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## **International Financial Reporting Standard's (IFRS) Adoption in Ghana: Rationale, Benefits and Challenges**

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### **Abstract**

The International Financial Reporting Standards (IFRS) was adopted by Ghana in 2007. The study assessed eighteen (18) professional accountants from listed firms on the Ghana Stock Exchange (GSE), to measure the benefits and challenges of IFRS. The study revealed that IFRS improved the access of local companies to international markets. It was also observed that the local firms gained more credibility, transparency, acceptance and consolidation following its adoption. However, most respondents believed that decreasing information cost, competitive leading edge, and integration of accounting Information Technology system were not major benefits as proposed by literature. Nonetheless, some of these local companies after the migration faced challenges like coping with the sophistication of the new standard, lack of qualified personnel, and additional operational cost. Nevertheless, most of the respondents disagreed with the proposition that IFRS had a negative impact on their firms' balance of retained earnings.

**Keywords:** International Financial Reporting Standards; Accounting; Balance of Retained Earnings; Financial Statement; Financial Reporting; Local Companies; Ghana.

### **Introduction**

The adoption of IFRS in many countries across the world is one of the most significant regulatory changes in accounting history. Rapid globalization of financial markets has also given rise to demands for more internationally comparable financial reporting. Bodies such as International Accounting Standards Committee (IASC) now International Accounting Standards Board (IASB) has since its establishment, played significant role through pronouncement of a number of standards that seeks to guide accountants globally on financial statement preparation and presentation (Larson, & Street, 2004). This also led to the facilitation of the reproduction and diffusion of specific accounting and accountability practices across the world by international organizations such as the World Bank [WB] and International Monetary Fund [IMF] (Chand, & White, 2007; Graham, & Neu, 2003; Nolke, 2005; Richardson, 2009; Unerman, 2003; Lehman, 2005).

Consequently, these international institutions have pushed for the adoption of IFRS by developing and transitional countries as part of their restructuring programs. This move has been regarded as essential to command the confidence of investors (Mir, & Rahaman, 2005).

On the 1<sup>st</sup> January, 2007, Ghana adopted the IFRS following the Reports on Standards and Codes [ROSC] issued by the WB in March 2006. The adoption by Ghana has significantly increased

investors' confidence and acceptance within the international financial community. According to Joshi and Al-Basketi (1999), the WB and the International Organization of Securities Commissions (IOSCO) rely on the full adoption of IFRS as the most appropriate for developing countries. Thus, it can be noted that the continuous promotion by the WB towards the implementation of IFRS (Mir, & Rahaman, 2005), is based on economic rationalist principles designed to accomplish a sound system of "global harmonization" in accounting reporting (Lehman, 2005). On the other hand, the relevance of IFRS to developing and transitional countries have been condemned as not specifically beneficial since these countries have little control over such a foreign standard of accounting (Mensah, 1981; Longden, Luther, & Bowler, 2001). In addition, the adoption of IFRS may be both irrelevant and harmful to developing countries due to the differences between the accounting system of developed and developing countries (Samuels, & Oliga, 1992).

Over the years, few empirical studies have been conducted to assess the impact of the IFRS adoption. Previous assessments basically consider the implementation, impact and the challenges facing the global fronts (Lehman, 2005). The issue here lies with the fact that even though some research had been conducted in other countries, what is the situation in Ghana? Apart from the benefits of IFRS, an economic perspective on its expectations and the premise that, IFRS provides quality corporate reporting and comparable statement raises significant concerns. Thus, have these migrating countries taken into consideration the economic consequences of IFRS reporting after its adoption? Furthermore, there has not been enough research to assess the impacts, challenges and possible remedies on the financial statement of these countries. Moreover, these few studies on the adoption of IFRS were mostly based on developed countries with less attention paid to the developing countries. It is against this backdrop that this study intends to look at the existing state of local companies in Ghana after IFRS's adoption.

## **Method**

### **Instruments**

The researcher used a purposive sampling technique since the population of interest involved professional accountants working with listed firms on the Ghana Stock Exchange [GSE] who were recognised by the Institute of Chartered Accountants (Ghana) [ICAG].

