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Assessing the Nature of International Financial Reporting Standards (IFRS) System in Public Organizations

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Abstract: The study assessing the Nature of International Financial Reporting Standards (IFRS) system in Public organizations in Anambra state, Nigeria**.** The data was collected through questionnaires and secondary sources of data. It was analyzed using correlations and goodness of fit tests. The results show that it has high significance value thereby accepting the testing hypotheses. However, the results were recommended for wider use and applicability in public organizations, specifically in anambra state, Nigeria.

Key Terms: Financial Reporting, IFRS, Banks, GAAP, Goodness of Fit, Significance Level and Correlations

Introduction

International Financial Reporting Standards (**IFRS**) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. The rules to be followed by accountants to maintain books of accounts which is comparable, understandable, reliable and relevant as per the users internal or external.

IFRS began as an attempt to harmonize accounting across the European Union but the value of harmonization quickly made the concept attractive around the world. They are sometimes still called by the original name of International Accounting Standards (IAS). IAS was issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On 1 April 2001, the new International Accounting Standards Board (IASB) took over from the IASC the responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs). The

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IASB has continued to develop standards calling the new standards International Financial Reporting Standards.

The main **objective** of this study is to assess the extreme of international financial reporting standards (IFRS) on financial reporting and its effects on banking system.

Each specific objective includes:

i. To ascertain the level the accountants and auditors, considered accounting areas the Public organizations should focus in adopting IFRS.
ii. To ascertain the level the introduction of IFRS in accounting areas has improved the standard of the public organizations in Nigeria.

Research Hypothesis

The following hypotheses guided the study:

H_{01}: There is no significant difference between the responses on the accounting areas that public organizations should focus on the adoption of IFRS.

H_{02}: The introduction of IFRS in accounting areas has not improved the standard of the public organizations in Nigeria.

Review of Related Literature: The introduction of an acceptable global high – quality financial reporting standards was initiated in 1973 when the International Accounting Standard Committee (IASC) was formed by 16 professional bodies from different countries (such as United States of America, United Kingdom, France, Canada, Germany, Australia, Japan, Netherlands and Mexico) all over the world [5]. This body was properly recognized in 2001 into the International Accounting Standards Board (IASB), and as well has developed accounting standards and related interpretations jointly referred to as the International Financial Reporting Standards (IFRS). The dominance of IFRS further improved in September 2002, when the United States Financial Accounting Standard Board (FASB) and IASC under took to work closely based on their agreement to develop high quality compatible accounting standards that could be adopted for both domestic and cross border financial reporting. These bodies so far achieved their objectives and are far advanced in the IFRS – US Generally Accepted Accounting Principles (GAAP), convergence. Although, many developing countries who do not want to be left behind took a cue from the world major economics to either adapt, adopt or converge the IFRS.

Globalization of capital markets requires a unified global accounting, reporting and disclosure set of standards. As a result of increasing volume of cross border capital flows and the growing number of foreign direct investments via mergers and acquisitions in the globalization era, the need for the harmonization of different practices in accounting and the acceptance of worldwide standards has arisen. This worldwide standard is International financial reporting standards (IFRS).

The International Accounting Standards Board adopted the IFRS framework on 1 April, 2001; the standards were adopted by over 90 countries around the world. International financial reporting standards (IFRS) was established and approved by the International Accounting Standards Board (IASB). The goals of the EFRS Foundation and the IASB is to

develop, in the public interest, a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. In pursuit of this goal, the IASB works in close cooperation with stakeholders around the world, including investors, national standard-setters, regulators, auditors, academics, and others who have an interest in the development of high-quality global standards.

Nigeria's fast, growth in the global business community necessitates that regulators and operators in the Nigerian financial system take proactive steps to ensure a seamless migration to the IFRS Reporting Framework. On 28 July 2010, the Nigerian Federal Executive Council approved 1st January 2012 as the effective date for convergence of accounting standards in Nigeria with International Financial Reporting Standards (IFRS). The Council directed the Nigerian Accounting Standards Board (NASB), under the supervision of the Nigerian Federal Ministry of Commerce and Industry, to take further necessary actions to give effect to Councils' approval.

On 20 July 2011 a workshop was held in Abuja Nigeria and the workshop was about attracting investments into Nigeria. During the workshop, the Nigerian Federal Minister of Trade & Investment, Dr. Olusegun Aganga, announced the signing of the law necessary for Nigeria to implement International Financial Reporting Standards (IFRSs) in Nigeria.

On 28 July 2010, the Nigerian Federal Executive Council announced a 'Road Map' for Nigeria's staged adoption of IFRS, commencing from 1 January 2012. The necessary law to enact the changes in the Financial Reporting Council of Nigeria Act 2011, had previously been passed by the Nigerian legislature, but had not been signed into law by the Nigerian President.

With the Nigerian President signing the act into law, the final processes for Nigeria's adoption of IFRS can now be put in place. The effect of the law is to create a new Financial Reporting Council, incorporating and replacing the existing Nigerian Accounting Standards Board (NASB), which will issue and regulate accounting actuarial valuation and auditing standards.

