



## MANDATORY IFRS INTRODUCTION AND FINANCIAL STATEMENTS COMPARABILITY: EVIDENCE FROM NIGERIAN LISTED COMPANIES

Jinadu, Olugbenga<sup>1\*</sup>Sunday Oluwafemi Michael<sup>2</sup> Soyinka, Kazeem Akanfe<sup>3</sup>

<sup>1\*2,3</sup> Department of Accountancy, Rufus Giwa Polytechnic, Owo, Ondo State, Nigeria

Correspondence Author: [jinaduolugbenga@gmail.com](mailto:jinaduolugbenga@gmail.com)

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### Abstract

The study examines whether the mandatory introduction of International Financial Reporting Standards (IFRS) enhances financial statements comparability of companies listed on the Nigerian stock exchange. The study specifically investigates the relationship between SAS and IFRS introduction based on key performance indicators of listed companies in Nigeria in terms of liquidity, profitability, gearing, reported earnings and market value. A survey study research method was adopted where 20 listed firms' published financial reports for 2011 under SAS was compared with 2012 under IFRS. Mean, standard deviation and Pearson Correlation Statistic methods were used for the analysis. The findings revealed that the introduction of IFRS in Nigeria enhanced credible and qualitative financial statements that would engender economic growth and development. The study therefore recommends that government should empower significantly the financial reporting council of Nigeria (FRCN) to monitor and enforce standards and training to smoothen the introduction of IFRS.

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### Introduction

The Federal Executive Council of Nigeria approved the convergence of Nigerian SAS with IFRS effective January 1, 2012. The adoption was to ensure all stakeholders use IFRS by January 2014. According to the IFRS adoption Roadmap Committee (2010), companies listed on the Nigerian stock exchange are expected to adopt the IFRS by January 2012. Significant Public Interest Entities are expected to adopt IFRS for financial year commencing 1st January 2013 while Small and Medium-sized Entities (SMEs) have 2014 January as their compliance date (Masud, 2013).

The IFRS Adoption Roadmap Committee, (2010) declared that it would be in the interest of the Nigerian economy for listed companies to adopt globally accepted, high quality accounting standards, for the purpose of comparability of financial statements, information quality, reduction in the cost of doing business and attraction of foreign direct investments. The Nigerian Statement of Accounting Standards (SAS) and IFRS are in many ways different in terms of direction and application of the standards, although, some of these standards are similar in certain areas. Most of the SAS under NG-GAAP are found to be similar to Financial Reporting Standards (FRS) under UK-GAAP. The International Accounting Standards (IASs) issued by IASB have an equivalent Statement of Accounting Standards (SASs) issued by NASB. However, certain standards issued by the NASB do not have equivalent IAS and vice versa (Adesina, 2011).

Most of the Nigerian Statement of Accounting Standards (SASs) issued by the NASB are outdated and considered insufficient to provide the necessary direction in the preparation of qualitative financial statements. In Nigeria, companies cook figures and manipulate financial statements; tax avoidance is the norm of the day while earnings management is left uncontrolled by the authorities because of weak and ineffective regulation (Masud, 2013). Another limitation is that prior studies were not able to capture all listed companies in Nigeria (Onafalajo, Eke & Akinlabi, 2011; Okafor & Killian, 2011). Many studies focused on profitability and liquidity indicators without attention paid to reported earnings and market value (Lantto & Sahlstrom, 2009; Blanchette, Racicot & Girard, 2011). These problems coupled with many issues, necessitated government to introduce series of economic reform programmes in the various sectors of the economy so as to correct the departure. One of these reforms is the introduction of International Financial Reporting Standards (IFRS) that replaced the Statement of Accounting Standards (SAS) advocated by the Nigerian Accounting Standards Board (NASB).

