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The convergence of Accounting Standards to International Financial Reporting Standards (IFRs): Issues and Prospects in Nigeria

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ABSTRACT

The goal of financial reporting is to make information available for decision making. Historically, there is diversity in financial reporting in different countries due to culture, legal systems, tax systems and business structures. International financial reporting standards (IFRS) harmonizes this diversity by making information more comparable and easier for analysis, promoting efficient allocation of resources and reduction in capital cost. However, before the evolution of IFRS, other accounting standards such as US Generally Acceptable Accounting Principles (US GAAP), Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), do exist. Convergence – which involves moving from the old system to IFRS is not an easy one just like in any transitional process. Issues and prospects are there both in developed economies as well as developing economies such as Nigeria. This paper succinctly highlights these issues as well as looks at the extent to which this convergence has been successful. Rational utility maximization is the theoretical foundation on which this paper is rooted. The IFRS components are disclosed, the issues and prospects together with the roadmap of its adoption in Nigeria are also highlighted for the economic development of Nigeria as well as projects of convergence both old and current.

Keywords: Convergence, International Financial Reporting Standards (IFRS), Nigeria.

SECTION 1.0

INTRODUCTION

The **convergence of accounting standards** refers to the goal of establishing a single set of accounting standards that will be used internationally, and in particular the effort to reduce the differences between the US Generally Accepted Accounting Principles (US GAAP), and the International Financial Reporting Standards (IFRS) (Financial Accounting Standard Board (FASB), 2012). Convergence in some form has been taking place for several decades, and efforts today include projects that aim to reduce the differences between accounting standards (American Institute of Certified Public Accountants (AICPA), 2008). In other words convergence is all about making global accounting standards as similar as possible. (www.wikipedia.org).

Additionally**, International convergence of accounting standards** refers to the goal of establishing a single set of high-quality accounting standards to be used internationally, and the efforts of standard-setters, particularly the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), towards achieving that goal. The essence of convergence is to avoid conflict and confusion, promote simplicity, streamlining, consistency and transparency, and avoid any future financial crises or meltdowns (http://www.investopedia.com). Convergence is also already taking place in other countries, with "all major economies" planning to either adopt the IFRS or converge towards it, "in the near future". For example, Canada required all listed entities to use the IFRS from January 1, 2012, and Japan permitted the use of IFRS for certain multinational companies from 2010 and is expected to make a decision on mandatory adoption in "around 2012" (IFRS Foundation, 2012). And Nigeria was to adopt starting 2012, but they are still undergoing training

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towards its adoption. The phrase *international convergence of accounting standards* refers to both a goal and the path taken to reach it. These include:

- The FASB believes that, over time, the ultimate **goal** of convergence is the development of a unified set of high-quality, international accounting standards that companies worldwide would use for both domestic and cross-border financial reporting.
- Until that ultimate goal is achieved, the FASB is committed to working with other standard setting bodies to develop accounting standards that are as converged as possible without forgoing the quality demanded by U.S. investors and other users of financial statements.
- Historically, the **path** toward convergence has been the collaborative efforts of the FASB and the International Accounting Standards Board (IASB) to both *improve* U.S. Generally Accepted Accounting Principles (U. S. GAAP) and International Financial Reporting Standards (IFRS) *and eliminate or minimize the differences between them*.
- As the FASB and the IASB complete their work on the last of their joint standard-setting projects initially undertaken under the 2006 Memorandum of Understanding (MoU), that process will evolve to include cooperation and collaboration among a wider range of standard-setters around the world.
- Moving forward, the FASB will continue to work on global accounting issues with the IASB through its membership in the Accounting Standards Advisory Forum (ASAF), a newly established advisory body comprising twelve standard setters from across the globe.
- For issues of primary interest to stakeholders in U. S. capital markets, the FASB will set its own agenda. As the FASB initiates its own new projects based on feedback from its stakeholders, it will reach out to all who have an interest in improving financial reporting for companies and investors that participate in U.S. capital markets, including U.S. capital market stakeholders who live and work outside the United States.

Issues and prospects of the International Financial Reporting Standards (IFRS) in Nigeria however call for a background knowledge of IFRS, the theoretical foundation or basis on which it is based, empirical studies on financial reporting, definitions and components of IFRS Financial Statements, Nigeria's adoption and implication of IFRS together with the benefits and challenges of IFRS. According to Essien-Akpan (2011), as a result of increasing globalization and therefore competition, it becomes imperative that countries and companies alike address issues that will make them become more attractive of investors capital which is like the proverbial beautiful bride. Capital market trades (cross border listing) have gone global and a company can raise funds on several stock exchanges around the world. Information which is what IFRS is all about per say, provide a key to this. The goal of financial reporting is to make information available for decision-making. Diversity in financial reporting in different countries arises because of the differences in legal systems, tax systems and business structures. The IFRS is intended to harmonize this diversity by making information more comparable and easier for analysis, promoting efficient collaboration of resource and reduction in capital cost.

