Impact of Financial Accounting Policies on Business Performance in Nigeria

OLAFUSI, Olaseinde Samuel

Department of Accounting,
Bingham University,
Karu, Nasarawa State
E-Mail: olafusiolaseinde@gmail.com, Phone No. +234 8036198663

Abstract

Accounting records dating back several thousand years have been found in various parts of the world. These records indicate that at all levels of development, people desire information about their efforts and accomplishments. Therefore, accounting as a profession has a very important role to play in the economic development of any nation such as Nigeria. This study concluded that that there is a strong positive relationship on the adoption of IFRS and has imparted immensely on financial performance of Organizations in Nigeria, IFRS improves business efficiency and productivity for effective business performance, more than one set of accounts for different national jurisdictions. It is recommended that the financial reporting practice in Nigeria should cut across the public and private sector to bring uniformity in accounting practice regarding annual preparation of financial reports that will guarantee investment.

Keywords: ; Organization, Financial Statement, Performance, Investment

1. INTRODUCTION

Prior to the information of the international accounting standards committee (IASC) on 29th June, 1993, by a group of pioneer accounting bodies in united kingdom, United State of America, Australia, Canada, France, Germany, Japan, Mexico, the Neither land and Island. Merge (1979) says that there existed differences both inform of these accounting standards. It was in the light of these differences that the international accounting standards committee (IASC) come with their objective to harmonize these standards and made their application world-wide. Amore (1986:16) says that the standards issue by the (IASC) however, does not meet our local conditions environment, thus the need for Nigeria to have local accounting setting body that would give due economic environment when setting these standards become necessary. Further, Falyse (1984:22) stressed that if accounting standards are to contribute effectively to the accounting development and business environment effort, they must be turned to our social legal and business environment. However, with the global movement towards single financial reporting standard, the previous initiative of the Nigeria accounting standards Board (NASB) Now replaced with financial Reporting Council (FRC) of Nigeria with convergence with international financial reporting standard (IFRS) by adaptation. Nigeria IFRS road map was released in 2010 and recommended them to adopt the IFRS in Nigeria from 2012

The IASB (International accounting standards Board) is an independent group of experts with an appropriate mix of recent practical experience in setting accounting standards, in preparing, auditing or using financial reports, and in accounting education. The international accounting standard Board (IASB) members are responsible for the development and publication of IFRS standards, including the IFRS for SME's standards. The Board is also responsible for approving interpretations of IFRS as developed by the IFRS interpretations committee (formerly IFRIC). All meeting of the (IASB) follows a thorough open andtransparent due process of which the publication of consultative documents such as discussion paper and exposure drafts for public comment is an important component. The (IASB) engage closely with stakeholder around the world including investors analysts, accounting standards letter and the accounting profession the IFRS interpretation committee comprises 14 voting members appointed by the trustee's and drawn from a variety of countries and progression background. The financial reporting council has been pre-occupied with exposure drafts and the issues of international facilities, reporting standard. To date Nigeria has 13 accounting standards wholly developed to suit the economic business environment.

2. LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Concept of Accounting

It is obvious that accounting standards are important to all users of the statement of accounting and allied course as they are usually subject of examination. Preparation of accounting information includes: The financial statement and the auditor. The financial accountant who may be acting in the capacity of Chief Accountant prepares the annual accounts of the organization with attempts of complying with the accounting standards. The auditor must audit the financial statement prepared by the financial accountant and find out if the statement complies with specific requirements of the accounting standards and the express his opinion as to whether the financial statement shows a true and fair view or not.Users of financial information include:

i. **Management:** They use the standard to get better understanding of the financial statement for analyzing the organization's performance and position and taking appropriate measures to improve the company results and objectives.

ii. **Creditors:** They include both present and potentials ones for determining the credit worthiness of the organization. Terms of the credit are set by creditor according to their assessment of their customers financial health. Creditors include suppliers as well as lenders of finance such as banks.

iii. **Investors:** For analyzing the feasibility of investing in the company. Investors want to make sure they can earn a reasonable return on their investment before they commit any financial resources to the company. Example are lenders and debentures holders.

Other users of financial statement include banks financial analysts, economists and statistics among others.

