

Adoption of International Financial Reporting Standard in Nigerian: The Good, the Bad and the Ugly

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Abstract

This paper examines the mandatory adoption of IFRS in Nigeria that started since January, 2012; and how far the Nigerian government via the Financial Reporting Council has gone in the transition of Nigerian local GAAP (SAS) to International GAAP (IFRS). The study examined and identified the benefits that Nigeria and Nigerians gained so far as a result of convergence into IFRS; the bottlenecks that paralyze the full percentage of the transition as well examined the techniques taken by Nigeria in making sure a smooth, successful and amicable implementation of the three stages of convergence. In the course of this study the study observed vividly that Nigeria has gained a lot from the convergence because most of its local financial expertise are now turned into International expertise as well as International financial consultants, thus, convergence has increase the level of employment in the country. The main drawbacks of the transition is amendments of Nigerian tax laws, because tax laws are among the most complicated laws in accounting arena; weak compliance and enforcement mechanisms by Financial Reporting Council. As a manner of recommendation, for Nigerian government to gain more from dividend of convergence there is need to increase the time period for the on-going transition because implementation of certain requirements of International Standards like IFRS successfully should be in a gradual and careful process not just three years, because convergence to IFRS is not just an Accounting and Taxation exercises but a total and complete transition that requires every stakeholders concerned to learn a new technical language as well as new modes of working with a new standard.

Keywords: Nigeria, Convergence, IFRS, Nigerian GAAP, Challenges.

1. Introduction

Nigeria is the most populous country in Africa; with over 168.8 million people according to World Bank report of 2012. Nigerian comprises more than 250 different ethnic groups with three major religions which are Islam, Christianity and Traditional religions. Nigeria got its independence from England on 1st October, 1960; it encloses more historic cultures and empires than any other nation in Africa. African countries nicked name Nigeria as "mother of Africa", it consist six geographical zones (North- west, North- east. North Central, South-east, South – south and South – central), 34 states governments and 774 local governments over rule them by Federal government. As at 09 March, 2007, Nigeria has 283 listed companies with total market capitalization

of about #15 trillion (\$125billion). Nigeria has two major accounting professional bodies ICAN (Institute of Chartered Accountant of Nigeria) and ANAN (Association of National Accountant of Nigeria). Before the advent of IFRS, Nigeria uses two main accounting standards namely SAS (Statement of Accounting Standard) and American GAAP under the control of NASB (National Accounting Standard Board).

The need for universal and acceptable accounting reporting standard started since 1960s when the national boundaries of capital markets began to turn into blur, (Fodio, 2011). This mounted the concern about the lack of comparability of financial information from one country to another more importantly by international potential investors, existed investors, creditors and other users of financial information.

The period (1960s) witnessed an expansion of international trade across the global and different governments across the world needs an alternative for their financial transactions; taxation inclusive among them. Hence, government and tax authorities support and recommended positively without any reservation for creating a unique global accounting standard. Similarly, numerous world economic and financial institutions, such as World Bank, International Monetary Fund (IMF), International Organization of Securities Commission (IOSCO), Basel Committee on Banking Supervision, United Nations and the Organization for Economic Cooperation and Development (OECD) publicly shows their kin interests for the formulation and implementation of a unique set of accounting standard globally.

The above kin interests led to the formation of a committee in 1973 to see the possibility of this standard, this committee was called International Accounting Standard Committee, and the goal of this committee was to formulate "International Accounting Standards." The committee started with best leading professional accounting bodies from ten (10) countries these countries are: Australia, Canada, France, Germany, Ireland, Japan, Mexico, the Netherlands, the United Kingdom, and the United States. Before the dissolution of this committee, the IASC consisted 156 professional accounting bodies in 114 countries, representing more than 2 million accountants in public practice, education, government service, industry, and commerce, (Doupnik, Perera, 2012).

The sources of income of this committee came via the contributions from member bodies, multinational companies, financial institutions, accounting firms and the sale of IASC publications and banners ((Doupnik, Perera, et,al 2012).

International Accounting Standard Committee (IASC) had over 140 member accounting bodies from over 100 countries across the global, but in 1983 was considered as independent from all other accounting bodies across the world. Hence, in 1983 the relationship was established with International Federation of Accounting (IFAC).

Later in 1990s this committee faced lots of challenges because some interested parties perceived the fact that many of the IASC board members are not fully committed in the affairs of committee, they are only working on part-time basis, so this would hinder the possible highest qualitative standards. These challenges lead to the formation of Strategy Working Party in 1996 to focus the probable solutions to the above mentioned challenges.

In December 1998, the Strategy Working Party came up with the report titled "Shaping IASC for the future" recommending sharply different structures and probable process for the development of international accounting standard. The final recommendations of the IASC Strategy Working Party were approved at its Venice meeting in November, 1999. These recommendations deals way with the legitimacy issue, also attempts was made to balance calls for a structure based on geographical representations and those representations was based on technical competence and independence, ((Doupnik, Perera, et,al 2012).

However, it was concluded that those representatives would be presented by the geographical distribution of the trustees, who would be

meaningful to ensure the effectiveness and full independence of the board, but nevertheless the board member's selection are still based on their technical expertise.

In April 2001, the IASC was converted to International Accounting Standards Board. Prior to its conversion the IASC developed 41 solid standards popularly known as International Accounting Standard (IASs) some among the standards were revised while others superseded or converged with other standards. Similarly, as from 2001, the new board has revised a number of IASs and has begun a series of standards known as the International Financial Reporting Standard (IFRS).

The new board announced vividly that the new term "IFRS" should be understood to include IAS; including the old interpretations issued by Standing Interpretation Committee currently referred to as International Financial Reporting Interpretations Committee (IFRIC). Hence, now IFRS comprise the followings:

- a) International Accounting Standards (Issued from 1973-2000)
- b) International Financial Reporting Standards (Issued from 2001-to date)
- c) Interpretations originated by SIC or its successor, IFRIC.