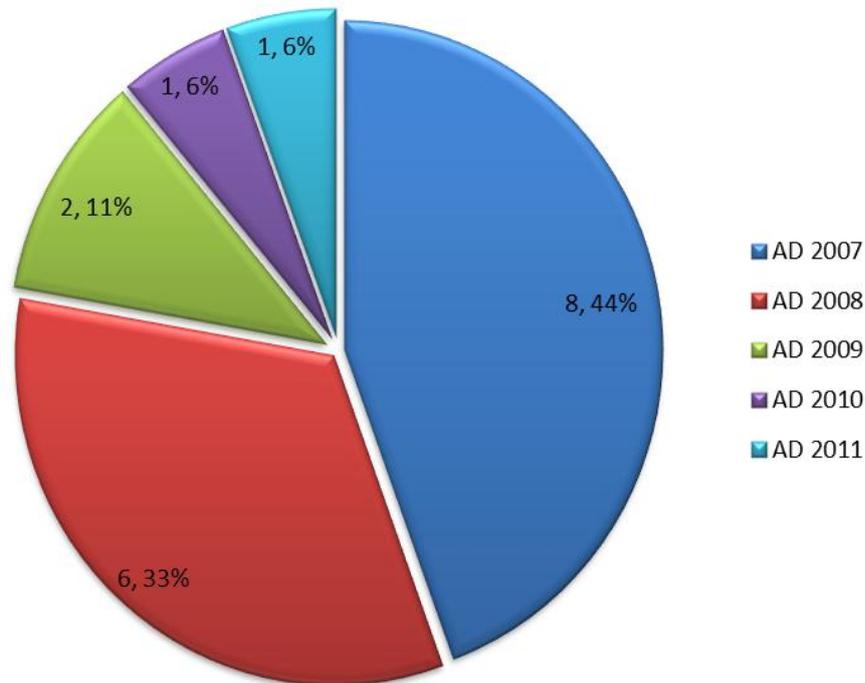
The questionnaire for data collection contained three (3) main parts. The first section consisted of demographic data of participants. The second and third sections of the questionnaire also sought to evaluate the existing challenges and benefits of IFRS in Ghana respectively. Although the questionnaire was made up of closed-ended questions, open spaces were allowed for other additional comments.

### **Participants**

Eighteen (18) professional accountants agreed to take part in this study. Among these participants, 55.6% worked with manufacturing companies. Additional 16.7% were from financial institutions. Mining and Insurance firms recorded 5.6% respondent each respectively. All companies were noted to have been in operation in Ghana for more than 15 years. Majority 72.2% of them stated that their listed companies used the Ghana National Accounting Standard (GNAS) before the adoption of IFRS.

## **Results**

Though all listed firms were mandated to adopt IFRS in 2007, not all the listed firms were able to migrate since they had to go through series of transitions and accompanying cost burden. Figure 1 depicts the year in which the selected companies finally adopted IFRS in Ghana.

**Figure 1: The specific year of IFRS adoption**

### Sectors of Positive Change after IFRS adoption

Since the introduction of IFRS, there had been several positive changes in some sectors of financial reporting. In Measurement, majority of the participants, 88.9% affirmed a change, 5.6% denied any changes while 5.6% were not certain about any significant change in measurement comparing with their old financial standards.

Under Disclosure, all the participants affirmed a change. Regarding Comparability, 94.4% confirmed an evidence of change while 5.6% denied any changes. Reliability also recorded an evidence of change among 72.2% participants while 22.2% saw no changes vis-à-vis their old standard. Additional 5.6% of the participants were not sure about any significant changes in the reliability of the financial statement outcomes.

With respect to changes in Credibility, 83.3% firms confirmed it while 11.1% declined it to be the same. Additional 5.6% of the participants were uncertain with any change in the Credibility of financial statements after IFRS's implementation.

### Suitability of the adoption of IFRS

The entire participant from the selected listed firms confirmed IFRS as generally suitable. The authors sought to probe further for specific areas of IFRS's suitability. With Measurement, 77.8% of them confirmed its suitability while 22.2% declined.

However, all the participants supported Disclosure as a suitable merit of IFRS. With regards to its Comparability, 88.9% of the respondents supported its suitability while 5.6% declined. However, 5.6% of the participants were indifferent to this claim.

Again, IFRS's suitability with regards to Reliability was supported by 83.3% of the total sample. However, 5.6% of them declined its suitability with respect to Reliability while 11.1% participants were indecisive.

IFRS's suitability with respect to Credibility was accepted by 88.9% of the participants while 11.1% of them declined this feature.

