad, and Mubaraq (2014) conducted a study on the effect of IFRS adoption on the performance of firms. The findings showed that there are negative impact on leverage and current ratios while there is positive impact on profitability of the banks.

It has been reported by Lourenço and Branco (2015) that for any effect of a policy to be measured accurately the policy or system must have being in use for years, they proposed the replication of studies already carried out so as to consolidate, go deeper and validate already known knowledge on IFRS impacts.

Meanwhile, financial performance is a situation where a company resources are managed in such a way that it enables such organization to settle her obligations as at when due, increase shareholders wealth and also provide benefits to all claimants to that organisation. (Adeuja 2015; Patrick, Tavershuna and Eje 2017).This is akin to the theory of value maximization, it holds that the single objective of a firm's existence is to maximize profits in the short run and maximize shareholders wealth in the long run (Jensen, 2001). Financial performance can be measured through the computation of financial ratios such as Return on Asset (ROA), Return on Equity (ROE), Current Ratio (CR).



Source: Researchers' conceptualization of Accounting Standards and financial performance with introduction of inflation, 2021

IV. METHODOLOGY

The population for the study was the entire fourteenlisted deposit money banks in Nigeria, as at June, 2021. They are: Access Bank Plc, Ecobank Nigeria Plc, Fidelity Bank Plc, First Bank of Nigeria Limited, First City Monument Bank Plc, Guaranty Trust Bank Plc, Jaiz Bank, Stanbic Bank, Sterling Bank, Union Bank of Nigeria Plc, United Bank for Africa Plc, Unity Bank, Wema Bank and Zenith Bank Plc. All the listed deposit money bank except Jaiz bank that is a non-interest bank were used. Data were extracted from the financial statements of the thirteen listed deposit money banks in Nigeria. The study covered 16 years (2004 to 2019) financial performance was measured by Return on Asset (ROA), Return on Equity (ROE) and Current Ratio.

Both descriptive and inferential statistics were employed for this study. Descriptive statistics utilized were tables and line graph to determine the trend in real operating profit in the pre and post IFRS era which is the research question one, research question two was analysed by multiple regression to determine the relationship between accounting standard adoption and financial performance of the deposit money banks.

A. Model specification

Model for objective 2

$$ROA = \alpha_1 + \beta_1 IFRSit + \beta_1 I_{it} + \quad + \mu_1 \text{ (Model 1)} \qquad (3.1)$$
$$ROEit = \alpha_2 + \beta_2 IFRSit + \beta_2 I_{it} + \quad + \mu_2 \text{ (Model2)} \qquad (3.2)$$
$$CRit = \alpha_3 + \beta_3 IFRSit + \beta_3 I_{it} + t + \mu 3 \text{ (Model 3)} \qquad (3.3)$$

V. RESULTS AND DISCUSSION

A. Analysis of IFRS adoption and operating profit

Table and line graph was employed to determine real value of operating profit in the pre and post IFRS adoption and presented in Table 1 and Figure 1 below;. Figure1 presented the mean real operating profit of all banks sampled and inflation rate. It was observed that operating profit had an upward trend from 2004 to 2008 which was followed by a sharp downward trend till 2009. This was followed by another sharp upward trend in a zigzag manner till 2015. Furthermore, a continuous upward trend was observed till 2019. The inflation rate was also presented in Figure 1. It was observed that 2004 to 2005 had an upward trend which was followed by a sharp decline till 2007. From 2008 to 2010 there was an upward trend after which a slight decline in the trend was observed. This was followed by a zigzag trend till 2019. It was deduced that inflation rate was higher in the pre IFRS adoption years than that of the post adoption years. Also real operation profit was higher in the post IFRS adoption years, than that of the pre adoption years in the sampled banks. This is in line with Ishola (2017) that assessed the impact of adoption of international financial reporting standards on the performance reporting of Nigerian deposit banks, but in variance with Ibiamke and Ateboh-Briggs (2014) thatshowed a negative insignificant impact of IFRS adoption on financial ratios of Nigerian listed firms.