In the last 8 years, many developed and developing countries have prepared their financial reports based on IFRS basis. Similarly, EU take champion when she mandated all listed companies under the umbrella of EU to prepare their financial report on the basis of IFRS from the inception of 2005 till infinity. The Period from 2005-2009 was considered as the time frame for EU countries to implement IFRS in full in their financial reporting. Currently, over 120 countries in the world are reported to have adopted and converged with IFRS, (Odia, Ogiedu, 2013). IFRS are set of golden rules that conquered the whole world. It focused more on objectives and principles based unlike U.S local GAAP that focused more on ruled basis.

The current wind speed of globalization, internalization and convergence of accounting standards has injected and motivated Nigeria to develop a roadmap for the successful adoption of IFRS. The roadmap started and approved on Wednesday, 28th July, 2010 by Nigerian Federal Executive Council (Comprises President and his cabinet), and was formally announced by then Honorable minister for Commerce and Industry in person of Senator Jubril Martins-Kuye on Thursday 2nd September, 2010. Similarly it is part of the preparation for convergence, the Nigerian Accounting Standard Board responsible for the Statement of Accounting Standards (SASs) has been re-shaped to the Financial Reporting Council (FRC) in order to enable them discharge their duties in line with IFRS. The roadmap, recommended a three stepped transition; over a period of three years:

a.1st January, 2012: as the date for mandatory adoption of IFRS for listed companies in Nigeria and significant public entities (described as entities and other organizations required by law to file their returns with regulatory authorities, excluding private companies that routinely file their returns only with Corporate Affairs Commission (CAC) and Federal Inland Revenue Service (FIRS)). This group is made up of companies that are quoted on the Nigerian Stock Exchange with a minimum shareholders' fund of N 500 Million.

b.1st January, 2013: For other Public Interest Entities (PIE), this group also comprises all quoted companies in the Nigerian Stock Exchange Market but with shareholder's fund below N 500 Million.

c.1st January, 2014: Finally, Small and Medium size Enterprise (SMEs) are expected to commence their implementation by first week of January, 2014. (Fodio, et al 2011), (Terzungwe, 2012) and (Baba, 2013).

In addition, the roadmap requires listed companies and significant public entities to:

- a) Reverse their closing balances as at December, 31, 2010 to IFRS, hence, become the opening balance as at 1st, January, 2011.

b) Prepare IFRS Financial statements as at December, 31st 2011, hence, will provide opening balance for January 1st, 2012

c) Then finally, prepare IFRS full financial statement as at 31st December 2012 with 2011 as a comparative year.

Finally, its hope that within the three 3 years transition period, all the required innovations in business operations, contractual agreements, Information Technologies (IT) and other necessary issues for effective and efficient financial statements shall have been fully addressed and implemented in order to give comprehensive, true and fair financial statement based on golden rules of IFRS.

The frequent questions related to the mandatory adoption of IFRS in Nigeria from 2015 includes: what are the issues and bottlenecks associated with the adoption of IFRS and what are their mitigating factors, is there any benefits that Nigeria gain(s) as a results of its adoption of IFRS so far, What are the likely effects of adopting IFRS in Nigeria?

The aim of my study is to try and addressed the above mentioned questions. The study is hence organized as follows; the next section is to examine the related literature concerning the subject matter, then follows by section 3. Method of my study, section 4. Examining the issues (bad) associated with the mandatory adoption of IFRS in Nigeria, section 5. To x-rays the bottlenecks or challenges (ugly) associated with the IFRS adoption in Nigeria, 6. Techniques for effective adoption of IFRS in Nigeria, section 7 to find out major differences and similarities between the Nigerian GAAP and IFRS, section 8 Benefits (Good) that Nigeria gained as a result of convergence, section 9. Conclusions of the study and my recommendations follow.

2. Review of Literature

The global convergence of accounting standards is the most “buzz word” in the arena of contemporary academia. Worldwide convergence of accounting standards is considered as an attempt to curb the accounting diversity across the global, and to consider IFRS as the global GAAP, (Baba, et,al 2013). Hence, to achieve the basic objectives of financial reporting, there is need for unique, solid and acceptable consistent framework, (Okeye, Akenbor, 2013). The mandatory adoption of IFRS as issued by International Accounting Standard Board (IASB) is expected to result in the application of a common set of financial reporting standards within and between countries in Europe and many other countries in the world that require or permit application, (Odia, Ogiedu, et, al 2013). Specifically, Terzungwe (2012) opined that “internationalization will combat some or much of the varieties in accounting rules and practices across nations, but it will not eliminate it totally. Internalization and globalization of business activities in the world give birth for harmonized financial preparation and presentation, (Edogbanya and Kamardin, 2014).

Accounting theory through the emergence of standards provides direction and guidance on how and where the business enterprises could achieved the goal of good and proper record maintenance, accountability, transparency, uniqueness, comparability and enhancing public confidence in financial reporting, (Mary, Okeye, Adediran and Samson, 2013). Doupnik and Perera et al (2012 Pp 92) are in the opinion that single set of accounting standard is necessary due to the following reasons:

- i. The analogous of financial statements globally is mandatory due to the globalization of capital market.
- ii. Unified accounting standard would simplify the evaluation by multinational companies of possible foreign takeover targets.
- iii. Single set of accounting standard would reduce financial reporting cost for entities that have a goal to list their stock on foreign stock exchange market.

iv. National differences in corporate reporting make existing and potential shareholders to lose confidence, hence, affect the availability and cost of capital.

v. One set of universally accepted accounting standards would combat the cost of preparing global unified financial statements, thus, the auditing of such consolidated statement would be simpler and easier.

vi. One set of accounting standard would enhance and help tremendously in the raise of quality level of accounting practices internationally, hence, increasing the credibility and value of financial statement.

vii. Convergence to one set of global standard would lead to the use of IFRS and by preparing financial statement with IFRS basis will make balance be closer to economic value because historical cost will be substituted by fair values for several balance sheet items, which enable a corporate to know its exact, genuine and true value.

