

IFRS ADOPTION AND ACCOUNTING QUALITY: EVIDENCE FROM THE NIGERIAN BANKING SECTOR

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Abstract

This paper examined whether mandatory adoption of IFRS is associated with improvement in accounting quality of banks listed on the Nigerian Stock Exchange (NSE). The study made use of secondary data; data were extracted from financial statements from 2010 – 2013. The data were analyzed using Ordinary Least Square (OLS) from SPSS. The findings of the study revealed that after the adoption of IFRS, the rate at which Nigerian banks engage in income smoothing increased, while earnings management towards small positive earnings reduced, thus reducing the quality of accounting amount disclosed in the financial statements. The findings of this study have effect on the efficiency of the stock market. Therefore, other bodies, such as SEC, BOFIA, among others should put in place measures that will limit the extent to which bank managers uses their discretion and alternatives in accounting standards to manage earnings.

Keywords: IFRS, Accounting Quality, Earnings Management, Income Smoothing, Small Positive Earnings

1. INTRODUCTION

The movement from local accounting standards to International Financial Reporting Standards (IFRS) has generated a lot of debates and controversies around the world, the reason been that IFRSs differ from the standards of those countries adopting it. Proponents of IFRS (Lang, Ready & Yetman, 2003; Barth, Landsman & Lang, 2007; Arum, 2013; Nassar, Uwuigbe, Uwuigbe and Abuwa, 2014) argued that with the adoption of a uniform set of accounting standards worldwide, financial reporting system of firms will be enhanced, which will increase the comparability, reliability, relevance, and consistency of information disclosed in the financial statements. According to Abdulkadir (2012), with IFRS, the need for supplementary information will be reduced, which will eventually reduce the cost of business operations across borders. IFRS reduces manager's choice of accounting methods, thereby restraining their discretion (Barth et al, 2007).

IFRS consist of a set of high-quality accounting standards that provides transparent, comparable and understandable financial reports to users in making economic decisions (Arum, 2010; Chebaane & Othman, 2013; Yurt & Ergun, 2015). Accounting quality shows how much information disclosed in the financial statement reflect the true and fair position/performance of the firm, and it is measured in this study as earnings management. Healy and Whalen (1998) cited in Rudra and Bhattacharjee (2012 p.16) opined that "earnings management refers to a situation where managers use judgment in financial reporting in structuring transactions so as to alter financial reports either to mislead some users about the underlying economic performance of the company or to influence

contractual outcomes that depend on reported accounting numbers".

A number of studies (Barth et al, 2007; Arum, 2013; Nassar, Uwuigbe, Uwuigbe and Abuwa, 2014) suggest that the adoption of International Financial Reporting Standards (IFRS) will improve the quality of financial reporting. The argument is based on the idea that using a common set of accounting standards will to a large extent, enhance the quality of financial reporting. On the other hand, Beuren & Klann, (2015) argued that the adoption of IFRS will create room for manipulating accounting numbers because IFRS is principle-based; thus reducing the quality of financial reporting. The premise of their argument is that IFRS, being principled-based, encourages financial managers to use their professional discretion and be creative, which will decrease the reliability, relevance, transparency, and comparability of financial reporting information.

Universal adoption of IFRS is an essential determinant of financial reporting quality, as many firms across different countries will be using the same set of accounting standard in preparing their financial statements. Arum (2013) investigated the impacts of IFRS implementation on the quality of accounting information in Indonesia; they posited that the implementation of IFRS is expected to bring about better, more reliable and relevant financial reporting quality capable of minimizing moral hazard in the financial statements to conduct earnings management through accrual policy.

Despite the numerous benefits associated with IFRS adoption, there still exist arguments as to whether IFRS increases the quality of accounting information of firms that adopts it. There has been mixed evidence as to whether or not IFRS adoption leads to increase in the quality of financial reporting. Some researchers (Ewert and Wagenhofer, 2005;

Barth et al, 2007) opined that the adoption of IFRS has resulted in an increase in the quality of accounting information, others (Paananen, 2008; Ahmed, Neel & Wang, 2012) were of the opinion that IFRS adoption has reduced the quality of financial reporting of firms that adopts it. Some other studies (Outa 2011) found no effect on the quality of financial reporting after IFRS adoption; they found a mixed result which indicates that IFRS adoption neither increases nor decreases the quality of financial reporting.