Convergence from one system to another is always associated with some hitches; however, with the harmonization process that IFRS is carrying out, these hitches seem to be fizzling out gradually. We shall look out how, to some extent, they are been overcome. In doing this however, this paper is divided in sections – **sections one to six**. **Section one:** introduction – looking at the meaning of convergence as well as its evolutionary process, and general overview. **Section two** is the theoretical underpinning as well as literature reviews – highlighting some of the works done by several scholars. **Section three** deals with the prospects and challenges associated with convergence of standards to IFRS whilst **section four** specifically looks at the prospects and challenges peculiar to Nigeria in implementing and adopting the IFRS framework. **Section five** looks at some projects of convergence whilst **section six** concludes by highlighting some of the ways convergence and proper adoption of IFRS can add to economic development of a nation especially Nigeria.

ORIGIN OR EVOLUTION OF CONVERGENCE GLOBALLY

1950s to 1960s

The idea of convergence has roots in the 1950s, and was a response to greater economic integration and international capital flows after the Second World War. Before the 1990s, convergence took the

form of *harmonization*, the reduction of differences between the various accounting standards used internationally. (FASB,2012).

At the 8th International Congress of Accountants hosted by the American Institute of Certified Public Accountants in 1962, many participants expressed the need for the development of accounting standards on an international basis; in the same year the AICPA reactivated the Committee on International Relations, that aimed to improve cooperation among accountants globally.

1970s to 1990s

The International Accounting Standards Committee (IASC), the predecessor to the International Accounting Standards Board (IASB) was established in 1973 with the goal of developing accounting standards and promoting them internationally; by 1987 the IASC had issued 25 standards, and by the late 1980s there was "worldwide interest" in the need for convergence. (FASB,2012).

In 1991 the FASB formally set out the goal of developing an internationally-used set of accounting standards, and in subsequent years the FASB and IASC undertook various projects to lay the groundwork for convergence. In 1996, the National Securities Markets Improvement Act became law; the act expressed support for convergence efforts and required the SEC to report to congress on progress towards convergence.

Additionally, Ajibade (2011) disclosed that in1973, the International Accounting Standard Committee (IASC), the professional accounting bodies of major countries comprising UK, Ireland, United States (US), Australia, Canada, France, Germany, Japan, Mexico, Netherlands agreed to develop a uniform set of accounting principles that would be applicable globally and supersede the International Accounting Standards (IAS) which allowed for different treatments of transactions and events making comparative analysis difficult. Membership of IASC expanded to 140 professional bodies including the International Federation of Accountants (IFAC) under which Nigeria belongs. Because of globalization and to address comparability issues, IASC was restructured leading to the creation of International Accounting Standard Board (IASB) that issues IFRS.

1.2.3. 2000s to present

The IASC was reconstituted into the IASB in 2001, and the FASB and IASB began working towards convergence in 2002, expressing their commitment to convergence in the Norwalk agreement and pledging to make their respective standards "compatible as soon as is practicable" and to maintain compatibility by coordinating future programs. Their commitment to working towards convergence was reaffirmed at meetings in 2005 (AICPA, 2008).

The IASB and FASB signed a memorandum of understanding in 2006 which laid guidelines on their convergence projects and set short-term goals such as to issue converged standards on business combinations by 2008 (FASB, 2006). Work towards the goals was reviewed in 2008, and a progress report published that also set out subsequent steps for each convergence topic. The FASB and IASB met again in 2009 and agreed to "intensify their efforts" in working towards the goals of the memorandum of understanding, while laying down future plans and targets. However, these efforts have stalled recently, with IASB chairman Hans Hoogervoorst suggesting that convergence is no longer a top priority for the IFRS standard-setter http://www.cfo-insight.com/ reportingforcasting/ accounting)Convergence of accounting standards is also taking place in other jurisdictions; the IFRS Foundation has stated that "all major economies" have plans to either converge towards or adopt the IFRS "in the near future", and that the Group of 20 Leaders (G20) have encouraged accounting bodies globally to increase efforts to achieve convergence.

SECTION 2.0.

THEORETICAL FRAMEWORK AND LITERATURE REVIEW

The Rational Utility Maximization Theory

The theoretical basis of this paper is the Rational Utility Maximization Theory. Marnet (2008), emphasized that this theory evoke the presence of calculating utility maximize who would not succumb to what presumably amount to irrational behavior. Furthermore, many conventional means for improving corporate governance depend on the premise that business managers are strongly rational agents with long-term horizon. Freeman (1957) on his part also disclosed that the rational maximization theory is based on the following assumptions:

- The individual is self-interested maximize;
- Has stable and consistent preferences or taste;
- Capability of rationale choice behavior in accordance to certain decision rules (axioms);
- Independent/neutral monitors (gatekeepers) motivated by reputational and legal concern to withstand pressures.

