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INTERNATIONAL FINANCIAL REPORTING STANDARDS AND PROFITABILITY OF QUOTED MANUFACTURING FIRMS IN NIGERIA

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K E Y W O R D S

International Financial Reporting Standards, Profitability, Pre and Post period, Performance, Regulatory Agencies and Internal and External Auditors

A B S T R A C T

The study examine international financial reporting standards and profitability of quoted manufacturing firms in Nigeria. Data for the study was obtained mainly from secondary sources of the sampled manufacturing firms which were subjected to statistically analysis using T-test statistical tool. Multiple regression analysis and the Pearson Product Moment correlation were used to test the difference in the performance between the pre and post IFRS periods of the listed consumers' goods firms in Nigeria. The study revealed that there is a significant difference between Net profit Margin (NPM), profit after tax and Gross profit margin share of listed quoted firm in Nigeria during the pre and post IFRS periods. It was therefore recommended that the post IFRS standards should be retained and regulatory financial agencies, internal and external auditor should ensure strict compliance to IFRS standards in Nigeria.

Introduction

The increasing development in the international trade, flow of capital, investment, services, technology and globalization of businesses around the globe, the world can no longer afford to operate anymore with the narrow accounting system of local country by country accounting standards but to adjust and advanced to a wilder standards in other to meet up with the new wave of technological changes going on all over the world by adopting a widely acceptable International Financial Reporting Standards (IFRS), where financial statement of firms can now be prepare, present and report in a transparent and accessible manner. Umobong (2015) argued that the increasing globalization of business, alongside with the improvement in technology has led to the globalization of the capital market with an increased accounting practices and foreign direct investment. This acceptable international financial reporting standards is the accounting standards practices of the Post-IFRS regime which is entirely a new regime and the beginning of a new accounting practices across the globe where financial information of firms can be reported in more transparent and accessible from any part of the world, hence, the profitability of firms cannot be over emphasized. Firms can now begin to compare their profitability with another firm in the same type of business or to know

whether they are doing well in their businesses or not. Again, firms can no longer use or report their financial practices with the former accounting standards practices in the country where they operate or do their businesses but with the IFRS accounting standard practices. The international financial reporting standards (IFRS) accounting reporting practices was the regime after the introduction and adoption of International Financial Reporting Standards (IFRS). International Financial Reporting Standards (IFRS) practices regime is the period after the adoption of international financial reporting standards (IFRS), which has now becomes an issue of global relevance among various countries of the world due to its relative advantages of uniformity, reliability and comparability of financial information among different firms to countries (Akinyemi, 2012).

Adekoya (2011) posits that the financial information produced during the adoption of the International Financial Reporting Standards (IFRS) are more accessible and easily comparable with other financial information than before, thereby increasing the quality and financial performance of firms. Thus, the increasing globalization of business, alongside with improvement in technology had led to the globalizations of the capital markets and increasing foreign direct investment had necessitated the introduction of International financial Reporting Standard (IFRS) in order to present a globally accepted and high quality financial performance of firms which will provide reasonably accurate information about a company's financial position to investors and other interested parties that will enable them take investment, credit and similar resource allocation decision across the globe (Blanchette, Michel, Racicot & Girard, 2011).

Onipe, Musa and Isa (2015) argued that with the advent of globalization, the world's capital markets have witnessed rapid expansion, diversification and integration of financial operation. This has brought about a shift away from the former accounting standards practices to the present global accounting standards practices. Hence, it is in recognition of this facts that the international financial reporting standards (IFRS) was developed, adopted and have becomes vogue in many countries today. The goal of the international financial reporting standards, therefore is to make information available, comparable and accessible for decision making. Again, the diversity in financial reporting system in different countries arises because of the differences in legal tax systems and business structures during the Pre-IFRS regime can no longer be entertained. Thus, the International Financial Reporting Standards (IFRS) to harmonizes this diversity by making information more comparable, accessible and easier for analysis, promoting efficient allocation of resources and reduction in capital cost. Consequently, the International Accounting Standards Board (IASB) proposed a unified accounting standards that will be acceptable all over the world, hence, the International Financial Reporting Standard (Kousenidis, Ladas &Negakis, 2010). Financial reporting in this way begin to wear a new look with the provision of a reasonable degree of accurate information that restored investor's confidence and enable users of financial

information to take appropriate economic and economic and investment decision promptly. Therefore, the financial reports prepared during the IFRS is to meet information needed by various users of financial information hence, high-quality financial reports produces and enhanced financial performance of firm. This becomes imperative as individuals and organizations are concerned about the future of their investments and of the organizations in which such investment decisions are made (Okwoli, 2001). Latridis (2010) opined that the Post-IFRS regimes and the harmonization of different accounting standards increases financial performances of business entities across the globe.

Again, the low quality of financial reports, lack of transparent financial information, non-accessible and bias financial report of firms around the globe during the Pre-IFRS regime has necessitated the adoption and an improved ways of reporting financial information, hence the International Financial Reporting Standards. The Pre-IFRS regime was also characterized by so many accounting reporting standards practices which eventually led to different ways of reporting financial information, thereby producing different results of financial performance of firms even when the same financial data are used, hence was unable to determine or ascertained the actual performance of firms. Again, the uncertainty and inconsistency in the application of local standards during the Pre-IFRS regime makes it too difficult to understand, analyzed and making decision about the financial performance of firms. The non-comparability, non-uniformity, non-reliability and lack of information asymmetry of financial information among firms was also another problem facing the quality of financial information produce during the IFRS. There exist a good numbers of extant studies on the International Financial Reporting Standards and profitability of quoted manufacturing firms in Nigeria, but not much has been done on how the Post-IFRS regime affects the financial performance of quoted manufacturing firms in Nigeria. Again, few studies conducted by Okpala (2012), Isenmilla and Adeyemo, (2013) and Jijani (2012) all revealed mixed and conflicting results and showed lack of consensus in their different findings, hence creating a research gap in their studies. Asia and Akani (2015) also conducted a research on Post-IFRS adoption and accounting quality of quoted manufacturing firms in Nigeria using both primary and secondary data. This study decided to make a shift by using secondary data alone from the annual report of firms to overcome the bias associated with the use of primary data.

Hypotheses

To enable the researcher achieve the aim of the study, the following research hypotheses were formulated in the null forms:-

Ho_1 There is no significant difference in the net profit margin between the pre and post IFRS periods.