To the best of the researcher's knowledge, research of this nature has not been carried out in the banking sector in Nigeria. Therefore, the objective of this paper is to examine the impact of mandatory IFRS adoption on accounting quality of banks quoted on the Nigerian Stock Exchange (NSE). Specifically, this paper investigated whether mandatory IFRS adoption is associated with fewer earnings management.

2. IFRS ADOPTION

Nigeria started implementation process in 2012 with firms listed and firms that have significant public interest to adopt in 2012; other public interest entities to adopt in January 2013, and Small and Medium Scale Enterprises (SMEs) to adopt in January 2014. Many studies (Owolabi & Iyoha, 2012; Emeni, 2013; Najeb, 2014; Nassar, Uwuigbe, Uwuigbe and Abuwa, 2014) have examined the benefits of IFRS adoption and came to the conclusion that its adoption will be beneficial to countries that adopt it regardless of cultural differences. According to the IFRS Adoption Roadmap Committee (2010), it will be in the interest of the economy for firms listed to adopt universally accepted, high-quality accounting standards by converging fully the Nigerian national accounting standards with IFRS, given the increase in capital markets globalization.

According to Asian and Dike (2015), a report released by KPMG in 2010 disclosed that the adoption of IFRS by Nigerian banks will not only affect the financial reporting but other areas of the business such as debt covenants, compensation and bonuses arrangements, legal contracts, among others. According to Abata (2015), failure on the part of firms to fully implement IFRS requirements will result in a lack of transparency and accountability, distortion in financial reporting, inconsistencies, which will in turn amount to poor financial reporting practice.

3. ACCOUNTING QUALITY

There is no uniform definition of the term Accounting Quality. Most studies describe accounting quality in terms of financial reports reflecting the true and fair value of a firm. Penman (2002) cited in Ames (2013) opined that accounting quality should be addressed and discussed in terms of the shareholders' interests and the usefulness of accounting information in assisting the shareholders. Barth et al (2007) described accounting quality as the capability of accounting measures to reflect a firm's economic condition and performance.

Previous studies (Barth et al, 2007; Paananen, 2008) used earnings management, value relevance,

and timely loss recognition as determinants of accounting quality. Barth, Landsman, Lang and Williams (2006) considered earnings management, accrual quality, and earnings timeliness as the dimensions of accounting quality; their argument was that these dimensions of accounting quality are potential sources of the increase in comparability of variations in economic outcomes. For the purpose of this study, earnings management will be the determinant of accounting quality.

4. IFRS ADOPTION AND ACCOUNTING QUALITY

To improve the quality of financial reporting is one of the objectives of IFRS. The adoption of IFRS and the subsequent effects it has on the accounting quality of firms that adopt it has been investigated by so many researchers and in different countries. Barth et al (2007) did a comparative study comprising 21 European countries; Paananen (2008), Sweden; Paglietti (2008) considered the case of Italy; Outa (2011), Kenya; Qu, Fong & Oliver (2012), China; Abdullah (2014), Jordan; Najeb (2014), Lybia; Indrawati (2012), Indonesia.

Barth et al (2007) examined whether the accounting amounts of firms that uses US GAAP are higher than accounting amount of firms that apply IFRS; they compared accounting metrics of firms that apply US GAAP to IFRS firms so as to determine whether US GAAP-based accounting amounts are fewer earnings management, more timely loss recognition, and higher value relevance. They found out that accounting quality of US firms that apply US GAAP is of higher quality than those of non-US firms that apply IFRS.

Paananen (2008) in a sample of 376 whose data were available at world scope found out that after the adoption of IFRS there has not improved the financial reporting quality of firms. The study found some indications of a decrease in accounting quality as measured by earnings smoothing, timeliness of loss recognition and value relevance.

Christensen, Lee, and Walker (2008) examined the impact of mandatory IFRS adoption on accounting quality by focusing on earnings management and timely loss recognition; whether improvement in accounting quality is as a result of the standards or incentives to adopt. The result of their study revealed that mandatory IFRS adoption has no effect on the accounting quality of firms that have no incentives to adopt. They opined that improvements in accounting quality regarding the application of new standards are not dependent on whether the new standards are alleged to be of higher quality but on the incentives of those that prepares the accounts.