However, observed monitors/gatekeeper behavior appears to be at odds in contrast to these assumptions of self-interest and rationality. Logic, for example, would predict that a gatekeeper (i.e. auditors) would not sacrifice reputational capital for small amount of financial gains. Yet gatekeepers (auditors) have been observed to jeopardize their reputation for financial gains that were far smaller than potential losses. The obvious answer about why management including directors engage in fraud and gatekeepers (auditors) were complicit is that they did so because it was profitable to them or at least appeared to be so.

Adeside (2008) argued that corporate governance, corporate code violator connive or evade the regulators through fraudulent mechanisms where by principally, the audited financials sent to the Central Bank of Nigeria (CBN) is usually profit-oriented since it is that same audited account that would be published showing bogus profit in order to make their shares attractive at the capital market after a compromised approval have been obtained from the CBN. For the same accounting period, the audited account that would-be forwarded to the Nigeria Deposit Insurance Corporation (NDIC) would have a depleted deposit base for the bank to pay an inconsequential 1% insurance premium to NDIC. For the same accounting year too, the audited accounts that is sent to the Federal Inland Revenue Services (IFRS) would have a reduced profit so that these banks would not pay any corporate tax to the coffers of the Federal Government of Nigeria while at the same time concealing withholding tax and value added tax (VAT) deductions thereby defrauding the federal government of Nigeria of revenue due it for economic development.

Akpan-Essien (2011) stated also that the adoption of the IFRS will ensure transparency, accountability and integrity in financial reporting necessary for addressing the crisis in the financial sector in Nigeria which was responsible for the Nigeria's loss of the Foreign Direct Investment (FDI)in the oil and gas sector to countries such as Ghana that have begun oil production in commercial quantity and who are perceived to have better financial reporting standards in place.

Empirical Studies of the Significance of Financial Report to Economic Development

Portes and Rey (2005) in their studies showed that most stock market investors prefers domestic asset but despite this, a geographical pattern of international asset transaction proves that financial information is not equally available to all market participants but where they are readily available in an easily understood format, there have been significant consequences on the level of investors activities.

UNCTAD (2001) report shows that FDI inflow to Africa declined by (9%) between 2010 ($50billion) and 2009 ($55 billion). Mangena and Tauringana (2006) in their studies also provided firm level evidence for a sub-Saharan African country, Zimbabwe, of positive effect of governance on the fraction accounted for by Foreign Share Ownership of companies.

Furthermore, they contended and postulated that because greater disclosure reduces information asymmetry for foreign investors, there should be a positive relationship between foreign share ownership in a listed company and firm level disclosure, especially due to the fact that the foreign investor portfolio are usually minority shareholders and therefore more susceptible to expropriation by local managers or controlling shareholders. They investigated foreign share ownership in Zimbabwe by examining whether differences in foreign share ownership (i.e. percentage shareholding owed by foreign investors) across companies listed in the country's stock exchange are related to the country-specific difference in disclosure and corporate governance mechanisms. The study reports that foreign share ownerships positively associated with high standard of disclosure and audit committee independence.

Components of IFRS Financial Statements

Alistair (2010) defined IFRS as a series of accounting pronouncements published by the International Accounting Standard Board (IASB) to help prepare financial statements throughout the world, to provide and present high quality, transparent and comparable financial information.

According to Essien-Akpan (2011), the components of IFRS financial statements includes fair representation, accounting policies, going concern, accrual basis of accounting, consistency, materiality, off-setting, . Fair Presentation is the appropriate application of IFRS result in Financial Statements that achieve fair presentation resulting from the selection of appropriate accounting policies and their application. Accounting Policies - *are the specific principles, bases,*

Conventions, rules and practices adopted by an entity in preparing and presenting financial statements. Policies selected must comply with the interpretation of the International Financial Reporting Interpretation Committee (IFRIC), where there are no specific requirements; policies should ensure relevance and reliability of information. Such financial statements should disclose that they comply with IFRSs. Compliance should not be claimed unless all applicable IFRSs and interpretations have been applied. A company's financial statements should disclose the accounting policies that have been selected and used.

Going Concern

Is described as an entity's ability to continue operating in the foreseeable future, usually one year and especially if certain conditions ceases to exist. An entity prepares financial statement son a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternatives but to do so. Where there are material uncertainties related to events or conditions that may cast significant doubts on the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. Management, when preparing financial statement, makes an assessment of an entity's ability to continue as a going concern.

Accrual Basis of Accounting

recognizes transactions and events when they occur and not when cash is received or paid. They are recorded in accounting records and reported in the financial statements of the periods to which they relate. An enterprise should prepare its financial statements under the accrual basis of accounting except for cash flow statements. Cash flow statements look at the cash transactions within the period. Consistency - arises when an item's presentation and classification is retained from one period to the next.