Ho_2 Profit after tax does not significantly differ before and after IFRS adoption.

Ho3 No significant difference exists in the gross profit margin between the pre and post IFRS regimes.

Literature Review

The Concept of International Financial Reporting Standards (IFRS)

The globalization of business had necessitated changes in accounting practices from the old accounting practices to the new accounting practices with the introduction of International financial Reporting Standard (IFRS) in order to present a globally accepted and high quality financial report of firms which will in turn provide reasonably accurate information about a company's financial position to investors and other interested parties that will enable them to take investment, credit and similar resource allocation decision across the globe (Blanchette, Michel, Racicot & Girard, 2011). Thus, with the advent of globalization, the world's capital markets have witnessed a rapid expansion, diversification and integration of financial operation. This has brought about a shift away from the former accounting practices to the global standards. Hence, it is in recognition of this fact that the international financial reporting standards (IFRS) was adopted and have become a household name in different countries today (Onipe, Masa, & Isa, 2011).The goal of financial reporting is to make information available for decision making. Diversity in financial reporting in different countries arises because of the difference in legal tax systems and business structures. The International Financial Reporting Standards is intended to harmonize this diversity by making information more comparable, accessible and easier for analysis, promoting efficient allocation of resources and reduction in capital cost. International Financial Reporting Standards (IFRS) is the standards after the implementation or adoption of international financial reporting standards (IFRS). During the International Financial Reporting Standards practice every country uses the same accounting standards in preparing and reporting financial information. The practice of accounting all over the world is guided by sets of guidelines, principles or rules. These rules and guidelines are compiled into accounting standards upon which the accounting practices are based. They are statements of principle that discusses the accounting treatments and disclosure of a particular item or group of items (Adebimpe&Ekwere, 2015).International financial reporting standards (IFRS) is a body of prescriptive rules and guidelines with global reach and appeal which provide direction and guidance on how business enterprises in a globalised world could achieve the goal of proper record keeping, transparency, uniformity, comparability and enhancing public confidence in financial reporting (Tendeloo&Vanstraelen, 2005).

Modugu and Eragbhe (2013) posit that the generally acceptable accounting practices (GAAP) as at then, had allowed firms to report their financial statements in accordance with what is applicable to their regions alone. Thus, did not allow convergence, quality and comparability of financial reports across different entities and countries across the globe. The adoption of International financial reporting

standards (IFRS) by the international Accounting Standards Board (IASB) encourages the shaping of accounting framework of different nationals, thereby providing recognition, measurement and reporting of quality financial information. Adebiyi (2012) argued that the accounting framework has been shaped by International Accounting Standards Boards (IASB) to provide for recognition, measurement, presentation and reporting financial information relating to transactions and events that are reflected in the financial statements of companies across different boarders or national boundaries. The adoption of International financial accounting standards (IFRS) across the globe help to streamline the financial reporting minimize reporting costs from different reporting system and consistency in statutory reporting which enable the comparison of financial information and benchmarking with foreign competitors. Apart from that, the adoption of International Reporting Standards (IFRS) has offer companies or firms an edge over competitors in the eyes of users of financial information. Ikedi (2010) argued that the post-regime of the adoption of International Financial Reporting Standards (IFRS) has transcend through national boundaries, acquisitions of joint ventures and easy access to foreign capital as well as trading with Companies shares and securities on stock exchange table all over the world.

Macias and Muino (2011) suggested that the problem that usually with the financial reporting quality of accounting information of some European countries that operate two different national and international accounting systems. Atwood, Draks, Myre and Myres (2011) posits that accounting information presented according to generally accepted accounting principles was more successful in the predictability dimension than information resented during the adoption of International Financial Reporting Standards (IFRS) system.
Jones (1991) asserted that the International Financial Reporting Standards (IFRS) harmonization caused an important development in the organizational functions and responsibilities in the departments of businesses. Callao, Jarne and Lainez. (2007) examined the quantitative effect of the adoption of International Financial Reporting Standards (IFRS) harmonization in financial statements and ratios and the difference between the market value and book value of the business was analyzed to determine the effects of International Financial Reporting Standards (IFRS) harmonization.

Cortesj, Montani and Teteamanzi (2009) examined the International Accounting Standards and International Financial Reporting Standards (IAS&IFRS) of the Post-IFRS regime harmonization to the financial statements of furniture and decoration sector companies registered on the Mali Stock Exchange in 2005.The application of international accounting standards resulted in basic differences and effects in tangible and intangible assets according to IAS 38 and IAS 36.

Iatridis (2010) opined that the effect of harmonization in measuring the financial performance of businesses across the globe cannot be overemphasized. The study stated that the existence of loan power and credibility of business could

decrease potential business risk and increase financial reporting quality with International Financial Reporting Standards (IFRS). Iatridis (2010) also argued that the International Financial Reporting Standards (IFRS) harmonization have increased the quality of accounting information and the financial performance of firms. In the IFRS-based financial statements information in most companies also increased drastically the reporting quality thereby produce the type of financial statement needed for financial decision. Navarro-Garcia and Bastida (2010) analyzed the consequences of International Financial Reporting Standards (IFRS) adoption in a code-law country in Spain. This study indicates that financial statement prepped under the code – law and adoption of International Financial Reporting Standards (IFRS) could lead to less International Financial Standards compliance and therefore, lower quality financial reports than could be reached under strict International Financial Reporting Standards (IFRS) application. Thus, it was better to adopt of the International Financial Reporting Standards (IFRS) with strict compliance rather than the code – law approach. The weakness of the generally accepted accounting practice otherwise known as (GAAP) regime as postulated in Umoren and Nwobu (2010) is the increasing complexity of financial reporting requirements in the world economy today, thus led to the adoption of International Financial Reporting Standards (IFRS). Therefore, the increasing globalization of businesses, alongside the improvement in technology had led to globalization of capital markets which has resulted to an increase in accounting practices (Umobong, 2015). Thus, all these necessitated the quick respond to the adoption of a common and unified accounting language that can be accessed compared and understood, even from the comfort of their homes. The International financial accounting standards are set of accounting standards that states how a particular types of business transactions should be treated, prepared or reported in the financial statements of companies or firms. The aim of this is to promote comparability, reliability and even timely information that would enhance good quality of financial information needed by interested parties or groups across the globe. International Financial Reporting Standard (IFRS) therefore, is a statement of accounting standard issued by the International Accounting Standard Board (IASB), specifically on how financial information are to be prepared and reported by public listed companies across the globe.

