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Impact of IFRS Adoption on Value Relevance of Financial Reporting In Ghana Capital Market

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Abstract:
Background: *Capital markets transfer the wealth of the sellers to the buyers who can make long term productive use of their wealth these includes companies or governments engaging in long term investments. These companies are to ensure transparency and accountability in their transactions as a consequence of the pressure from these Investors. The credibility and transparency of these financial information requires refined accounting system to fulfil the interest of investors. Also, these investors become confident and make best choice on the capital market when they are provided with quality financial information. To satisfy this requirement, companies tend to adopt IFRS which is internationally recognized as a reliable accounting system. This study therefore seek to examine how the adoption of IFRS affect the value relevance of financial reporting in the capital market in Ghana.*
Results: *The study reveals that the adoption of IFRS largely support accounting quality. The findings also suggest that investors in the capital markets are more confident and assured with quality financial information for investment decision making in the capital market as a result of the increase in value relevance of financial reporting after the IFRS adoption*
Conclusion:*Financial reports provided by the listed firms on the Ghana capital market has significantly improved and are of higher quality after the IFRS adoption in preparing and presenting financial statements. The quality of the financial information these reports provided, gave the investors great assurance, confidence and self-reliance in the Ghana capital market in making investment decisions.*
Key Words*: International Financial Reporting standards (IFRS), International Accounting Standards (IAS), Ghana National Accounting standards (GNAS), Value relevance, Capital markets.*

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I. Introduction

High-quality information is dominant for the effective functioning of equity markets. In particular, accounting administrations and recognised standards as well as highly accepted accounting principles play a critical role in shaping how financial information are prepared and presented to external users who rely on this information for decision-making. Financial information is essential for the investors within the capital market, hence preparing and presenting financial statements based on the adoption of International Financial Reporting Standards (IFRS) is an important decision demanding a cost/benefit analysis for the investment community. Prior study by Daske(2006) show that IFRS adoption increases quality and fairness in financial reporting due partly to the additional disclosure requirements, measurement and recognition rules that directly influence the value of accounting numbers. Also, the work of Barth et al (2008) reveals that companies reveal extra timely loss recognition, participate in less earnings management and provide more value relevance of earnings when they adopt IFRS. Others including Stecher and Suijs (2012) as well as Byard et al (2011) show that the practice of IFRS in financial reporting enhances analysts' information environment. The rise and enhancement of multinational firms reporting, investor behaviour changing as well as the growth of international capital markets and changing investor behaviour have, midst other issues, led to the economic activities been internationalized. As a consequence of this situation, financial reporting has gone outside national borders. Interpretation and understanding of financial information at the international level is hindered by a multitude of factors, including the diversity of the accounting principles and rules governing the preparation of reports (Callao, Jarne and Lainez, 2007). According to Callao, Jarne and Lainez, (2007), several bodies such as International Accounting Standard Board (ISAB) and the European Union since 1970 made significant effort with the objective of enhancing the usefulness and quality of financial reports in relation to the international market through adopting similar accounting laws within countries across the globe The need to make progress towards achieving international comparability of financial statements have prompted countries across the globe including Ghana to pass legislations requiring the mandatory application of the International Financial Reporting Standards (IFRS) by listed companies and unlisted companies to the preparation and presentation of their financial statements. The legislations passed by these countries have resulted in the IFRS adoption in most countries across the globe. Though, empirical evidence exists in developed economies, paucity of research exist on the comparability and value relevance of financial reporting in developing countries especially Sub-Saharan Africa. This said, the paper is to outline the effect IFRS adoption has on value relevance to the capital market with emphasis on Ghana.

II. Literature Review

Capital Market can be defined as a place for the buying and selling of equity and debt securities, which maturity periods exceeds one year. Capital markets transfers the wealth of investors to those who can turn them into long term productive use, such as institutions or governments making long term investments. Investors put a lot of pressure on these companies to ensure accountability and transparency in their transactions and this requires accounting system to meet investors' requirements and needs. Also, to make best choices when analyzing investment portfolios, quality financial information is what investors require. In order to achieve these desires, firms incline to adopt IFRS which is internationally recognized as a dependable accounting system.