Paglietti (2009) observed from 2002-2007 a sample of 92 Italian non-financial firms quoted on the Italian Stock Exchange that mandatorily adopted IFRS 2005. The result of the study revealed that accounting quality after IFRS adoption has decreased in terms of earnings management and timely loss recognition, and increases in terms of value relevance. They also opined that the reporting incentives of individual companies in an institutional setting largely determine the quality and properties of financial statements, rather than the accounting standards applied.

Similarly, the findings of Indrawati (2015) revealed that there is no difference in the quality of accounting amounts after accounting standards convergence with IFRS. Using a sample of 62 companies listed on the Indonesia Stock Exchange, they found out that accounting quality decreases if considered in relation to earnings management and timely loss recognition; on the other hand, accounting quality increases if considered to be related to value relevance. Indrawati (2015)

For Finland, Jarva and Lantto (2012) examined the impact of mandatory IFRS adoption on the quality of accounting amounts; they compared information content of IFRS-based financial statements with Finnish Accounting Standards based financial statements. Using a sample of 94 Finnish firms, they analyzed data from the pre-IFRS period (1999-2003) and from the pro-IFRS period (2005-2009). They could not find systematic evidence that mandatory IFRS adoption results in enhanced accounting quality; accounting amounts of IFRS are not of higher quality than those of Finnish Accounting Standards.

Ames (2013) looked at the case of South African and found out that the adoption of IFRS has led to improvement in the quality of some, but not all annual reports components in South Africa. Specifically, he found out that earnings quality was not significantly improved among firms, and also, specific components in the statement of the financial position changed in value relevance in the post-IFRS period.

Dimitropoulos, Asteriou, Kousenidis and Leventis (2013) looked at a sample of 101 companies listed on the Athens Stock Exchange (ASE) for the period from 2001-2008. As part of their findings, they observed that the implementation of IFRS has contributed to fewer earnings management, more timely loss recognition, and greater value relevance. They also observed that a company's audit quality balances the beneficial impact of IFRS as companies whose financial statements were audited by a Big-5 audit firm indicated a higher accounting quality compared to those whose financial statements were audited by no of the Big-5 audit firm.

Ahmed, Neel and Wang (2012), using a sample from 20 countries that implemented IFRS in 2005 found out that IFRS adoption increases income smoothing and aggressive reporting of accruals, and also there is no significant increase in timely loss recognition.

Abdullah (2014) also argued that they were unable to find systematic evidence that mandatory adoption of IFRS leads to improved accounting quality. They carried out a study on the impact of voluntary IFRS and mandatory IFRS on accounting quality and found out that mandatory adoption of IFRS has resulted in more earnings management, earnings and book value of equity became less relevant and less timely loss recognition.

Muller (2015) investigated the impact of mandatory IFRS adoption on the quality of consolidated financial reporting. The data used consists of companies quoted on the London, Paris and Frankfurt Stock Exchanges between 2003 and 2008. Their findings revealed that after IFRS was made mandatory for preparing consolidated financial statements, there has been an increase in the quality of information provided by group

financial statements compared to parent company individual financial statements.

Asian and Dike (2015) carried out a similar study in Nigeria but focused on manufacturing firms listed on the Nigerian Stock Exchange. Their findings were in line with Ahmed et al (2012) and Abdullah (2014) that mandatory adoption of IFRS has decreased the quality of financial reporting. They found out that earnings and book value of equity has become less relevant during the post-IFRS period compared to pre-IFRS period.

There have been mixed findings regarding IFRS adoption and accounting quality. Some studies (Christensen et al, 2008; Paglietti, 2009; Outa, 2011) attribute these mixed findings to some institutional factors; some of these factors are, culture, investor protection, reporting incentives, legal framework a country, incentive to adopt, and the model of a county's local standards.

5. IFRS ADOPTION AND EARNINGS MANAGEMENT

Earnings management is the measure of accounting quality used in determining accounting quality in this study. According to Healy and Wahlen (1998) cited in Rudra and Bhattacharjee (2012) "earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers". Earnings management involves a situation where the financial manager who prepares and presents annual reports uses judgment to influence it.

According to Sellami and Fakhfakh (2014), "the divergence of interest between managers and shareholders could induce managers to employ the flexibility created by the accounting standards to manage income opportunistically, thereby creating misrepresentations in the reported earnings."

