

IFRS ADOPTION AND THE IMPLICATION FOR ACCOUNTING AND TAXATION IN NIGERIA: A CONCEPTUAL FRAMEWORK

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ABSTRACT

The study examined the implications of the adoption of International Financial Reporting Standards (IFRS) for accounting and taxation in Nigeria, with particular emphasis on the need for transparency, improved financial reporting, and enhanced accountability. The paper explored the conceptual foundations and practical implications of IFRS adoption for accounting and taxation in the Nigerian context, drawing on Agency Theory, Stakeholder Theory, and Institutional Theory. From an accounting perspective, IFRS adoption was driven by the need to reduce information asymmetry between managers and investors, in line with Agency Theory. IFRS enhances the relevance, verifiability, and faithful representation of financial disclosures. While the adoption of IFRS in Nigeria has improved the credibility of financial reporting and strengthened stakeholder accountability, it has also presented significant taxation challenges, including the misalignment between Nigerian tax laws and IFRS principles, as well as the absence of comprehensive tax guidelines that adequately address IFRS-based reporting. In light of these findings, the study recommends that the government should provide continuous training for accounting professionals on IFRS principles and implementation. Furthermore, the government should review and reform existing tax laws to ensure alignment with IFRS principles and facilitate effective implementation.

Keyword: IFRS Adoption, Implications, Accounting, Taxation, Conceptual Framework, Nigeria.

1. INTRODUCTION

The adoption of international financial reporting standards (IFRS) in Nigeria has significant implications for accounting and taxation. IFRS is a globally accepted framework for financial reporting, providing a common language for businesses and organizations to report their financial performance. One of the most significant developments in the global economy has been the widespread adoption of international financial reporting standards (IFRS). According to Onah and Edeh (2024), IFRS serve as a globally recognized set of accounting principles and standards aimed at promoting uniformity, comparability and consistency in the treatment and reporting of financial transactions worldwide. The preparation and presentation of financial reports are necessary to enhance the supply of useful information that guides the economic and business actions of firms (Hassann & Musa, 2023). The Nigerian government made an official announcement in 2010 on the adoption of IFRS. In order to provide legal backing for the standards implementation, the financial reporting council of Nigeria (FRCN) Act was passed in 2011. This implies that the audited accounts to be submitted to the Nigeria Revenue Service (NRS) after the adoption of International Financial Reporting Standards shall be prepared in compliance with standards issued by IFRS. In 2012, listed firms were obliged to use IFRS to prepare financial accounts.

2. LITERATURE REVIEW

2.1 Conceptual Review of IFRS

International Financial Reporting Standards is a set of international standards which offer guidance and knowledge on how businesses operating in a global economy present their financial activities which meet the requirements of accurate recording, comparability, transparency, uniformity and public trust in financial reporting (Hassan & Musa, 2023).

According to Birt et al (2020), the two fundamental qualitative characteristics of financial report under IFRS are relevance and faithful representation. The four enhancing qualitative characteristics are comparability, verifiability, timeliness and understandability. The attribute of relevance suggests that the data should be useful

if leaving it out or reporting it incorrectly might affect how decisions are made. All information that is relevant to a specific business or account should be included in a financial report (Birt el al 2020).

According to Birt el al (2020), financial information is implied to faithfully describe the phenomena it claims to represent by virtue of its attribute of faithful representation. This representation suggest that the financial data is accurate, unbiased and comprehensive.

Comparability of IFRS adopted financial statement ensure that entity across time as well as between entities at different points in time are comparable and should be measured and shown consistently throughout an organization.

Verifiability of IFRS adopted financial statement indicate a quality that guarantees that the information accurately portrays what is claims to represent. While the timely accounting information is an indicative that all parties involved have access to it in time to make informed decisions.

2.2 Empirical Review

Ityavar and Yua (2023), investigated the impact of international financial reporting standards on the taxation and financial performance of five selected businesses in Nigeria's banking industrial and consumer goods sectors between 2009 and 2011 and the post adoption period (2013 – 2020) of IFRS. Examining the adoption and the implication for accounting and taxation in Nigerian enterprises was one of the study's main goals.

