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EFFECTS OF IFRS ADOPTION ON EARNING VARIABILITY OF SELECTED DEPOSIT MONEY BANKS IN NIGERIA: A CO-INTEGRATION ANALYSIS APPROACH

Ifeoma Patricia OSAMOR
Department of Accounting
Lagos State University, Lagos, Nigeria
ifyposamor@gmail.com
Matthew Adeolu ABATA
Department of Accounting
Lagos State University, Lagos, Nigeria
Chinyere Clareth ELLUH
Department of Accounting
Lagos State University, Lagos, Nigeria

Abstract
The quality of financial reports made available to users of financial statements affects their behavior towards investment and economic activities, thereby affects the economy of the nation. The study therefore examined IFRS adoption and earnings variability of listed deposit money banks in Nigeria. The study adopted ex-post factor research design using secondary data which were sourced from the annual reports of ten banks from 2006 to 2018. Data spanned Seven (7) years before IFRS adoption (2006 – 2012) and seven years after IFRS adoption (2012 – 2018). Descriptive statistics, unit root test, co-integration test and regression were employed to analyze the data. The Fully Modified OLS (FMOLS) results showed R^2 *of 0.672652, while Dynamic OLS (DOLS) estimates* R^2 *of 0.740295 which implied that 67% and 74% variations in Earnings were explained by the variation in Size, Profit, IFRS and the interacting variable respectively. FMOLS and DOLS estimations revealed that IFRS post-adoption has significant effect on earning variability. The study concludes that IFRS adoption significantly impacted on the quality of financial report. Therefore, the study recommended that banking firms should explore the benefits and provisions of IFRS to improve on their financial reporting practices.*

Key words: *IFRS Adoption; financial reporting; Earnings Variability; Size; Deposit Money Banks*

JEL Classification: *G21; M41*

I. INTRODUCTION

The quest of every nation to align with what is obtainable in the world market and attract the multinationals have continued to draw the whole world into a single circumference. This is not only in technology, innovation or Research and Development but also in financial language. The cross-border trade and world market have equally encouraged fund mobilization and channelization from one economic unit to another. The global nature of these market demand a uniform and common system of reporting financial information that will appeal to all, irrespective of culture, political demography, economic and social differences. This calls for accounting standards that will allow an unvarying accounting language; facilitate the growth of capital markets; enhance comparability and corporate transparency of financial reporting; improve the decision usefulness of financial reports; ease translation of financial statement; increase access to capital through cross-border listing of companies; integration of world economies; reduce cost of capital; improve inflow of FDI; improve quality of financial reporting practices are some of the promises of IFRS (Abata, 2015; Uwuigbe, Uyoyoghene, Jafaru, Uwuigbe & Jimoh, 2017; Eluyela, Adetula, Oladipo, Ajayi, Adegbola, & Falaye, 2019).

International Financial Reporting Standards (IFRS) also known as Transnational Accounting Standards are common global standards set for business organisations to present their financial statement to ensure uniformity, understandability and comparability of financial statement across international borders. Accountants anywhere in the world can understand and interpret financial statement from other companies and countries. IFRS are to replace

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the local GAAPs, they are regarded as principles based sets of standards because of its ability to establish broad rules and dictate specific treatments (Rabiu, 2019). It is suggested that adoption of IFRS would trigger off a superior and more comparable financial statements.

However, adoption of IFRS notwithstanding, an effective and efficient internal control system capable of preventing loopholes that would facilitate unassessed loan application and credit creation should be put in place by the banks management to prevent credit being given to unqualified applicants. Which results to non-performing loan, loss of loans and advances, loan loss provision that invariably hampers the profitability of the banks, (AVIO, 2017).

The question that bothers the world is why are there still accounting scandals even among corporate bodies and countries that have fully adopted IFRS to the extent of huge lost like that of $3.1 billion from HIH Insurance company in Australia. Nigerian firms are not left out as the banks have continued to go through reforms, acquisition and merger (Diamond bank and Access bank) as a result of several financial irregularities. It is therefore safe to say that all that glitters are not gold with respect to IFRS adoption and quality of financial statement. Nisbett and Shiekh (2007) posit that among the countries with accounting scandals within the period of 2001-2006, 87.5% were countries with principles–based IFRS. It is therefore imperative and rational to think that the improprieties in accounting as reported above are as a result of the principle-based nature of IFRS. No wonder Beuren and Klann (2015) advised financial managers to apply professional descriptions and creativity in using the standards.