Hendrickson (1992) opined that although accounting principle and policies are being established globally through the International Accounting Standards Committee, but he suggested that the compliance with its standards is limited to the acceptance of the standards by the representing professional Accounting societies and by other originations and government agencies within the represented nations. Also Sunder, (2007) in his empirical study titled "Adverse Effects of Accounting Uniformity on Practice, Education, and Research Working paper" suggested that global adoption of IFRS may not fully reflect regional variations across nations, he continues that IFRS does not effectively accommodates political, social, legal, cultural and economic differences of such countries, hence mandatory adoption of IFRS may not actually increase or enhance comparability. While Daske, Hail, Leuz and Verdi (2008) in their study "Mandatory IFRS reporting around the world: Early evidence on the economic consequences" postulate that limited role of IFRS mandatory adoption in ascertaining reporting quality and hence suggest that proper implementation and enforcement is needed in order to ensure a positive economic consequences.

There are two schools of thoughts to convergence (Zeghal, and Mhedhbi, 2006). These are: Adoption and Adaptation. Adoption is the one that encourage and promotes a complete replacement of local standards from different nations of the world with International Accounting Standard Board's (IASBs) standard. While Adaptation is the one that tends to modification of International Accounting Standard Board's (IASBs) standard in order to suits with the specified peculiarities of a particular nation like its culture, level of the economy in the nation its local markets etc without compromising the accounting standards and all the disclosure requirements of the International Accounting Standard Board's (IASBs) standards and other basis of conclusions, The adaptation, adoption and implementation of the worldwide standards in a particular country hold on in an environment that is affected by factors that are peculiar to that country. Hence, economy, culture, laws, politics and most importantly religions must come in to considerations. This is one of the reasons why must of the countries in the world do not fully incorporate with the International Accounting Standard Board's standard (IASBs), Ailement, Akande, 2012).

Juan (2005) in his study spelt out two main problems associated with the convergence of International Accounting Standard globally. The first is the absence of accurate translation of the Standards to major different languages of the world which would make the standards to become easier to learn and to understand by the adoptees. Okeye and Akenbor (2013) Pointed out clearly that Internal Accounting has a language barrier, for example the word 'assets' in French stand as 'active', also the German language has no reasonable single-word that counterpart for the term 'fair'. Hence, the importance of having a unique and common language to International Standard as early as possible cannot be overemphasized. Then the second is lack of the reduction

of the complexities and structures of the International Accounting Standard without losing the actual quality of the standard. Another lacuna in the adoption of International Accounting Standard is the time lag in the implementation of the standard. According to the World Bank (2004) urge that there can be full adoption of IFRSs but with time lag; selective adoption of IFRSs; and national standards “based on” IFRS

3. Research Methodology

This study is specifically designed to determine the challenges, issues and lessons learned from Nigeria as a result of mandatory adoption of International Financial Reporting Standard and this study is predominantly based on the review of related articles, various journals, research papers, news papers articles, periodicals, and other documentary materials of scholars, reports and publications of professional accounting bodies in Nigeria, periodic reports from Financial Reporting Council in Nigeria, conferences as well as seminars and workshop papers related to the study.

4. The Issues (Bad Side) to Be Address for IFRS Adoption in Nigeria

The adoption of IFRS globally does not only affects an entity's accounting and management policies, procedures, processes and intellectual capital but almost all business and activities are impliedly affected.

The major issues to be address for the successful implementation for IFRS in Nigeria are discussed under the following headings:

- I. Accounting Issues
- II. Tax related Issues
- III. Operational issues
- IV. Treasury Management Issues

4.1 Accounting Issues

KPMG (2010) raised some top accounting issues which have an implication for enterprise –wide more importantly for retail and manufacturing companies as Nigeria is converging from local GAAP to the international GAAP, Which is unique global standards, called IFRS. These issues are as follows:

a. Revenues recognition: In Nigerian local standard called Statement of Accounting Standard (SAS) revealed no specific revenue recognition, while many organizations in the world borrowed from principles based of IFRS. Although all most all the underlying concepts of revenue recognition may be consistence with the international standard. Hence application in practice may vary.

b. Property, Plant, Equipment and Investment Property: retail activities usually incur important expenditure for evaluating store locations, buildings and manufacturing entities on plant and machinery. IFRS requires that all costs of for feasibility studies be expensed and item of property, plant and equipment be identified and recorded at a component level, with individual important components depreciated over the useful lives of assets.

IFRS also come up with some guideline on how to account for Investment property at fair value but now with charges in fair value recognized in the profit and loss account rather than in a revaluation reserved.

The above requirements could affect the profit and loss computation as well as some of the components of the position of financial statement.

c. Impairment of Assets: Cash-Generating Unit is one of the most important model sheltering property, plant and equipment, goodwill and other intangible assets.

Under IFRS, assets are tested and any resulting impairment fluctuates measure,, using a one- step test that compares the carrying value of an assets of fair value less cost sale (a markets-based model) and value in use (an entity-specific model). IFRS factors in discounting when determining impairment. While neither Statement of

Accounting Standard neither recognized fair value nor impairment model (s) in the measurement of asset impairment.

Also if indicators of impairment exist for example, entities are advised to determine the recoverable amount by determining the fair value minus disposal costs or even the cost in use and where there is no market in existence for such kind of assets, and then the process becomes extremely judgmental.

d.Rebates: Cash and non-cash rebates (such as free gift with purchase or buy one get one free) are treated as a reduction in revenue on the eye of IFRS. In contrast, many Nigerian retail and manufacturing companies classify non-cash rebates as an expense. Other differences also arise if you cannot reliably measure the amount of rebates you will volunteer to a customer.

Also for rebates received by a retailer or manufacturer from a supplier, IFRS provides no guidance only that in under the IAS 2 "Inventories" requires vividly that the cost of Inventories is treated less any discount or rebates received.

e.Customer Loyalty Programs: for customer loyalty programs accounting IFRIC has issued a guideline for how it should be dealt with but Nigerian local GAAP (SAS) provides no such services.

IFRS requires that when Loyalty awards are granted to customer, the consideration be separated into two segments, the fair value of the goods and services provided to the customer and the fair value of the awards given to the customer. The value of the award is then deferred as a liability until the obligation has achieved.

