

The Impact of Return on Asset, Current Ratio and Total Assets on Level of compliance with International Accounting Standard 2 by Quoted Food and Beverages Companies in Nigeria

Yusuf Yahaya, Suleiman Hadiza Ahmed

Department of Accounting, Usmanu Danfodiyo University, Sokoto, Nigeria

Info Articles

Keywords:

International Accounting Standard II, International Financial Reporting Standard, Compliance, Return on Asset, Current Ratio and Total Asset

Abstract

The main objective of this paper is to determine the relationship between Return on asset, Current ratio and Total asset with compliance. The study made use of secondary data obtained from the audited financial reports of fifteen sampled companies which was judgmentally selected for the period of 2012-2016. Descriptive statistics was used to present the data and multiple regression analysis with the aid of SPSS version 22 was used to determine the relationship between Return on asset, Current ratio and Total asset with compliance. The regression analysis revealed that ROA, CR, TA are positively related with compliance. Based on the findings, the study recommends that the Financial Reporting Unit who is in charge with the responsibility of ensuring compliance should publish the compliance status of all the registered company in Nigeria annually, for the familiarity of every requirement by various users of financial statement as this will enhance the level of compliance by companies.

*Address Correspondence:
E-mail: kauray3@gmail.com

p-ISSN 2550-0368

e-ISSN 2549-0303

INTRODUCTION

Numerous efforts have been made to harmonize Accounting Standards around the world. Most countries in the world have adopted the International Financial Reporting Standards (IFRS) to enhance the transparency and comparability of financial information produced by them. This makes the IFRS adoption mandatory for listed companies in most of these countries (Khaled, 2013).

Bansal and Bansal (2010) stated that more than 100 countries throughout the world including 27 European union member states, require or permit the use of IFRSs developed by the International Accounting Standard Board (IASB). And also, by 2011 countries adopting IFRS are expected to increase to 150 in number, countries such as China and Canada have announced their intention to adopt IFRS.

The Securities and Exchange Commission in India has issued a road map whereby few big US corporations had begin to report according to IFRS in 2014. Nigeria has also joined the League of Nations that approved IFRS conversion.

The road map implementation to IFRS was unveiled by the Minister for commerce and industry on Thursday 2 September, 2010. The roadmap which is of three phases:

- i. Phase 1 begins with mandates publicly listed entities and significant public interest.
- ii. Phase 2 is for other public interest entities that are expected to comply by 1st January, 2013 and thirdly
- iii. Small and medium sized entities are required to adopt IFRS by 1st January, 2014.

Notwithstanding, there may be challenges and weaknesses that may be encountered as noted by the road map these include deficiencies in our educational systems, infrastructure and political undertone at the same time there have been many positive expectations about the outcome of IFRS adoption Nigeria.

Barth (2007), argues that by adopting IFRS as a common body, countries can expect to lower the cost of information processing and auditors of financial reports can be expected to become familiar with one common set of International Accounting Standards than with various local Accounting Standard which in turn will be of benefit to African countries because of their significant reliance on inflows of foreign capital to finance economic and industrial development.

Furthermore studies such as Madawaki (2012), Okpala (2012), Micheal (2013) have predicted in their studies that IFRS adoption in Nigeria will among other things improve the quality of financial reporting by encouraging reliability, transparency and comparability thereby reducing information asymmetries and cost of capital which will boost the confidence of both local and foreign investors in the market. However on the same view, numbers of studies have been conducted on the challenges of IFRS adoption.

Ezeani and Oladele (2012) made an assertion that the collapse of the United State giant mandated the search for global accounting standards captured as IFRS as accounting profession came under scrutiny and led to global issues on audit experience, integrity and non-compliance with accounting principles and existence of standard in the world. Similar cases of financial and accounting scandals in Nigeria include the collapse and liquidation of banking sector in 1997 and the falsification of financial statement in Cadbury Nigeria plc in 2006. Corporate collapse and related fraud has raised doubts on the credibility of operating and financial practices in the world.

Literature Review

Return on Asset (ROA): Is one of the most widely used profitability ratios because it is related to both profit margin and asset turnover and shows the rate of return for both creditors and investors of the company. ROA shows how well a company controls its costs and utilize its resources (Yee, 2007).

Current Ratio (CR): Is the most common liquidity measure and provide an indication of firm's ability to pay short term claims with short term asset (Pandy, 2005)

Concept of Accounting Information

Accounting Information System (AIS) is the collection, storage and processing of financial and accounting data that are used by decision makers. An accounting information system is generally a computer-based method for tracking accounting activity in conjunction with information technology resources. The resulting statistical reports can be used internally by management or externally by other interested parties including investors, creditors and tax authorities. Accounting information can also be referred to as information on financial or economic activities of an organization which is identified, measured, and communicated to users to enable them make an informed judgment about the business or organization (ASSC, 1975).