There are three modalities of earnings management and this depends on the motivations of the managers (Martinez, 2001). Martinez (2001) identified; (1) target earnings, where firms manage to either increase or decrease accounting amounts; (2) income smoothing, where firms manage to reduce the variability of accounting amounts; and (3) big bath accounting/conservative accounting, where firms manage to reduce current earnings so as to increase future earnings. This study focused on two kinds of earnings management; income smoothing and earnings management towards small positive earnings

With IFRS, allowable accounting alternatives are removed which provides accounting measurements that better shows a firm's economic performance and position; thus, restricting managers ability to manage earnings, and increasing the overall quality of information disclosed (Dimitropulos, Asteriou, Kousenidis & Leventis, 2013).

In the study of Zeghal et al (2011) on the effect of mandatory adoption of IFRS on earnings management with a sample of 851 French listed companies whose data were available in World scope, Stockproinfo, and Daine databases. The result of their study revealed that mandatory adoption of

IFRS by French companies has reduced earnings management.

Jaweher and Mounira (2012) investigated the impact mandatory IFRS adoption on the quality of earnings in Europe and Australia; using a sample of 17 countries from both, they found out that earnings quality increased after IFRS adoption. Their study indicates a reduction in both income smoothing and earnings management towards small positive earnings.

Beuren and Klann (2015) examined the impact IFRS adoption has on earnings management. Using a sample of 11 European Union countries, they found out that IFRS positively affected some countries, those with reduced level of earnings management (Czechoslovakia, Italy, and Spain) negatively affected some countries, those with increased level of earnings management (France, Germany and Netherland); and those which IFRS adoption did not present any significant effect (Britain, Denmark, Greece).

6. HYPOTHESES DEVELOPMENT

Hoque, Zijl, Dustan and Karim (2012) carried out a study on the effect IFRS adoption has on earnings management around the world, precisely in forty-six countries. The result of their study revealed that IFRS adoption does not increase earnings quality; however, earnings quality may improve with the adoption of IFRS in countries whose investor protection regime gives stronger protection to investors.

In the study by Capkun, Collins and Jeanjean (2012) on whether IFRS adoption deters earnings management, they found out that income smoothing increased after IFRS adoption by firms. Based on literature reviewed, the study thus predicts that:

H₁: IFRS adoption will not reduce Income smoothing

Khoo and Ahmad (2015) carried out a study on IFRS convergence and earnings management and found out that IFRS reduced firms' engagement in earnings management. Other than income smoothing, bank managers most times prefer to report positive earnings instead of reporting losses in unfavourable years. Chebaane and Othman (2013) investigated the effect of mandatory adoption of IFRS on earnings management towards small positive profit in South Africa and Turkey and found out that earnings management towards small positive profit did not reduce.

H₂: IFRS adoption will not reduce the level of earnings management towards small positive earnings.

7. THEORETICAL FRAMEWORK

The theory underpinning this study is the agency theory, which explains the relationship between principals and agents. The principals being the shareholders while the agents are the firm's executives (managers); one party (principals) employs the other party (agents) to manage the company on their behalf. The agents may pursue other goals and interest that may be different from that of the agents (agency problem). According to Duru and Tsitinidis (2013), managers in banks are always under pressure to provide high returns; and

as such, the principals are willing to provide some form of incentives to managers. With such incentives, bank managers using accounting preferences will attempt to disclose high income even in a period of losses.

IFRS been principle-based gives managers the opportunity to use accounting standards and their discretion to manipulate accounting numbers, thus, sending wrong signals to the shareholders. With IFRS, managers now smooth income and also manage to earn towards small positive earnings.

8. METHODOLOGY

To evaluate whether mandatory adoption of IFRS is associated with improvement in accounting quality, we compare accounting the quality of firms before IFRS adoption and after IFRS adoption. The cross-sectional research design was used in this study because the data were collected at a specific point in time for the various observations i.e. 31st December for the various years observed. The population of this study consists of all the fifteen commercial banks listed on the Nigerian Stock Exchange (NSE) between 2010 and 2013. Using the Yamane sampling technique, a sample size of 14 was obtained. Due to the availability of data, 11 banks formed the sample size.