YEAR	MEAN REAL OPERATING PROFIT	INFLATION RATE
2004	15,617,844.10	15.00
2005	19,767,030.88	17.86
2006	24,741,314.98	8.23
2007	39,200,038.02	5.39
2008	60,861,334.86	11.58
2009	84,750,048.00	12.56
2010	88,874,742.29	13.72
2011	102,504,269.19	10.84
2012	123,620,142.34	12.22
2013	101,558,511.20	8.48
2014	124,382,781.94	8.06
2015	89,340,921.02	9.01
2016	118,428,989.00	15.68
2017	121,547,256.65	16.52
2018	140,203,926.38	12.09
2019	134,817,154.66	11.4

Table 1: Mean Real Operating Profit, Inflation Rate for the year 2004 to 2019

Sources: Worlddata.info and International Monetary Fund, International Financial statistics (Official exchange rate (LCU per US$, period average) – Nigeria) 2020

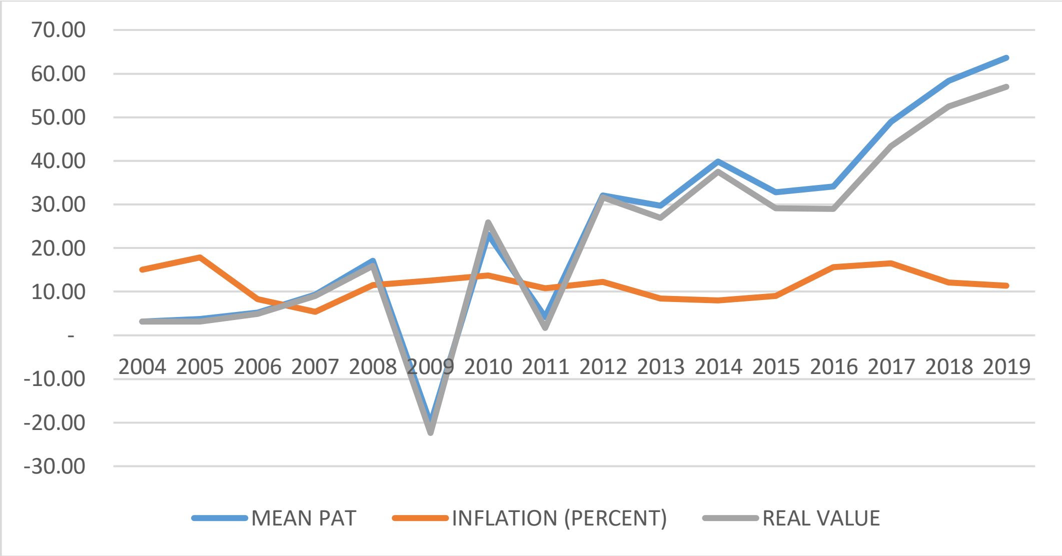


Fig. 1: Showing the direction of inflation, pre and post IFRS operating profit

Source: (https://www.cbn.ng.RSD**)**

B. Analysis of accounting standards and financial performance

Relationship between accounting standard and financial performance of listed deposit money banks in Nigeria was tested using multiple regression analysis and presented in Table 2. Financial performance was proxy by ROE, ROA and CR, the regression result showed$R^2$of 0.175, 0.080 and 0.187 for ROE, ROA and CR respectively. This showed that 17.5%, 8% and 18.7% of the variation in the financial performance was accounted for by accounting standard. The regression correlation coefficient R, were 0.418, 0.282 and 0.432 which showed a positive impact of IFRS adoption (with significant *p*-value of 0.000 at 5% percent significant level) on the financial performance of listed banks in Nigeria. The decision rule is when the coefficient of correlation R is between 0.1-0.4 relationship is weak, when R is greater than 0.4 and less than 0.8 it is moderate while greater than 0.8 is strong. Therefore since *p*- value 0.000.is less than 0.05 null hypothesis was rejected and alternate hypothesis which states that there is significant relationship between accounting standard and financial performance was accepted.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig
1(ROE	.418[a]	.175	.163	1.39104	.000
ROA	.282[a]	.080	.066	2.39162	.000
CR	.432[a]	.187	.175	1.25328	.000

Table 2; Summary of Regression Analysis of accounting standards and financial performance

Source: Researchers computation 2021

.