Rehana (2017) opined that International Accounting Standards Board (IASB's) mission is to develop the International Financial Reporting Standards (IFRS) and bringing financial markets transparency, accountability, and efficiency throughout the whole world. The goal of international financial reporting standard (IFRS) provide a global framework on how public companies should prepare and disclose their financial statements.

Alistair (2010) the international financial reporting standards (IFRS) is a series of accounting pronouncements published by the International Accounting Standards Board (IASB) to help in preparing a common financial statements

throughout the whole world and to provide a high quality, transparent and comparable financial information that will enhanced financial performance of firms across the globe. Thus, Fasoranti, Adelakun and Joshua (2014) opined that international financial reporting standards (IFRS) is a combination of the international accounting standards (IASs), International Financial Reporting Standards (IFRS), Standing Interpretation Committees (SICs) pronouncement and the International Financial Reporting Interpretations Committee (IFRICS) guidelines. Therefore, international financial reporting standards (IFRS) are robust principle based sets of global accounting standards that has detailed disclosure requirements that are useful for the preparation, presentation and reporting of financial information for economic decisions making purposes.

Herbert, Ene and Tsegba (2013) in Akpaka (2015) argued that since financial information is a medium of communicating business or financial transactions, it became important or imperative that different countries accounting standards will be harmonized to form a single set of accounting standards that can be used to improve the rate at which investments and credit decisions are taken to aid international comparability of financial information of companies or firms financial information of firms or companies operating within and outside the reporting countries. Ikpefan and Akande (2012) opined that the adoption of international financial reporting standards (IFRS) has shaped accounting framework to world over to provide for recognition, measurement presentation and disclosure requirements relating to transactions and events that are reflected in the financial statements of companies or firms. Thus, the international financial reporting standards (IFRS) was developed in the year 2001 by the International Accounting Standard Board (IASB) in the public interest to provide a single set of high quality, understandable and uniform accounting standards. Therefore, international financial reporting standard (IFRS) are standards, interpretation and framework adopted by the international accounting standards Board which is also a product of private sector initiatives charged with responsibilities of harmonization and internationalization of financial reporting standards of business organisation and regional convergence (Abata, 2015). Companies or firms are always encouraged to prepare, present and reports their financial statements on the basis of cross-border comparison, so that the objectivity, reliability and financial performance cannot be undermined. Thus, if firm's financial statement is prepared, presented and reported on the basis that does not allow cross-border comparison, it will be bereft of objectivity, reliability, credibility and comparability of financial performance and thus will results to fraudulent business practices which subsequently will lead to business failure and becomes devastating on the national economy (Atu&Atu, 2014).

International financial reporting standards therefore are designed to encourage professional judgment and discourage over reliance on detailed rules from local and regional accounting standards (Dobija, & Klimezak, 2010). The increasing internationalization and standardization of accounting rules has helped

to reduce wide judgmental intuition and discretion, which has reduced the work of the external auditor considerably. Therefore, the adoption of international financial reporting standards (IFRS) is said to bridge the regional gaps experienced in the national accounting or domestic accounting standards and financial reporting often seen in the general accepted accounting practices (GAAP). The generally accepted accounting practice (GAAP) was characterized with regional sectional discrepancies which impinged on free cross border financial reporting. Anthony and Young (2010) generally accepted accounting practices (GAAP) that was used initially for accounting and financial reporting gives way to differences in businesses communication and reporting of financial information across different countries and firms around the world.

Therefore, the goal for the adoption of international financial reporting standards (IFRS) is provide a global accounting framework on how public companies are to prepare, present and reports their financial statements globally. The provision of these general guidelines for financial reporting of international businesses is very important to global communities or markets. Hence, adopting a single set of world-wide acceptable accounting standards is to simplify accounting treatments and procedures by allowing companies to use one reporting language throughout their financial reporting activities. The adoption of international financial reporting standards would call for financial reporting of high quality and less subjectivity of financial information. Higher accounting quality in financial reporting and performance would be accompanied by higher conservatism and less information asymmetry (Ball & Shivakumar, 2005). The provision of true trustful information through financial statements is deemed as accounting quality, which increase financial performance of firms. In other words, if the financial statements are prepared for the favor or anticipation of any of the user of financial information, true information is hidden through legal or illegal methods or wrong information is inserted, then financial information and the intended quality will be altered and manipulated. The manipulation of financial statement will be done through illegal insertion of information, hence producing loss accounting quality.

Lin, Richardi and Wang (2010), however, integration of the capital and money markets, globalization, the developmen0ts in the international trade requires synchronization in recording and unity in accounting standards (IIker, 2010). The countries and the firms who do not want to be depriving of global capital adopt the International Financial Reporting Standards (IFRS) of the post accounting regime or synchronize their local standards with the adoption of International Financial Reporting Standards (IFRS) in the post regime. The adoption of International Financial Reporting Standards (IFRS) restricts and lessens alternative accounting options. Thus, it limits the use of manipulations methods such as earning and income smoothing. Furthermore, uncertainty and inconsistency in the application of localstandards can be eliminated through International Financial Reporting Standards (IFRS) which is easy to interpret and adopt. Another advantage

of the International Financial Reporting Standards (IFRS) adoption is that it helps international investors in understanding, analyzing and making decision. This advantage encourages and forces those preparing financial statements to prepare financial reports free of manipulations. Thus, this accounting system also facilitates auditing of companies and firms all over the world. Chen, Tang, Hang and Lin (2010) and Ashbaugh and Pincus (2001) suggested that communicating with investors was an important motivation for the use of international accounting standards (IFRS). International firms may want to communicate financial information to interested parties, and may select the international accounting standards (IAS) that can increase transparency in reporting and reduce restatement of financial information and increase financial performance or profitability of the firm (Tarca, 2004).