This paper therefore examines whether the mandatory introduction of International Financial Reporting Standards (IFRS) enhances financial statement comparability. The study specifically investigates the relationship between SAS and IFRS introduction based on key performance indicators of listed firms in Nigeria in terms of liquidity, profitability, gearing, reported earnings and market value. Prior research documents the introduction of international accounting standards as being associated with higher accounting quality (Ashbaugh & Pincus 2001; Barth, Landsman & Lang, 2008). However, research suggests that much of the improvement in financial statements' comparability and information quality occur for firms whose domestic standards differ significantly from international standards.



## Literature review

This chapter discusses IFRS introduction and financial statements disclosures. It also presents the theoretical and empirical underpinning of this study.

### IFRS introduction and financial statements disclosures

Management of corporate companies uses financial statements' disclosures to attest to the accuracy and validity of reported financial information. However, listed companies are mandated to disclose certain information regarding the company in order to fulfil the requirements of the Securities and Exchange Commission (SEC) and other regulatory bodies (Bae&Welker, 2008). In Nigeria, the information disclosure requirements in the financial statements under SAS were grossly inadequate to really correct the information inequality between companies and the users of the financial statements. However, the period of IFRS requires companies to make more disclosures in order to achieve the financial statements' objective, which is to show a true and fair view of a company's activities. It is therefore expected that the companies will disclose more of their financial information with the change from the SAS to IFRS.

### Theoretical framework

The theory underpinning this study is hinged on the rational choice theory. Rationality explains that a company will not introduce an accounting standard if its introduction will make it worse off (Emeni, 2014). This suffices to mean that a company will introduce IFRS if its benefits will exceed the NG-GAAP. The rational choice theory implies that a company will determine the possible costs and benefits of any action before making decision of what to do (Coleman, 1990; Scott, 2000). The rational choice theory analyses the actions and behavior of an individual or a company as rational in order to maximize one's utility (Munch, 2002). Rational choice theory attempts to explain why people or companies introduce IFRS or make do with their domestic accounting standard. In relating the rational choice theory to economic benefits to be derived by a company on IFRS introduction, proponents of IFRS (Li, 2010; Barth, Landsman & Lang, 2008) argue that the standards reduce information costs to an economy, as it will be cheaper for capital market participants to be familiar with one set of global standards.

### Empirical review

In Nigeria, quite a number of studies have dealt with IFRS. In the study of Onafalajo, Eke and Akinlabi (2011) on the Impact of International Financial Reporting Standards on Insurance Management in Nigeria, the paper reports that IFRS improves financial information across borders and enhances economic development. In a related study by Oka for and Killian (2011) on Potential Effects of the Adoption and Implementation of IFRS in Nigeria, the study shows that International Financial Reporting Standards have the potential for higher benefits than current NG-GAAP. In a study carried out by, Isenmila and Adeyemo (2013) on a Perception Based Analysis of the Mandatory Adoption of IFRS in Nigeria, the result shows that there is a statistical significant difference in the perception of the stakeholders regarding the desire for mandatory adoption of IFRS.

A prior study by Lantto and Sahlstrom (2009) on the effect of IFRS adoption on key financial ratios of Finnish listed firms shows that the introduction of IFRS has positively influenced the key accounting ratios. All the key profitability and gearing ratios are significantly higher under IFRS adoption. Punda (2011) also based his study on Lantto and Sahlstrom (2009) and examined the effects of IFRS adoption on key financial ratios of UK listed firms. He reported a significant change in the key performance indicators of the listed firms' post IFRS introduction. Blanchette, Racicot and Girard (2011) however examined the effect of transition from Canadian GAAP to IFRS on financial ratios in the areas of liquidity, leverage and profitability. They reported significantly higher ratios under IFRS when compared with those derived under pre-Canadian GAAP. In Nigeria, Tanko (2012) reported that firms in Nigeria under IFRS exhibit higher values of profitability measures on earnings per share (EPS).

Prior studies further record a general improvement in quality of information for firms voluntarily introducing IFRS (Daske, Hail, Leuz, & Verdi, 2009), as well as for firms introducing IFRS mandatorily (Daske, Hail, Leuz, & Verdi, 2008; Li, 2010). Defond, Hu, Hung and Li. (2011) reports evidence of increased foreign fund flows following mandatory IFRS introduction with greater comparability enhancement.