Finally the IFRS has been signed into Nigerian law by the president of Nigeria President Goodluck Jonathan.

Financial regulators in Nigeria have given 2012 as the deadline within which the Banks operating in Nigeria should migrate to IFRS from the current General Accounting Principles (GAP).

Different countries on the other hand use different approaches in adopting IFRS based on their need and ability to adopt [2]. As part of plans to meet international standards, the Federal Government has disclosed that new accounting system, the international financial reporting standard (IFRS) will [7] take off in Nigeria on 1st January, 2012. In Nigeria, the government has taken its stand to involve all stake holders including institutions before it finally decided to adopt the IFRS on a gradual basis. According to Ezeokoli (2001) as cited by Ejike [3], financial reporting has involved the full set of relationship between the company's board, its management, its shareholders, and other stakeholders, etc.

The board of directors is supposed to be accountable to shareholders in any company for effective monitoring; hence there must be an independent relationship between the board and management. This has resulted to various rules, principles and regulations which have been

issued in various countries in the area of audit, accounting, and internal control and audit committees to checkmate the operations of corporate body and corporate fraud (different sectors). The objectives and importance of introducing IFRS according to Fowokan [4] are:

- To work actively with the national setter to bring about convergence of national accounting standards.
- IFRSs are designed for adoption by profit oriented entities.
- IFRSs require that financial statements (FS) give a true and fair view of the financial health of entities.
- To develop a single set of high quality understandable and enforceable global
- Accounting standard that requires transparent and comparable information in financial statements.
- To help participants in various capital markets (investors, stock brokers, etc) across the globe to understand financial statements.

However, the theoretical foundations underpinning Nigerian GAPP and IFRS are not altogether similar, though, there will be increased responsibilities in setting accounting policies that fit business models, on the part of the professional accountants and auditor who must also be ready to explain and justify these policies in the context of the IFRS framework.

In order to achieve the above objectives, practical implementation of IFRS requires adequate technical capacity among preparers and users of financial statements, (auditors, accountants and regulatory authorities). The fact remain to impact knowledge, one must be knowledgeable. Garuba and Donwa [5] supporting the above view, affirmed that there is need to train government workers so as to be abreast with the IFRS. Hence, when they are well trained and equipped they will be able to carry out their public function effectively and efficiently. Therefore, the government, professional and corporate bodies have a great role to play in this regard especially in subsidizing the training costs of their staffs.

Conversion to IFRS offers companies a number of important benefits. Companies that operate in a global environment and comply with foreign reporting requirements can streamline their financial reporting. This will reduce related reporting costs by developing common reporting systems and will ensure consistency in statutory reporting.

Furthermore, comparison and benchmarking of financial data with international competitors would be possible. Adoption of IFRS will make cross border acquisitions and joint venture possible and also provide access to foreign capital. This is because majority of stock exchanges require financial information presented according to the IFRS.

Early adoption of IFRS may offer an edge to the companies over their competitors as they can claim early adoption. This, in turn, will enhance the brand value of the company. The companies can trade their shares and securities on stock exchanges world-wide. For this, most of the stock exchanges require financial statements prepared under IFRS [6].

The implementation of IFRS in the corporate would require trained accountants, auditors, values and actuaries. This will boost the growth of the service sector also as India can emerge as an accounting services hub.-Moreover, a single set of accounting standards worldwide would ensure that auditing firms standardize their training and quality of work is maintained globally.

Research Methodology: This research work focuses on data collection and analysis to be used for this study, etc.

Area of Study: This work treated on the effect of international financial reporting standard (IFRS) adoption on financial reporting, which covers Nnewi and Onitsha in Anambra State.

Sample and Sampling Technique: For the hypotheses, when the significant probability will be less than 0.05 levels, of Significance, a null hypothesis will be accepted as significant. On the other, when the significant probability level will be greater than 0.05 level of significant, the null hypothesis will be rejected as not significant. The sample size for this study will be determined using Bouely's formular.

$$n = \frac{N}{1+N(e)^2}$$

When n = sample size

N = population

e^2 = Margin of error (assumed 5%)

1 = unity or constant

Therefore = $\frac{1300}{1+1300\ (0.05)^2}$

$\frac{1300}{1+(1300x0.0025)}$

$\frac{1300}{1+3.25}$

$\frac{1300}{4.25}$ =306

= 306

The sample size of 306 will be adopted for this study.

Method of Data Analysis: The descriptive method of data analysis will be used to analyze data that will be generated for the research. This will be supported by tables showing questions, responses and percentages of Yes or No.

$$Percentage = \frac{Number\ of\ Response}{Total\ NUmber\ of\ Respondents} \times \frac{100}{1}$$

The data generated for this study will be analyzed, using Pearson correlation statistical tool, and with other appropriate statistical techniques. The techniques included frequency and percentages. The hypotheses postulated will be put in null (Ho). All analysis will be done using Statistical Package for Social Science (SPSS) version 21 and Minitab software version 16.1. The hypotheses will be tested as follows.