Chen, Tang, Jiang, and Lin, (2010) argued that accounting quality has marginally improved after the adoption of International Financial Reporting Standards (IFRS) in most Europeans (EU) firms and countries. This result suggests that the International Financial Reporting Standards (IFRS) limit management opportunistic discretions by reducing available accounting alternatives. By a higher quality standards reduces managerial discretion over accounting choices or inherently disallows smoothing or overstatement of earnings. If International Financial Reporting Standards (IFRS) higher quality than the domestic GAAP and they are appropriately enforced, then would be expected mandatory adoption of International Financial Reporting Standards (IFRS) to improve accounting quality and increase firm's performance. On the other hand, if International Financial Reporting Standards (IFRS) are of lower quality than domestic General Accepted Accounting Principle (GAAP) of the pre-regime or if they weaken enforcement (for example because of increased discretion or flexibility), then we would expect them to reduce accounting quality and performance. Thus, the impact of the post accounting regime of International Financial Reporting Standards (IFRS) on accounting quality financial performance is an empirical question (Ahmed, 2011).

Tanko (2012), argued that the adoption of international financial reporting standards would reduce information asymmetry which will enhance the financial performance and enhanced investors, shareholders, creditors and other interested parties confidence. Financial reporting under the International Financial Reporting Standards (IFRS) provides among other things accounting harmonization which is expected to communicate higher information quality and general method used by accounting literature to assess the financial performance of firms with respect to its relevant to market valuation. Such methods include the use of quantitative characteristics such as value relevance and accrual methods.

Onyekwelu, Uche and Ubesie (2016) stated that the globalization trend and the critiques that trailed the domestic standard saw the International Financial Reporting Board (IASB) coming up with sets of global accounting standards known as the international financial reporting Standards (IFRS) as against the domestic standards of GAAP which possess much challenges to the issue of convergence,

faithful representation, timelines and comparability of financial reports and enhancing the profitability of firms which was flawed for being regional sensitive thereby provoking financial report that are not internally acceptable.

Adekoya (2011) opined that the financial information from the International Financial Reporting Standards are now more accessible and easily comparable than before, i.e during the Generally Acceptable Accounting Principle thereby increasing the quality and performance of firms. Thus, to increase the quality of financial statements comparability, uniformity, relevancy, dependability and quality financial reporting standards in the global markets participation, there is need for the adoption of international financial reporting standards (IFRS). International Financial Reporting Standards therefore are a set of accounting standards developed by the International Accounting Standard Board (IASB) for the preparation, presentation and reporting of public financial statements. The primary objective of financial statements that are based on International Financial Reporting Standards (IFRS) is to provide high quality of financial reporting information on economic activities and performances of entities primarily financial in nature, useful for economic decision making (IASB, 2008).

The International Accounting Standards developed an international Accounting Standards called the International Financial Reporting Standards which consists of a set of international accounting principles, aimed at establishing clear rules and procedures for preparing and reporting of financial information that are comparable and transparent annual reports and financial, timeliness statements Cardozzo, (2008) as cited in Abata (2015) argued that with the workability of the accounting regime and in quest for a set of qualitative financial reporting that can be compared globally has necessitated the need for its adoption in some other parts of the world. Kunle, Omonyi and Hamed (2011), opined that just like every other regime, International Financial Reporting Standard (IFRS) is a systematic approach that promotes understandability, faithfully representation, relevance and comparability of financial statements. The body is responsible for the development of International Financial Reporting Standards practices all over the globe. Garuba and Donwa (2011) opined that it is obvious that to operate in the modern day world economy and to fully realize the full gains of international financial operations, no individual country like Nigeria can operate alone in its financial reporting standards. Therefore, the International Financial Reporting Standards gave affords companies with subsidiaries in countries that require or permit International Financial Reporting Standards (IFRS) to be able to use one accounting language in financial reporting. Companies also may need to convert to International Financial Reporting Standards (IFRS) regime if they are a subsidiary of a foreign company that must apply International Financial Reporting Standards (IFRS), or if they have a foreign investor that must use International Financial Reporting Standards (IFRS) in preparing its financial statement.

Profitability

Profitability is simply the degree to which firm or activity yields results or financial gains. It is also refer to as a situation in which an entity or firm is gene rating profit. Profitability arises when the aggregate amount of revenue is greater than expenses in a reporting period. If an entity is recording its business transactions under the accrual basis of accounting, it is quite possible that the profitability condition will not be matched by the cashflows gene rated by the organisation, since some accrual-basis transactions such as depreciation do not involve cash flows. The profitability of a firm or entity can be achieved in the short term through the sale of assets. However, this type of profitability is not sustainable. An organisation must have a business model that allows its on-going operation to gene rate a profit or else it will eventually fail. Profitability is one of the means that can be used to drive the valuation of a business, if such has a multiple of the annual amount of profitability. A better approach to business value is a multiple of annual cash flows, since this reflects the steam of net cash receipt that a buyer can expect to receive. Profitability is measured with the net profit margin ratio and the earnings per share ratio. The net profit ratio is compared after tax profit to revenue, while the earnings per share ratio present profit on per share basis.

Profitability is therefore defined as the degree in which a company or a single business produces a profit. It is a measure of an organisation's profit relative to its expenses. Organisations that are more efficient will realize more profit as a percentage of its expenses than a less efficient organisation which must spend more to generate the same profit. Profitability is the ratio between a business income and its expenses. A business determine its income by calculating the money the business generate through its operations and activities or by calculating the number of resources (money, time and inventory) consumed during the course of its operations.

Business can therefore be measured on how profitable they are in terms of using gross profit margin, ratio, operating profit margin ratio, net profit margin ratio, return on asset and earnings per share etc.

Net Profit Margin (NPM)

This ratio is also known as profit margin, it measure the relationship between net profit and sales of a firm or company. It is also calculated by dividing the project after taxes by sales.

$$\text{Net profit margin} = \frac{\text{Profit after tax}}{\text{Sales}}$$

Thus, a high profit margin would ensure adequate return to the owners as well as enable a firm to withstand adverse economic conditions when the selling price is declining, cost of production is rising and demand for the product is declining. Firms with low profit margin may find it difficult to survive adversities in terms of

declining selling price, rising cost of production and declining demand for the firm's product.