For the purpose of this study, key performance indicators (KPIs) refer to profitability, liquidity and gearing measures, as proxies for financial statements comparability, mostly used by firms to determine their financial strengths, weaknesses and ability to honor their obligation as they fall due. Reported earnings and market value are used as proxies for information quality. The above theory and prior findings with regard to IFRS on the firms' level, lead to the following hypotheses that:

H<sub>1</sub>: there is no relationship between SAS and IFRS introduction

H<sub>2</sub>: IFRS is not associated with information quality

## Research methods

The study is descriptive and the research followed a survey design methodology. A survey research design was adopted to ensure that the researcher covered all the categories of listed companies in Nigeria. Secondary source of data was adopted for the purpose of this research. The research population comprised 24 categories of listed companies in Nigeria. The categories are used for the study to ensure that the entire activities of listed companies are represented in the study. 20 categories, representing 83%, were



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covered based on the availability of financial reports in compliance with the provision of IFRS in 2012. This is to ensure robustness and representativeness of the sample. Stratified random sampling technique was adopted in selecting the sample as the population was grouped into 24 categories. This was complemented with a simple random technique to ensure companies in each category have equal chance of being selected. Four of the categories (i.e. Engineering Technology, Footwear, Machinery Marketing and Textiles) could not meet up with compliance date of 2012. A company was then picked randomly from each of the 24 categories as indicated in the appendix. The financial reports of 20 listed companies that prepared and presented 2011 under SAS and 2012 under the IFRS were used for the analysis.

Data was collected from the audited financial statements of twenty listed companies in Nigeria directly from their websites. The financial ratios were calculated from financial statements prepared under the SAS and compared with those calculated under the IFRS. An empirical analysis was performed on the differences followed by test of mean and standard deviation between each series of ratios to ascertain whether there were differences in SAS and IFRS. A Pearson correlation coefficient was used to analyse the relationship between the IFRS and SAS ratios. The ratios used to assess the companies' financial statements comparability are the Profitability, Liquidity and Gearing while reported earnings and market value were used to assess information quality.

### Results and discussion

#### Result

The result of data analyzed for financial statements comparability and information quality, based on the two hypotheses using mean, standard deviation and Pearson product moment correlation is shown as Table 1, 2, 3 and 4 for 20 listed companies used in this study.

**Table 1: Descriptive analysis of pre-adoption (SAS) period**

Factor(s)	Variable(s)	Mean	Standard deviation
Profitability	OPM	11.315	17.376
	ROCE	16.095	16.27
	ROE	15.271	21.574
Liquidity	WCR	1.475	0.730
	ATR	0.941	0.603
Gearing	DER	26.825	27.445
	DR	30.650	28.863

Source: Author's computation from SPSS 15

**Table 2: Descriptive analysis of post-adoption (IFRS) period**

Factor(s)	Variable(s)	Mean	Standard deviation
Profitability	OPM	12.099	23.397
	ROCE	16.075	20.007
	ROE	15.362	20.395
Liquidity	WCR	1.425	0.753
	ATR	0.850	0.551
Gearing	DER	22.038	20.193
	DR	27.600	24.360

Source: Author's computation from SPSS 15



**Table 3: Pearson correlation for financial statements comparability under pre-adoption (SAS) and post-adoption period (IFRS)**

Factor(s)	Variable(s)	Pearson Correlation	Sig. (2-tailed)
Profitability	OPM	0.621**	0.003
	ROCE	0.835**	0.000
	ROE	0.793**	0.000
Liquidity	WCR	0.917**	0.000
	ATR	0.739**	0.000
Gearing	DER	0.937**	0.000
	DR	0.882**	0.000

\*\* Correlation is significant at the 0.05 level (2-tailed).