Materiality

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Each material class of similarities should be presented separately in financial statements. Each material class of similar items should be presented separately in the financial statement. Materiality depends on the size and nature of the item. Items of dissimilar nature shall be presented separately unless they are immaterial.

Offsetting

Emphasizes that assets and liabilities and income and expenditure shall not be offset unless required or permitted by a standard or interpretation.

Comparativeness

should be provided for all numerical information except when a standard offers an exemption.

Roadmap for the Adoption of IFRS and the Implications in Nigeria

The roadmap to the adoption of the IFRSs in Nigeria was its announcement on 2/9/10 by the Federal Government of Nigeria disclosing the schedule for the implementation as follows:

- All companies listed on the Nigerian Stock Exchange (NSE) and significant public entities are expected to have complied with IFRS since 1st January, 2012.
- Other public interest entities will commence with effect from 1st January, 2013.
- The commencement year for small and medium sized entities will be with effect from 1st January, 2014.

The implication of the schedule of adoption of the IFRS in Nigeria is the harmonization of the disparity of the existing Nigeria's standards with that of IFRSs together with the necessity to develop new skills. A transition programmed from Nigeria Accounting Standards to IFRSs will be required.

Systems and controls are to be designed to ensure consistency in the application of standards. All these create issues regarding the easiness of convergence from old system to IFRS.

Having said thus, the preceding paragraphs look at the global prospects and challenges of convergence as well as specific prospects and issues as regards to Nigeria.

SECTION 3.0

PROSPECTS ASSOCIATED WITH CONVERGENCE TO IFRS

Convergence is driven by several factors, including the belief that having a single set of accounting requirements would increase the comparability of different entities' accounting numbers, which will contribute to the flow of international investment and benefit a variety of stakeholders (PricewaterhouseCoopers, 2007).

Motivation

Motivations for convergence include the belief that it will result in increased comparability between financial statements, which will benefit a variety of stakeholders. For example, the FASB believes that "investors, companies, auditors, and other participants in the U.S. financial reporting system" will benefit from converged standards because it will result in increased comparability between the financial statements of different firms.

A 2008 report by PricewaterhouseCoopers (PwC) stated that convergence of accounting standards would contribute to the flow of international investment and benefit "all capital markets stakeholders" because it

1. renders international investments more comparable to investors;
2. reduces the cost of complying with accounting requirements for global businesses;
3. potentially establishes a more transparent accounting system with greater accountability;
4. reduces "operational challenges" for accounting firms; and
5. Gives standard-setters the opportunity to "improve the reporting model" (PWC, 2007).

Additionally, a survey conducted by the International Federation of Accountants found that 89% of accounting profession leaders who responded expressed that convergence was either very important or important for economic growth for their respective countries.

Challenges

Criticisms of convergence include its cost and pace, and the idea that the link between convergence and comparability may not be strong.

Other Criticisms

The goal of and various proposed steps to achieve convergence of accounting standards has been criticized by various individuals and organizations. For example, in 2006 senior partners at PricewaterhouseCoopers (PwC) called for convergence to be "shelved indefinitely" in a draft paper, calling for the IASB to focus instead on improving its own set of standards (Jopson, 2006). In particular, Shyam Sunder of the Yale School of Management has called the link between convergence and comparability "overblown", while the cost and pace of adoption have been cited as the most common criticism of the SEC's 2008 convergence roadmap, which set milestones that potentially lead to mandatory adoption of IFRS in 2014 (Securities and Exchange Commission, 2008).

Nature of Standards

Other criticisms center on the nature of the converged standards. For example, Some critics are concerned that convergence will increase the use of fair value accounting.

Other critics have also respectively cited shortcomings with rules-based and principles-based standards as reasons. Principles-based standards allow for "different interpretations for similar transactions", (Forge as R, 2008). Secondly, it have also been described by Agoglia, Doupnik and Tsakumis (2010), as "less precise", while rules-based standards contain more exceptions and use bright-line rules and specific details to deal with "as many potential contingencies as possible"

(Shortridge and Myring, 2009). The above-mentioned PwC senior partners expressed that convergence will lead to an accounting system that is too rules-based for non-US listed companies, while other critics conversely criticize the principles-based nature of the IFRS as making it difficult for preparers of financial statements to defend against litigation (Forgeas R, 2010).

Other key issues include, among others, 1) the diversity in how accounting standards, including IFRS, are interpreted, applied and enforced in various jurisdictions around the world; 2) the potential cost to U.S issuers of adopting or incorporating IFRS; 3) investor education;and4).governance.