Net profit margin = $\frac{Net\ profit\ before\ \text{int}\ erest\ and\ tax}{Sales}$

Or

$$\frac{Net\ profit\ after\ \text{int}\ erest\ and\ tax}{Sales}$$

Profit after Tax (PAT)

Profit after tax is the total amount that a business earns after all tax deduction have taken place. It is used as a barometer to determine how much a business really earns and how much it can utilize for its day to day activities. Profit after tax is also seen as a measure of a company's profitability after all its expenses have been deducted and can be fully utilized by the company to conduct it business shareholders are also paid dividends from this amount. Profit after tax measures the efficiency of a leverage company's operation, excluding tax savings from existing debt and one – time losses or charges.
It is also used in mergers and acquisition analysis to calculate free cash flow to firm (FCFF) and economic free cash flow to firm.
NOPAT = operating profit X (1- Tax rate)

Gross Profit Margin (GPM)

This ratio indicates what percentage of sales is earned as operating profit. Apart from that, it also shows the average gross profit on goods sold. Gross profit margin is the profits that is relative to sales after deducing direct cost or gross profit can be ascertained by subtracting cost of goods sold from sales, hence, can be calculated as gross profit margin. It also measures the relationship between profit and sales. The profit may be gross profit from trading account or net profit from profit and loss account.

Gross profit margin = $\frac{Gross\ profit}{Sales} \times \frac{100}{1}$

Thus, a high gross profit margin is a sign of good management, since it means that the cost of production of the firm is relatively low. It may also be interpreted to mean a higher sales price without a corresponding increase in the cost of goods sold. It could also imply that cost of sales might have declined without a corresponding decline in sales price. In all, a firm should have reasonable gross margin as to ensure adequate coverage for operating expenses of the firm and sufficient return to the owner of business, which is of course rejected in the net profit margin.

Theoretical Review

This theory is anchored on the following theories viz, capital need theory and stakeholder theory

Capital Needs Theory

The theory was propounded by both Core in 2001 and Alberti – Alhtaybat, Hutaibat and Al-Htaybat in 2012. The theory states that companies that have some growth opportunities in the capital market seek external financing from the capital market. This, they achieve by issuing more share or borrowing from external parties. Such financing requires the financial disclosure of firm's financial information for different regimes in order for the outside investors to know more information about the financial positions of the firms to enable them take an informal decision about future cash-flow. The theory also explains the reason for a particular firm to compare its financial statement disclosure under a regime and compared it with the financial statements disclosure of another regime. Thus, the relevant of this theory lies within the fact that financial statement disclosure under the Pre-IFRS regime is compared with the financial statement disclosure under the Post-IFRS regime in order to know the financial performance.

Stakeholder Theory

The theory upon which this study is based is stakeholder's theory. The justification for this is that since there are more than one or two parties that affect and are affected by the operation of a company, then considering their interest is worthwhile. More so, the IFRS has been developed in the Post-IFRS regime to improve the reporting quality and performance of the financial statement to different stakeholders such as share as shareholders, investors, government, lenders etc. Stakeholder theory was postulated by freeman in 1984. The principle of stakeholder theory was gradually dragged into management theory since the 80s. Freeman, (1984), argued that corporate bodies have a wide coverage of accountability than the parochial representation of agency theory. Wheeler Colbert and Freeman (2003), support this argument by saying that stakeholder's theory is a product of sociology and organizational disciplines that identify a good array of other stakeholders in an organization.

Stakeholder theory postulated that a stakeholder is any group or individual who can affect or is affected by the achievement of the organization's objective. In other words, whoever is affected by failure or success of the enterprise is a stakeholder. Unlike the agency theory, stakeholder theory demonstrated that there are chains of parties who are affected by the management decisions such as suppliers, employees and business partners. Also, Clarkson (1995) argued that a firm is a system where there are stakeholders and the purpose of the organization is to create wealth for its stakeholders. In harmony with the Clarkson's submission of 1995, Donaldson and Preston (1995) affirmed that this theory focuses on managerial decision making and the interest of all stakeholders have intrinsic value, and no sets of interests is assumed to dominate others. Therefore, this study relied on stakeholder theory because all companies preparing financial statement in Nigeria are stakeholders aiming at maximization of corporate wealth through the

adoption of IFRS in Nigeria towards successful quality of financial statement. As a result, adoption of stakeholder theory aligned with the objective and scope of this study.

Empirical Review

The study adopted the following empirical work of other people.

Onyekwelu and Ugwuanyi (2014), studied the effect of International Financial Reporting Standards on inventory valuation and financial reporting in Nigeria. Content analysis was used for the study. The study revealed that some companies that adopted the IFRS specification of FIFO increased their financial performance while those using LIFO decreases their financial performance.

Ishola (2015) conducted a study on assessment of the impact of the adoption of International Financial Reporting Standards on the performance reporting of Nigerian Deposit Money Banks using financial ratios in Post-IFRS regime. The study employed an ex-post facto research design. The population of the study constitutes all the 15 Deposit Money Banks Listed on Nigerian Stock Exchange (NSE) as at 31st December, 2015, while eight (8) banks were selected using a purposive sampling technique. Pearson's Correlation Analysis, Analysis of Variance (ANOVA) and Regression Analysis were used to find the effects of IFRS adoption on financial ratios while paired sample t -test and F-test were used to test the significance of the difference in means and variances between ratios in the International Financial Reporting adoption and Nigerian Generally Accepted Accounting Principles (NGAAP) respectively. The result of the findings revealed that there is statistical significant difference in pre and post ROE, ROA and FCC adoption. Transition in standards has therefore drastically enhanced the reported accounting figures and estimates of Deposit Money banks listed on the Nigerian Stock Exchange (NSE). Also, IFRS positively influenced the banks' ROE and TDE, but has significant negative effect on CR and FCC. The study concluded that IFRS adoption has a significant effect on the financial ratios of Nigerian banks and consequently on their reporting performance.

Abata (2015) did a study to evaluate the impact of IFRS on Financial Reporting Practices with focus on the Nigerian Banking Sector. The specific objective of this study is to determine whether the quantitative differences in the financial reports prepared by Nigerian listed banks under NGAAP and IFRS are statistically significant or not. Secondary data were employed, in this study. These data were gleaned from the annual reports of fourteen Nigerian listed banks. One hypothesis was developed and tested at five (5) per cent level of significance. Findings revealed that the quantitative differences in the financial reports prepared under pre-IFRS regime and Post-IFRS regime are statistically significant. The study therefore concludes that Post-IFRS regime have impacted on financial reporting in the Nigerian Banking sector than the pre-IFRS regime.