Several studies have been carried out among different countries of the world on the relationship between IFRS and quality of financial reporting (Lantto & Sahlstrom, 2009; Akinwunmi, 2011; Abata, 2015; Fabio & Franco, 2016; Kerry & Reza, 2016; Yahaya & Fagbemi, 2016; Ofoegbu & Odoemena, 2018; Elosiuba & Okoye, 2018). However, some of these studies made used of primary data, while those who used secondary data used variables such as EPS, liquidity relevance, profitability and timeliness of information as proxy for quality of financial reporting. None of the studies considered earnings variability as an indicator to measure quality of financial reporting, this creates a gap which this study wants to cover by investigating the effects of IFRS adoption on earnings variability of Nigerian deposit money banks using a co-integrating analysis approach.

II. LITERATURE REVIEW

II.1. Conceptual review

Financial report is considered to be of good quality if it is indispensable to the information users who must make financial and investment decision out of the report (Fashina & Adegbite, as cited in Abata, 2015). It is therefore termed "quality" if it harbors economic benefits of a firm when it comes to relevance, reliability, comparability, timeliness and engenders quick interpretation of accounting figures (Kenneth, 2012, cited in Abata, 2015). Financial reporting quality undoubtedly is measured by the ability of companies to presents their financial statement in a manner that will enhance quick access to fund at local and international level, reduce information costs, improve the profits and returns of the firms, engender comparability, and improve the shareholders returns. Daske, Hail, Leuz and Verdi (2008) opines that adoption of IFRS introduces bottle neck as highly elaborate and better sets of disclosure requirements more than the domestic GAAP are required. If the adoption of IFRS would improve disclosure requirements, and managerial discretion with respect to manipulation inherent in the treatment of accounting transactions in the name of "use of discretion", then one could affirm without prejudice that IFRS would engender better financial reporting practices as well as improve the quality of financial reports. It is imperative therefore that lack of adoption or non -compliance with IFRS presets would lead to distortion in financial reports, lack of transparency and accountability, poor reporting practices, and dissemination of less valuable information to the users of such information, (Porwal, 2006; Abata, 2015; Rabiu, 2019).

Earning variability is the extent to which earning diverge from the average earning year in year out. Earning variability is a nightmare to investors who would prefer investments with higher return but with less variability (Iatridis, 2010). Leuz, Nanda and Wysocki (2003) argued that management of firm can conceal changes in the performance of the organization using the operating decision and financial reporting strategies. Therefore, the best way to checkmate this discretional device is to compute the earning variability test given as the standard deviation of earnings from operation and the cash flow from operations. With Earning Variability check, the managers of the bank studied will not be able to smooth the earnings of the firms to cover up for periods of poor economic

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performance. According to Iatridis (2010), the higher the divergence of the earning the better as managers wouldn't be able to manipulate the earning.

However, it is imperative to state that a sound system of internal controls, having the right preventive, deterrent and detective controls can help curb banks vulnerability to credit risks. The management of the banks must ensure a strong system of internal control well supervised to avoid the increase of non-performing loan, loan loss provisions and illiquidity. The special role of internal control at risk management cannot be overemphasized. Internal control which is described as sets of procedures, organizational structures and other activities that ensure an appropriate identification process, measurement, risk management and monitoring strategy will help the bank determine who qualifies for credits and hence reduce irrecoverable loans (AVIO, 2017; Ismajli, Ferati & Ferati, 2017; Tunji, 2013).

II.2. Theoretical review

Stakeholder theory was reviewed which is articulated in two core questions of the reasons for firm's existence and the duties (roles) of the managers of firms to stakeholders. The theory developed by (Freeman, Wicks & Parmer, 2004) allows managers to generate outstanding performances and determine specifically the kind of relationships they want to create with their stakeholders. This theory also expects managers to develop and run their firms in a way that is consistent with the demands of the theory which is stakeholders' value maximization rather than shareholder's value maximization.

Donaldson and Davis (1991) developed stewardship theory which emphasizes the principal-steward relationship. It is a model used by senior executives who act as stewards for organization and in the interest of principals (Olson, cited in Yahaya & Fagbemi, 2016). The theory negates the agency theory on the relationship of agent and principal which assumes that managers do not act in the utmost benefit of the owners but maintains that managers are not motivated by individual goals but aligned with the objectives of their shareholders (Nwaobia, 2015; Nwachukwu, Ogundiwin & Nwaobia, 2015). This affirms the assertion that a steward works to defend and make maximum profit for the shareholders whose interest is to make gain for their investment, and in doing so, maximizes the steward's utility functions (Cullen, Kirwan & Brennan, 2006; Yahaya & Fagbemi, 2016).