These guidelines or requirements could significantly change the timing of when revenue is recognized, compared to current practice, and may also require systems changes.

f.Fair Value Measurement and Disclosure: the IASB amended IFRS 7 to improve about fair value measurements of financial instruments over liquidity risk. The amendment requires disclosures relating to fair value measurements using a three level value of hierarchy that reflects the significance of the inputs used in identifying the fair values and contains the following three steps:

g.Step one: fair values measured using quoted (unadjusted) price in active markets for identical assets and liabilities

Step two: fair values measured using inputs other than quoted prices included within the circumference of step one above that are observable for the assets or liability, either directly (as prices) or indirectly (derived from price) and

Step three: Fair value measured by using inputs of an assets or liability that are not based on observable market information (unobservable inputs)

The above requirements of IFRS7 mentioned are onerous for Nigerian companies.

h.Responsibilities of Management under IFRS: any financial statement prepared under the rule of IFRS management of such companies must take the responsibilities to ensure that:

i.The financial statement were prepared under the rules of IFRS guidelines as stated in IAS1 Para 14-16 Revised IAS1 Para 16-18

ii.Also the management must ensure that these guidelines apply to the transactions being addressed as contained in IAS1, Para 17- 22 Revised IAS1 PARA 19-26.

iii.The management are expected to ensure that the abilities of the company to continue as a going concern has been determined and reporting financial statement based on that assessment is presented as contained in IAS1 Para 23-24; Revised IAS 1 Para 25-26.

It is crucial to be noted that in the notes to the financial statements, a company must make an explicit statement that the financial statements were prepared in accordance with IASBs standards. Hence the financial statements are not expected to be in compliance with the rules of IASB unless and until they are prepared and presented in accordance with all of the required IASB statements as applicable to the corporate. Therefore an entity shall be conversant and familiar with all the relevant standards and the interpretations that relates to the nature of the corporate business and activities and apply them judiciously. In addition any entity that would start using the standards for the first time shall be familiar and conversant with the provision of IFRS1 "First-time Adoption of International Financial Reporting Standard" which requires retrospective rather than prospective application. It is also crucial to note that there a lot of terminologies in IFRS that relates to financial statement which are also vary from those of Nigerian local GAAP (SAS) (see table 1)

The above issues raised above are quite few; understanding of all the accounting issues that are involved will need a unique and comprehensive analysis of the gap between Nigerian GAAP (SAS) and (IFRS).

4.2 Tax Related Issues

Understanding the consequences of tax in the process of IFRS convergence is highly crucial for finances and tax executives to consider. The adoption of IFRS is no doubt will have an impact on the issues concerning tax accounting methods as well as profits before tax, tax assets and liabilities and tax distributable reserves of companies that are operating the Nigerian territory.

The main issues between Nigerian GAAP (SAS) and international GAAP (IFRS) is the means of extreme use of fair value under the IFRS which may give rise to differences in recognized income and carrying values of assets and liabilities, and a resulting difference in current and deferred tax liability or asset.

Convergence from local Nigerian GAAP (SAS) to International GAAP (IFRS) may impact entity's tax position, complicate or simplify the design of a company's financial reporting style and its internal control mechanisms. These may also impact what management communicates with its stakeholders including the relevant tax authorities.

Hence, a successful convergence from SAS to IFRS would require a collective energy, commitment, sacrifice and full involvement of the finance team and the tax team. Other issues that need attentions are relief in relation to tax losses that will arise from transition adjustments, impairment losses, and loss provisioning.

Okoye and Akenbor et al (2013) spelt out key tax considerations these are as follows:

i. Tax accounting methods: entities that prepared heavily for the conversion to IFRS will approach the undertaking as more than a mere "IAS vs. SAS 109" exercise. It is crucial to take note that the consequences of tax of the pre-tax variance between IFRS require innovations to several financial accounting methods. Hence, the starting point in most jurisdictions for the computation of taxable income is book income as reported in accordance with local GAAP; companies may need to evaluate their existing tax accounting methods.

ii. Global tax planning: this may be revisited in order to address the expected innovation associated with conversion timetable in all jurisdictions and eventually a full IFRS global conversion. for instance, tax planning in connection with IFRS should consider changes in the global effective tax rate that may come up as a result of the following reasons:

- Provision under IAS 12 rather than SAS109 109 to consider and recognized both current and deferred taxes on the intercompany sale of stock and other assets.

- Also the requirement under IAS 12 to recognized deferred taxes on exchange rate volatility for temporary differences of foreign subsidiaries that the USA dollar as their fluctuation currency.

A convergence to IFRS may also impact the computation of the mother company's basis in its foreign subsidiaries and thereby influence cash repatriation plan. Hence good planning should involve an analysis of the results both during the pre-convergence and the adoption of IFRS.

iii. Variances in Accounting for Income Taxes: Although IAS 12 and FAS 109 have much in common; differences currently exist between the two standards. Many of these variances are deemed to be eliminated as a result of the convergence of IAS and SAS efforts. Hence, some Areas of divergence will remain, including, uncertain tax positions, deferred related taxes to share-based payments and leveraged leases.

4.3 Treasury Management Issues

The treasury management issues that need a calm attention includes:

a. Distributions:

- Current dividend measures may no longer be sustainable
- Changed dividend patterns may have direct effect on a company's share price.
- A firm's value may be negatively affected.

b. Debt Covenants and Financing

- Changes to financial position may cause debt more importantly covenants to be breached where debt covenants do not provide for changes in accounting standards.
- An entity's ability to ensure continuity of financing arrangement may be affected.
- An entity looking to raise finance may need to provide IFRS comparative figures for trend analysis, the adjustments required to financial statements may extend beyond those required by IFRS