Street, Chanda, Kalemii-Ozcan and Sayek, (2000) examined the financial statement impacts of Post-IFRS adoption of New Zealand IFRS from 2005 through 2008. The results of the study show that 87% of firms in New Zealand are affected by the adoption of international financial reporting standards (IFRS) of the Post-IFRS regime.

Li (2010) assessed the effect of the adoption of international financial reporting standards (IFRS) on the cost of equity in the European Union. The study finds out that the accounting regime of IFRS regimes significantly experiences reducing the cost of capital in the years of mandatory adoption.

Bartou, Goldberg, and Kim, (2005); Jermakowiez, Prather-Kinsej, and Wulf, (2007), Barth, Landsman, Lang, & William, (2007); Lin and Paamanen, 2007 investigated value relevance consolidated information in international financial reporting transaction. The result of the study shows that there was a proven rise of market value relevance during the accounting regime of Post-IFRS transition than the local i.e the Pre-IFRS regime.

Chalmers, Navissi, and Qu, (2011) investigated the impact of the adoption of international financial reporting standards (IFRS) on value relevance of accounting information for firms listed on Australian Securities Exchange considering 18,613 over 19years test period. Data were collected from AspecHuntkey's data link, Australian graduate school of management centre for research in finance, using longitudinal study that covers the accounting regimes covering Pre-IFRS regime (1990-2004), Transition (2005) and Post IFRS regime (2006-2008) during 1990 – 2008. The study employed price and return model regression with equity book value, reported earnings and share price as the variables. Result of the study show that value relevance of financial information alters a little, earning becomes more value relevant, while book value does not have any relevant value.

This study was replicated by Alali and Foote (2012) in India. The study employed the returns-earnings models and price-earnings models. The results show that EPS and book value per share are positively and significantly related to price per share: it was also found that accounting information under IFRS is relevant during the inception of the market in 2000. Also, accounting information relevance under IFRS is dependent on the situation of the market whether it is bearish or bullish; the size of the company and the type of auditor. Latridis (2010) concentrated on the differences in financial reporting under UK Pre and Post-IFRS regime and IFRS. The results show that financial reporting under IFRS improves accounting quality.

In order to examine the value relevance of accounting information, Khanagha (2011) adopted the regression approach and portfolio approach. It was found out that both approaches indicate the value relevance of accounting numbers. However, for the period of Post-IFRS regime, the regression approach indicates a decline in the value relevance of accounting earnings while the portfolio approach indicates that the value relevance of accounting information after accounting reforms differ in

degree as changes in earnings and return on equity declined and changes in cash flows improved. Armstrong, Barth, Jagolizer, and Riedi, (2010) investigated the accounting regime of the adoption of the Post regime (IFRS) adoption data on earning per share of firms of US stock exchange. The result of the study show that earning per share, price earnings ratio and dividend yield were found to be positive to investors reaction during the period of IFRS adoption.

Barth, Landsman, and Lang (2008) investigated the characteristics of pre-accounting regime and the period of the Post-IFRs regime of the adoption of international financial reporting standards. Result of the study show that accounting earnings are more informative for valuation and of higher quality after the Post-IFRS regime of the adoption of international financial reporting standards (IFRS). Leuz (2003) examine low the adoption of IFRS in the post accounting regime affects the use of accounting information for executive pay purposes in Europe. Result of the study show weak increase in the pay performance – sensitivity (PPS) for accounting earnings for countries were difference between local GAAP and IFRS is greater. Also, the result of the study also shows an increase in the comparability of financial information in Post IFRS regime than the Post-IFRS regime. Clarkson, Hanna, Richardson and Thompson (2011) investigated the impact of Post-IFRS adoption regime value relevance of book value and earnings for equity valuation using 3488 firms that adopted IFRS in 2005 and had restated their 2004 account to IFRS based from 14 Europeans countries comprising of 3 common law and 12 code law countries. Data were sourced from July 2007 world scope and data stream. Using linear regression, they found significant increase in value relevance for code la countries but no significant value relevance for common law countries after adoption of IFRS. When product term was added to the linear regression model the result revealed that there is no significant value relevance of financial information where either code or common law countries switched to IFRS.

Yahaya, Yusuf and Dania, (2015) studied IFRS adoption value relevance of accounting information using two models. First, a price model which used proxies such as market price per share, book value of equity per share, earnings per share and cash flow per share. Second, a return model which used proxies such as annual return, earning per share, change in earning per share and the results showed that the explanatory power R2 for the price model specification is 84% for the total sample and that all coefficients are statistically significant. A comparison of coefficients indicates that the EPS of 3.47 has a higher explanatory power than any other variables. The results also demonstrate that explanatory power of accounting numbers increased from pre-adoption (60%) to post-adoption (78%).Similarly, Explanatory power (R2) for the return model specification is 13.4% for the total sample and just coefficient of EPS level is statistically significant. The explanatory power for the return model increased from pre-adoption (15.6%) to post-adoption (164%). According to both sub-samples just a coefficient of EPS level is statistically significant. So, the result of the return model also indicates adoption of IFRS

improved relevance of accounting numbers in the deposit money banking sector. In view of these results, there is need for further study to explore the reasons for the superiority of EPS over BVFPS.

Methodology

This study adopts the ex-post facto research design as it deals with event that had taken place and secondary data were readily available for collection.

Data for this study are elicited from websites of Nigeria Stock Exchange and the Cadbury Nig. Plc from the pre IFRS period of 2000 to 2010 and Post IFRS of 2012 to 2022.

This study adopted a t-test method which is use by many authors because it emphasis on spacing more than two different variables for estimation.

The study tested the null hypotheses using T-test statistical tool at .05 significance level.