Hypothesis: Pearson Correlation Coefficient will be used to validate the hypothesis. It is the mostly widely used method to measure the extent of relationship between two or more variables and used for both interval and ratio scales. The Pearson correlation coefficient will therefore be used to assess the respondent's opinion on the effect of adoption of IFRS on financial reporting of banks and to evaluate the significance differences of their responses to the data. While Kendall tau rank correlation coefficient and spearman correlation coefficient

will be used to validate the Pearson correlation analysis. The formula for Pearson correlation coefficient is given below as:

$$r = \frac{n \sum x y - \sum x \sum y}{\sqrt{[(n\sum x^2 - (\sum x^2)(n\sum y^2 - (\sum y)^2)]}}$$

When y < + 0.5, a weak positive relationship exist
When y ≥ + 0.5, a strong positive relationship exist
When y < - 0.5, a strong negative relationship exist
When y ≤ - 0.5, a weak negative relationship exist
When y = + 1, a perfect positive relationship exist
When y = - 1, a perfect negative relationship exist
When y = 0, no relationship exist.

Student's t- test is a parametric test- statistic used to determine if two sets of data are significantly different from each other, and is most commonly applied when the tests statistic would follow a normal distribution if the value of a scaling term in the test statistics were known. When the scaling term is unknown and replaced by an estimate based on the data, the test statistic (under certain conditions) follows a student's t distribution (Press, William, Saul, William and Brian, 1992).

The formula is given below as:

$$t = \frac{M_1 - M_2}{\sqrt{\frac{N_1 S_1^2 + N_2 S_2^2}{N_i + N_2 - 2} + \frac{(N_1 + N_2)}{N_1 + N_2}}}$$

Where: M_1 = Mean of the first group
M_2 = Mean of the second group
N_1 = Number in the first group
N_2 = Number in the second group
S_1 = Standard deviation of the first group
S_2 = Standard deviation of the second group

Decision Rule: If the calculated correlations, and goodness of fit tests show significant values, the null hypothesis is rejected, given room for the acceptability of the alternative hypothesis.

But if the calculated results show a non significant value, the null hypothesis will be accepted, while the alternative hypothesis will be rejected.

Presentation, Analysis and Interpretation of Data

The presentation, analysis and interpretation of all the data collected are presented and analyzed in this research work. They are based on the objectives, research questions and hypotheses that guided the research. It further conducts a detailed analysis with the aid of suitable statistical technique of the data collected.

Research Question 1

Ho1: There is no significant difference between the responses on the accounting areas that public organizations should focus on the adoption of IFRS.

Table 1: Responses to Research Question 1

S/N	Questionnaire Items	Responses	No of Responses	Percentage%
1	Did you feel good when IFRS was introduced?	Yes	236	84.29
		No	44	15.71
		Total	280	100
2	Did you encounter any difficulty at the first time IFRS was adoption?	Yes	210	75
		No	70	25
		Total	280	100
3	Did you go through formal training when IFRS was introduced?	Yes	232	82.86
		No	48	17.14
		Total	280	100
4	Have you ever attended any seminar concerning IFRS?	Yes	221	78.93
		No	59	21.07
		Total	280	100

Source: Field Survey 2014

The table above shows that 84.29% of 100 respondents agreed that they feel good when IFRS was introduced, while 15.71% of 100 disagreed.

The table shows that any 210 or 75% affirmed that they did not encounter any difficulty at the first time IFRS was adoption in the organization while 70 or 25% objected to that.

However, 232 or 82.86% respondent agreed that they went through formal training when IFRS was introduced in their organization while 48 or 17.14% disagree with that.

Furthermore, 221 or 78.93% respondent agreed that they have attended seminar on IFRS in their organization while 59 or 21.07% disagree.

Test of Hypothesis One

The researcher formulates a hypothesis and this have to be tested in order to verify the validity of the working hypothesis. The summary statistics and goodness of fit test were used for the analysis. Note also that C13 is the data for hypothesis one