To test the quality of accounting information, our data covered the period from 2010-2013. The pre-adoption period covered 2010 - 2011 while the post-adoption period covered 2012 - 2013. The data were analyzed using descriptive statistics and Ordinary Least Square (OLS) from the Statistical Package for Social Sciences (SPSS).

8.1. Measurement of variables

This study adopted earnings management as its dependent variable and IFRS adoption as its independent variable. Following Barth et al (2007), earnings management was measured by variations net income (NI) reported in the financial statements. The variations were compared for both pre-adoption and post-adoption period, and a decision was made. IFRS adoption was measured by employing a dummy variable which represents 0 for pre-adoption period and 1 for the post-adoption period.

8.2. Model specification

As discussed earlier, earnings management will be the determinant of accounting quality in this study. The composition of this measure is discussed below.

In line with previous studies (Barth et al, 2007; Paglietti, 2008), this paper focused on two kinds of earnings management; earnings smoothing and managing towards small positive earnings. According to Barth et al (2007) earnings smoothing is measured by the variability of changes in net income and the variability of changes in net income relative to variability of changes in operating cash flows. A high variance of changes in net income is consistent with fewer earnings smoothing (Bart et al, 2007; Lang et al, 2003). Previous studies (Barth et al, 2007; Outa, 2011) revealed that economic factors/variables such as size, growth in sales, auditors, financial leverage etc. affect firms'

discretionary accruals. The measures of earnings smoothing are discussed below:

- Variability of changes in net income, which is the variance of the residuals from the regression of the change in net income on factors identified in the literature (Barth et al, 2007; Outa, 2011).

Therefore, ΔNI is expressed in the equation below:

$$\Delta NI_{it} = \alpha_0 + \alpha_1 \text{SIZE}_{it} + \alpha_2 \text{GROWTH}_{it} + \alpha_3 \text{EISSUE}_{it} + \alpha_4 \text{LEV}_{it} + \alpha_5 \text{DISSUE}_{it} + \alpha_6 \text{TURN}_{it} + \alpha_7 \text{CF}_{it} + \varepsilon_{it} \quad (1)$$

where:

ΔNI_{it} = change in net income divided by for firm i in year t ;

SIZE = natural logarithm of market value of equity;

GROWTH = percentage change in sales;

ISSUE = percentage change in common stock;

LEV = end of year total liabilities divided by equity book value;

DISSUE = percentage change in total liabilities;

TURN = turnover divided by total assets;

CF = net cash flow from operating activities divided by total assets;

E = error term.

The apriori expectation is that the variability of changes in net income in the post-adoption adoption period will be less than the pre-adoption period.

- Variability of changes in net income relative to the variability of changes in operating cash flows, which is the variability of change in net operating cash flows scaled by total assets (ΔCF). Usually, firms with unstable cash flows will typically have unstable income (Outa, 2011). Therefore, when companies use accruals in managing earnings, the variation in net income should be lower than that of operating cash flows.

Thus, ΔCF is expressed as:

$$\Delta CF_{it} = \alpha_0 + \alpha_1 \text{SIZE}_{it} + \alpha_2 \text{GROWTH}_{it} + \alpha_3 \text{EISSUE}_{it} + \alpha_4 \text{LEV}_{it} + \alpha_5 \text{DISSUE}_{it} + \alpha_6 \text{TURN}_{it} + \alpha_7 \text{CF}_{it} + \varepsilon_{it} \quad (2)$$

where:

ΔCF_{it} = changes in net cash flow from operations for firm i in year t (scaled total assets at the end of the year).

The apriori expectation is that the variability of changes in net income relative to variability of changes in cash flow in the post-adoption period will be less than that of the pre-adoption period.

The second kind of earnings management is managing towards small positive earnings. To analyze our measure of earnings management towards small positive earnings, the study followed Paglietti (2009) by estimating the coefficient of a dummy variable SPOS in the regression equation:

$$\text{SPOS}_{(0,1)} = \alpha_0 + \alpha_1 \text{FRS}_{it} + \alpha_2 \text{SIZE}_{it} + \alpha_3 \text{GROWTH}_{it} + \alpha_4 \text{EISSUE}_{it} + \alpha_5 \text{LEV}_{it} + \alpha_6 \text{DISSUE}_{it} + \alpha_7 \text{TURN}_{it} + \alpha_8 \text{CF}_{it} + \varepsilon_{it} \quad (3)$$

SPOS is an indicator variable equal to one if net income scaled by total assets is between 0.00 and 0.01 for observations and zero otherwise; negative co-efficient indicates fewer earnings management towards small positive earnings in the post-IFRS adoption period (Paglietti, 2009). IFRS (0,1) is also an indicator variable equal to one for any give observation in the post-IFRS adoption period and zero in the pre-IFRS adoption period.