4.4 Operational Issues

Under this the following operational issues will need to be addressed with the adoption of IFRS:

a. The Roles of Organizational Structures: As the impacts of technical accounting moves rapidly, its impliedly exposes the organizational structures, internal controls, reporting relationships and all the requirements that the entities needs and other amount of retooling to the extent that the functions is effected by the transformation. Hence, all CEOs, Financial Controllers should expect the technical challenges as results of the convergence from Nigerian local GAAP (SAS) to International GAAP (IFRS). entities need to take into considerations more than measurable variances between the two standards, but need to take into account to enhance a framework and approach that can be used to determine the appropriates accounting methods to apply for an ease of conversion. The impacts of the transformation solely to key accounting groups and personnel like statutory accounting shared service centers, chief Financial officers, internal auditors, IT staff and key financial reporting with privileges access should be addressed early in the process of convergence.

b. Communication and Employee Engagement: Transforming from Nigerian local GAAP (SAS) to international GAAP (IFRS) requires an intensive awareness through communication to employees' engagement approach. In addition transforming to IFRS also means of expecting the communicating the information needs by external stakeholders group, including lenders, shareholders analyst etc. The construction of employees' engagement approach needs to be established at the outset of the conversion. It may comprises the following considerations:

- Lion stakeholders to drive leadership and management alignment should be should be determined since from the onset.
- Assist the financial and accounting roles to channel the impacts and innovations to the business environment affected by the IFRS transformation or convergence.

- Use the internal modes of communication techniques to channel and share all relevant knowledge and experiences across the entire company. This can be by organizing workshops, seminars and trainings within the circumference the entity.

- Creates external communication heavily with investors, external auditors, analysts, lenders and shareholders in order to curb the challenges that would arise from changes in profits, assets, liabilities and equity.

c. Compensations and Rewards: Technically, the accounting for rewards and compensations programs which includes retirement pensions, post retirement medical benefits and share-based payment which are unarguably different varies from the IFRS and Nigerian GAAP. Hence, these programs need to be updated and modified to the up to the standard of IFRS requirements. Theoretically, any organizational rewards program would be move totally by its desire to arise retain and maintain excellent intellectual capital, entirely from any accounting treatment. While practically, accounting policies changes have a dramatic impact on rewards programs. Hence, this will stimulate a reassessment of the related reward and compensations practices more significantly those that are based on Earning per Share (EPS), net income and other related metrics to conform with International GAAP (IFRS) financial metrics. These mentioned programs are also need to be adopted for the purpose of Incentives and rewards, sales force compensation that is related to timing of revenue and bargaining contracts by companies with combined workforce.

d. Human Resource Training: convergence to IFRS needs to be started with from the assessment of the expertise, experience, skills and knowledge that comes in being to help, support and enhance the convergence. The absence of the mentioned items there will be a need to build, buy, contract or outsource required intellectual materials to support and guide the convergence.

5. Bottlenecks or Challenges (Ugly Side) of Adoption of IFRS in Nigeria

The major impeding factors in the process of convergence to IFRS in Nigeria are not much different from the other countries in the world. Hence, these bottlenecks are not only peculiar to Nigeria only but are almost common in most of the countries across the global though there are some unique challenges that are more specific to a particular country than the others, (Baba, et al 2013). For example some empirical studies shows that ethical environment and the strength of many companies to maintain the experience and expertise staff from being taken away by their competitors is among the most difficult challenges that most of the companies encountered in Nigeria, (Odia and Ogiedu, et,al 2013), (Terzungwe, et al 2012), and (Baba, et al 2013). The existing laws to effect the changes in line with the new standard are another bottleneck of convergence in Nigeria. Lack of standard technologies most especially (IT) to compete with developed countries is also among the obstacles of transforming Nigerian local GAAP (SAS) to International GAAP (IFRS). Other challenges that Nigeria faced are broadly discussed vividly as follows:

i. Cost implication: Initial time for adopting the IFRS is perceived mostly by many entities as costly, these costs are related to consultancy fees, cost of training and educating personnel, cost of acquiring new accounting packages and software that are suits with IFRS guidelines, cost of discarding other accounting packages and software that are not relevant with IFRS, cost of the foregone dear SAS to new international standard (IFRS). In this case includes the cost of restarting with new standard and abandonment of former SAS. Then finally, cost of time consuming that is timeframe waste from former local standards to start new invention. These challenges lead many companies to become confused in accepting and implement the change which no doubt resulted in melting down the spirits of many staff of so many entities to appreciate the new standard in Nigeria.

ii. Lack of sufficient expertise and technical knowhow: from the onset almost entities Accountants and other employees lack the basic required knowledge and skill for IFRS reporting. Most of the middle and even top Accounting officers lack good understanding of advanced financial management methods for example financial instruments for evaluation cost and benefits analysis and impairment analysis. Therefore, one of the most gigantic problems associated with the adoption of IRFS in Nigeria is shortage of qualified, skilled and competent Accountants and Auditors that are expert enough to report their opinion based on the guideline of IFRS standards.

iii. Amendments of Existing laws: convergence results to so many amendments of tax laws and a lots of tax considerations, (Baba et, al, 2013). Tax laws are among the most complicated laws in accounting arena. Hence, complexities arise from the calculations of deferred tax attributed to IFRS adjustments effects. With the convergence of IFRS, the basis of computations of deferred tax differs from how it was previously computed during the last local standards.

iv. Level of education and Experience: Convergence to IFRS from local Nigerian GAAP need a versatile experience for strategic decisions and critical decision making procedures, therefore, personnel with high level of educations, expertise, familiarity with IFRS standards, and competence enough to enable the end users to benefit more by understanding, interpretation and effective use of the financial statement. Hence, lower level of education, professionalism, experience and weak understanding of IFRS guideline has become a bottleneck in the successful implementation of IFRS in Nigeria.

v. Level of Awareness: the process of transition from local GAAP to International GAAP and its impact to the preparers and other stakeholders including educators, regulators, and professionals need to be adequately informed and coordinated, (Ailemen and Akende et, al 2012). But nevertheless, all efforts made by educators and regulator via shower of sensitization workshop, training, seminars and all other measures to ensure the level of awareness to reach its peak its ends up abortive.