VI. CONCLUSION AND RECOMMENDATIONS

Based on the findings of this study it was concluded that inflation rate was higher in the pre IFRS adoption years than that of the post adoption years, while real operating profit was higher in the post IFRS adoption years, than that of the pre adoption years. It was affirmed that relationship exists between accounting standards and financial health. The findings and conclusion of the study made it pertinent to recommend that government should ensure necessary policy that can reduce inflation which inturn will improve the financial performance of the listed deposit money banks in particular and the national economy at large. Likewise, the government and the stakeholder should enforce the usage of IFRS in other to increase the financial health of the banking sector and make Nigeria banks more competitive globally.

REFERENCES

[1.] Adelusi, A. I., and Ibigbami, S. A. (2017). Adoption and the profitability of selected quoted oil and adoption of the IFRS. *International Journal of Business and Economic Development*, 2(1), 52- 63

[2.] Adeuja, Y.O.(2015) A comparative approach to impact of International Financial Reporting Standards (IFRS) on the performance of banks in Nigeria. Retrieved from https://www.gripfb.com. on 21st August, 2017.

[3.] Binaj, A., Binaj, I., and Limaj, I. (2012). Evaluation of International Financial Reporting Standards application for non-financial institutions: The case of Albania. *Journal of academic research in economics, 12*(3), 317-322.

[4.] Blanco, J. L.,and Osma, B.G. (2008). The comparability of international accounting standards and US GAAP: An empirical study of form 20-F reconciliations. *International Journal of Accounting, Auditing and Performance Evaluation*, 1(1), 5-36.

[5.] Brown, P. (2013), Some Observation Research on Benefits to Nations of adopting IFRS. *Journal of Japanese Accounting Review* retrieved fromdoi:10.11640/tjar.3.2013.01 on 3-5-2018.

[6.] Bushman, R., and Landsman, W. R. (2010). The pros and cons of regulating corporate reporting: A critical review of the arguments. *Journal* of *Accounting and Business Research*, *49(1)*, 69-96.

[7.] Ezeagba, C. E. (2017).Impact of International Financial reporting standard (IFRS) Adoption on Financial Reporting Practice of selected commercial banks in Nigeria.*Journal of Policy and Development Studies.* 11 (2), 21-42.

[8.] George, E. T., Ferguson, C. B., and Spear, N. A. (2013). How much does IFRS cost? IFRS adoption and audit fees. *The Accounting Review,* 88(2), 429-462. doi:10.2308/accr-50317.

[9.] Ibiamke, N. A. and Ateboh-Briggs, P. B. (2014), Financial Ratios Effects of International Financial Reporting Standards (IFRS) Adoption in Nigeria. *Journal of Business and Management Invention,* 3(3), 50-59

[10.] Ishola, K A.(2017). Adoption of International Financial Reporting Standards andperformance reporting of Nigerian deposit money banks. Retrieved from projects.ngprojects,adoption-of-inter… on 23-4-2018.

[11.] Iyoha, F.O and Faboyede, S.O. (2011). Adopting International Financial Reporting Standards (IFRS) -A Focus on Nigeria. *International Journal of Research in Commerce and Management. 2(1), 35-40.*

[12.] Jensen, M.C. (2002). Value maximization, stakeholder's theory and the corporate objective function. *Business ethics quarterly.* 12(1): 235-256.

[13.] Kenneth, E. O. (2012). *Adoption of IFRS and financial statements effects: The Perceived Implications on FDI and Nigeria Economy*. Retrieved fromajbmr.com/articlepdf/aus-25-14i5n2a10.pdf on 18 Dec, 2018.