Source: Author's computation from SPSS 15

### Decision

The mean and standard deviation are highly significant in the desired direction of the study due to its corresponding and relative effect on the Pearson correlation level of significance. There was also a strong and positive correlation between the variables for financial statements comparability under SAS and IFRS periods. The statistical significance between the variables considered was regarded as strong because the correlation was greater than 50% (0.5). Therefore, the null hypothesis  $H_1$  is rejected, and indicates that there is strong relationship between SAS and IFRS introduction

**Table 4: Pearson correlation for information quality under pre-adoption (SAS) and post-adoption period (IFRS)**

Factor(s)	Variable(s)	Pearson Correlation	Sig. (2-tailed)
Reported Earnings	PBIT	0.996**	0.000
	PAT	0.995**	0.000
Market Value	EPS	0.422	0.000
	NAPS	0.712**	0.000

\*\* Correlation is significant at the 0.05 level (2-tailed).

Source: Author's computation from SPSS 15

**Decision:** The calculated variables, under correlation, for measure of information quality are greater than 50% (0.5), except earnings per share (EPS) that has weak correlation as a result of market fluctuation. The null hypothesis is therefore rejected and it is concluded that IFRS is highly associated with information quality because of its statistical significance between the variables considered.

### Discussion of Results

The research work borders on mandatory IFRS introduction and financial statements comparability from listed companies in Nigeria. The result of the hypotheses tested revealed that there is a significant relationship between SAS and IFRS introduction which enhances credible and qualitative financial statements engendering growth and development. The research also revealed that mandatory IFRS introduction improves the quality of financial information as it will boost the confidence of investors. However, the earnings per share (EPS) has weak correlation in terms of market price fluctuation which has consequential effect on the 'EPS' of Nigerian listed companies under pre and post adoption periods as against Tanko (2012) that reported that firms in Nigeria exhibited higher values on EPS under IFRS.



## Conclusion and recommendation

### Conclusion

In this study, attempts were made to examine mandatory IFRS introduction and financial statements comparability as evident from Nigerian listed companies. The tested hypotheses were developed through the rational choice theory. Based on the overall result of the analysis, it could therefore be concluded that mandatory IFRS introduction enhances comparability of financial statements and improves financial information quality, as relatedly corroborated by Ashbaugh and Pincus, (2001); Barth, Landsman and Lang,(2008).The contribution of this research to literature and knowledge is that IFRS has been able to enhance the comparability of financial statements as well as improving information quality.

### Policy implication

The result showed a strong and positive correlation between the variables for financial statements comparability. There is also a statistical significance relationship between SAS and IFRS introduction. The research also revealed that IFRS introduction is associated with information quality due to its statistical significance between the considered variables. This therefore shows that there is need for a policy shift in favor of IFRS introduction in order to enhance the uniformity, credibility and comparability of financial statements of listed companies in Nigeria.

### Policy recommendation

Based on the foregoing, the study recommends that the government should empower the financial reporting council of Nigeria (FRCN) to monitor and enforce standards and training to smoothen the introduction of International Financial Reporting Standards (IFRS). This process will enhance credible and qualitative financial statements, engendering growth and development of capital market, which will stir up the need to embrace and practice IFRS in Nigeria.

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### Descriptive Statistics

	Mean	Std. Deviation	N
Pre-adoption period (SAS)	11.3145	17.37600	20
Post-adoption Period(IFRS)	12.0995	23.39708	20

### Correlation

	Pre-adoption Period (SAS)	Post-adoption Period (IFRS)
Pre-adoption period(SAS) Pearson Corr. Sig. (2-tailed) N	1 20	.621* * .003 20
Post-adoption Period(IFRS) Pearson Corr. Sig. (2-tailed) N	.621** .003 20	1 20

\*\*Correlation is significant at the 0.05 level (2-tailed).