vi. Improper training: Underestimation of the technicalities attached to the implementation of these standards (IFRS) by entities and expertise's is among the obstacles of IFRS convergence in Nigeria. Underestimating the complexities and technicalities of how difficult the convergences are they by entities' executives lead many corporate bodies to encounter a lot of problems. Supposing they considered the convergence as the most challengeable then they would be able to use all their possible means to address all the complexities within a possible period of time.

vii. Enforcement Mechanisms: The convergence to IFRS has serious implications for financial regulators and other local standard setters, because it needs and extra ordinary care for financial judgment and assumptions that are always need to be address by relevant financial and other authorities. For Nigerian case, the legal actions in Nigeria issues' very slow, this slow action discourage and hinder regulators from taking all necessary legal actions which impliedly IFRS convergence is like enforcement in Nigeria. This state of affairs is impairing on the current ongoing IFRS convergence in Nigeria.

viii. Low participation of private sectors: The most disturbance of convergence to IFRS to a large extent depends on how the private sectors participate, but in Nigerian case, the roadmap implementation committee spelt out by FRCN has low participation by major players in the private sectors which is contributing to the slow moving in the process of convergence in the country.

ix. Transition Management: one of the most drawbacks for successful implementation of IFRS in Nigeria is the innovation which reporting entities are obliged to effect in order to operate the new era of convergence. This

drawback includes that of coping with additional data elements as well as managing the task of transition into a new process of reporting

6. Techniques for Effective Adoption of IFRS in Nigeria

Successful implementation of IFRS in Nigeria is one of the main goals of Financial Reporting Council in Nigeria; hence major techniques must be followed to achieve this target amicably. Therefore, the implementation process will impact on all level of an organization as well as the people involved. Hence, it requires intensive planning and co-ordination across functional lines such as accounting, treasury, tax, information technology human resources and strategic management. Hence, the concern stakeholders in the IFRS convergence process in Nigeria need to consider the following points below in order to combat the current challenges and will ensure successful convergence program in the remaining single three phases.

i. To increase the level of Awareness: for the ongoing current convergence process to succeed there is need for increasing the velocity of awareness in both the public and private sectors in the county. Specifically, massive sensitization and communication activities should be taken into cognizance. Most importantly, raising awareness among the stakeholders on the current and potential benefits of adopting IFRS and its subsequent impact on companies' financial performance will boost the convergence process.

ii. Capacity Buildings: This means that all parties concern must work together in order to address all the drawbacks and hence, highlight similar opportunities with the view to achieve a successful implementation of IFRS in Nigeria. Similarly, all financial regulators, business entities, Financial Reporting Council etc are required to intensify their efforts in manpower training and to strengthen staff capacity in the course of smooth and successful convergence.

iii. Increasing the private sectors participation: it is crucial for Financial Reporting Council in Nigeria to review and restructure the existing committee that control the convergence process in Nigeria with the goal of engaging more operators in the private sectors whose valuable contributions will ensure a dynamic and viable roadmap that will be able to resist major challenges in the future.

iv. To Provide incentives as motivation: in order to make a successful convergence more particularly to Small and Medium Enterprises (SMEs), government at all levels (Federal, States and Local governments) needs to offer some kind of incentives to enterprises like reducing the tax rates, providing them good environment to strive and grow, loan incentives in order to boost their level of their capital to mention but few.

v. Issues of IT: Information Technologies are part and parcel of contemporary business organizations, so business organizations should check, investigate, scrutinize and understand the technical accounting disparity between their current reporting requirement (Nigerian GAAP) and that of IFRS as it relates to their own operations with the view to find out the basic impact of IT and how to design a strategic future state of system. Similarly, organizations should engage a reputable and reliable IT vendors to address their IT challenges, also business organization are advise to put in place a functional requirement blueprint that will come an exhaustive gap analysis between the capabilities of their current IT systems and the required future state systems that will be IFRS inclined.

7. Major Differences and Similarities between Nigerian GAAP and IFRS

Differences between the IFRS and Nigerian GAAP is an unavoidable issue, but the major differences and similarities between the two were already discuss under item four (4) but below are the major differences at glance in a tabular form.

Table 1: Major Differences and Similarities Between IFRS and Nigerian GAAP

S/N	Issue	IFRS	Nigerina GAAP
1	First-Time Adoption	Guidance was given on how to apply IFRS for the first time; this guidance includes accounting policies, exemptions, exceptions and conditions.	This is not relevant under this heading as companies are obliged to comply with Nigerian GAAP from onset.
2	Cost of an Asset.	It is based on fair value that is with certain items carried at revalued amounts.	Uses historical cost, except for certain classes that may be re-measured.
3	Components of Financial statement	Statement of Financial position, Income Statement, Statement of other comprehensive income, Statement of Cash Flows, Statement of Changes in Equity, Accounting Policies, and Explanatory Notes.	Balance sheet, Profit and loss, Statement of cash flows, Explanatory note, Accounting policies, Value added statement; and Five year financial summary.
4	Statement of Cash Flows	Mandatory for all entities	Not applicable for non-listed company
5	Format of income statement	IAS1 prescribes the format of income statement	According To the format prescribed in the CAMA (Company and Allied Matters Act, 1990), Banking Regulation Act etc
6	Depreciation Rates	Allocated on a systematic basis to each accounting financial period during the useful life of the asset; (fair Value)	Depreciation is based on the higher estimate of useful life of assets.
7	Changes in the depreciation Methods	Treated as a change in the accounting estimate and thus is accounted for prospectively	Treated as a change in the accounting policy and is accounted for retrospectively (for all the relevant previous a year, hence, any excess or deficit in the case of this kind of recalculation must be adjusted in the period in which the change is affected.
8	Presentation of extra ordinary items	IFRS prohibits the presentation of extra ordinary items in statement of comprehensive income or in	While Nigerian GAAP requires that extraordinary items to be presented in the profit and loss statement of the entity distinct from the ordinary income and