SECTION 4.0

ISSUES AND PROSPECTS OF THE IMPLEMENTATION OF IFRS IN NIGERIA

Results arising from investigation conducted on the European Union member states highlighted how IFRS has benefited European countries in terms of attracting Foreign Direct Investment (FDI). IFRS will position Nigerian companies in the global market place as well as ensure transparency, accountability and integrity in financial reporting in Nigeria which is a prerequisite for the attraction of investment that will promote economic development. It will provide international investors the ability to make well-informed, useful and meaningful comparison of investment portfolio in Nigeria and other countries. Multinational companies with the aid of IFRS financial statement provide for easy consolidation of financial statements. It promotes better management control systems. IFRS statements are easier to comply with the financial requirements of overseas stock. It also facilitates ease of cross border transactions and trading within the region through common accounting practice especially in underdeveloped regions of the world like the Economic Community of West African States (ECOWAS). It will help to facilitate compilation of meaningful data on the performance of enterprises within the ECOWAS and other regions of the world. It will assist Nigeria, the federal and state government, local governments inclusive, in attracting international investors as the adoption of IFRS financials promotes easy monitoring of overseas investments.

Transparency and better accountability in government Ministries, Departments and Agencies (MDA) will be promoted through the IFRS adoption in the public sector accounting and management of resources. It will also lead to increase in government revenue as a result of transparency and integrity in reporting. Easier access to capital is also facilitated through IFRS. Despite the aforementioned envisaged benefits there are still challenges. There is the urgent need to improve the level of public awareness especially among investors and regulatory authorities' in Nigeria. There is also chronic shortage of professionals that are competent to implement the IFRS within the given time frame as contained in the schedule of the Nigerian roadmap for its adoption (i.e. January 2012 -January 2014).

SECTION 5.0

SOME PROJECTS OF CONVERGENCE

The IASB and FASB are currently working towards completing the convergence programme laid out by a 2006 memorandum of understanding, which was updated in 2008. Efforts include projects that aim to improve the respective accounting standards, and those that aim to reduce the differences between them.

Current Projects: IASB and FASB

In a joint report published in 2012, the IASB and FASB stated that most of the short-term projects outlined in the memorandum of understanding had been completed, and that greater priority was now being placed on long-term projects. Short term projects involve the amendment of one of the boards' standards to better align them with the other boards, jointly issuing new standards. Some short-term projects and corresponding action taken are listed below.

- **Segment reporting** (completed): a new standard, IFRS 8 Segment Reporting, was issued in 2006.
- **Fair value option** (completed): US GAAP was amended to include the fair value option in 2007.
- **Joint ventures** (completed): IFRS 11 Joint Arrangements was issued in 2011.
- **Income tax** (priority lowered): A joint exposure draft was published in 2009.[7]

An update to the memorandum of understanding in 2008 introduced long-term convergence projects, including the following. 1. **Derecognition** (completed): both boards issued amendments. 2. **Fair**

value measurement (completed): FASB Statement No. 257 and IFRS 13 were issued in 2011. 3. **Financial instruments with the characteristics of equity** (priority lowered): a joint discussion paper was released. And finally, 4.**Revenue recognition** (in progress): the boards issued joint proposals in 2010.

Other Issues Include

Revenue Recognition: Revenue is an important indicator for users of financial reports in assessing a company's performance and prospects. However, revenue recognition guidance differs in U.S. GAAP and IFRS, and many believe both are in need of improvement. The **revenue recognition project** seeks to improve financial reporting by developing a single, principle-based revenue standard for U.S. GAAP and IFRS. The Boards are expected to issue a finalstandardin2013.

Leases: Leases are an important source of financing for many companies that lease assets. However, many lease transactions currently are recognized off-balance sheet. The objective of the **leases project** is to increase transparency and comparability among organizations that lease assets by recognizing assets and liabilities that arise from lease transactions on a lessee's balance sheet. The Boards are expected to issue for public comment a revised Exposure Draft on Leases in 2013.

FinancialInstruments: The objective of the joint project on **accounting for financial instruments** is to provide financial statement users with a more timely and representative depiction of a company, institution, or not-for-profit organization's involvement in financial instruments, while reducing the complexity in accounting for those instruments. The Boards are conducting this project in three phases, and both have issued proposed standards on the first two phases: *accounting for credit losses* and *recognition and measurement* of financial instruments. Both Boards have proposed expected credit loss models to replace the current incurred loss model, but their proposed models differ on when those losses should be recognized. Following the conclusion of the comment period on credit losses, the Boards will determine if there is common ground in developing a converged standard. On the issue of classification and measurement, the Boards are converged on the major decisions, and expect to deliberate during the second half of 2013. The third phase of the accounting for financial instruments project looks at *hedging*. The IASB issued its proposal on hedging in September 2012. The FASB is expected to begin its deliberations on hedging during the second half of 2013. **Insurance**: Existing U.S. GAAP comprehensively addresses insurance accounting. However, IFRS currently lacks specific accounting requirements for **insurance contracts**. The Boards undertook the Insurance Contracts project to develop common, high-quality guidance that will address recognition, measurement, presentation, and disclosure requirements for insurance contracts (including reinsurance), even if the contracts are not issued by an insurance company. In general, the Boards are developing a model that would reflect current estimates of the amount necessary to fulfill an insurance obligation. However, they have not reached consistent conclusions about some elements of the model. The FASB plans to publish an Exposure Draft in 2013.