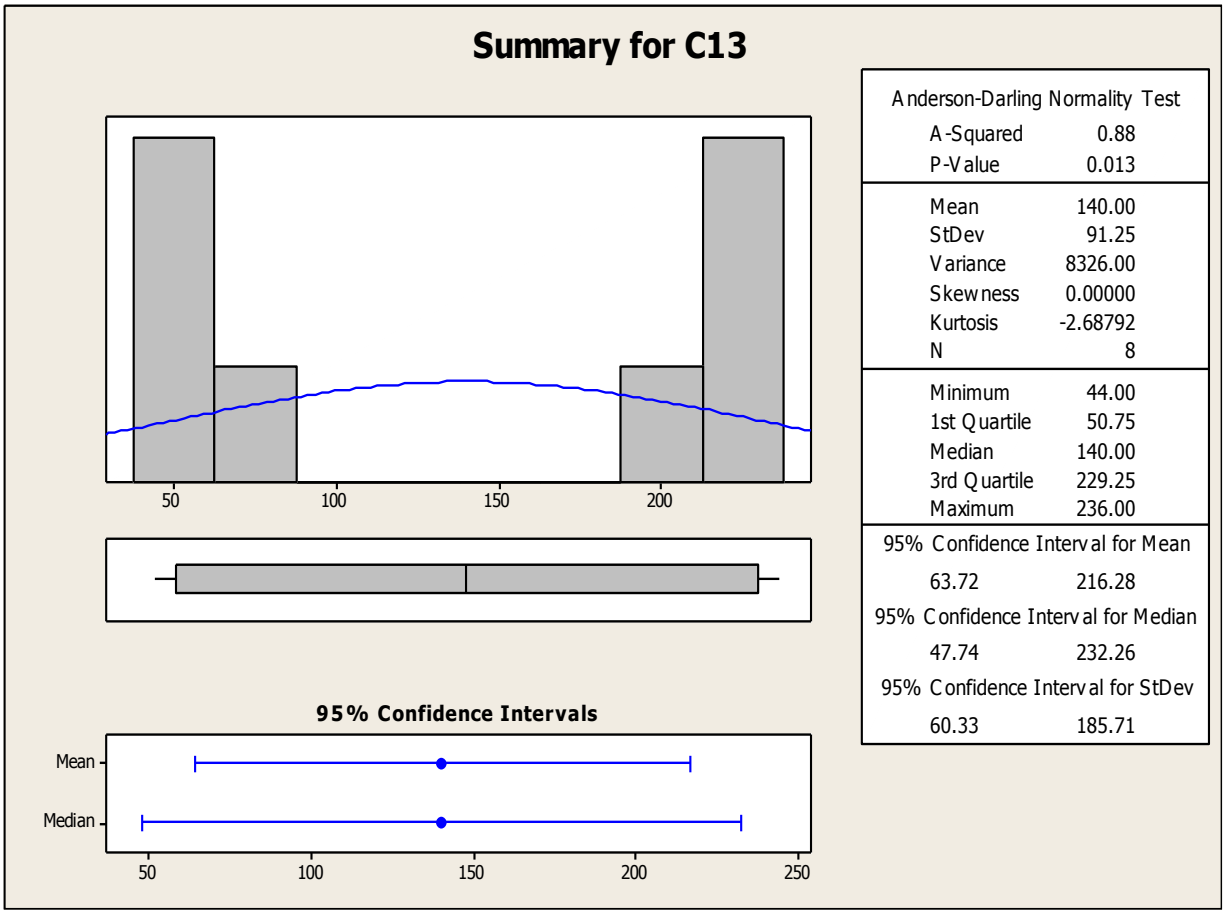

Figure 1: Graphical Summary for hypothesis one data

Decision Rule: From the graphical summary analysis, it was observed that the test of the hypothesis one is significantly. The significant difference of the result is 0.013. This shows that the null (Ho) hypotheses will be rejected and the alternative (Hi) hypothesis will be accepted. Hence there is significant difference between the responses on the accounting areas that public organizations should focus on the adoption of IFRS.

Goodness-of-Fit Test for Poisson Distribution

Data column: C13

Poisson mean for C13 = 140

C13	Observed	Poisson Probability	Expected	Contribution to Chi-Sq
<=210	5	1.00000	8.00000	1
211 - 220	0	0.00000	0.00000	0
>=221	3	0.00000	0.00000	6822781222