According to Fatoki and Adekunle (2022), the introduction of IFRS affected the performance of deposit money banks in Nigeria. Nwufu and Chima (2021) used data from 21 bank that were listed as of 31st December, 2016 on the Nigerian stock exchange to carry out an empirical study on the effect that the implementation of IFRS had on the performance of Nigerian listed companies. A multiple regression model was used to assess the study's hypothesis. The study revealed an expansion of Nigeria's listed banks after IFRS adoption.

Ogundayi and Siyanbola (2021) investigated the effect the implementation of IFRS has on the corporate performance of some listed banks on the Nigeria exchange group. An expose facto research design was used for the investigation. Data from 2006 – 2019 financial statements of nine listed banks was use. Descriptive and inferential statistics were used to analyse the data. The findings revealed that the adoption of IFRS has a substantial effect on the liquidity of Nigerian deposit money banks. The adoption of international financial reporting standards (IFRS) in Nigeria as been a significant development in the country's accounting and financial reporting landscape. Studies have shown that IFRS adoption has improved financial reporting in Nigeria, enhancing transparency and accountability.

Empirical analysis reveals that IFRS adoption has positively impacted accounting practices in Nigeria, with companies reporting more accurate and reliable financial information. Studies have shown that IFRS adoption affects income tax rates, while other findings indicate no significant difference in tax figures before and after IFRS adoption. In a study carried out by Tochukwu Gloria Okafor et al (2017), it was revealed that IFRS adoption has an incremental effect on the value relevance of book value, earnings per share and cash flow from operations in Nigeria firms, with earnings per share showing the highest increment. While in another study carried out by Saheed Aderemi et al (2021), the study revealed a significant relationship between IFRS adoption and quality of taxation and reporting of income taxes in Southwestern Nigeria.

2.3 Theoretical Framework

The IFRS adoption in Nigeria indicates that the transition from Nigeria GAAP generally improves financial reporting quality, transparency and comparability, thereby reducing information asymmetry and enhancing foreign investment. Base on the foregoing, the following theories were examined for a better understanding of the IFRS adoption and its implementation.

- (i) **Agency Theory:** The IFRS adoption is seen as a mechanism to reduce agency costs by improving transparency and the reliability of financial information. The theory explains how board independence and institutional mechanisms that reinforce IFRS compliance and curb managerial self-interest.
- (ii) **Stakeholder Theory:** The adoption of IFRS enhances the relevance, verifiability, comparability, faithful representation, understandability and timeliness of financial disclosures, which directly serve stakeholder decision making. Stakeholder theory focus beyond shareholders to include creditors, employees, regulators, customers and the general public, that firms have a responsibility to provide useful information.
- (iii) **Institutional Theory:** Organisations adopt IFRS to gain legitimacy, credibility and conform to global norms. The institutional environment significantly influences the informativeness of IFRS. Good institutions enhance positive perception framework in developing economics.

3. THE IMPLICATIONS OF IFRS ON ACCOUNTING AND TAXATION IN NIGERIA

The adoption of International Financial Reporting Standard (IFRS) in Nigeria has significant implications for both accounting and taxation, these includes:

- (i) **Improves Financial Reporting:** IFRS provides a more comprehensive and transparent framework for financial reporting, enabling stakeholders to make informed decisions.
- (ii) **Increased Comparability:** IFRS adoption facilitate comparison of financial performance across companies and industries both nationality and internationally.
- (iii) **Enhanced Accountability:** IFRS promotes accountability and transparency in financial reporting, thereby reducing the risk of misreporting of financial statement.
- (iv) **Tax Adjustments:** Tax payers are required to present reconciliation at their IFRS transition adjustments for tax purposes.
- (v) **Deferred Tax Assets and Liabilities:** IFRS adoption can result in the recognition of deferred tax assets and liabilities which can impact a company's tax obligations.
- (vi) **Excess Dividend Tax:** Where dividend paid exceeds taxable profit, excess dividend tax at 30% will apply notwithstanding that profit being distributed may have resulted from transition adjustment.