What is the Role of the SEC and what is its Current Policy on Convergence?

The SEC has directed the FASB to consider international convergence as it develops new accounting standards. In its 2003 policy statement reaffirming the FASB as the designated private-sector standard setter for the U.S., the SEC said that it expects the FASB to consider, in adopting accounting principles, the extent to which international convergence on high-quality standards is necessary or appropriate in the public interest and for the protection of investors. The FASB believes that working cooperatively with the IASB to develop common standards that improve financial reporting in the U.S. and internationally and that foster global comparability Sometimes, as in the case of responding to the financial reporting crisis that began in late 2008, the FASB has taken timely actions to improve U.S. GAAP while also working with the IASB on longer term global solutions in the same area. Unless and until a decision is made to adopt IFRS in the U.S., or until we have achieved substantial convergence between U.S. GAAP and IFRS, the FASB will need to continuously manage the challenging task of balancing the demand for improved U.S GAAP with the desire to eliminate differences between it and IFRS.

In July 2012, the SEC staff issued its final staff report on the "Work Plan for Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers." The report was the final phase of a work plan, initiated in February 2010, to consider

specific issues relevant to the Commission's determination as to where, when and how the current financial reporting system for U.S. issuers should be transitioned to a system incorporating IFRS. The 2010 work plan followed the release by the Commission in November 2008 of a proposed rule, *Roadmap for the Potential Use of Financial Statements Prepared In Accordance With International Financial Reporting Standards (IFRS) by U.S. Issuers.*

The 2012 staff report summarized the staff's findings regarding key issues surrounding the potential incorporation of IFRS into U.S. financial reporting, but did not make any recommendation to the Commission. "Additional analysis and consideration of this threshold policy question is necessary before any decision by the Commission concerning the incorporation of IFRS into the financial reporting system for the U.S. issuers can occur," the report said. In the report, the SEC staff examined a number of unresolved issues relating to the potential incorporation of IFRS into the U.S. financial reporting system.

Gaap and the IFRs Standards Convergence Efforts in 3 Substantial Areas

Despite the research-indicated evidence of a higher accounting quality being experienced by firms that either apply the IFRS standards or have switched to them from the GAAP, the convergence process has not proven to be an easy task, mostly because of the differences in approach between the two accounting bodies.

The GAAP is a rules-based methodology, while the IFRS takes a principle-based approach. The rules-based approach is comprised of a complex set of guidelines that establishes criteria for every possible contingency and provides the rules required for specified transactions, thus promoting uniformity. The principle-based methodology lays out the key objectives of good reporting in each subject area and then provides guidance, explaining the objective, and relates it to common examples, thus promoting transparency.

If these methodological differences between the two approaches cannot be resolved, they may prolong the process of compiling a true set of international accounting standards and increase the costs required to maintain two sets of books.

General Convergence Efforts

One of the main concerns in the United States business world is how the convergence process and its results will impact the future evolution of the accounting profession. This specific concern, simply stated, is about uniformity over transparency, and it has a serious impact on the standards development process. Could the goals of uniformity and transparency be achieved? Are they incompatible or mutually exclusive?

This incompatibility - real or perceived - is grounded in the conflicts existing among the constructs of rules-based and principle-based shareholder and stakeholder primacy theories, which are recognized by the Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB) and the European and Asian Accounting Standards Boards, and which have an impact on the standards development methodology. Transparency has a direct impact on the areas of business combinations (Phase I and II), revenue recognition and financial performance of business enterprises reporting.

Convergence Efforts Made Toward the GAAP and IFRS Standards Convergence Goal on the Business Combinations Phases I and II Project

The objective of this two-phased collaborative project between the U.S. FASB and the IFRS was to develop a single high-quality standard of accounting for business combinations that would ensure uniformity, yet promote transparency in merger and acquisitions (M&A) activities in the world's major capital markets. Phase I of the Business Combinations Project eliminated the pooling of interest with the FASB 14. Issues excluded from Phase I were business combinations involving two or more mutual entities and business combinations where separate entities were brought together as a reporting entity without claiming an ownership interest.

Phase II of the project focused on revising IFRS 3 (Business Combinations); amended a version of International Accounting Standard 27 (IAS 27 - Consolidated and Separate Financial Statements); clarified and changed wording, aligning the GAAP with IFRS; and revised the FASB issuance of

SFAS 141(R) regarding Business Combinations, and SFAS 160 regarding Non-controlling Interests in Consolidated Financial Statements. Statement of Financial Accounting Standards 141 R (SFAS 141 R) reduced the complexity of the GAAP, improved and created a greater consistency in accounting and financial reporting of business combinations, which benefited investors and other users of financial statements by providing them with more complete, comparable and relevant information.