### Return on Capital Employed (ROCE)

#### Descriptive Statistics

	Mean	Std. Deviation	N
Pre-adoption period (SAS)	16.0950	16.27014	20
Post-adoption Period(IFRS)	16.0750	20.00739	20



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### Correlation

	Pre- adopt ion Perio d (SAS)	Post- adopti on Period (IFRS)
Pre-adoption period(SAS) Pearson Corr. Sig. (2-tailed) N	1 20	.835* * .000 20
Post-adoption Pearson Corr. Period (IFRS) (2-tailed) N	.835** .000 20	1 20

\*\*Correlation is significant at the 0.05 level (2-tailed).

### Return on Equity (ROE)

#### Descriptive Statistics

	Mean	Std. Deviation	N
Pre-adoption period (SAS)	15.2710	21.57369	20
Post-adoption Period(IFRS)	15.3620	20.39496	20

### Correlation

	Pre- adopt ion Perio d (SAS)	Post- adopti on Period (IFRS)
Pre-adoption period (SAS) Pearson Corr. Sig. (2-tailed) N	1 20	.793* * .000 20
Post-adoption Pearson Corre. Period(IFRS) (2-tailed) N	.793** .000 20	1 20

\*\*Correlation is significant at the 0.05 level (2-tailed).



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## Working Capital Ratio (WCR)

### Descriptive Statistics

	Mean	Std. Deviation	N
Pre-adoption period (SAS)	1.4750	.73044	20
Post-adoption Period(IFRS)	1.4245	.75307	20

### Correlation

	Pre-adoption Period(SAS)	Post-adoption Period(IFRS)
Pre-adoption period (SAS) Pearson Corr.	1	.917**
Sig. (2-tailed)	20	.000
N	20	20
Post-adoption Period (IFRS) Pearson Corr.	.917**	1
Sig. (2-tailed)	.000	20
N	20	20

\*\*Correlation is significant at the 0.05 level (2-tailed).

## Acid Test Ratio (ATR)

### Descriptive Statistics

	Mean	Std. Deviation	N
Pre-adoption period (SAS)	.9405	.60269	20
Post-adoption Period(IFRS)	.8500	.55062	20

### Correlation

	Pre-adoption Period(SAS)	Post-adoption Period(IFRS)
Pre-adoption period (SAS) Pearson corr.	1	.739**
Sig. (2-tailed)	20	.000
N	20	20
Post-adoption Period (IFRS) Pearson Corr.	.739**	1
Sig. (2-tailed)	.000	20
N	20	20

\*\*Correlation is significant at the 0.05 level (2-tailed).





**Debt Equity Ratio (DER)**

**Descriptive Statistics**

	Mean	Std. Deviation	N
Pre-adoption period (SAS)	26.8250	27.44529	20
Post-adoption Period(IFRS)	22.0375	20.19254	20

**Correlation**

	Pre-adoption Period(SAS)	Post-adoption Period(IFRS)
Pre-adoption period(SAS) Pearson Corr. Sig. (2-tailed) N	1 20	.937** .000 20
Post-adoption Period(IFRS) Pearson Corr. Sig. (2-tailed) N	.937** .000 20	1 20

**\*\*Correlation is significant at the 0.05 level (2-tailed).**

**Debt Ratio (DR)**

**Descriptive Statistics**

	Mean	Std. Deviation	N
Pre-adoption period (SAS)	30.6500	28.86315	20
Post-adoption Period(IFRS)	27.6000	24.36002	20

**Correlation**

	Pre-adoption Period(SAS)	Post-adoption Period(IFRS)
Pre-adoption period(SAS) Pearson Corr. Sig. (2-tailed) N	1 20	.882** .000 20
Post-adoption Period(IFRS) Pearson Corr. Sig. (2-tailed) N	.882** .000 20	1 20

**\*\*Correlation is significant at the 0.05 level (2-tailed).**



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### Profit before Interest & Taxes (PBIT)

#### Descriptive Statistics

	Mean	Std. Deviation	N
Pre-adoption period (SAS)	12542497	30028170.286	20
Post-adoption Period(IFRS)	14942392	38332413.505	20

#### Correlation

	Pre-adoption Period(SAS)	Post-adoption Period(IFRS)
Pre-adoption period(SAS) Pearson Corr. Sig. (2-tailed) N	1 20	.996** .000 20
Post-adoption period (IFRS) Pearson Corre. Sig. (2-tailed) N	.996** .000 20	1 20

\*\*Correlation is significant at the 0.05 level (2-tailed).