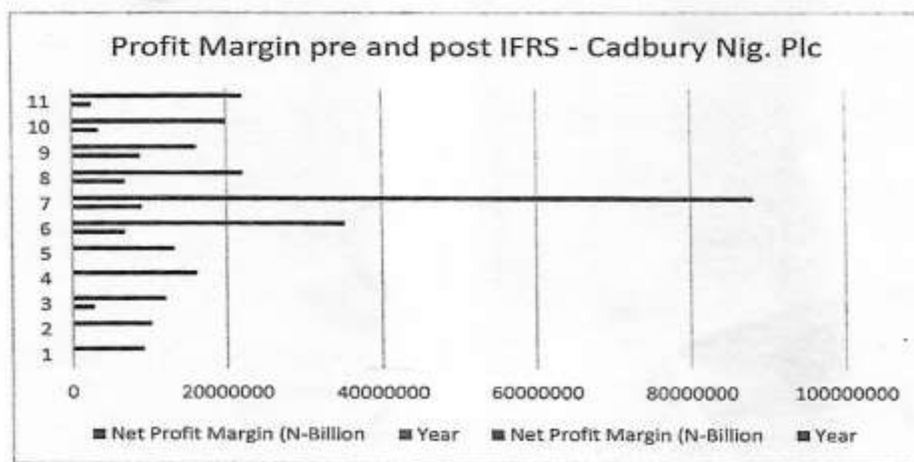
Justification of the study for the use of t-test in the study is because it is statistical structured to measure the mean ratings of differences in variables.

The study presented data, analyzed it and discussed the findings of the study.

Research Question 1: What is the difference in net profit margin between the pre and post IFRS periods?

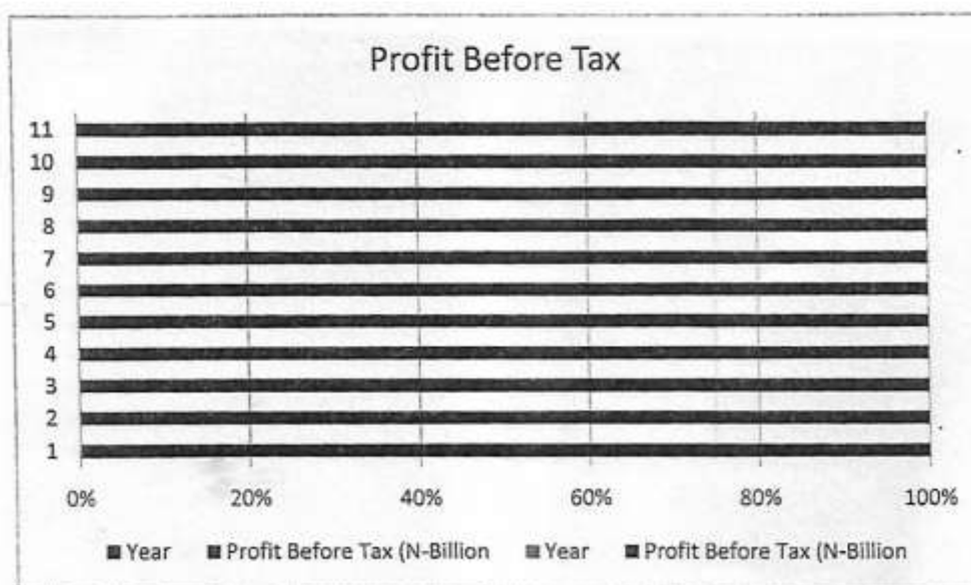
Pre-IFRS		Post-IFRS		
Year	Net Profit Margin (N-Billion)	Year	Net Profit Margin (₦-Billion)	Difference in (₦-Billion in Profit Margin (Positive)
2000	2,764,311	2012	9,284,994	9,282,232
2001	1,764,241	2013	10,238,504	10,236,740
2002	2,829,843	2014	12,123,402	9,293,559
2003	1,910,001	2015	16,174,996	16,173,086
2004	3,399,870	2016	13,238,504	13,235,104
2005	6,875,084	2017	35,194,996	28,319,912
2006	9,089,989	2018	88,138,204	79,048,215
2007	6,893,909	2019	22,123,402	15,229,493
2008	8,897,789	2020	16,184,996	7,287,207
2009	3,532,981	2021	20,038,504	16,505,523
2010	2,609,001	2022	22,123,402	19,514,401

Source:
https://doclib.ngxgroup.com/Financial_NewsDocs/Nestle_Nigeria_Plc_2022_AFS.pdf



Research Question 2: What difference exists in profit after tax before and after JFRS adoption?

Pre-IFRS		Post-IFRS		
Year	Profit Before Tax (₦-Billion)	Year	Profit Before Tax (N-Billion)	Difference in (N-Billion in Positive
2000	61,885,001	2012	22,877,179	39,007,822
2001	67,124,797	2013	21,612,189	45,512,608
2002	50,121,760	2014	31,616,970	18,504,790
2003	47,111,202	2015	29.273735	17.837,467
2004	56,785,001	2016	32,977,679	23,807,322
2005	47,324,097	2017	42,777,679	4,546,418
2006	59,785,001	2018	31,612,789	28,172,212
2007	47,324,097	2019	22,616,970	24,707,127
2008	50,221,560	2020	39,273,735	10,947,825
2009	47,251,802	2021	41,616,970	5,634,832
2010	60,347,062	2022	39,273,735	21,073,327



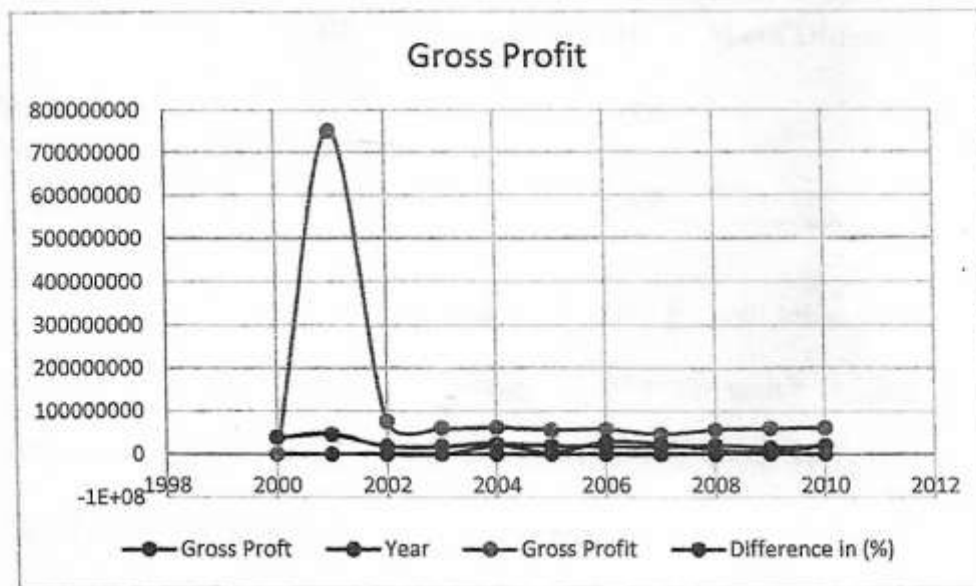
Source: https://www.cadburye-cwa.com/sites/gfiles/pydnoas346/files/asset-library/documents/nestle_annual_report_2010_.pdf

Table 2 above showed that Cadbury Nig. Plc had a reduced Equity in the positive side of
post IFRS period of 2012 to 2022.