This new standard achieved that goal by requiring the acquiring entity in a business combination to recognize all, and only, the assets acquired and the liabilities that were assumed in the transaction. It also established the acquisition-date fair value as the measurement objective for assets acquired and for all liabilities, required the acquirer to disclose to all investors and other users all of the information needed in understanding and evaluating, and the nature and financial effects of the business combination.

It included both core principles and pertinent application guidance, thus eliminating the need for numerous Emerging Issues Task Force (EITF) issues and other interpretative guidance. SFAS 160 also improved the relevance, compatibility and transparency of financial information provided to investors by requiring all entities to report subsidiaries' minority non-controlling interests the same way as in equity-consolidated financial statements. The result eliminates the diversity in accounting transactions between an entity and non-controlling interests by treating them as equity transactions.

From the International Financial Reporting side, IFRS 3 and IAS 27 were revised and amended in the areas of partial acquisitions, step-acquisitions, acquisition-related costs, contingent consideration and transactions with non-controlling interests. In partial acquisitions, the non-controlling interests are measured either at fair value, adhering to the new GAAP requirement, or on their proportionate interest in the net-identifiable assets based on the original IFRS requirement.

In step-acquisitions, the goodwill is measured as the difference at acquisition date between the fair value of any investment held in the business before the acquisition and the transfer of consideration and acquisition of the net assets, while the former requirement of measuring every asset and liability at each step of the process when calculating a portion of the goodwill has been removed.

Growth Stock Pick (CTLE)

The acquisition-related costs are now recognized as expenses, rather than being included in the good will and the contingent consideration must be recognized and measured at fair value on the date of the acquisition. For any subsequent changes in fair value, the IFRS standards will apply. Regarding transactions with non-controlling interests, no loss of control will result from changes in a parent company's ownership interest in a subsidiary, since they are accounted as equity transactions. The changes the FASB made to the U.S. GAAP were more fundamental than those made to the IFRS. Some of the most significant ones were: non-controlling interests classified as equity; restructuring changes required to be accounted for as they are incurred, rather than being anticipated at the time of the business combination; in-process research and development recognized as separate intangible assets, instead of being written off as an expense; alignment of the acquisition date with the date defined in the IFRS 3, instead of using the agreement date (GSSP); and gain on purchases in income is recognized instead of being allocated to the assets required.

Convergence Efforts Made Toward the GAAP and IFRS Standards Convergence Goal on the Financial Performance by Business Enterprises

The FASB has taken steps to: consider promptly any significant areas of deficiency in financial reporting that might be addressed through the standard-setting process; promote the international convergence of accounting standards concurrent with improving the quality of financial reporting; and improve the common understanding of the nature and purposes of information contained in financial reports.

Addressing the objectives of financial reposting by business enterprises, the SFAS CON 1 states that financial reporting should provide information that is useful to current and potential investors and creditors, or any other users, in their decision-making processes regarding investments and credit, including assessing the amounts, the timing and uncertainty of prospective cash receipts or cash inflows from dividends or interest earned, the proceeds from a sale, or redemption or maturity of loans or securities. Reports should include information about a company's economic resources, claims on those resources and the effects of those transactions, events, and circumstances that impact the

resources and any claims upon them, and should be comprehensible to anyone who has a reasonable understanding of business and economic activities and who needs to examine or study the information with reasonable diligence.

Research conducted by the FASB on financial performance, reported by business enterprises and their users, found that users have a strong interest in a statement of cash flows that reports cash flows under the direct method. Users also prefer financial statements that provide greater disclosure of information with predictive value. The research indicates that there is no across-the-board dissatisfaction with, or demand for, sweeping change in the way financial statements are displayed. Users also feel that key, commonly used measures lack clarity in definition of terms such as 'operating free cash flow,' 'return on invested capital,' and adjusted, normalized or operating earnings. Although net income is frequently used as a starting point for analysis, it is not in the top three most important measures identified by users. There is also low demand for comprehensive income presentation in a single statement; however, there was no transparent opposition to providing comprehensive income items in another form.

A foreign company registered with the SEC and doing business in the U.S. may submit financial statements to either the IFRS or the GAAP, however the GAAP requires a reconciliation of earnings and net assets, which results in maintaining two sets of books (which can be counterproductive). Additionally, few companies file IFRS financial statements with the SEC and reconcile to the GAAP. The areas of reporting total comprehensive income and comparative prior-year financial statements have also received some attention. The IFRS allows, however does not require, the reporting of total comprehensive income compared to the GAAP's requirement. This could contribute to IASB's performance reporting project, to result in a multi-column performance statement separating current income flows from re-measurements of previously recognized items. Furthermore, the grand total, although labeled "net income" by IASB, would be similar to FASB's total comprehensive income. As far as the comparative prior-year financial statements, the IFRS requires one year of information, compared to the two years required by the GAAP and SEC.