The conclusion from previous studies (Paglietti, 2009; Outa, 2011) was that firms that apply IFRS account for small positive earnings with lower frequency. These studies showed that a large frequency of small positive earnings is an evidence of managing towards positive earnings. The apriori expectation is that the coefficient on SPOS will be positive.

8.3. Data analysis and results

The data included in the empirical analysis consisted of 44 firm-year observations of 11 banks between 2010 and 2013 (4 years) based on the availability of complete data. The data was obtained from audited financial statements that indicated the accounting standards used in its preparation, and the capital market. The data obtained was divided into two; two years before IFRS was adopted (2010 & 2011), and two years after IFRS was adopted (2012 & 2013).

Table 1. Descriptive statistics of test and control variables used in the analysis

NGAAP					IFRS			
Test Variables								
	Mean	Median	Standard Deviation	Skewness	Mean	Median	Standard Deviation	Skewness
ΔNI	0.0052	0.0042	0.0360	-.757	-.0278	.0022	.2044	-4.032
ΔCF	0.0785	0.0834	0.1303	-.441	-1.747	-.0330	.4805	-2.549
SPOS	0.3600	0.0000	0.4920	0.609	0.32	0.00	0.477	0.839
Control Variables								
LEV	7.3586	4.9700	6.4554	3.0	6.0677	5.8750	4.5025	.711
GROWTH	13.9395	22.0900	25.9430	-.120	38.9809	23.0800	144.6580	3.421
EISSUE	10.5177	.0000	22.8521	3.358	11.9232	.0000	41.1304	4.051
DISSUE	39.6981	25.8900	38.4641	2.207	34.5410	19.4100	76.7718	1.310
SIZE	18.2029	18.2550	1.0920	-.373	18.1184	18.6550	2.3633	-1.930
CF	.0596	.0506	.0905	.722	.0284	.0149	.0810	.805
TURN	.1090	.1095	.0186	.539	.2958	.1200	.7631	4.594

Source: SPSS computation, 2015

Test Variables:

Δ NI = change in net income based on end of year total assets.

Δ CF = changes in net cash flow based on end of year total assets.

SPOS is an indicator variable = one if earnings scaled by total assets is between 0.00 and 0.01 and zero otherwise.

Control Variables:

SIZE = natural logarithm of market value of equity.

GROWTH = percentage change in sales.

ISSUE = percentage change in common stock.

LEV = end of year total liabilities divided by equity book value.

DISSUE = percentage change in total liabilities.

TURN = turnover divided by total assets.

CF = net cash flow from operating activities divided by total assets.

Table 1 represents descriptive statistics for the variables used in the analyses, by distinguishing between test variables and control variables. Both have been computed separately for banks that reported under N-GAAP and under IFRS. As per prediction, there is a decrease in the variability from 0.0052 in the pre-adoption period to -0.0278 in the post-adoption period. This change indicates that higher variability after the adoption of IFRS. There's a reduction in change in cash flow from 0.0785 to -0.1747 contrary to prediction. The table also indicates a decrease in small positive earnings (SPOS) from 0.36 to 0.32.

The control variables showed a decline after IFRS adoption except for GROWTH, EISSUE and TURN. LEV declined from 7.3586 to 6.0677; DISSUE, from 39.6981 to 34.5410; SIZE, from 18.2029 to 18.1184; and CF, from 0.059 to 0.0284. There was an increase in GROWTH from 13.9395 to 38.9809; EISSE increased from 10.5177 to 11.9232; while TURN increased from 0.1090 to 0.2958.

The result from the descriptive statistics with variables not controlled sends a mixed signal as to whether after IFRS adoption, accounting quality increased or not. This could be as a result of bank's specific characteristics. A more filtered result, with all the variables controlled, is presented below.