N	N*	DF	Chi-Sq	P-Value
8	0	1	6822781224	0.000

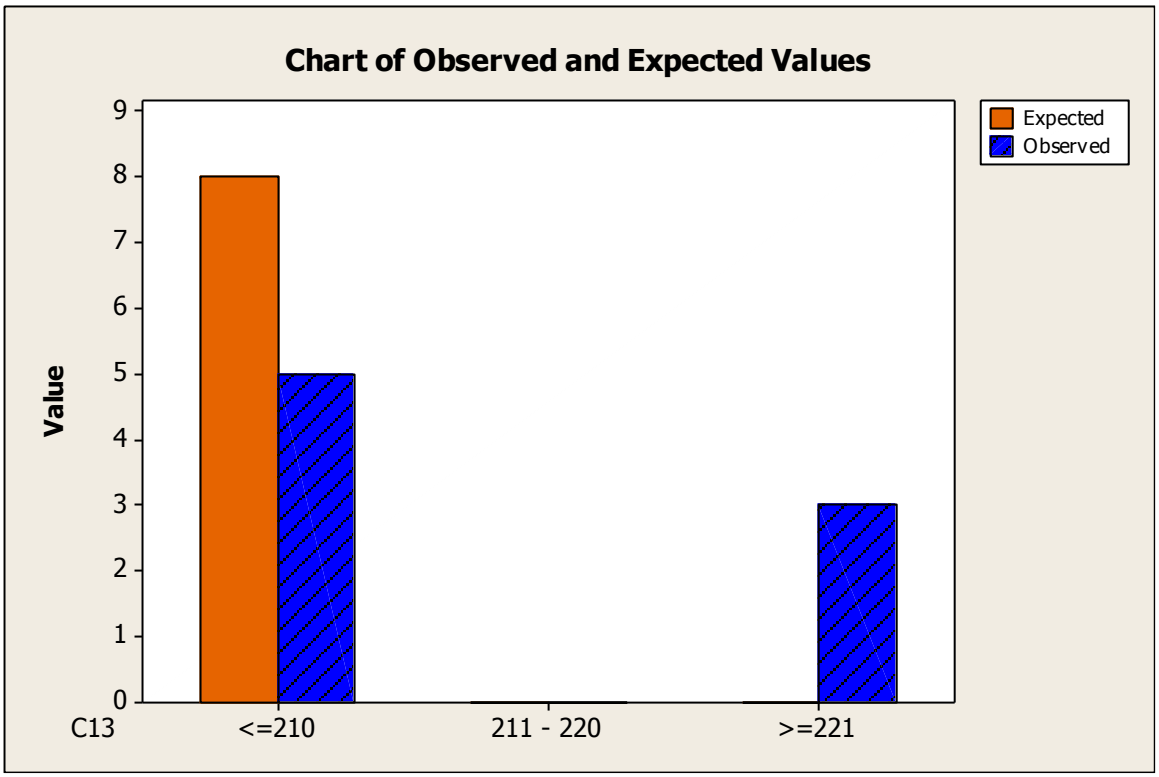

Figure 2: Chart of Observed and Expected Values

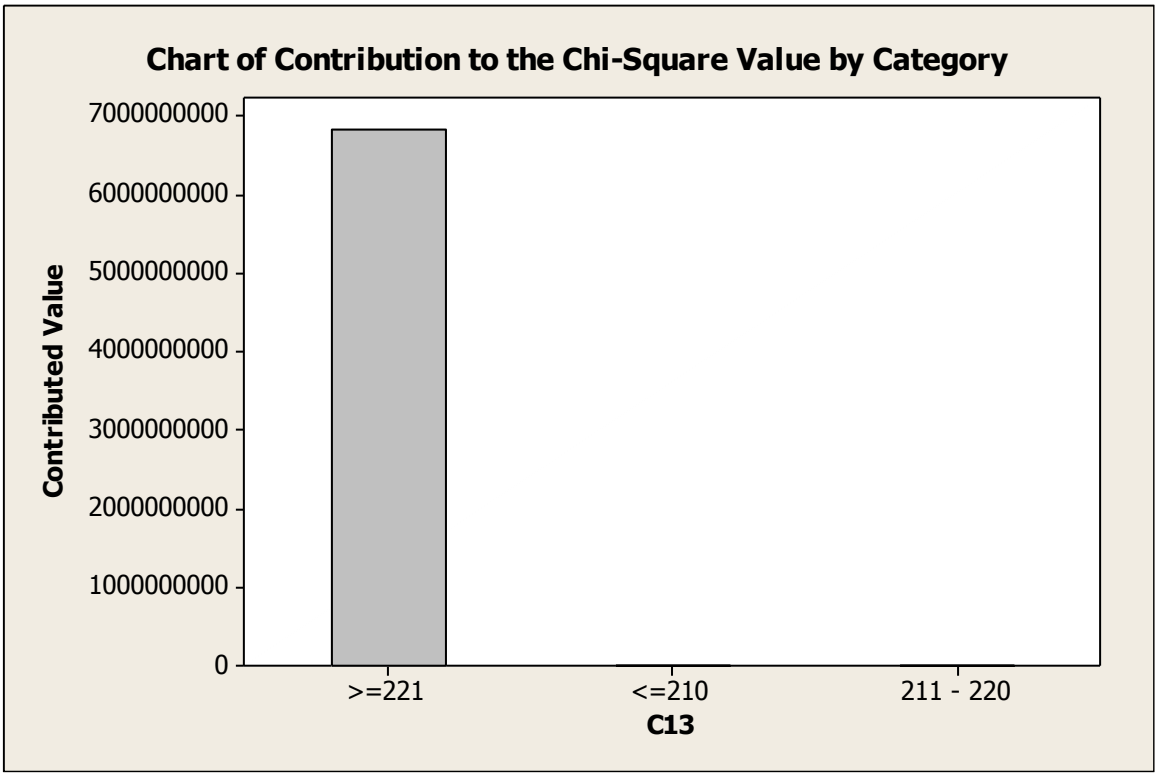

Figure 3: Chart of Contribution to the Chi-Square Value by Category

Decision Rule: Since the response hypothesis one disagrees with the null hypothesis, with the significant difference of 0.000 which is less than 0.05 level of significant. Therefore, we reject the null hypothesis which states that there is no significant difference between the responses on the accounting areas that public organizations should focus on the adoption of IFRS and accept the alternative hypothesis which states that there is significant difference between the responses on the accounting areas that public organizations should focus on the adoption of IFRS.

