

# Corporate Social Responsibility

## Chapter 6

### The Regulatory Frameworks and Accounting Standards in Nigeria

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#### **Concept of Accounting Standard in Nigeria**

The preparation of financial statements by corporate organization must follow certain rules, principles and guideline Nigeria before the introduction of IFRS. The rules are stated In the Company and Allied Matter Act (CAMA) 1990. The act prescribes some format and content of what must be included in the company's financial statements disclosure requirements and auditing. It requires that financial statement of companies must comply with the Statement of Accounting Standards (SAS) issued from time to time by the Nigerian Accounting Standard Board (NASB) and audit carried out in accordance with generally accepted auditing guidelines and standards. The NASB Act No22 of 2003 formerly created the NASB and established for it an inspectorate unit. The NASB came into being on September 9, 1982. It is the only recognized independent body in Nigeria responsible for the development and issuance of statement of accounting standards for users and preparers of financial statements, investors, commercial entities and regulatory agencies of government. Other laws include the Bank and other Financial Act (BOFIA) 2004 and the Small and Medium Scale Entities are to adhere strictly to the presentation of their information using relevant sections of SAS (Orakwu, 2015).

#### **Quality of IFRS Quality in Nigeria**

Recently there has been a push towards the quality of IFRS developed and issued by the International Accounting Standards Board (IASB). The increasing growth in international trade, cross border financial transactions and investments which unavoidably involves the preparation and presentation of accounting reports that is useful across various national borders, has brought about the quality of IFRS by both the developed and developing countries (Armstrong, 2007). The process of quality received a significant boost in 2002 when the European Union adopted a regulation 1606/2002 requiring all public companies in the territory to convert to IFRSs beginning in 2005 (Iyoha and Faboyede, 2011). A number of African countries including Nigeria, Ghana, Sierra Leone, South Africa, Kenya, Zimbabwe and Tunisia among others have adopted or declared intentions to adopt the standards. In particular, Nigeria quality of IFRS was launched in September, 2010 by the Honourable Minister, Federal Ministry of Commerce and Industry - Senator

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Jubriel Martins-Kuye (OFR) (Madawaki, 2012). The quality was planned to commence with Public Listed Companies in 2012 and by end 2014 all stakeholders would have complied. As at today, banking sector has fully implemented. This is considered a welcome progress for developing countries especially some of those that had no resources to establish own standards.

### The Effect of IFRS Quality on Financial Statements in Nigeria

The following theoretical argument explains how IFRS could potentially affect accounting quality and comparability. The effect is in two different steps, the effect into first order effect and second order effect. Harmonising accounting standards by establishing one uniform set of standards has direct effects on the property of the firm

financial statement information. IFRS is more quality reporting than the local (GAAP) accounting. He suggests that Quality reporting should increase and lead to better informed valuations in equity markets, thereby lowering investor's risks.

**Table 2.1: Differences between IFRS and Nigerian GAAP**

<b>AREAS</b>	<b>NG-GAAP</b>	<b>IFRS</b>
Financial statement presentation	Income statement Balance sheet Cash flow statement Value added 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
Scope of consolidation	General principles	Investment under control is consolidated
Employees benefits	General expenses and disclosure on pension	Complex criteria of accounting Recognise the undiscounted amount of short term employee's benefit.
Risk management disclosure	Limited disclosure on foreign exchange and credit risk.	Credit risk Liquidity risk Price risk Capital risk management Risk management
Leases	Based on general guideline, operating and finance lease	Fair value and amortised 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

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		IFRS 36 impairment on non-financial assets IAS 39 impairments on financial assets.
Financial assets classification and valuation	Classification includes; cost and amortised cost	Classification included; amortised cost, fair value cost. This is driven by the business model and the nature of instrument.

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

### **Fair Presentation and Compliance Financial Statements with IFRS**

The financial statement under IFRS is presented a bit different from the previous standards. These new Presentation of financial statement is a proposal by a joint committee of the key regulators involved in the international standards the U.S. Federal Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). In October 2008 the committee released the changes to new financial statement presentation. The public has up until April 14, 2009, to comment on the proposal, after which it will become an exposure draft and then move to become a new financial reporting standard. The two regulatory boards were proposing a new look and feel to the statements, consistent with their objective of: Improving financial report and providing better information to the users of financial statements. The discussion explains "how an entity presents information in its financial statements is vitally important because financial statements are a central feature of financial reporting, a principal means of communicating financial information to those outside an entity.