### Distribution of Benefits of the Adoption of IFRS

This section of the analysis sought to describe the existing benefits enjoyed by listed companies after the adoption of IFRS in Ghana. Detailed descriptive analysis can be observed in Table 1.

Table 1 showed that, majority of the respondents agreed that IFRS improved their companies' access to the international markets. It also improved the comparability, transparency, eased consolidation and promoted consistency in financial reporting.

Majority of the participants however, strongly agreed to the view that IFRS improved the credibility of their companies' financial statement.

Nonetheless, majority of the participants were also indifferent to the view that IFRS decreased their companies' information cost, offered a leading edge advantage and integrated their information technology [IT] system.

Table 1: Distribution of Benefits of the Adoption of IFRS

BENEFITS OF IFRS	SD	D	NAD	A	SA
Improves access to international market	11.1%	0%	16.7%	<b>55.6%</b>	16.7%
Improves comparability of financial statement	5.6%	5.6%	5.6%	<b>55.6%</b>	27.8%
Improves transparency of financial statement	5.6%	11.1%	11.1%	<b>55.6%</b>	16.7%
Improves credibility of financial statement	5.6%	5.6%	22.2%	33.3%	<b>33.3%</b>
Decreases information cost	11.2%	22.2%	<b>33.3%</b>	22.2%	11.1%
Offers a leading edge advantage	5.6%	16.7%	<b>66.7%</b>	5.6%	5.6%
Integrates IT System	5.6%	5.6%	<b>44.4%</b>	33.3%	5.6%
Eases consolidation	11.1%	5.6%	16.7%	<b>44.4%</b>	22.2%
Has a consistency	11.1%	11.1%	5.6%	<b>38.9%</b>	33.3%

Notes: SD: Strongly Disagree, D: Disagree, NAD: Neither Agree nor Disagree, SA: Strongly Agree.

### Challenges Faced After the Adoption of IFRS

The summary of responses about the challenges facing the adoption of IFRS in Ghana is shown by the Table 2.

Table 2: Distribution of Benefits of the Adoption of IFRS

CHALLENGES OF IFRS	VL	L	MOD	H	VH
IFRS is Sophisticated	5.6%	11.1%	5.6%	<b>61.1%</b>	16.7%
Less number of Professional with IFRS know-how	22.2%	16.7%	22.2%	<b>33.3%</b>	5.6%
IFRS has Additional Cost	22.2%	11.1%	<b>27.8%</b>	16.7%	22.2%
IFRS has a negative balance of retained earnings	<b>38.9%</b>	27.8%	16.7%	11.1%	5.6%
Conflict between state laws and IFRS	5.6%	22.2%	<b>38.9%</b>	27.8%	5.6%
Differences in IFRS's implementation process	16.7%	16.7%	22.2%	<b>33.3%</b>	11.2%
Lack of Internal IFRS Experts	<b>22.2%</b>	<b>22.2%</b>	<b>22.2%</b>	11.1%	<b>22.2%</b>

Notes: VL: Very Low, L: Low, MOD: Moderate, H: High, VH: Very High

From the table, majority of the participants rated very high, the view that their companies lacked internal IFRS experts. Likewise, the participants rated the differences in IFRS's implementation process, the less number of Professionals with IFRS know-how and its sophistication as high. Majority of the participants were indifferent to the perception that IFRS lacked internal experts, conflicted with some state regulatory laws and had additional cost.

Nonetheless, majority of the participants rated as very low, the challenge that IFRS has a negative balance of retained earnings.

### **Discussion**

The rationale behind the adoption of IFRS in Ghana was based on the desire to promote development, standardization of financial statements, and serve as a channel of attracting international market. Ghana being a member of International Federation of Accountants (IFAC), and Economic Community of West African State (ECOWAS) needed to adopt a standard that is internationally accepted. Furthermore, the study also realised from a participant that, "*Ghana National Accounting Standards [GNAS] was an abstract from International Accounting Standard [IAS] in 1973. Ever since, the GNAS had never received any revision. However, the IAS has undergone numerous revisions. Since GNAS has not been revised over the years, it brought about some differences that were identified in the ROSC, 2004. It could then be said that Ghana did not have the capacity and the will power to revise its standards leading to the full adoption of IFRS*". Again, it was recognised that using IFRS makes a firm's financial statement credible, and potential investors have interest in financial statements that were reported using internationally recognised standards. Ghana adopted IFRS because there was the need for transparency. Since IFRS goes with significant disclosure, it offered transparency and upheld the fair value of the accounting system. These findings were different from the suggestion that, the key drive of developing countries to adopt IFRS was as a result of pressures from multinational corporations or the WB (Irvine, & Lucas, 2006). Indeed, the local companies in Ghana reported of their need to join this system of financial reporting due to their own observable challenges.