Research Question 2

Ho2: The introduction of IFRS in accounting areas has not improve the standard of the public organizations in Nigeria

Table 2: Responses to Research Question 2

S/N	Questionnaire Items	Responses	No of Responses	Percentage%
5	Has IFRS system influence your company system of accounting?	Yes	172	61.43
		No	108	38.57
		Total	280	100
6	Is there increase in profit of the investors as regard to the IFRS adoption?	Yes	197	70.36
		No	83	29.64
		Total	280	100
7	Has your company enhanced the benefit of information technology as regard to the introduction of IFRS?	Yes	233	83.21
		No	47	16.79
		Total	280	100
8	**Is the cost of adopting IFRS too high when compared with that of GAAP?**	Yes	173	61.79
		No	107	38.21
		Total	280	100
9	IFRS is not difficult or cumbersome?	Yes	187	66.79
		No	93	33.21
		Total	280	100
10	Is IFRS better than Nigerian GAAP	Yes	251	89.64
		No	29	10.36
		Total	280	100

Source: Field Survey 2014

The table above shows that 61.43% of 100 respondents agreed that the IFRS system influence there company system of accounting, while 38.57% of 100 disagreed.

The table shows that any 197 or 70.36% affirmed that the increase in the increase in profit of the investors is as regard to the IFRS adoption while 93 or 29.64% objected to that.

However, 83.21% respondent agreed that there company enhanced the benefit of information technology as regard to the introduction of IFRS while 16.79% disagree with that.
Also, 173 or 61.79% respondent agreed that the cost of adopting IFRS is too high when compared with that of GAAP while 107 or 38.21% disagree.
Furthermore, 66.79% respondent agreed that the IFRS system is not difficult or cumbersome while 33.21% disagree with that.
Also, 251 or 89.64% respondent agreed that the IFRS system is better than Nigerian GAAP while 29 or 10.36% disagree.

Test of Hypothesis Two

The researcher in the study precisely in research work one formulated a hypothesis and this have to be tested in order to verify the validity of the working hypothesis. The goodness of fit test was employed. Note also that C14 is the data for hypothesis two

11: Goodness-of-Fit Test for Poisson Distribution

Data column: C14
Poisson mean for C14 = 140

C14	Observed	Poisson Probability	Expected	Contribution to Chi-Sq
<=172	7	0.996130	11.9536	2.1
173 - 186	1	0.003782	0.0454	20.1
>=187	4	0.000088	0.0011	15153.7