II.3. Empirical review

Abata (2015) investigated the impact of IFRS on Financial Reporting in Nigeria, 50 employees of KPMG were used to gathered data via questionnaires, using standards deviation and pearsons Chi- square analysis. It was discovered that IFRS offers better information for users than GAAP. However, Ironkwe and Oglekwu, (2016) in their investigation on IFRS and corporate performance of listed companies in Nigeria adopted interview and questionnaire method to gather data. Using Chi-Square and ANOVA they found the adoption of IFRS to be positively related with the financial performance of organizations. Meanwhile, Akinleye (2016) investigated the performance of money deposit banks in Nigeria in relationship with the adoption of IFRS. Ratio analysis was employed to examine the relationship between the two variables of interest. Data were collected from the annuals of the selected banks for the period. Panel data analysis was done including post estimation test and Hausman test. It was found that adoption of IFRS has impacted positively on performance of money deposit banks.

Furthermore, Ofoegbu and Odoemelam, (2018) examined IFRS disclosure and performance of Nigerian listed companies for a period of 2012 to 2017. Data was collected from 64 companies. Using multiple Regression, it was discovered that the degree of information disclosure has nothing to do with the financial performance of the companies that were studied. Yasas and Perera, (2019) examined the quality of accounting information and the impact of IFRS adoption, using Sri Lanka as a case study. The study adopted secondary data which were sourced from 29 listed manufacturing companies in Colombo Stock Exchange. Data spanning through 2009-2011 (pre adoption) and 2013-2015 (post adoption) were gathered. Multiple regression was used to analyzed that data and it revealed that improvement is yet to be noted on the value relevance of accounting information in the post-IFRS period than the pre-IFRS period. Odoemelam, Okafor and Oforegbu, (2019) examined the possible effect IFRS adoption on earnings value relevance of quoted Nigerian firms. Secondary data was sourced from 101 firms. Earnings per share and IFRS were examined using Ohlson model. The estimation coefficient showed a statistically significant and positive relationship. This explained that the adoption of IFRS engenders to higher earnings.

III. METHODOLOGY

The study adopted Ex- Post Fact research design. Sample size of ten banks were purposively selected with data which originated from annuals of these banks between 2006 to 2018. A co-integrating equation technique

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consisting of Dynamic Ordinary Least Square (DOLS) and Fully Modified OLS (FMOLS) which incorporates both the long run and short run effect simultaneously was estimated. Descriptive Analysis, Unit root test and co-integration test were also conducted to validate the data used in the study.

Model specification. The model specification follows the multiple regression model with Firms' Earnings (EARN) as the dependent variable while IFRS*EARN represent IFRS variable with control variables such as firms profit and size as the independent variables. The model is thereby stated:

$$EARN_{it} = \beta_{0i} + \beta_1 PFT_{i,t} + \beta_2 SIZE_{i,t} + \mu_t \quad \ldots \qquad Eqn_1$$

Where:
EARN = Earnings variability of firm i and time t
PFT = Profit of firm i and time t
β_0 = Intercept term
β_1 and β_2 = Regression coefficients for all the explanatory variables
μ_t = Error Term

Expressing equation above in econometric form, while incorporating the explanatory dummies, the model becomes:

$$EARN_{it} = \alpha_{1i,t} + \beta_1 PFT_{i,t} + \beta_2 SIZE_{i.t} + \gamma_1 IFRS{*}EARN_{i,t} + \mu_{it} \quad \ldots \qquad Eqn_2$$

Where $EARN_{it}$ is firms' earnings which is typically derived from the after-tax net income. The dummy variable $(IFRS{*}EARN)_{it}$ represents the IFRS variable for firm i at time t. It takes a value of 1 the year of IFRS adoption (voluntary and mandatory) and 0 otherwise.