### Profit After tax (PAT)

#### Descriptive Statistics

	Mean	Std. Deviation	N
Pre-adoption period (SAS)	10571523	28968720.109	20
Post-adoption Period(IFRS)	12251096	34678467.060	20

#### Correlation

	Pre-adoption Period(SAS)	Post-adoption Period(IFRS)
Pre-adoption period(SAS) Pearson Corr. Sig. (2-tailed) N	1 20	.995** .000 20
Post-adoption Period (IFRS) Pearson Corre. Sig. (2-tailed) N	.995** .000 20	1 20

\*\*Correlation is significant at the 0.05 level (2-tailed).



**Earnings per Share (EPS)**

**Descriptive Statistics**

	Mean	Std. Deviation	N
Pre-adoption period (SAS)	5.2640	9.50870	20
Post-adoption Period(IFRS)	2.5437	4.95731	20

**Correlation**

	Pre-adoption Period(SAS)	Post-adoption Period(IFRS)
Pre-adoption period (SAS)	1	.422**
Pearson Corr.		.000
Sig. (2-tailed)	20	20
N		
Post-adoption Period (IFRS)	.422**	1
Pearson Corre.	.064	
Sig. (2-tailed)	20	20
N		

**\*\*Correlation is significant at the 0.05 level (2-tailed).**

**Net Asset per Share (NAPS)**

**Descriptive Statistics**

	Mean	Std. Deviation	N
Pre-adoption period (SAS)	315.9505	535.78761	20
Post-adoption Period(IFRS)	435.0558	762.38372	20

**Correlation**

	Pre-adoption Period(SAS)	Post-adoption Period(IFRS)
Pre-adoption period (SAS)	1	.712**
Pearson Corre.		.000
Sig. (2-tailed)	20	20
N		
Post-adoption Period (IFRS)	.712**	1
Pearson Corre.	.000	
Sig. (2-tailed)	20	20
N		

**\*\*Correlation is significant at the 0.05 level (2-tailed).**



## Listed companies of stock exchange

S/ N	Category	Company Selected	No of Compani es
1	Agriculture	ALPCOT AGRIC	5
2	Airlines	AS AIRLINE SERVICES	1
3	Automobiles	R.T BRISCOE PLC	6
4	Banking	UNITED BANK FOR AFRICA	21
5	Breweries	GUINNESS NIGERIA PLC	7
6	Building Materials	DANGOTE CEMENT	8
7	Chemical & Paints	BERGER PAINTS PLC	7
8	Commercial/Ser vices	CHELLARAMS PLC	3
9	Computer & Office Equipment	NCR PLC	6
10	Conglomerates	UAC	8
11	Construction	JULIUS BERGER	8
12	Engineering Tech.	ANNUAL REPORTS NOT AVAILABLE	1
13	Food, Bev.& Tobacco	NIGERIAN BREWERIES PLC	14
14	Footwear	NOT AVAILABLE	2
15	Healthcare	MAY AND BAKER PLC	10
16	Industrial/Dome stic Products	ALUMINIUM MANUFACTURING	12
17	Insurance	EQUITY ASSURANCE	17
18	Machinery Marketing	NOT AVAILABLE	3
19	Managed Funds	FIRST CAPITAL INVESTMENT	4
20	Packaging	BETA GLASS PLC	8
21	Petroleum Marketing	TOTAL NIGERIA PLC	9
22	Printing & Publishing	UNIVERSITY PRESS PLC	4
23	Real Estate & Property	UACN PROPERTY DEVT.	1
24	Textiles	NOT AVAILABLE	6

Source: Nigeriasite.com: Stocks listed on Exchange (2015)