Value relevance is noted to be of the basic trait of quality of the financial reports. Jianwei and Chunjiao, (2007) in their studies explained the idea of the value relevance of financial reports and information as ''to abridge the information relating to the stock prices with the capability of accounting numbers, hence the value relevance is revealed by a statistical connection between prices or returns and financial information".

Listed firms use financial statements as one of the main standard of communication of information with their stakeholders. According to Vishnani and Shah (2008), capital market regulators and accounting standards setters attempt to progress the quality of financial information so as to increase financial reporting transparency level.

Hendricks (1976), stated that for financial reporting to be of quality, financial reports should be prepared on the basis of reliability and relevance. The major purpose of the financial statements is to present information about a firm so as to help users especially make better decisions (Germon and Meek, 2001). Financial reports should also have to ability to increase the knowledge of the users and give a decision maker the capacity to predict future actions. Hence, the value relevance of financial reports can be pronounced as a vital issue for growth of the capital market (Oyerinde, 2009).

III. IFRS Adoption and Value Relevance Studies

El Shamy and Kaled (2005) in their studies examined the impact of value relevance on earnings and book values derived under the Kuwaiti accounting system declaring compliance with IFRS. Their results revealed that the application of the association model between earnings, price and book values, there was a significantly positive relation between value relevance on earnings and stock prices. Their study also finds that book values depict superiority whiles earnings increase the overall description of the valuation model than book values for financial institutions. The work of Callao et al., (2007) studied the effect of adoption of IFRS on value relevance using a case study from Spain. Their study reviewed that local comparability has deteriorated. Latridis (2010) studies examined the impact of IFRS adoption in the UK with much emphasize on the modification from the UK GAAP to IFRS, to find out whether there has been a rise in quality of financial reports after the adoption as compared to the UK GAAP. Their results revealed that there was a reduction in the desire to engagement in earnings management as a result of the adoption and is associated to more value relevant accounting methods. Callao et al (2010) investigated whether the financial information prepared under the adoption of IFRS was of greater value relevance as compared to the financial information prepared using the local GAAP. Their focus was on the listed groups traded on the Madrid Stock Exchange and the Financial Times Stock Exchange in UK. Findings expose that the quantitative impact is significant in both countries (Spain and UK) and it is higher in the UK. The study by Tsoligkas and Tsalavoutas (2011) looked at how the adoption of IFRS affected the value relevance of R&D expenses and assets in the UK. Their results showed there was a positive significant relationship between the market value and the capitalized portion of R&D expenses. Clarkson et al (2011) studied the value relevance of earnings and book value are affected after the adoption of IFRS with their focus on the European and Australian capital markets. Their study was based on a sample of 3,488 firms adopting IFRS in 2005. Also in their work, they introduced a cross product term, which is explained as product of book value per share and earnings per share, into the traditional linear pricing models. The cross-product term's estimated coefficient is statistically significant and negative. Kargin (2013) looked into how the value relevance of accounting information was affected within the period where they used the local GAAP and the period after the adoption on the Turkish listed firms from 1998 to 2011. Their results revealed that there was a significant improvement as well as highly quality financial information in the post adoption era of 2003 to 2011.

Harris and Muller (1999) in their study in US examined the impact of the adoption of IFRS and value relevance using Form 20-F reconciliation statements, including reconciliations from IAS. Their results showed that there weren't much evidence when it comes to reconciliations to US GAAP even when compared to IAS and hence provided the market with useful financial information. In Germany, the works of Beckman et al, 2007 revealed that before a company was listed on the Frankfurt Stock Exchange, it was a requisite requirement even before the nationwide mandatory adoption of IFRS in 2005. Many companies therefore were already preparing and presenting financial reports based on the IFRS principles. Schiebel (2007) discovers that equity book values prepared under German GAAP had lower value relevance than under IFRS.