IV. RESULTS AND DISCUSSION

From the results on Table 1, the mean value of the EARNV, IFRS*EARN, SIZE, and PFT are 2.220636, 0.705345, 7.493363 and 2750742 respectively while the median of the series is EARNV (0.174304), IFRS*EARNV (0.000000), SIZE (6.706329) and PFT (30647.50). The zero value of the interactions variable (IFRS*EARNV) connote the pre adoption of IFR*S* in Nigeria. The minimum EARNV value is -12.33129 with maximum of 85.09622 between 2006 and 2018.This suggest a high earning variability within the year under study. Meanwhile, the IFRS interacting variable has its minimum value as -12.33000 and maximum of 85.1 while IFRS dummy has minimum of 0 and maximum of 1. Meanwhile, the variables have positive skewness and leptokurtic because the kurtosis are greater than 3 in the model. Finally, all the variables have their Jarque-Bera statistics less than 5% levels. This suggests that the variables are not normally distributed.

Table 1. Descriptive Results of IFRS adoption on Earning Variability

	EARNV	IFRS*EARN	SIZE	PFT
Mean	2.220636	0.705345	7.493363	2750742.
Median	0.174304	0.000000	6.706329	30647.50
Maximum	85.09622	85.10000	9.721961	25388411
Minimum	-12.33129	-12.33000	5.407816	0.000000
Std. Dev.	11.38032	8.043058	1.439591	5815114.
Skewness	5.341666	10.04718	0.272835	2.393787
Kurtosis	33.45449	106.3903	1.386410	7.629667
Jarque-Bera	5034.446	53617.83	14.02357	214.3809
Probability	0.000000	0.000000	0.000901	0.000000
Sum	257.5938	81.82000	869.2301	3.19E+08
Sum Sq. Dev.	14893.86	7439.439	238.3285	3.89E+15
Observations	116	116	116	116

Source: Researchers' Computation, 2020

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IV.1. Panel unit root test

The stationarity test reported on Table 3 showed that Earning variability (EARNV), IFRS*EARN, SIZE and PFT are stationary at levels while firms' size was found stationary at first difference I(1). This shows that pooled unit root null hypothesis need not to be rejected at levels for all the explanatory variables. Since the variable "firms' size" was stationary at first difference, there is need for further analysis to determine if there is a long run relationship between IFRS adoption and earnings variability using the co-integration test.

Table 3. Im – Pesaran – Shin (IPS) Test

Variables	Levels	Prob.	First Difference	Prob.
EARNV	-4.25411	0.0000***		
IFRSEARN	-5.08890	0.0000***		
SIZE	0.74437	0.7717	-9.89964	0.0000***
PFT	-4.15644	0.0000***		
*** *p*-value <0.01				

Source: Researchers' Computation, 2020 using Eviews 10

IV.2. Co-integration test

The co-integration test for IFRS and earning variability on Table 4 shows that the null hypothesis of co-integration in the model is rejected because most of the p values of the panel and group V, PP, Rho, and ADF Statistics are less than 5 % level of significance. This shows that there is co-integration between IFRS adoption and Earning variability which means the existence of a long run relationship between the variables. Given the existence of co-integration, a Panel DOLs and FMOLs long run analysis is considered appropriate.

Table 4. Pedroni Co-Integration Test

Test	Individual Statistics	Prob.	Group Statistics	Prob.	Weighted Statistics	Prob.
Panel v-Statistic	-	-	-1.010265	0.8438	-1.813697	0.9651
Panel rho-Statistic	1.773986	0.9620	0.423779	0.6641	0.509168	0.6947
Panel PP-Statistic	-3.630095	0.0001***	-3.293063	0.0005***	-2.583560	0.0049***
Panel ADF-Statistic	-4.211648	0.0000***	-3.709319	0.0001***	-2.790744	0.0026***

Source: Researchers' Computation, 2020 using Eviews 10

IV.3. Regression results

The FMOLS results provided on Table 5 revealed that 67% of the variations in Earnings of the listed banks was explained by the variation in Size (SZ) Profit (PFT) and IFRS and the interacting variable. The result also shows that a 1 % increase in banks size is likely to influence the earnings variability by 2.6 percent. Meanwhile, the coefficient of the IFRS*EARN (1.05) which is the interacting variable is positive and significant, indicating that post adoption of IFRS has significant effect on earning variability of the listed banks in Nigeria. The result also indicates that banks have quality of financial reporting during the post-adoption of the IFRS. This is evident from the positive coefficient of the interacting variable-IFRS*EARN. Thus, adoption of IFRS may have influenced the banks to provide adequate information regarding their economic performance. The profit of the banking firms also has positive coefficient of 1.6, indicating a positive relationship between firms' profit and quality of financial report. The FMOLS estimates support the alternative hypothesis that IFRS post adoption has effects on earnings variability among listed DMBs in Nigeria.