4. BENEFITS OF IFRS ADOPTION IN NIGERIA

According to Barth et al (2019), the implementation of IFRS by businesses resulted in a restriction on earnings management, an increase in the prompt recognition of losses and increased efficiency in reported earnings. Other benefits the adoption of international financial reporting standard (IFRS) in Nigeria includes;

- (i) **Improved Accounting Quality:** IFRS adoption enhances the quality of financial reporting, providing stakeholders with more accurate and reliable information.
- (ii) **Attracting Foreign Direct Investment:** IFRS adoption promotes transparency and comparability, making Nigeria a more attractive destination for foreign investors.
- (iii) **Bridge Communication Gap:** IFRS facilitates better communication between stakeholders, that is, investors, regulators and companies providing a common language for financial reporting.
- (iv) **Easier Access to External Capital:** IFRS adoption ensures that local companies can access external capital more easily as their financial statements are comparable and reliable.
- (v) **Promoting Economic Growth:** By adopting IFRS, Nigeria can promote economic growth and development by attracting foreign investment, improving financial reporting and enhancing transparency and accountability.
- (vi) **Enhanced Transparency and Comparability:** IFRS provides a single set of high quality understandable and enforceable global accounting standards, enabling stakeholders to compare financial performance across companies and industries.

5. CHALLENGES OF IFRS ADOPTION IN NIGERIA

The adoption of international financial reporting standard (IFRS) in Nigeria presents several challenges, these includes;

- (i) **Poor Knowledge of IFRS Procedures:** Many professional in Nigeria lack a deep understanding of IFRS procedures and implementation, thereby hindering effective adoption.
- (ii) **Development of Regulatory and Legal Framework:** Nigeria faces challenges in developing a robust regulatory and legal framework to support IFRS adoption.
- (iii) **Lack of Trained Professionals and Regulators:** The adoption of IFRS required significant training for professional and regulators to ensure they can effectively implement and enforce the standards.
- (iv) The Nigeria's former Statement of Accounting Standards (SAS) has weaknesses that poses challenges for IFRS adoption.
- (v) **High Cost of Implementation:** The cost of acquiring accounting packages and training resources can be very costly, thereby affecting the level of IFRS adoption.

6. THE WAY FORWARD IN THE IMPLEMENTATION OF IFRS ADOPTION IN ACCOUNTING AND TAXATION IN NIGERIA.

To successfully implement IFRS adoption in Nigeria, the following steps need to be taken.

- (i) **Training and Capacity Building:** There is need for comprehensive training for accounting professionals, regulators and other stakeholders on IFRS principles and implementation.
- (ii) **Regulatory Framework:** A good regulatory framework should be developed and strengthened to support IFRS adoption and enforcement.
- (iii) **Infrastructural Development:** There should be investment in infrastructure such as accounting software and system to support IFRS compliance and reporting.
- (iv) **Monitoring and Enforcement:** A robust monitoring and enforcement mechanism should be established to ensure compliance with IFRS standards.

- (v) **Continuous Review and Update:** There should be continuous review and update of IFRS standards and implementation guidelines to reflect changes in the global economic and business environment.

7. CONCLUSION AND RECOMMENDATION

The adoption of IFRS in Nigeria has significant implications for both accounting and taxation. While IFRS adoption has improved the quality, transparency, and comparability of financial reporting, several challenges remain that could hinder its effective implementation. These challenges underscore the need for Nigeria to invest in capacity building, strengthen its regulatory framework, and address the deficiencies that existed under the former Statement of Accounting Standards (SAS) regime to ensure the successful implementation of IFRS. Furthermore, aligning taxation policies and regulations with IFRS principles is essential to minimize inconsistencies between financial reporting and tax administration. To ensure the effective implementation of IFRS in accounting and taxation, the following recommendations are made:

- (i) The government should provide continuous training and capacity-building programmes for accounting professionals on IFRS principles, standards, and implementation procedures.
- (ii) The government should strengthen the regulatory framework to support the adoption, monitoring, and enforcement of IFRS across all sectors of the economy.
- (iii) The government should review and reform existing tax laws to ensure alignment with IFRS principles and reduce conflicts between financial reporting requirements and taxation practices.
- (iv) Professional bodies, such as the Institute of Chartered Accountants of Nigeria (ICAN), should be encouraged to provide continuous training, technical support, and awareness programmes for their members and other stakeholders to facilitate the effective implementation of IFRS principles and policies.
- (v) The Nigeria Revenue Service (NRS) should develop comprehensive guidelines on the tax implications of IFRS adoption to promote consistency, clarity, and compliance in tax administration and financial reporting.

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