Research Question 3: What is the difference between the gross profit margin during the pre and post IFRS regimes?

Pre-IFRS		Post-IFRS		
Year	Gross Profit	Year	Gross Profit	Difference in (%)
2000	18,222,018	2012	76,004.09	39,007,822
2001	11,000.09	2013	750,408,009	45,512,608
2002	14,007,901	2014	76,000,091	18,504,790
2003	19,099,088	2015	59,999,005	17,837,467
2004		2016	20,881,008	61,772,000
2005		2017	18,988,000	56,099,098
2006		2018	16,779,989	57,024,455
2007		2019	16,988,990	45,990,958
2008		2020	21,099,999	56,900,909
2009		2021	14,898,991	59,986,983
2010		2022	19,081,789	61,773,778
		% Difference		39,007,822

Source:https://www.cadburye-cwa.com/sites/gfiles/pydnoas346/files/asset library/documents/nestle_annual_report_2010_.pdf



Discussion of Findings

The findings of the study are hereunder discussed under the stated objectives/hypotheses of the study:

Net profit margin between the pre and post IFRS periods

The findings of the study revealed that there is a there is a significant difference in the net profit margin between the pie and post IFRS periods of Cadbury Nig. Pie. Abata (2015) stated that net profit margin is an indicator of how profitable a firm or company is, relative to its total assets. It gives an idea of how efficient; management is using its assets togenerate earnings for the company or firm. Return on assets ratio is usually called return on total assets because, it is the profitability ratio used to measure the net, income produced by the total assets of the company or firm. Thus, the higher return on assets is an indication that the company or firm is doing well. However, if the rate of return on assets is low, it is an indication that the management of the company or firm is inefficient or that, the management is not making enough use of the existing assets to generate or produced the expected or needed earnings. Therefore, return on assets is considered an effective means of measuring the financial performance of a company or firm, when the expected rate of returns on assets is very high.

Profit after Tax Before and After IFRS Adoption

The findings of the study revealed that Profit after tax significantly differ before and after IFRS adoption of Cadbury Nig. Plc. Akpata (2015) argued that Return profitability is a measure used for financial performance. It reveals the proportion of profit earned by the core capital invested in the firm. This reflects management's ability to utilize shareholders' fluids in generating profits. This also reveals the returns that are accruable to the investors of the firm. Return on equity is one of the most important ratios used in assessing a company's financial performance is simply the company's profit expressed as a percentage of shareholders' funds. Return on equity is an indicator used to assess the profitability index of a company over a given period of time. Thus, in calculating the financial performance of a company, using return on equity, the profit figure is obtained from the profit and loss account of the firm or company and the capital that was employed from the balance sheet. It is very important to note that, in using return on equity, two major problems may likely occur: Firstly, the ability to compare the figures for different companies or for different periods must be ascertained in order to arrive at a consistent basis, such that assets values will be up to date. Secondly, comparing the like with like, when looking at the performance of a company or firm for a given period, using return on equity. Equity means or symbolizes share holders' fund that should be compared with the profit (Mbata, 2015).

Gross Profit Margin between the Pre and Post IFRS Regimes

The findings of the study showed that there is significant difference exists in the gross profit margin between the pre and post IFRS regimes of Cadbury Nig. Plc. To buttress the findings of the present study, Allistair (2010) agreed that gross profit is the portion of a company's profit allocation to each outstanding shareholder of a common stock. It is one of the indicators of a company's profitability during a

period. Earnings per share equally attributes to a company's final computed gross profitability. Basically, earning per share is a performance indicator that is primarily used by potential shareholders to know the profit that is attributable to equity share based on consolidated profit of the year, after tax, minority interest as well as preference dividend. Earnings per share (EPS) offer the basis of comparability of after-tax profit attributable to each shareholder from one year to another. Earnings per share means the profit that is available to the equity shareholders on a per share basis i.e the amount that they can get on every share held.

Summary of Findings

The study investigated the difference in the profitability performance between the pre and post IFRS periods of listed Cadbury goods firm (Cadbury Nig. Plc) in Nigeria. It measured the Net Profit Margin (NPM), Profit before Tax (PBT) and Gross Profit (OP) indices in Cadbury Nig. Pie. The study deployed secondary data generated from quoted sites of Cadbury Plc and analyzed the hypotheses using the T-test statistical tool. The following were the findings of the study:

There is a difference in net profit margin between the pre and post IFRS periods of Cadbury Nig. Plc.

Difference exists in profit after tax before and after IFRS adoption of Cadbury Nig. Plc.

There is difference between the gross profit margin during the pre and post IFRS regimes of Cadbury Nig. Plc.

Conclusion

The study examined pre and post era of IFRS profitability indices of Cadbury Nigeria Plc. The IFRS took effect in Nigerian in 2012 and the periods before 2012 are regarded as preIFRS. The study stands out that it's necessary for the introduction and adoption of the international financial reporting standards (IFRS) in manufacturing sectors. The findings of the study revealed that the introduction and adoption of international financial reporting standards (IFRS) enhanced profitability in Cadbury Plc with respect. to the increase in the profit of financial statements. The study therefore concludes that the introduction and adoption of the international financial reporting standards (IFRS) is Qf significance agreement in enhancing and increasing the profitability performance of manufacturing related companies in Nigeria.

Recommendations

Based on the finding of the study, the following recommendations have been made:

State and Federal ministries of Trade and Investment should intermittently organize capacity building for managers of manufacturing companies In Nigeria regarding IFRS guidelines.

Emphasis on training of practitioners on the field should be extended to students as some of them may not be able to meet the training fees.

Regulatory financial agencies, internal and external auditors should ensure strict compliance to IFRS in consumer companies in Nigeria.

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