N	N*	DF	Chi-Sq	P-Value
12	0	1	15175.8	0.000

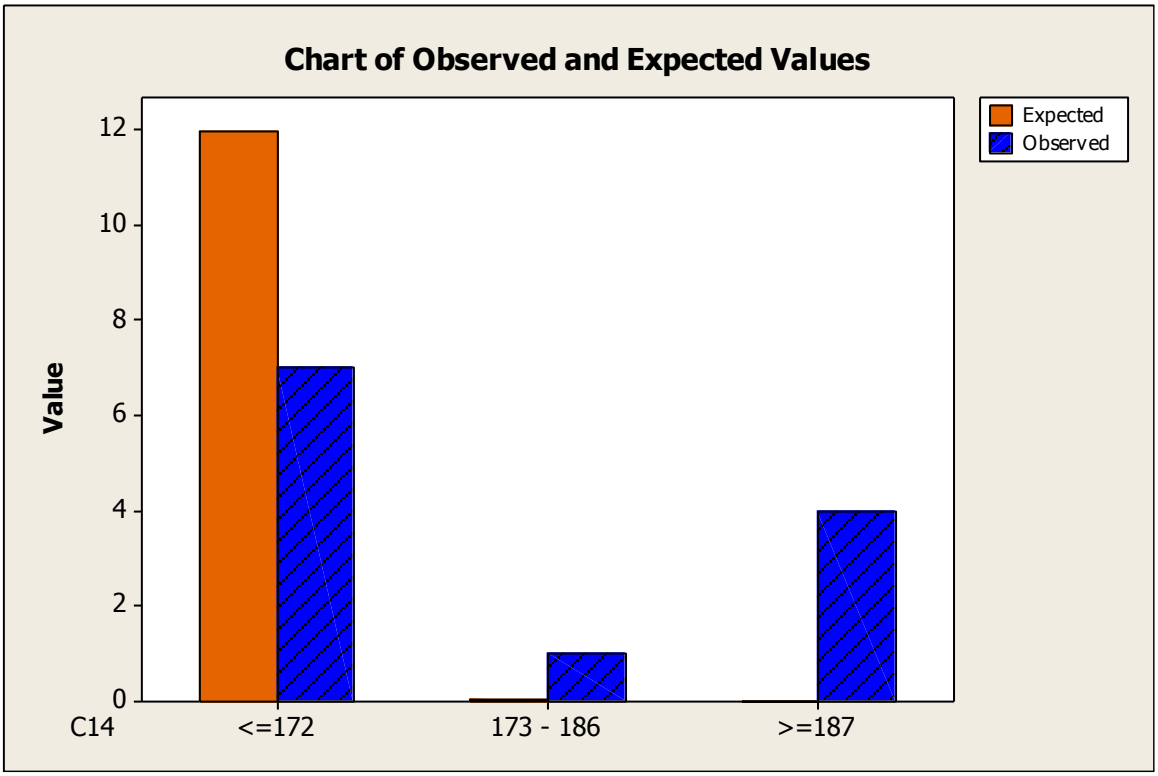

Figure 4: Chart of Observed and Expected Values

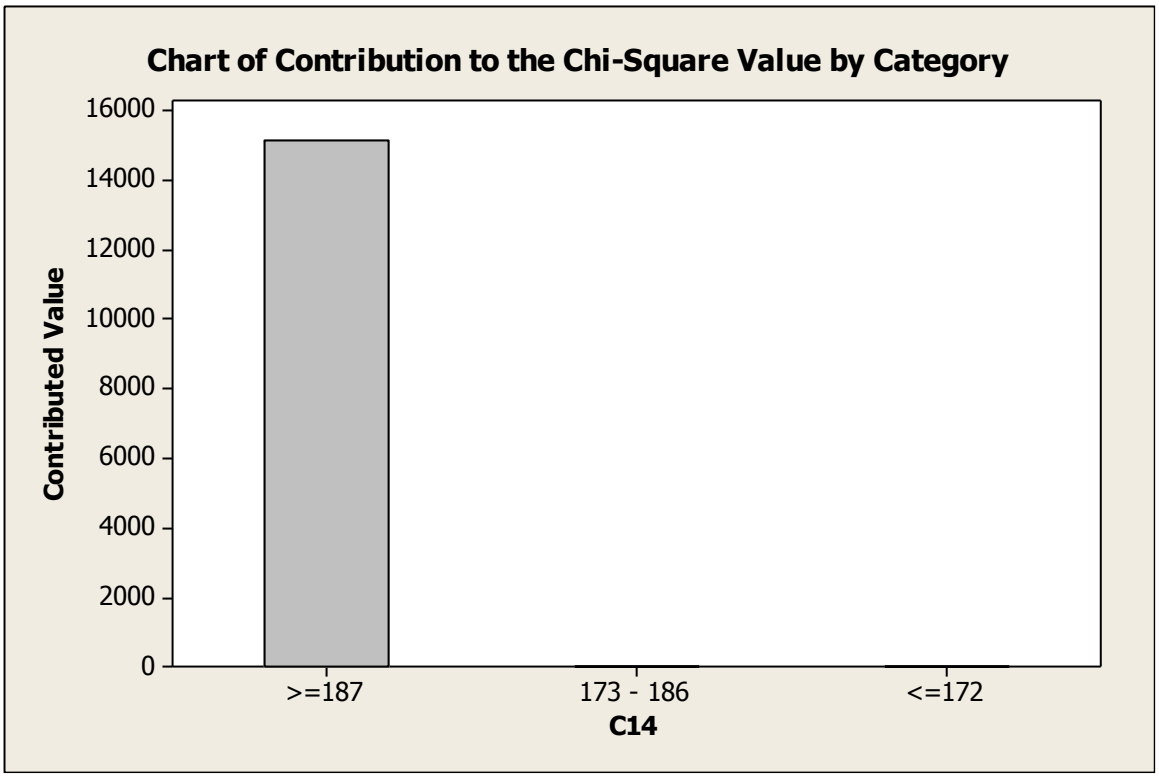

Figure 5: Chart of Contribution to the Chi-Square Value by Category

Decision Rule: The results of the goodness-of-fit test using Poisson distribution that the test of the hypothesis two is significantly and the significant value of the result is 0.000. This proved that the null (Ho) hypotheses will be rejected and the alternative (Hi) hypothesis will be accepted. Hence the introduction of IFRS in accounting areas has improved the standard of the public organizations in Nigeria.

Assessment of the Effects of Nature of IFRS system in organizations

To assess the effects of the nature of IFRS system, the respondents were asked to rank the nature on a likert scale of (5= strongly disagree to 1= undecided)

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The responses to the questions were presented and analyzed in table 2

Table 3: Assessment of Nature of IFRS system in organizations

S/N	**Assessment**	Strongly disagree **(5)**	Disagree **(4)**	Strongly agree **(3)**	**Agree (2)**	**undecided (1)**
(a)	Did you feel good when IFRS was introduced?	20	24	136	98	2
b	Did you encounter any difficulty at the first time IFRS was adoption?	30	40	120	84	6
(c)	Did you go through formal training when IFRS was introduced?	9	38	102	129	2
(d)	Have you ever attended any seminar concerning IFRS?	29	30	111	107	3
(e)	Has your company adopted all the IFRS system?	10	98	102	70	0
(f)	Is the increase in number of your foreign investors as a result of IFRS adoption?	30	53	107	90	0
(g)	Has your company enjoyed the benefit of raising capital from abroad?	15	32	33	200	0
(h)	Has the adoption of IFRS brought about high quality financial statements in your organization?	30	77	100	73	0
(i)	Has the adoption of IFRS brought about transparent financial statements?	20	73	180	7	0
(j)	Has the adoption of IFRS brought about comparable financial statements?	9	20	141	110	0
(k)	Has IFRS really affected the Nigerian Gap you were formally using?	16	98	94	70	2

l	Do you think Nigerian statement of accounting standards is partly outdated?	26	42	20	188	4
m	Is IFRS better than Nigerian GAAP?	7	10	163	97	3
N	Is the practice of IFRS really improving the reporting practice in your company compare to the Nigerian GAAP?	27	97	30	120	6