2.1.2 Financial Data Quality

Miller, (2002) acknowledged the concept of accounting information quality as a new model to achieve tremendous benefits that indicate the need of administration to communicate with shareholders to understand their needs and serve them fast and in the best possible way. Such characteristics aim to help administrators when developing accounting standards and assist accountants in the preparation of financial statements in assessing the accounting information that results from the application of alternative accounting methods and distinguish between what is a necessary clarification and what is not according to the users of accounting information. Accounting information provided by financial statement is used by various people. These groups of users need the knowledge of accounting standards to have thorough understanding of the financial statements.

2.1.3 Concept of Information System

Idris, (2005) defined the information system as "A system which includes a set of elements and reactants components of the relevant reciprocity that work together to collect, operate, store, distribute necessary information for the decision- making process in the organization". Information system is a system consisting of a set of parts and procedure interacting with each other in order to collect, process, and store the appropriate data, and deliver the appropriate information in the appropriate time and place and accuracy suitable for the process of decision-making in the organization and in a form which contributes to achieve its objectives". Romney andsteinbart (2012), and Gel, (2010) defined an accounting information system as a collection of parts and sub systems that are connected with each other and with the surrounding environment and operate as a single overlap relationship between each other and between the system that combines, where each part depends on the other in achieving the goals sought by the comprehensive system of accounting, in order to provide data and information to decision makers. It then means, accounting information systems collect, record, store and handles data to provide information to decision-makers via advanced technology or simple system or in between of the two. Ahmad (2006) assert "in order for accounting information to achieve its desired goals, it should have the following basic properties; it should be; Appropriate, Credible, Timely, Understandable, Important, and posses' financial data quality

2.2 Empirical Framework

Chang (2001) asserts that accounting information plays a significant role in enhancing organizational effectiveness in a global competitive environment. Dorms, Jarmin and Klimek (2004) say that financial statements still remain the most important source of externally feasible information on companies. In spite of their widespread use and continuing advance, there is some concern that accounting practice has not kept pace with rapid economic and high technology charges which invariably affects the value relevance of accounting information. The importance of changes assertion is reinforced by massive accounting fraud in developed countries especially United States of America (USA) and in almost all developing countries like Nigeria, rapidly changing business environment and reports by some researchers that value relevance of accounting information has declined due to rapid economic and high innovative accounting packages or software. However, a number of researchers claim that accounting information has not lost its value relevance irrespective of this. Borthick and Clark (1990) believe that accounting exists because it satisfies a need primarily for information. In order to be relevant, accounting data must be quick to respond to users' need (particularly the investors). Generally, investors are not in a situation to directly access the performance of companies in which they intend to invest. They usually depend on financial reports prepared by the management of such organizations. Financial report is one of the best sources of accounting information about a company`s performance. Financial reporting is an essential part of disclosure that helps investor to discover investment opportunities. The primary purpose of financial statements is to provide information concerning the financial situation of the company, its operational results, any changes of control in the company and cash flow.

Khaled and Abdulqawi (2015), analyzed the role of accounting information systems and the effect of their use in improving the value chain of the business organizations using a study tool (questionnaire) based on the theoretical framework and previous studies. Using the appropriate statistical analysis tools for the study data (arithmetic mean, standard deviation, and testing of T-test One Sample) the research found a deficiency in the level of the availability of the basic components of accounting systems and the level of the quality of accounting information required to improve the value chain of business organizations in public shareholding industrial companies in the Kingdom of Bahrain in general, and recommended the need to work on improving the level of the basic components of accounting systems to improve the quality of accounting information, in order to improve the value chain of public shareholding industrial companies in the Kingdom of Bahrain; specifically in regards to the existence of clear and specific work procedures in the accounting system, the level of the effectiveness of internal control measures, clear definition of responsibilities and authority, and management's attention in training and continuing education programs for employees. Hla and Teru (2015), examined the efficiency of Accounting Information System on performance measures using the secondary data in which it was found that the biggest impact Information technology has made on accounting is the ability of companies to develop and use computerized systems to track and record financial transactions in facilitating management decision making, internal controls, and quality of the financial report. The study recommends that businesses, firms, and organization should adopt the use of AIS because adequate accounting information is essential for an effective decision-making process and enables all levels of management get sufficient, adequate, relevant and true information for planning and controlling activities of the business organization.