CAPITAL MARKET DEVELOPMENT

The focus of government, policy makers, market regulators and operators has been shifted to the development of the capital market which helps in the mobilization of long term funds for business and governments' lucrative investments to promote fiscal growth and national development. The studies according to Levine (1997) finds out that countries which have improved financial system experience more rapid economic growth than those without it. A well-functioning financial system provides good and easy access to information, this in turn lowers transaction cost and improves apportionment of resources and boost economic growth. For a capital market to be efficient, it needs frequent development and implementation of periodic analysis and understanding the market conditions, suitable policies, infrastructural development, and demands of enterprise seeking capital as well as educating potential investors.

There are series of factors that may possibly affect the level of development of capital markets. Osei (1998) and Gnanarajah (2015), in their studies find out that regulatory infrastructure, such as an active stock exchange market, an effective Securities Exchange Commission and the accessibility of precise and consistent financial information about firms 'financial performance and financial position are key influencers of the rate of development of the capital market. In addition, Osei (1998) detected that there appears to be suitable and effective legal and regulatory structures in Ghana to encourage the development of the Ghanaian capital market. Salami and Acquah Sam, (2013) found out that non reflection of all available financial information on stock prices is a problem within the capital market. Rooted in this problem is the query of the reliability of the financial information produced by firms listed within the market. It is in this regard that it is necessary to take steps first to improve the integrity of the financial information generated by firms listed on the Stock exchange, and then to ensure that the financial information available is actually used by investors to make investing decisions. Generating reliable financial information by firms listed on the Ghana Stock exchange is thus a necessary step towards uplifting Ghana's capital market.

GAPS OBSERVED IN THE GHANA ACCOUNTING SYSTEM

According to Assenso-Okofo et al. (2011), in January 2007, the ICAG, in partnership with other Regulatory bodies -Bank of Ghana, National Insurance Commission, and Securities and Exchange Commission- launched the IFRS adoption in Ghana. Through the careful evaluation of the Ghana National Accounting Standards, the proceeding points explain the gaps that were identified in the accounting and reporting standards in Ghana as observed through the Reports on Observance of Standards and Codes conducted by the World Bank in the year 2004:

1. The ICAG issues Ghana National Accounting Standards (GNAS). The World Bank identified that there were no clear legal mandate for national accounting standards to be set by the ICAG, however, ICAG issued the Ghana National Accounting Standards. However, these national standards were based on International Accounting Standards which became effective in mid-1990 (ROSC, 2004).
2. The capacity of ICAG needs strengthening to adequately function as an effective professional accountancy body. Inadequate monetary resources to some extent hinder the operations of ICAG which includes inability to developing a reliable electronic database. Moreover, ICAG has inadequate capacity to ensure that its members comply with existing standards or be kept abreast with international developments in the profession (ROSC, 2004).
3. The Ghanaian professional accountants' Code of Professional Conduct needs updating. All ICAG members are expected to work based on the ICAG's Code of Professional Conduct though no obvious legal requirement in Ghana. The professional codes of conduct of ICAG are based on the International Federation of Accountants (IFAC) professional codes. However, to align these codes to the IFAC codes, the ICAG Code needs updating in certain aspects such as auditor's independence and application of principles to specific situations, professional competence and responsibilities regarding the use of non-accountants (ROSC, 2004).