Convergence Efforts Made Toward the GAAP and IFRS Standards Convergence Goal on the Revenue Recognition Area

Accounting standards designed for public capital markets are burdensome, not only due to their complex nature, but also due to their adoption of the IFRS standards. This is especially apparent when applied to small and medium-sized companies, since they follow simple accounting principles that are not designed for the complexity of transactions that some small companies enter into, such as derivatives, hedging, foreign operations, business combinations, pension obligations or revenue transactions with multiple deliverables. This has forced IASB – which develops the International Financial Reporting Standards - to work on a separate standard for private entities titled, *IFRS for Small and Medium-Sized Entities*. The new standard will consist of a set of simplified and self-contained accounting principles that will address the needs of smaller, non-listed companies in public capital markets.

Both FASB and IASB, having acknowledged the complexity and pervasiveness of the revenue recognition area in financial reposting, are collaborating on developing a new single-revenue recognition standard for both the U.S. GAAP and the IFRS, which will streamline accounting for revenue across industries and correct any current existing inconsistencies in standards and practices. The new standard will also require businesses to disclose more information about revenue and proposes guidance to clarify accounting for contract costs.

The core principle of the new standard will recognize revenue when a company transfers goods and services to a customer equal to the amount of consideration the company expects to receive from the customer. Some of the most important differences between current practices and the new standard are that revenue would be recognized only from the transfer of goods or services to a customer. That change would affect some long-term contracts, the standard setters said. The example offered is that percentage-of-completion revenue recognition would be allowed, but only if the customer owns the work-in-progress as it is built or developed. In addition, a company would be required to account for all distinct goods or services, which could require it to separate a contract into different units of accounting from those identified in current practice.

Another change would be that collectability would affect how much revenue is recognized, rather than whether revenue is recognized or not. Also, a greater use of estimates would be required in determining both the amount to allocate and the basis for that allocation, which would better reflect the economics of a transaction. A company would follow five steps to apply the revenue recognition standard: identify the contracts with the customer; identify the separate performance obligations; identify the transaction price; allocate the transaction price to the performance obligations; and recognize revenue when a performance obligation is satisfied. The standard would be applied to all contracts to provide goods or services to customers, except leases, insurance contracts and financial instruments. Companies would be required under the standard to disclose qualitative and quantitative information about contracts with customers, including a maturity analysis for contracts extending beyond a year, and the significant judgments and changes in judgments made in applying the proposed standard to those contracts.

SECTION 6.0

CONCLUSIONS

Finally, despite the philosophically and culturally based methodological differences between the GAAP and the IFRS, certain steps have been taken in the standards convergence process, and have been proven successful so far, despite its continued challenges. Both the FASB and the IFRS continue to collaborate on the development of new and convergence of existing standards, including the area of business combinations, which is an important feature and component of the capital markets, as well as the areas of revenue recognition and the financial performance of business enterprises. Over the past decade, the average annual value of corporate acquisitions worldwide has been the equivalent of 8 to 10% of the total market capitalization of listed securities. In publishing its equivalents to IFRS 3 and IAS 27, the FASB has made fundamental changes to its accounting for business combinations, most of which bring the U.S. accounting in to line with the existing IFRS 3 and IAS 27.

It does appear that there are a lot of similarities in the principles of Revenue Recognition under IFRS and the GAAP, often resulting in the same accounting treatment. Other improvements will bring about changes in the standards for both the IFRS and GAAP, which will result in facilitating the comparison of financial statements among investors and other interested parties, such as advisors, acquirers etc., on how the acquired businesses will combine.

Furthermore, Clifford and Demaki (1999) insist that information (financial report) is the bedrock of effective management function. Without appropriate and reliable IFRS based financial statement, management cannot plan well, hire the right labor, provide effective control and leadership, identify managerial problems, find solutions and take decisions. Knowledge (i.e. IFRS based financial report) is power. It provides the power to management and entrepreneurship. Overcoming IFRSs challenges will require updating accounting curricula in all training institutions including the universities and polytechnic in Nigeria. It will also be necessary to harmonize regulatory requirements by amending existing laws that may be a drawback to IFRS. For example, the provision in the Company and Allied Matters Act (CAMA) 1990, the Investment and Securities Act (ISA) 2007, Bank and other Financial Institution Act (BOFIA) 1991 must be harmonized. Constantly keeping up with the pronouncements published by the International Accounting Standard Board (IASB) will also be necessary for the sustainable economic development in Nigeria. If this is done, as we have suggested, only then will Nigeria be able to fully appreciate the importance and benefit of this convergence to IFRS regardless of its hurdles.

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