Source: Researchers Field study 2014

The study enquired about the respondent assessment of effects of IFRS in organizations.
The analytical software used was SPSS 21 version and the statistical tool used is Pearson correlation coefficient.
The Pearson correlation coefficient was used to assess the respondent's opinion on the effect of IFRS system and to evaluate the significance differences of their responses to the data. The formula for Pearson correlation coefficient is given below as:

$$r = \frac{n \sum x y - \sum x \sum y}{\sqrt{[(n\sum x^2 - (\sum x^2)(n\sum y^2 - (\sum y)^2)]}}$$

When $y < +0.5$, a weak positive relationship exist
When $y \geq +0.5$, a strong positive relationship exist
When $y < -0.5$, a strong negative relationship exist
When $y \leq -0.5$, a weak negative relationship exist
When $y = +1$, a perfect positive relationship exist
When $y = -1$, a perfect negative relationship exist
When $y = 0$, no relationship exist.

16: Pearson Correlations Analysis

Table 4 Descriptive Statistics

	Mean	Std. Deviation	N
Stronglydisagree	19.8571	8.84792	14
Disagree	52.2857	30.65799	14
StronglyAgree	102.7857	47.74963	14
Agree	103.0714	48.47595	14
Undecided	2.0000	2.18386	14

International Journal of Academic Research in Business and Social Sciences
March 2015, Vol. 5, No. 3
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Table 4 Correlations

		Stronglydisagree	Disagree	StronglyAgree	Agree	Undecided
Stronglydisagree	Pearson Correlation	1	.200	-.282	-.047	.350
	Sig. (2-tailed)		.493	.329	.873	.219
	Sum of Squares and Cross-products	1017.714	705.571	-1548.429	-262.857	88.000
	Covariance	78.286	54.275	-119.110	-20.220	6.769
	N	14	14	14	14	14
Disagree	Pearson Correlation	.200	1	-.262	-.409	-.039
	Sig. (2-tailed)	.493		.365	.147	.895
	Sum of Squares and Cross-products	705.571	12218.857	-4994.143	-7896.286	-34.000
	Covariance	54.275	939.912	-384.165	-607.407	-2.615
	N	14	14	14	14	14
StronglyAgree	Pearson Correlation	-.282	-.262	1	-.754**	-.304
	Sig. (2-tailed)	.329	.365		.002	.291
	Sum of Squares and Cross-products	-1548.429	-4994.143	29640.357	-22685.786	-412.000
	Covariance	-119.110	-384.165	2280.027	-1745.060	-31.692
	N	14	14	14	14	14
Agree	Pearson Correlation	-.047	-.409	-.754**	1	.215
	Sig. (2-tailed)	.873	.147	.002		.460
	Sum of Squares and Cross-products	-262.857	-7896.286	-22685.786	30548.929	296.000
	Covariance	-20.220	-607.407	-1745.060	2349.918	22.769
	N	14	14	14	14	14
Undecided	Pearson Correlation	.350	-.039	-.304	.215	1
	Sig. (2-tailed)	.219	.895	.291	.460	
	Sum of Squares and Cross-products	88.000	-34.000	-412.000	296.000	62.000
	Covariance	6.769	-2.615	-31.692	22.769	4.769
	N	14	14	14	14	14

**. Correlation is significant at the 0.01 level (2-tailed).

Decision Rule: The response of the hypotheses were ranked strongly disagree (5) to undecided (1). From the Pearson correlation analysis of the data tested, the researcher observed that the correlation strongly disagree and disagree were not significant with the value of 0.493 while the correlation strongly agree and agree were highly significant with the significant value of 0.002. The results show that the questionnaires agree with the objective which states that the adoption of international financial reporting standards (IFRS) enhances financial reporting in Nigerian sectors.

Discussion on Findings

From the data collected on the subject matter of the research work studied, observations have been made on the response of the respondents as regards to the structural questionnaire presented to them. Based on the findings of the study, many respondents were of the view that there is significant difference between the responses on the accounting areas that public organizations should focus on the adoption of IFRS.

However, from the findings, many respondents were also from the view that the introduction of IFRS in accounting areas has improved the standard of the public organizations in Nigeria.

Furthermore, also from the findings, many respondents were also from the view that the adoption of IFRS is more beneficiary to the Nigerian GAAP.

In conclusion, the findings of the study revealed that the adoption of international financial reporting standards (IFRS) enhances financial reporting in Nigerian public organizations and IFRS is more beneficial than GAAP to the accounting sectors in southeast Nigerian.

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