4. Ghana National Accounting Standards are out-dated and differ significantly with International Accounting Standards. All other things been equal, it was expected that compliance with national accounting standards would mean compliance with International Accounting Standards. However, there it was observed that there are numerous holes between the Ghana National Accounting Standards and the international standards. The Institute of Chartered Accountants, Ghana has not made any attempt to review and update the national standards since originally adapting its local standards to international standards. The ICAG, according to the World Bank, lacks technical skills for the task of reviewing and updating the standards. The absence of a national standards based on IAS 41, Agriculture, is significant in agriculture-dominant Ghana. Furthermore, in the past years, extensive revisions were been made to the International Accounting Standards that are not reflected in the Ghana Accounting Standards. Moreover, the accounting standard setters in Ghana have not issued any equivalent Standard Interpretations Committee (SIC) interpretations issued by the IASB (ROSC, 2004).
5. Monitoring and control of the practical experience requirement is inadequate in Ghana. There was no approved practical experience to practise as a chartered accountant after passing the professional exams leading to qualification as a professional accountant. The ICAG should ensure the acceptability of practical experience undertaken by candidates. In practice, the ICAG does not have the resources to monitor the quality of practical training provided by practical training providers (ROSC, 2004).
6. Professional Accounting education and training is not adequate. “ICAG’s main entry requirement to the profession is in relation with IFAC requirements however; in practice, ICAG accepts lower entry requirements. The prescribed curriculum for educating and training of professional accountants of ICAG was found to be over a decade old. A proposed revised curriculum was scheduled to become effective May 2005, however, it would not still meet fully the IFAC International Education Standards. More so, it was identified that pre-qualification accounting courses do not include practical application of national or international accounting standards. Furthermore, accounting educators lack the experience and adequate knowledge to teach either the theoretical or practical aspects of International Accounting Standards. The International Accounting Standard's learning materials were noted to be very expensive and not easily available. The outdated curriculum and lack of appropriate learning materials leave students without a background in applicable modern accounting and auditing standards. The capacity and resource constraints at higher educational institutions (including lack of skilled instruction and availability of materials) contributed to very low passing rates within the current educational arrangements. The ICAG is proposing to establish a chartered accountancy college to improve the weak state of accountancy education in Ghana. Experience in other countries shows that improving accountancy education in colleges and universities would be more beneficial than creation of a separate chartered accountancy college” (ROSC, 2004).
7. There is no published implementation guidance. As at the time of the World Bank Report, there was no organization in Ghana, including ICAG that issues implementation guidelines on either Ghana National Accounting Standards or the International Accounting Standards. This suggests that companies applied the accounting standards as and when they prefer. The lack of detailed knowledge about international standards and the lack of implementation guidelines often lead to misunderstandings in implementing national standards (ROSC, 2004).
8. No efficient procedure was available to ensure the enforcement of the requirements for accounting and financial reporting in case in the Companies Code. The Registrar-General has legal authority to ensure the enforcement provisions of the Companies Code. The Registrar-General also has legal authority to provide exemptions from compliance with the Companies Code. But it was identified that there was no logistical and technical capacity to appraise financial statement by the Registrar-General and also to identify accounting and auditing violations. There is no severe implementation of timely filing of returns and annual financial statements, and the financial statements of non-listed public and private companies were not readily available (ROSC, 2004).
9. There are significant compliance gaps. The differences between applicable accounting standard and actual practice gives rise to what is termed as compliance gap. The published financial statements of some companies reviewed by the World Bank Research team revealed bigger or serious compliance gaps in the Ghanaian accounting system. It was noticed that the financial statements of some sampled companies do not specifically mention which accounting standards are employed. “In general, actual accounting and disclosure practices in Ghana do not meet many of the applicable requirements” (ROSC, 2004).
10. The legal requirements on accounting and reporting by companies, banks, and insurance companies were not consistent with International Accounting Standards. The ROSC identified that the accounting requirements set by the Companies Code, banking and insurance regulators, and the securities market regulator are not fully in conformity with the IAS requirements. Accounting and disclosure requirements set by Insurance Law contradict in many respects with IAS requirements (ROSC, 2004).

DIFFERENCES BETWEEN GNAS AND IFRS

1. Framework for the preparation of financial statements. Several sections of the International Accounting Standards Board framework are omitted in Ghana's National Accounting Framework (ROSC, 2004).
2. Changes in accounting policies. Ghana National Accounting Standards require that the effect of certain changes in accounting policies ought to be involved in the extraordinary items in the current period. The IAS requires these adjustments to be made to the opening balance of retained earnings, thus using the benchmark treatment (ROSC, 2004).
3. Deferred income tax. The IAS requires recognition of deferred tax assets and liabilities for all temporary differences. In contrast, the GNAS requires deferred tax assets and liabilities to be generated only for timing differences relating to depreciation (ROSC, 2004).
4. Statement of changes in equity. Unlike the IAS, This is not required under the Ghana National Accounting Standard; rather the Companies Code requires disclosure of the capital and income surplus accounts, which would contain some items to be included in the statement of changes in equity (ROSC, 2004).
5. Minority interest. The GNAS omits the IAS disclosure of minority interest on the face of income statement (ROSC, 2004).
6. Borrowing costs. Disclosure requirements concerning the accounting policy approved for borrowing costs and the capitalization rate which is a requirement under IAS is been omitted from the GNAS (ROSC, 2004).
7. Segment reporting. There is no requirement in GNAS Standards, as in IAS, to recognise reportable segments (business segments and geographical segments) or to reveal comprehensive information about the reportable segment revenue, expense, results, assets, liabilities. (ROSC, 2004**).**