2.3 Theoretical Framework

2.3.1 Contingency theory

A contingency theory is an organization theory that claims that there is no best way to organize a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent (dependent) upon the internal and external situation. A contingent leader effectively applied his own style of leadership to the right situation. Financial accounting has been suggested as one of important management techniques, which distinctly adds values, by continuously probing whether resources are used effectively by people and organizations, in creating value for customers and shareholders. Financial accounting information is the information relied upon to provide information to managers for making decisions that will lead to effective performance. These systems traditionally apply a variety of techniques, including the standard costing of products, absorption costing and budgeting to provide timely and accurate information managers/shareholders, which will assist them in controlling costs, measuring and improving productivity and thus ensure the achievement of the business goals (Amey & Egginton 1973). These accounting systems according to Gordon and Miller (1976), maybe custom-designed to improve poorly functioning organizations, by providing information most relevant to the key organizational problems and opportunities; Based on views expressed in other studies Adelegan (2001) also noted that information produced by the financial statement and the way it is used, can support or hinder impact in organizations. These arguments which appear to suggest that improving performance will necessitate the adopting appropriate of design of financial accounting information by companies are in line contingency theory. The theory is providing explanation of the functioning of financial accounting information in their organizational context, views the systems as decision facilitating mechanisms, which should be tailored to an organizations structural, environmental and strategic situation to bring about good organizational performance (Gordon and Narayarn, 1984)

2.3.2 Political Perspective

Under this view, standard-setting process suggests that politics can havea first order effect on how accounting standards is set. Watts (1977) and Watts and Zimmerman(1978) have sought to develop and test economics-based theories of standard-setting thatcapture these political forces. They see political influence over standard-setting as a"purposeful intervention" in the standard-setting process by an economic entity with the goalof affecting the outcome of that process and to increase that entity's economic value or wealth.It can also be said that political influence occurs when it shifts the standard setters' positionaway from what they see as the "right answer," meaning a standard that achieves its objectives. This gives rise to the question of the objectives of standard setting (Kothari et al., 2010).Assuming a pragmatic approach of the consistent with the Financial Accounting Standard Board mission which states the following:

i. Move accounting to a position that is moreconsistent with conventionally-accepted definitions of financial statement items based oneconomics;
ii. Improve transparency; and
iii. Eliminate accounting alternatives that provide managers with additional flexibility in reporting; the Security and Exchange Commission being a government regulatoryagency can face political pressures that force it to take positions inconsistent with those of the FASB. More so, accounting firms, although, with objectives that are less clear and likely to be complex may likely participate in the process of accounting standard setting to improve the quality of financial reporting. For example, specifying accounting in an area of reporting that has become ambiguous.

2.3.3 Policy Network Theory

Heclo's (1978) issue network (also called Issue network) approach provides a theory of participation that can be applied to the standard setting process. In such application, it argues that there are individuals and organizations that have long-running interests (intellectual, economic, ideological and political) in the development and characteristics of new accounting standards. The interactions between these groups and individuals, and their ability to capture the allegiance of the standard setters themselves for their preferences, determine the contents of the new standards produced. The outcome of these standards then can be seen as the outcome of negotiations between sometimes competing groups with different interests and ideologies. All the groups involved face negotiations within themselves in order to arrive at a position, and then seek to foster negotiations with interested parties in order to achieve their preferred outcome.

2.3.4 Regulatory Capture Theory

The regulatory capture theory explains situations where regulatory agencies are captured by the industry they are supposed to be regulating (Uche, 2002). In other words, regulatory capture is the domination (capture) of a regulatory agency by the industry it seeks to regulate, thus rendering it unable to balance

competing interests when making social decision choices. In this case, the industry can then direct topics for possible legislation and reject others, which are not seen as important or in the interests of the industry. The application of this theory has focused on the relationship between an industry and the state.
Regulatory capture explains the predisposition of regulated industries to capture the regulatory body, in this case the International Accounting Standard Committee (IASC)/International Accounting Standard Board (IASB) (Mitnick, 1980; Walker, 1987). Regulatory capture theory was derived from economic theories of regulation, which sought to explain the pattern of regulation by governments (Posner, 1974). Developed by "an odd mixture of welfare state liberals, muckrakers, Marxists, and free market economists", regulatory capture theory was used to argue that regulation was supplied in response to the demands of particular interest groups (Posner, 1974). Mitnick's (1980) conception of regulatory capture focused specifically on the relationship between regulatory bodies and the industries they were intended to regulate.