		the notes to the account	expenses for the period. Hence they are considered in ascertaining the profit and loss for the period.
9	Revaluation of fixed Assets	If an item of property, plant and equipment is revalued, the entire class of assets to which that assets belongs should be revalued	An entire class of assets can be revalued, or selection of assets for revaluation can be made on a systematic basis.
10	Declaration of Dividend	Dividends declared after the end of the financial reporting period but before the financial statements are authorized for the issue is not recorded as liability in the financial statements.	Dividends declared after the end of the reporting period but before financial statements are approved and recorded as liabilities in the financial statements
11	Functional and Foreign Currency	Functional currency is the currency of the primary economic environment in which the entity operates. Functional and presentation currencies may be different. The standard contains detailed guidance on this	While in Nigerian GAAP there is no concept of functional Currency. Hence, all entities in Nigeria report their Financial statement by using local currency Naira (₦).
12	Goodwill	Goodwill is not amortized under IAS 38 but is subject to annual impairment test under IAS 36	While SAS 9 provided that goodwill arising on amalgamation in the nature of purchase is amortized over a period of five (5) years
13	Actuarial Gain or Loss	IAS 19 spelt out three choices for the treatment of actuarial gains or losses arising on measurement of employee benefit	Actuarial gains and losses should be recognized immediately in the statement
14	Measurement of Intangible Assets	Can be measured at cost or revalued	Are measured at cost only
15	Entities Operating in Hyper Inflationary Economics	According to IAS 29 Financial Reporting in Hyper Inflationary economics prescribes reporting requirement for entities operating in hyperinflationary economics	While there is no equivalent standard under local Nigerian GAAP standard.

16	Contingent Disclosure	Assets	Contingent assets are disclosed in the financial statements only if the inflow of economic benefit is possible	Contingent assets are disclosed as part of the directors' report and not disclosed in the Financial Statement but as note to the account (off-balance sheet items)
17	Scope of consolidation		Investment under control is consolidated	General principles
18	impairment		Carry out impairment test based on trigger vent IFRS 36 impairment on non financial assets, IAS 39 impairment on financial assets	No specific standard
19	Changing accounting estimates	in	Reported in the income statement in the current periods and the effect on future periods disclosed,	Similar with IFRS
20	Consideration		Money or money's worth paid or the fair value of any assets transferred or liabilities incurred and any equity instrument paid	Similar with IFRS
21	Inventories		Carried at lower of costs and net realizable value. Use FIFO or weighted average methods to determine cost. LIFO prohibited and vanished.	Similar with IFRS
22	Lessor Accounting		Records amount due under finance leases as a receivable (Financial Assets). Allocate gross earnings to give constantan rate of returned based on net investment method.	Similar with IFRS
23	Lessee Accounting		Record finance leases as assets and obligations for future rentals. Apportion rental payments to give a constant interest rate on outstanding obligation. Operating lease rentals are charged on straight – line	Similar with IFRS

basis.			
24	Consolidation of foreign subsidiaries.	Use closing rate for balance sheet; average rate for the period for income statements. Take exchange differences to equity. Include in gain or loss on disposal of a subsidiary.	Similar with IFRS
25	Earnings per share-diluted	Use weighted average potential dilutive (less strong) shares as denominator for diluted EPS.	Similar with IFRS

Sources: www.pwc.com/ng

8. Benefits (Good Side) that Nigeria Gained as a Results of Convergence to IFRS So Far

i. Because of the convergence from Nigerian local GAAP to IFRS gives Nigerian Accounting professionals opportunities to sell their services as experts to serve as consultants across the global. Hence, convergence provides job opportunities to Nigerian people.

ii. Easy comparability of financial data across the global and assessor investment opportunities within the world.

iii. Nigeria nowadays get better quality of Financial reporting due to consistence application of accounting principles and reliability of financial statement, all as a results of convergence from Nigerian GAAP to IFRS. Thus, implementation of IFRSs would reduce information asymmetry and would subsequently smooth the communication between managers, shareholders, lenders and other interested parties (Iatridis, 2010).

iv. Entities in Nigeria moved from historical cost to fair value means of measuring their balance items due to the convergence, because IFRS balance sheet would be closer to economic value because historical cost now is substituted with fair value for several balance sheet items, which nowadays Nigerian entities would know the exact value of their financial positions.

v. Fortune that Nigeria have to implement the IFRS standards allowed our companies and our investors to have a competitive opportunity in negotiations with credit institutions across the world and accordingly cost of borrowings are reduced drastically.

vi. It help Nigeria and Nigerian investors to understand the global marketplace, access world capital markets and hence promotes new business environments.

vii. Transparency, accountability and understandability now improved in Nigerian companies because both shareholders and creditors are aware that preparation of Financial Statement is now in line with international recognition, this would allow the Nigerian investors to compare the company's performance with competitors worldwide.

viii. Single Reporting- this means all diversified Accounting principles, Financial Acts and Banking regulations in Nigeria are all now vanished as a result of convergence to one solid, unified and acceptable global standard. This certainly will reduced the costs for applying so many principles and more efficient allocation of resources to one acceptable principles, thus, improve the economic growth of Nigeria.

9. Conclusion

From the study we can understand that before the convergence to IFRS Nigeria already has its own local standard called Statement of Accounting Standard ruled by Nigerian Accounting Standard Board, but now Nigeria agreed to abandoned its own standard and embrace the worldwide standard on Thursday 2nd September, 2010 and reshaped the Nigerian Accounting Standard Board into Financial Reporting Council

(FRC) in order to fulfilled the requirement of International Reporting Standard Board. From the study we can deduce that Nigeria agreed to implement the new standard but in three consecutive periods: form 1st January, 2012 for listed companies in Nigeria and significant public entities then followed on 1st January, 2013, by Public Interest Entities (PIE) , and finally on 1st January, 2014 by Small and Medium Enterprises respectively. Nigeria set up a timetable or roadmap for the successful convergence but nevertheless Nigeria has faced lots of Challenges in the process of full transitions, the major problems are: low level of awareness by the employees of many of the companies, cost implication for the first time, because many companies dumped their existing software and must also spare another huge of fund in order to get another software that would suit with the requirement of IFRS, then cost of installation, cost of organizing workshops, training and seminars in order to enhance the level of understanding of the employees in most of the business organizations etc, then existing tax laws must be amended in or to meet the requirements, to mention but few.