The Boards contend that the existing presentation guidelines make it difficult to understand the relationship between financial statements and that information in different statements is inconsistently presented. These factors make it difficult to properly assess the financial health of an organization. There are three objectives associated with the change. Information should be presented in the financial statements in a manner that:

- a. Portrays a cohesive financial picture of an entity's activities. A cohesive financial picture means that the relationship between items across financial statements is clear and that an entity's financial statements complement each other as much as possible,
- b. Disaggregates information so that it is useful in predicting an entity's future cash flows,
- c. Helps users assess an entity's liquidity and financial flexibility. Changes of financial statement names

### **Changes of Financial Statement Names**

The financial statements will have new names: an income statement will now be called a "Statement of Comprehensive Income" and a balance sheet will be called a "Statement of Financial Position." The required statement of

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retained earnings will be replaced by a "Statement of Changes in Shareholder's Equity". There is also a new statement reconciling net income to cash flow which must be included in the financial statement notes.

Table 2.2: New Names under IFRS

<b>Previous name</b>	<b>New name under IFRS</b>
Income statement	Statement of comprehensive income
Balance sheet	Statement of financial position
Statement of retained earning	Statement of change in equity
Statement of cash flow	Statement of cash flow

**Source: International Financial Reporting Standards (IFRS).**

### **The New Balance Sheet (Statement of Financial Position)**

The biggest difference with the new format of the Statement of Financial Position (balance sheet) is that at first glance, it isn't obvious that assets balance to liabilities plus equity. The traditional balance sheet shows assets on the left side with liabilities and equity on the right, having identical totals on both sides. The new format does not separate assets and liabilities into distinct sections. Instead, assets and liabilities are netted together in each of the sections of the statement of Financial Position. Totals for short-term and long-term assets in each section of the statement are optional. A firm must disclose the totals for short-term, long-term, and total assets and liabilities in they can do so either in the statement or in the notes to the financial statements. There is no familiar total for liabilities plus equity. Underlying the presentation format, the balance sheet still balances (International Financial Reporting Standards (IFRS)).

### **The New Income Statement (Statement of Comprehensive Income)**

The Statement of Comprehensive Income is similar to today's income statement in that it calculates a subtotal for net income and then has a section for other comprehensive income (OCI).

However, everything above net income is divided into the same categories that the balance sheet is classified in an operating section, an investing action, a financing section, income taxes, and discontinued operations. Within the OCI section, the entity must indicate to which category operating, investing, or financing) the actual line items relate to. Line items are further identified by function and then nature. For example, cost of goods sold must be further subdivided into materials costs, labour costs, and overhead. Details for general and administrative expenses must also be disclosed. If these guidelines result in too lengthy of a statement, the entity can summarize the statement, but they must still present the details in the financial statement notes (International Financial Reporting Standards IFRS).

### **The New Cash Flow Statement**

The Cash Flow Statement is the only statement that will retain its existing name. Its format is similar to today's format, but there is one significant

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change - the indirect method of reporting cash flow will no longer be allowed. Current GAAP allows entities to report cash flow using either a direct or an indirect method. The direct method reports cash changes based on how much cash is paid for or received as a result of various activities; the indirect method starts with income and making adjustments to arrive at cash flow. Most organizations opt to report under the indirect method since information for this format is usually more easily available from, their accounting systems. A second major change is that there are no more cash equivalents. The statement reports only on changes in cash. Instead of eliminating the need to reconcile net income to cash flow using the indirect method, the regulators recognize that such reconciliation provides valuable information to financial statement users and therefore require a new (International Financial Reporting Standards (IFRS):