Table 2. Earnings management

Measure	Prediction	Post (22)	Pre (22)
Variability of Δ NI*	Post<Pre	0.011(0.000)	0.013(0.085)
Variability of Δ NI* over Δ CF*	Post<Pre	0.0075(0.008)	0.1444(0.002)

Source: SPSS computation, 2015

From table 2, the measures of earnings smoothing were all consistent, as they all showed a reduction after the adoption of IFRS. The variability of change in net income decreased after IFRS adoption from 0.013 to 0.011; though not statistically significant in the pre-adoption period but statistically significant in the post-adoption period, a lower value is considered less volatile earnings. Thus, a smaller variance of change in net income indicates earnings smoothing. Variability of change in net income to variability of change in cash flow decreased from 0.1444 to 0.0075, and was statistically significant; it is believed that when firms

use accruals to manage earnings, the variability of change in net income will be lower than that of cash flow. On this basis, less positive values for this measure indicates greater income smoothing. The findings indicated that Nigerian banks smooth earnings more after the adoption of IFRS than they do before the adoption of IFRS.

Table 3. Small positive earnings (SPOS)

Variables	coefficient	P-value
Constant	2.780	0.002
POST	-0.110	0.457
SIZE	-0.116	0.010
GROWTH	0.000	0.687
EISSUE	0.003	0.161
LEV	-0.029	0.052
DISSUE	-0.002	0.290
TURN	-0.141	0.330
CF	-0.736	0.405

Source: SPSS computation, 2015

Table 3 represents the coefficient on POST, which was negative, -0.110 and also not statistically significant at 0.457. This indicates that banks engage in earnings management towards small positive earnings more frequently in the pre-adoption period than they do in the post-adoption period.

9. DISCUSSION OF FINDINGS

The findings of this study show that IFRS adoption does not reduce earnings management practices engaged by Nigerian bank managers. The study found out that income smoothing done by banks increased after the post-adoption period, and that the level of earnings management towards small positive earnings reduced in the post-adoption period. Thus, indicating a decrease in the quality of accounting information after IFRS adoption.

The findings our study are consistent with the findings of some other studies (Paananen, 2008; Outa, 2011; Chebaane & Othman, 2013; Asian & Dike 2015; Indrawati, 2015) which found out that firms engage more in earnings management after IFRS adoption. This could be due to the enforcement mechanisms in the country the work was done. Some of these studies were carried out in developing countries that have not fully implemented IFRS.

On the other hand, the results from the analyses contrast with some previous studies (Barth et al, 2007; Zeghal et al, 2011; Beuren & Klann 2015) that found a reduction in earnings management, thus indicating an increase in accounting quality. This could be due to the country's legal framework, enforcement mechanisms in place etc. some of the studies were carried out in code law countries, and some of these countries have strong investors protection. The level of accounting education in these countries may another reason for the increase in accounting quality.

10. CONCLUSION

The study examined whether accounting quality has improved after adoption of IFRS by banks listed on the Nigerian Stock Exchange (NSE). In line with previous studies (Ames, 2013), accounting quality was measured by earnings management. The empirical analyses showed an increase in income smoothing and a reduction in earnings management

towards small positive profit, thus indicating a reduction in accounting quality.

10.1. Policy implication

The findings of this study indicate that the adoption of IFRS enables banks to manage their earning and as such, may have an adverse effect on the policies established by the Securities Exchange Commission (SEC) in regulating the Nigerian Stock Exchange. Stock prices are fixed based on the performance of the bank, and a bank's performance is measured by the earnings and dividend declared by that firm. When banks engage in earnings management, it sends a wrong signal to the public which in turn reduces the efficiency of the stock market.

10.2. Policy recommendation

The banking sector is one sector that is regulated by other bodies, such as the Security Exchange Commission (SEC), Banks and Other Financial Institutions Act (BOFIA), among others. These bodies can put in place measures that will limit the rate at which banks manage their earnings. They can put in place measures that will ensure enforcement and strict compliance with IFRS principles and procedures.

10.3. Contribution to knowledge

This study contributes to knowledge in that no study has used the methodology of Barth et al (2007) to examine whether IFRS adoption increases or decreases accounting quality in the Nigerian banking industry. The study further validates the agency theory that managers, if left to carry on the business will pursue their interest at the expense of the shareholders.

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