Meanwhile, the Dynamic OLS was also estimated in the study. The results in Table 5 revealed from the DOLS estimates that the value of the computed coefficient of multiple determinations (R^2) was 0.740295, which implies that 74% of the variations in earning variability was explained by the variation in the explanatory variables. DOLS also reports that the interaction variable-IFRS*EARN had positive and significant coefficient of 0.830848. This indicates that post adoption of IFRS had positive and significant effect on the quality of financial reporting among listed banks in Nigeria. The findings of the FMOLS estimations was supported by the DOLS estimation that adoption of International Financial Reporting Standard(IFRS) had impacted positively on the quality of financial report among banks in Nigeria. Thus, DOLS estimates support the alternative hypothesis that IFRS post-adoption has significant long run effect on Earnings variability among listed banks in Nigeria.

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Table 5. Estimate of IFRS Post-Adoption Effects on Earnings Variability

Variable	FMOLS	DOLS
Size	2.675062	0.820516
	(0.0000)***	(0.3989)
IFRSEARN	1.056386	0.830848
	(0.0000)***	(0.0000)***
PFT	1.60E-07	-5.17E-08
	(0.0361)**	(0.6697)
R-squared	0.672652	0.740295
Adjusted R-squared	0.629486	0.561482
Long-run variance	7.723025	45.24705

Source: Researchers' Computation, 2020 using Eviews 10

IV.4. Discussion of findings

The FMOLS and DOLS tests were aimed at evaluating the effects of IFRS on the earning variability of listed Deposit Money Banks (DMBs) in the Nigerian Stock Exchange between 2006 and 2018. The model was severally engaged in diagnostic checks to ensure robustness and reliability of the result. More importantly, the parameters estimate and the estimated regression were done to meet the assumptions of the model. The explanatory variables explained 67% (FMOLS) and 74% (DOLS) of the variation in earning variability. The robustness of the model was significant at 5% level of significance.

From the analysis, adoption of the IFRS has impacted positively on the quality of financial report of listed DMBs in Nigeria. This means that, the quality of financial report of listed banks improved after the IFRS adoption in Nigeria. From literature, it is known that when difference occur in accounting standards, differences in financial reporting quality becomes eminent even with the same set of accounting data, (Habeeb & Athambawa, 2016). This is to say that changes in accounting regimes produces significant change that affects the financial position and performance being reported unavoidably. It is on this premise that International Financial Reporting Standards (IFRS) are increasingly being adopted by countries around the globe believing that the change in layouts and requirements of IFRS would produce a desirable change in financial reporting quality, comparability and ease the existing problems with GAAP. This also depends on the features and methods of extracting accounting information as well as the economy and environment the sample firms exist and do business (Lee, Walker & Christensen, 2008).

The findings support previous research that the adoption of IFRS have the tendency of improving accounting quality and lead to more value relevant of accounting numbers as reported by Abata, (2015); Ofoegbu & Odoemena, (2018) and Elosiuba & Okoye, (2018). In addition, other findings in support of the study show that firms are positively valued relevant during the first three years of the mandatory implementation of IFRS. Further findings show that expanded fair value accounting under IFRS increases the value relevance of accounting book values and reduces earnings of firms while the improved matching concept of intangible asset under IFRS with the future economic gains of the intangible assets helps to improve the consistency and value relevance of earnings in relation to book values (Iatridis, 2010; Tsalavoutas & Dionysiou, 2014; Beisland & Knivsfla 2015; Negakis, 2013).

V. CONCLUSIONS AND RECOMMENDATIONS

Regardless of the quantum of documented studies on adoption of IFRS in relation with quality of financial reporting, not much is known about the validation of the effect of IFRS on firms' performance with co-integrating equations. This is because the findings of the literatures remain inconsistent, unresolved and varied. Comprehensive analysis of the effect of IFRS adoption on quality of financial report reveals that IFRS adoption significantly impacted on the quality of financial report through earnings variability of firms quoted in the Nigeria stock exchange. The study therefore recommended the continual use of IFRS by all firms listed in Nigeria stock Exchange and other firms of public interest since it encourages disclosure requirement capability of unveiling any hidden treat to the success of the firms. The study also recommends that IFRS be continually adopted in financial reporting since it improved the Earning management of the firms and their overall performance as was evident in the current study. It was found to enhance quality financial reporting among listed firms in Nigeria stock exchange.

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