### **Challenges and Benefits of the Quality of IFRS in Nigeria**

The practical challenges that may be faced in Nigeria as a result of implementing the IFRS need to be identified and addressed in order to benefit fully from the introduction of IFRS. These challenges have been evidenced by previous studies conducted by scholars such as: potential knowledge shortfall, legal system effect, tax system effect, education and training, enforcement and compliance mechanism (Alp and Ustundag, 2009). The challenges are discussed as follows:

- a. Level of Awareness:** The transition plan to IFRS and its implications for preparers and users of financial statements, regulators, educators and other stakeholders have to be effectively coordinated and communicated. This should include raising awareness on the potential impact of the conversion, identifying regulatory synergies to be derived and communicating the temporary impact of the transition on business performance and financial position. The implementation of IFRS requires considerable preparation both at the country and entity levels to ensure coherence and provide clarity on the authority that IFRS will have in relation to other existing national laws.
- b. Accounting Education and Training:** Practical implementation of IFRS requires adequate technical capacity among preparers and users of financial statements, auditors and regulatory authorities. Countries that implemented IFRS faced a variety of capacity-related issues, depending on the approach they took. One of the principal challenges Nigeria may encounter in the practical implementation process, shall be the shortage of accountants and auditors who are technically competent in implementing IFRS. Usually, the time lag between decision date and the actual implementation date is not sufficiently long to train a good number of professionals who could competently apply international standards.
- c. Training Resources:** Professional accountants are looked upon to ensure successful implementation of IFRS. Along with these accountants, government officials, financial analysts, auditors, tax practitioners, regulators, accounting lecturers, stock-brokers, preparers of financial

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statements and information officers are all responsible for smooth quality process. Training materials on IFRS are not readily available at affordable costs in Nigeria to train such a large group which poses a great challenge to IFRS quality.

- d. **Amendment to Existing Laws:** In Nigeria, accounting practices are governed by the Companies and Allied Matters Act (CAMA) 1990, and the Statement of Accounting Standards (SAS) issued by the Nigerian Accounting Standards Board (NASB) and other existing laws such as Nigerian Stock Exchange Act 1961, Nigerian Deposit Insurance Act 2006, Banks and Other Financial Institution Act 1991, Investment and Securities Act 2007, Companies Income Tax Act 2004, Federal Inland Revenue Services Act 2007. All these provide some guidelines on preparation of financial statements in Nigeria. IFRS does not recognize the presence of these laws and the accountants have to follow the IFRS fully with no overriding provisions from these laws, Nigerian law makers have to make necessary amendment to ensure a smooth transition to IFRS.

### **Benefits of Adopting IFRS in Nigeria.**

The quality of IFRS has several benefits as evidenced by previous studies carried out by several scholars some of which include the following, decreased cost of capital, efficiency of capital allocation, international capital mobility, capital market development increased market liquidity and value enhanced comparability cross border movement of capital, improved transparency of results (Adekoya, 2011):

The potential benefits that Nigeria stands to gain after IFRS quality are seen in the light of:

- i. Promotion of the compilation of meaningful data on the performance of various reporting entities at both public and private levels in Nigeria thereby encouraging comparability, transparency, efficiency and reliability of financial reporting in Nigeria.
- ii. Assurance of useful and meaningful decisions on investment portfolio in Nigeria, Investors can easily compare financial results of corporation and make investment decisions.
- iii. Attraction of direct foreign investment. Countries attract investment through greater transparency and a lower cost of capital for potential investors. For example, cross-border listing is greatly facilitated by the use of IFRS.
- iv. Assurance of easier access to external capital for local companies.
- v. Reduction of the cost of doing business across borders by eliminating the need for supplementary information from Nigerian companies. Facilitation or easy consolidation of financial information of the same company with offices in different countries. Multinationals companies avoid the hassle of restating their accounts in local GAAPs to meet the requirements of national stock exchange and regulators, making the consolidation of accounts of foreign subsidiaries easier and lowering overall cost of financial reporting.

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- vi. Easier regulation of financial information of entities in Nigeria.
- vii. Enhanced knowledge of global financial reporting standards by tertiary institutions Nigeria.
- viii. Additional and better quality financial information for shareholders and supervisory authorities.
- ix. Government to be able to better access the tax liabilities of multinational companies.

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