Qualities of Accounting Information

Accounting information possesses the following key characteristics (Bushman, and Smith, 2001):

- **Understandability:** Accounting information must be expressed with clarity in such a way that its users will be able to understand it effectively. Even when the users do not have the accounting knowledge, the accounting information should be clear in such a way that the accounting information should be understandable to them.
- **Relevancy:** Accounting information should be able to make difference in decision and this can only be possible if it is relevant. For accounting information to be relevant, it has to be timely otherwise it loses its capacity to influence decisions.
- **Reliability:** for accounting information to be reliable, it has to be error free and bias, then it can be relied upon. For this to be possible, the information must be verifiable.
- **Comparability:** Comparability can only be possible when different companies use the same accounting principles. Because when companies use different accounting principles, comparability cannot be achieved. As such, the methods used must be disclosed to help users in deciding whether accounting information is comparable or not.
- **Consistency:** this means that accounting information can only be quantitative if the same method of treating similar items is adopted and also accounting policies are applied.

Users of Accounting Information

Disclosure of accounting information is made for various users of accounting information who may either be internal or external and are interested in monitoring the performance of the organization. In view of this, Medeiros and Quinteiro (2005) mentioned several categories users of accounting information such as: stockholders, employees, investors, creditors, government, managers and the general public. These different categories of users with different needs make information disclosure a complex task. Neutrality is maintained in the disclosure of financial accounting information, free of any bias.

Level of Accounting Information Disclosure

How much accounting information to be disclosed in financial statements depends on the user's level of sophistication and also the disclosure standards set by the regulatory body which is considered desirable. Medeiros and Quinteiro (2005) identified three levels of disclosure, namely adequate disclosure, fair disclosure and full disclosure.

Adequate disclosure means supplying minimum information adequate enough to avoid misleading financial statements. The information must be sufficient to the user's understanding and also to the actual situation of the firm at the time they refer to it. Fair disclosure gives disclosure an ethical perspective of disclosure by ensuring that financial statements report the firm's situation in a fair manner. Full disclosure is about presenting all relevant information. This means that, the financial statements must contain all the information which if omitted might lead to errors concerning the firm's assessment and its trends. However, there is not much difference in the three levels of disclosure mentioned above. This is because all disclosed information must be adequate, fair and full if the accounting statements are to be significant and liable to full understanding.

METHODS

The paper adopted a panel data research design. Data used for this study is from secondary source, which was obtained from the audited annual financial reports of the fifteen sampled food and beverages companies, Journals articles reports books which provides conceptual and theoretical bases were also used as part of the secondary data. In this paper compliance is considered as the depended variable while ROA, CR and TA are the Independent variable used to determine relationship with Compliance. The data analysis technique utilized in this paper is the regression technique with the aid of SPSS version 22 to test the relationship between the dependent variable compliance and independents variables ROA, CR and TA.

The target population of the study is all the twenty eight (28) quoted food and beverages companies in Nigeria from the Nigeria stock exchange factbook 2013. The study adopt a non probability method in form of purposive sampling technique in selecting the companies into the sample and the sample size comprises of fifteen food and beverages companies quoted on Nigeria stock Exchange 2013. The sample size was selected based on a criterion: that only companies who have five years financial statements ranging from 2012-2016 form the sample size.

Table 1. List of Firms in the Study

Name of Companies	Abbreviation of Companies	Date of incorporation	Paid up capital
Cadbury Nigeria Plc.	C1	1965	939,101,000
7up Nigeria Plc.	C2	1960	752,944,000
Guinness Nigeria Plc.	C3	1950	3,914,748,000
Champion Breweries Plc	C4	1974	396,328,000
Nestle Nigeria Plc	C5	1961	484,000,000
Unilever Nigeria Plc	C6	1923	1,845,607,000
National Salt Company of Nigeria Plc	C7	1973	1,312,126,000
Flour Mills Nigeria Plc	C8	1960	1,072,316,000
Dangote Sugar Refinery Plc	C9	1981	752,944,000
Northern Nigeria Flour Mills Plc	C10	1972	394,033,000
Union Dicon Salt Plc	C11	1984	1,605,813,953
Nigeria Breweries Plc	C12	1946	282,974,000
Tantalizers Plc	C13	1961	1,300,000,000
International Breweries Plc	C14	1971	294,449,000
Honey Well Flour Mills Plc	C15	1972	398,581,000

Source: Authors' computations

Model Specification

$$CI = a_0 + \beta_1 ROA + \beta_2 CR + \beta_3 TA$$

Where:

CI= Compliance

ROA = Return on Asset

CR = Current Ratio

TA = Total Asset

a_0 = Regression Intercept

$\beta_1 - \beta_3$ = Parameters to be Estimated

Variables of the study and their Measurement

- i. **Return on Asset (ROA):** is a proportion of of a firm's profitability to its total assets, it shows the rate of return for both creditors and investors of a company and how well a company controls its cost and utilizes its resources (Yee, 2007). It is measured using the equation:

$$ROA = \frac{Net\ income}{Total\ asset}$$

- ii. **Current Ratio (CR):** is the most common liquidity measure and provide an indication of a firm's ability to pay short term claims with short term asset (Pandey, 2005). it is the ratio of current liabilities to current ratio of a firm. It is computed by:

$$CR = \frac{Current\ asset}{Current\ liability}$$

RESULTS AND DISCUSSIONS

Table 2. Descriptive Statistics of Variables

Variables	Obs	Mean	Std. Division
Comp	15	64.67	7.432
ROA	15	0.082	0.129
CR	15	0.891	0.551
Total Asset	15	17.870	1.718

Source: Author's Computation from the company's financial reports.

The Table above revealed that Return on Asset (ROA) across the companies has a mean value of 0.0816 and a standard deviation of 0.129, also current Ratio across the companies in Nigeria has a mean value of 0.891 and a standard deviation value of 0.55 and Total Asset across the companies in Nigeria has a mean value of 17.87 and a standard deviation of 1.72.

Table 3. Regression Results

Un standardized coefficient		Standard coefficient		Correlation		
Model	B	Std. Error	Beta	T	Sig	Zero order
(Constant)	63.698	32.524		1.959	0.082	
ROA	19.926	26.092	0.346	0.764	0.465	0.114
CR	0.430	5.745	0.032	0.075	0.942	0.349
Total asset	0.403	1.624	0.093	0.248	0.810	0.055

Source: Authors Computation from the company's financial statement

From the table above variables under observation shows that Return on Asset (ROA) has a positive coefficient of 19.93% which means that for every 1 percentage change in ROA would lead to an increase in compliance by 19.93. . It also shows that Current ratio has a positive coefficient with a positive value of 0.43. This means that 1% increase in CR would lead to increase in compliance by 0.40 .Total asset has a positive coefficient with a positive value of 0.40. This shows that total asset has a positive relationship with compliance and also 1% increase in TA will lead to 0.40 increase compliance.

The paper also discovered that Return on Asset (ROA) Current Ratio (CR), Total Asset (TA) has positive relationship with compliance across Food and Beverage companies in Nigeria. The study also found out that Return on Asset (ROA), Current Ratio (CR) and Total Asset (TA) are statistically insignificant in explaining compliance and the implication is that as ROA, CR, TA, increases, compliance increase and vice versa.

CONCLUSIONS

The paper found a positive relationship between ROA, CR and TA with Compliance. They are also beneficial to equity holders as may magnify their return.

The paper recommends that, Food and Beverages Companies in Nigeria should maintain and improve their efforts towards compliance with required Accounting standards. improving the quality of their financial statements that will satisfy user's information.

REFERENCES

- Accounting Standards Steering Committee (1975): Objectives of Financial Statements.
- Bansal, A., & Bansal, S. (2010). Challenges for IFRS Implementation in Indian-An accounting revolution. *International Journal of Research in Commerce and Management*, 1(4), 113-126.
- Barth, M. E. (2007). *International Accounting Quality*. Stanford Graduate School of Business Research Paper Series No. 1976, pp. 1-52. Electronic copy available at <http://ssrn.com/abstract=1029832>
- Ezeani N. S and Oladele R. (2012). Adoption of Financial Reporting Standards. *Arabian Journal of Business and Management Review (Oman Chapter)* vol. 2, No. 3, Oct. 2012.
- Khaled, H., (2013). Bank governance, regulation, supervision and risk reporting: Evidence from operational risk disclosure in European banks
- Madawaki, A. (2012). Adoption of International Financial Reporting Standard in Developing Countries: the case of Nigeria. Retrieved July 12, 2013 from *International journal of Business Management*. Vol. 7 No. 3 pp 152-161.
- Micheal, O. (2013). Application and Challenges of International Financial Reporting standards in Nigeria. *Arabian Journal of Business and Management Review Oman* Vol. 3, No. 2 September, 2012, pp. 72-79.
- Okpala, K. (2012). Adoption of IFRS and Financial statement effects.. the perceived implication on FDI and Nigeria Economy. *Australian Journal of Business and Management Research*. Vol. 1, No. 5 August 2012, pp. 22-35
- Pandey, I. M. (2005). *Financial Management*, 9th Ed. New-Delhi India: Vikas Publishing House PUT Ltd.
- Quinteiro, L.G. (2005): *Disclosure of Accounting Information and Stock Return volatility in Brazil*. Research Monograph. Universidade de Brasilia, Brazil.
- Yee, K. (2007). Using Accounting Information for consumption planning and Equity valuation, review of Accounting studies 12 (2/3): 227-257.