IV. Findings and Discussion

According to Aharony et al (2010), the adoption of IFRS in the preparing of financial statements affect the quality of specific accounting items. The value relevance of these accounting items improves when compared with the value relevance when prepared with the domestic GAAP. Investors make decision in the capital market based on the financial information they receive. Therefore the quality of financial reports plays a very vital part in the improvement of efficient capital market. The adoption of the IFRS in preparation of financial accounts provide quality financial reports. In reviewing how value relevance is affected after the IFRS adoption on financial reporting in Ghana capital Market, the following findings were made;

The adoption of the IFRS framework in Ghana has provided a significant enhancement in the quality of financial information in the financial firms listed on the Ghana Stock exchange. This makes investors in the Ghana capital market confident when they depend on these financial reports to make decisions concerning their investment. This is in relation to the finding from the studies of Agyei Mensah (2012), who analyzed the pre-adoption and post adoption of IFRS in the preparation of financial statement. His findings established that the quality of the firm's financial statements were of better-quality after the adoption of the IFRS as compared with the GNAS.

Secondly, Antwi (2010), in his study on the Adoption of International Financial Reporting Standards in Developing Countries - The Case of Ghana, interviewed the Chief Finance Officer (CFO) of Millicom Ghana Ltd on his view on how the adoption of IFRS affect the capital market. According to the CFO, he stressed the presence of capital market in Ghana brought about the adoption of IFRS significantly. In his submission he also stated that Shareholders became more relaxed with after adopting IFRS in the preparation of financial reports since according to them, it ensures that companies disclosed certain vital information in their books at the end of the year as well as it been more transparent. This therefore, made investors guaranteed since the adoption of IFRS brought value relevance of financial reports and statements and also proper accountability that meets international requirements.

In addition, the adoption of IFRS in financial reporting in Ghana has caused an improved access to international market, improved comparability, as well as improved the credibility and transparency in the financial information presented by these reports. This in the long run has a great benefit to the Ghana capital market since foreign investors can move in to the capital market to make investment. This finding is evident in the results provided by Boateng et al(2014), in their studies to examine the benefit of International Financial Reporting Standard's (IFRS) Adoption in Ghana using 18 listed firms. From their results, 83% of the respondent agreed that the adoption of IFRS in Ghana has improved comparability, 72.3% also agreed that the adoption has led to improved access to international market and also improve transparency and credibility which makes investors confident in the capital market.

The results provided by Agyei-Mensah (2013), in his studies of impact on the quality of Financial Statement Disclosures after adoption of IFRS in Ghana revealed a mean of 87.09% for the year 2009 (after Adoption) as compared to 76.8% for 2006 (Before Adoption) of quality of financial information. This indicate a significant increase in the quality of financial reports after adopting IFRS in Ghana. The study settles that the adoption of IFRS generally support accounting quality. With the significant increase in the quality of the financial reports after IFRS adoption, investors in the capital market are guaranteed of expedient information for making decisions on their investment.

V. Conclusion

This study was conducted to observe the impact of the adoption of International Financial Reporting Standards (IFRS) on value relevance of the Ghana Capital market. The study found out that the financial reports provided by the listed firms on the Ghana capital market has significantly improved and are of higher quality after the IFRS adoption in preparing and presenting financial statements. The quality of the financial information these reports provided, gave the investors in the capital market a great assurance, confidence and self-reliance in the Ghana capital market in making investment decisions. The study also revealed that the adoption of IFRS mostly strengthen accounting quality. With the enhancement in the value relevance of the financial reports after adopting IFRSs investors are certain of expedient information for making investment decision in the capital market.

Improved financial reporting that presents precise quality financial reports on a timely basis is critical for the development of capital markets especially in developing capital markets as good investment decisions are anchored on high quality corporate financial information.

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