IFRS was also perceived as beneficial in many dimensions. One of the primary merits was the access it provided to international markets (Peavy, & Webster). Similarly, IFRS improved the comparability of the financial statements of local companies. It made provision of a more understandable, and reliable scope for financial statements (Ball, 2006). Evaluating IFRS's tendencies to improve the transparency and credibility of financial statement, most firms deems it as beneficial. This response is consistent with the findings of several studies on IFRS's implementation in developing economies (Abd-Elsalam, & Weetman, 2003; Irvine, & Lucas, 2006). From the study, IFRS was also described as an effective mechanism to ease the consolidation of financial statements among the participants. This response was no different from what is known in literature (Larson, & Street, 2004). The consolidation of financial statements also brings about some degree of formal convergence. Cost is one of the most important elements to every company. Information is also critical to the survival any company. Therefore, the cost of information is a worry for all institution. The WB and IOSCO believed that the adoption of a known international standard helped decrease information cost, thus, being appropriate for developing countries (Joshi, & Al-Basketi, 1999). This was clearly indicated by the study that information cost was reduced drastically since the introduction of IFRS. This is because the same platform was used to prepare and present the financial statements.

Nonetheless, the study revealed that respondents were indecisive about the benefits of IFRS with respect to its competitive leading edge and integration of accounting Information Technology (IT) system. This was contrary to the findings of a previous study (Joshi, & Al-Basketi, 1999). This result may have arisen because of the weakness in the advance development of information technology in Ghana. Over all, the challenges identified in the study were possible to be present since most respondents agreed to the fact that IFRS is sophisticated and its implementation is quite difficult. According to Choi and Mueller (1984), IFRS is sophisticated and difficult to implement. This was due to the fact that, it conflicted and surpassed existing local business requirements and structure. Factors such as economic growth, sociocultural dynamics, legal and educational environment may also influence its implementation.

However, the results showed that IFRS had a rather positive impact on the balance of retained earnings of listed firms. This is clearly against the position held by literature which stated that there could be a potential fall in a firm's reported balance of retained earnings. Therefore, restricting its ability to pay dividends and subsequently impacting on share price (Picker, 2003; Ravlic, 2003). In addition to the challenges noted, the adoption of IFRS can bring significant short-term cost to businesses, such as paying external accountant specialist, and training of staff (Ravlic, 2003). The analysis of the data does not clearly depict the observation made by literature. This may

be for the reason that, additional cost to the company may depend on the company's existing structures, expertise, needs and financial standing. Some companies have external parentage and would be easier to adopt the new format for the local branch with little cost. Also, lack of expertise and the underdeveloped accounting profession is one of the biggest challenges facing IFRS adoption. The practices of qualified professionals and enforcement of regulations by mandated bodies are essential to the successful implementation of IFRS in Ghana.

### **Conclusion**

The research findings confirm the position of most previous studies done in the area of IFRS. The main reason why Ghana adopted IFRS was because of its membership in the global community. The need to adopt a standard which was internationally recognised was needed for comparison, credibility and transparency in order to increase investors' confidence. The study also disclosed that IFRS improved the transparency of financial statements, credibility of financial statement and made consolidation easier. On the other hand, IFRS was described as sophisticated and cumbersome. The study showed that most respondents agreed that IFRS had a positive impact on a firm's balance of retained earnings which was contrary to literature. Finally, the results of the study contradict with the position that the adoption of IFRS in Ghana was due to pressures from the WB and IMF.

### **Recommendations**

Based on the study undertaken on IFRS adoption in Ghana, the following recommendations are made:

- a. Government should support and strengthen the standards' setters so that they can try to set standards which are applicable to the Ghanaian environment.
- b. Professional education and training should also be strengthened as well as raising the awareness of the importance of IFRS and compliance with accounting requirements
- c. Necessary steps should be taken to strengthen the capacity of regulators including Securities and Exchange Commission to enable them deal effectively with accounting and financial reporting practices of the regulated entities.
- d. Future studies on IFRS suitability could consider industry-specific studies.

### **Conflict of interest statement**

The authors affirm that they do not have any conflict of interest.

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