[14.] Lourenço, I. M., and Branco, M. E. (2015). Main Consequences of IFRS Adoption: Analysis of Existing Literature and Suggestions for Further Research. *Retrieved from http://dx.doi.org/10.1590/1808-057x201500090*. 24-04- 2017

[15.] Michaela, B. and Josef, P. (2013). Changes in view on financial position and performance of a company at applicationof the IFRSin the Czech Republic.

[16.] Ojeka, S.A., and Mukoro, O.D. (2011), International financial reporting standard and SMEs in Nigeria: Perceptions of academic. *International Journal of Research in Commerce and Management*.1 (2), 13-19.

[17.] Okoye, P., Okoye, J. and Ezejiofor, R. (2015). The impact of the IFRS adoption on stock market movement in Nigerian corporate organization. *International Journal of Research in Business and Social Sciences*.4 (9), 202-219.

[18.] Olugbenga, J., Oluwafemi, S. M., and Akanfe, K. (2016) *Mandatory IFRS introduction and financial statements comparability: evidence from Nigerian listed companies. International journal of research science &management. Impact Factor* (PIF)Retrieved from www.ijrsm.com/issues%20pdf%20file/Archive-2018/March-2018/3.pdf retrieved on 18th Dec, 2018.

[19.] Onipe, A., Onyabe, J. and Usman, S. (2015). "IFRS Adoption and Value Relevance of Accounting Information of Listed Deposit Money Banks in Nigeria" *Journal of Economics and Sustainable Development*, 6(12), 85-93.

[20.] Patrick, Z., Tavershima, A., and Eje, B.E. (2017).Effect of Financial Information on Investment Decision Making by Shareholders of Banks in Nigeria. *Journal of Economics and Finance, 8*(3), 20-31.

[21.] Pawel, P. (2011). *The impact of international financial reporting standard (IFRS) adoption on key financial ratios*: Evidence from the UK. Aarhus School of Business. Aarhus Press.

[22.] Pius, V. C. O., and Raymond E. (2014). The Effect of Adoption of IFRS on the Stock Performance: Implications on investor's expectations.*Research Journal of Finance and Accounting.* 5(4), 8- 12

[23.] Punda, P. (2011). *The impact of International Financial Reporting Standards (IFRS) adoption on Key Financial Ratios* – Evidence from the UK. Aarhus School of Business, Master's Thesis. 2010, retrieved 5 /8 2018 from: http//www,eurojournals.com/finance.html.

[24.] Rees, W.A., and Weisbach, M.S. (2002), Protection of Minority shareholder interests, cross listings in the United States, and subsequent equity offerings. *Journal of Financial Economics,66* (4):65-104.

[25.] Reham. R., and Mangla,U.(2010).Corporate Governance and Performance of Financial Institutions in Pakistan: A Reporting Standards (IFRS) Adoption on Accounting Practices in Nigeria. *Archives of Business Research*, 2(2), 1-14.

[26.] Robyn, P., and Graeme, D. (2009), Implementing IFRS in local government: Value adding or additional pain? *Journal of Qualitative Research in Accounting and Management*, 6(3), 180-196.

[27.] Ueng,C. J. (2016). The analysis of corporate governance policy and corporate financial Performance *Journal of Economics and Finance 40(1):514–523 DOI: 10.1007/s12197-015-9316-8*

[28.] Yahaya, K. A., Fagbemi, T. O. and Oyeniyi, K. K. (2015). Effect of International Financial Reporting Standards on the Financial Statements of Nigerian Banks. *Journal of Agricultural Economics, Environment and Social Sciences* 1(1):18 –29

[29.] Zayyad, A., Ahmad, B. U., and Mubaraq, S. (2014), Financial Ratios as Performance Measure: A Comparison of IFRS and Nigerian GAAP. *JournalofAccounting and Management Information Systems*, 13(1), 82-97.