Similarly, there are many issues that come across in the journey of transition process, because, the Nigerian local GAAP in many places conflicts or contradicts with the International Standard (IFRS) for example most of the components of financial statement in Nigerian GAAP varies with the IFRS components in term of subjects and sometimes even in meanings: statement of Financial Position and Balance Sheet, Income Statement and Profit and loss account, statement of cash flows and explanatory notes etc. but there are many incidences where they correspond with each other like in case of lessee and lossor, inventories, Earning Per Share etc, both of the two standards agreed with one another.

However, Nigeria and Nigerians benefits from the first and second phases of convergence because now almost all listed companies in Nigeria transformed their modes of preparing their financial statement from the old version of historical cost to fair value methods in order to know the authentic position of their finances, Nigeria also benefit from the convergence because most of the local expertise concerning International Accounting Issues now transform into international expert as well as international professional, transition from local GAAP to international GAAP help Nigeria and Nigerian investors to understand the global marketplace, access world capital markets and hence promotes new business environments.

Finally, the most interest thing with IFRS is that it deals with principles based rather than rules based. Via principles based, IFRS allows companies across the world to utilize only the methods they wish, hence, allowing the Financial Statements to show only desired results and leading to revenue or profit manipulation and hiding of financial problems in the company, unlike ruled based which would only dictate what the financial statement would contain.

10. Recommendation

A total transition from one good standard to best standard is not a one day job. Hence, for countries that just adopted like Nigeria and the countries that are about to adopt or converge their local GAAP with IFRS must extensively be prepared for the smooth and successful implementation. However, for full effective and efficient implementation of IFRS in a country, the following points needs to be taken into cognizance:

i. For anything good to be successful there is need for good and effective planning. Therefore for IFRS to be successful more in Nigeria and any other country in the world, requires careful planning and extensive public education, judicious allocation of resources, legal and regulatory backup and institutional support with good strategic management style.

ii. Then the higher education of learning and Professional Accounting bodies in Nigeria like ANAN, ICAN, and ACCA must contribute their quota towards the full successful implementation of IFRS in Nigeria. These professional bodies should integrate IFRS syllabus into their curriculum to improve the level of knowledge and awareness about IFRS among the potential managers, Accountants and other students who are believe to be the sustainers of the system in the future. Similarly, considering the limited time (three years) given by Nigerian companies to make full implementation of the IFRS, there is need for integrating IFRS syllabus into Nigerian higher level of learning in order to enhance and develop the potential users and implementers of the IFRS for future discount.

iii. Adequate and sufficient resources must be put in place in order to support and enhance the sustainable implementation of IFRS in Nigeria and worldwide

iv. Nigerian government need to increase the time period for convergence, because implementation of certain requirements of IFRS successfully should be in a gradual and careful process not just three years, because convergence of IFRS is not just an accounting exercise but a transition that requires every stakeholders concerned has to learn a new technical language and a new modes of working with new standard. Hence, successful convergence is not a one-time process, but rather an everlasting effort that requires continued government support.

v. Finally, for entities, there is need for them to identify and train key and strategic staff members across functions to equip them for successful convergence and this training needs to be a periodic in order to make their staff to be up-to-date. Then effective and efficient communication of new policies and procedures become necessary for the sustainability of IFRS in Nigerian entities.

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Appendix

Appendix A: List of IAS and IFRS Issued to Date

- IAS 1: Presentation of Financial Statement
- IAS 2: Inventories
- IAS 3: Consolidated Financial Statement Superseded by IAS 27 and 28
- IAS 4: Depreciation Accounting. Replaced by IAS 16, IAS 22 and IAS 38
- IAS 5: Information to be Disclosed in Financial Statements Superseded by IAS 1
- IAS 6: Accounting Responses to Changing Prices. Superseded by IAS 15
- IAS 7: Cash Flow Statements
- IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 9: Accounting for Research and Development Activities. Superseded by IAS 38
- IAS 10: Events After the Balance Sheet Date
- IAS 11: Construction Contracts
- IAS 12: Income Taxes
- IAS 13: Presentation of Current Assets and Current Liabilities.
- IAS 14: Segment Reporting
- IAS 15: Information Reflecting the Effects of Changing Prices. Withdrawn
- IAS 16: Property, Plant and Equipment
- IAS 17: Leases
- IAS 18: Revenue
- IAS 19: Employment Benefits
- IAS 20: Accounting for Government Grants and Disclosure of Government Assistance
- IAS 21: The Effects of Changes in Foreign Exchange Rates
- IAS 22: Business Combinations Superseded by IFRS 3
- IAS 23: Borrowing Costs
- IAS 24: Related Party Disclosures
- IAS 25: Accounting for Investment Superseded by IAS 39 and IAS 40
- IAS 26: Accounting and Reporting by Retirement Benefit Plans
- IAS 27: Consolidated Financial Statement
- IAS 28: Investments in Associates
- IAS 29: Financial Reporting in Hyperinflationary Economies

IAS 30: Disclosures in the Financial Statements of Banks and Similar Financial Institutions

IAS 31: Interest in Joint Ventures

IAS 32: Financial Instruments: disclosure and Presentation

IAS 33: Earning Per Share

IAS 34: Interim Financial Reporting

IAS 35: Discontinuing Operation. Superseded by IFRS 5

IAS 36: Impairment of Assets

IAS 37: Provision, Contingent Liabilities and Contingent Assets

IAS 38: Intangible Assets

IAS 39: Financial Instruments: Recognition and measurement

IAS 40: Investment Property

IAS 41: Agriculture

IFRS: 1 First Time Adoption of IFRS

IFRS: 2 Share-based Payment

IFRS: 3 Business Combinations

IFRS: 4 Insurance Contracts

IFRS: 5 Non-current Assets Held for sale and Discontinued Operations

IFRS: 6 Explorations for and Evaluation of Mineral Resources\

IFRS: 7 Financial Instruments: Disclosures

IFRS: 8 Operating Segments

IFRS: 9 Financial Instruments

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