It considered how aspects of this relationship can promote, capture and result in the regulatory body making decisions and taking actions consistent with the preferences of the regulated industry (Mitnick, 1980). A study by Walker (1987), a former member of the Accounting Standards Review Board (ARSB) in Australia, who provided a personal account of the Australian accounting standard setting process used Mitnick's (1980) theory of regulatory capture to argue that the accounting standard setting process in Australia had been captured by the interest groups it was established to regulate. In developing his argument, Walker (1987) traced the early history of the ASRB and noted the lobbying power of the accountancy bodies in the early stages of the ASRB's formation, which ensured that the ASRB would not have independent research capabilities. He also argued that the profession had "managed to influence the procedures, priorities, and output of the Board", and further, that it had influenced appointments to the Board so that "virtually all members of the Board might reasonably be expected to have some community of interests with the profession" (Walker, 1987). Having provided a convincing argument for the regulatory capture of the ASRB, Walker (1987) concluded by stressing the importance of highlighting the process of accounting standard setting and examining the political arrangements surrounding the process.

3. METHODOLOGY

The data for this study were collected from the secondary source. These data were gotten fromthe Institute of Chartered Accountant of Nigeria Membership Year Bookand online research materials (Projects, Journals and Paper presentations).

4. RESULT AND DISCUSSION

The key role players in the practice of accounting in Nigeria are those organizations that aresaddled with the responsibility of providing established rules and standards in the preparation ofcorporate financial statements, its audit and investigation. In general, the accounting profession and the Federal Government of Nigeria have alwaysbeen entwined. Before Nigeria gained political independence in 1960, it had no registered body for professional accountants. The development of the accounting profession in Nigeria became feasible only with the movement towards political independence in the country. Comparatively, however, the accounting profession lagged behind most other professions in Nigeria. It was, for instance, observed that: Although clergymen, lawyers and doctors have been recognized as professionals in Lagos asfar back as the later part of the nineteenth century… accountants were not so recognized because the handful of this group of skilled practitioners at that time were either civil servants or employees of the foreign trading companies based in Lagos (Aribaba, 1990, pp.304).

Further, the handful of accountants in the country as at the time were foreigners and it was notuntil 1950 that Akintola Williams became the first Nigerian to qualify as a chartered accountant when he was admitted into the Institute of Chartered Accountants of England and Wales (ICAEW). By 1960 there were 15 Nigerian members of ICAEW, one Nigerian member of the Institute of Municipal Treasurers and Accountants (now the Chartered Institute of Public Finance and Accountancy) and 24 Nigerian members of the Association of Certified and Corporate Accountants (now the Chartered Association of Certified Accountants). The foundation and historical step has been a force of organization excellence in Nigeria, which have encourage foreign investors to Nigeria and its economy has appreciates immense development in the global market.

5. CONCLUSION AND RECOMMENDATION

Based on the findings of this study, it has been deduced that Accounting setting standards/policies have evolve over the years to guarantee business performance in Nigeria.The vast directions ofaccounting policies and information on financial reporting quality presents the most important relations between the challenges and technological responses in pointing out the way for future research in order to improve the alignment between adopted technology and organization performance. Like many other aspects of education, accounting education is of paramount importance and it embodies the task of instructing accountants systematically. The instructions given in this regard will educate accountants and help them realize the skills and expertise that should qualify them to improve organization performance in the competitive market. In addition, accounting education polishes accountants and widens their understanding of accounting practices.

It cannot be ruled out that Accounting policies have developed business and economy of Nigeria since independent by various sound achievements that the FIRS and GAAP has recorded over the years on financial statements of different organization in the various Industries. The study therefore recommends further investigations into the relationship between accounting information system and financial reporting quality especially in technological adapting economies such as Nigeria. For organization performance to be deepened, it must avoid the negative effect of political perspective theory - standard-setting process suggests that politics can have a first order effect on how accounting standards is set. Watts (1977) and Watts & Zimmerman (1978) have sought to develop and test economics-based theories of standard-setting that capture these political forces.They see political influence over standard-setting as a "purposeful intervention" in the standard-setting process by an economic entity with the goal of affecting the outcome of that process and to increase that entity's economic value or wealth. It can also be said that political influence occurs when it shifts the standard setters' position away from what they see as the "right answer," meaning a standard that achieves its objectives. On both sides politics should have positive effect on accounting setting standard to ensure business performance.

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