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FINANCIAL REPORTING AND COMPLIANCE OF IMPAIRMENT OF NON-CURRENT ASSETS IN THE NIGERIAN BANKS.

Olaleye Michael Olugbenga1, Agboola Jacob Olusola (Phd)2, Solomon Adeoluwa Zacchaeus3 ,Oyerogba Ezekiel Oluwagbemiga4.

1.. Department of Commerce and Economic Studies, School of Human Resources Development, Jomo Kenyatta University of Agriculture and Technology ,Juja, P.O.Box 62000- 00200,City Square, Nairobi, Kenya

2 Rectory, Osun State Polytechnic, P.M.B. 301,Iree, Nigeria

3.Department of Commerce and Economic Studies, School of Human Resources Development, Jomo Kenyatta University of Agriculture and Technology,Juja, P.O.Box 62000- 00200,City Square, Nairobi, Kenya

4.Department of Commerce and Economic Studies, School of Human Resources Development, Jomo Kenyatta University of Agriculture and Technology,Juja, P.O.Box 62000- 00200,City Square, Nairobi, Kenya

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ABSTRACT*: The significant value in financial statement is denoted by the non –current assets. The implementation of the International financial reporting standard in Nigeria commenced in the year 2012 which insisted on the implementation of impairment of assets (IAS 36) and how the impairment loss should be recognised .According to Beisland, Hamberg and Navak, 2010 , one is not aware of any expansive study that has explored the subject of value relevance of accounting information in Nigeria., This study attempts to fill the gap in literature by assessing the disclosure of impairment of assets in Nigerian Banks. The objective of this study is to investigate the level of compliance of Nigerian banks with impairment of non - current assets (IAS 36) in their year 2012 financial reports and also the no of banks which disclosed additional information on significant impairment of assets on their financial statements for the year 2012 . For this study, eleven banks were selected out of the twenty two banks. The disclosure of impairment was analysed by using descriptive statistics. The results of the research showed an increase in the number of Banks which disclosed impairment losses as well as the value of impairment losses. It is expected that there will be an improvement in the extent of disclosure in the subsequent annual reports.*

KEYWORDS*: Impairment of non- current assets, disclosure, financial statement, impairment losses.*

INTRODUCTION

Global Accounting involves formulation of accounting regulations which in material respect are similar to those of other countries and applied uniformly in reporting transactions. International Accounting Standards Board (IASB) is in the fore front by promoting that all countries worldwide should adopt International Financial Accounting Standards(IFRS) as it is the easier way of promoting harmonization in reporting. In Nigeria ,adoption of IFRS was launched in September,2010, by the Honourable Minister, Federal Ministry of Commerce and industry, Senator Jubril Martins –kuye (OFR). The adoption was scheduled to start with Public limited Entities and significant Public interest Entities in 2012 for statutory purposes. All other Public interest Entities are expected to mandatorily adopt the IFRS for statutory purposes by January 2013.And small and medium sized Entities shall mandatorily adopt IFRS by January 2014. The adoption was organized such that all stakeholders use the IFRS by January 2014. The fundamental objective of financial reports is to communicate economic information about the resources and performance of the entity, which should be useful to individuals in decision-making (Alexander et al. 2007), and to provide important information to interested users Enria et al. (2004).

Accounting information is required for financial decisions by both the investors and owners of businesses. The major role of accounting information is to permit inform judgments and decision making by the users of such information (Zimmerman and Watts 1986).According to Meyer (2007), accounting plays a significant role within the concept of generality and communicating wealth of companies .Financial Statements still remain the most important source of external feasible information on companies. Bello (2009) states accounting is believed to be an information infrastructure used by economic units to achieve various economic decisions. At a global level, comparable information accounting rules set can thus lead to a more efficient allocation of the world's supply of funds with lower cost of capital and a higher overall welfare (Ruder et al. 2005). Corporate financial reporting is the medium through which companies communicate to the external society about their operations performance in terms of profitability, efficiency and responsibility (Nzekwu 2009;Abubakar 2010).

The two key qualitative characteristics for financial statements to be of decision usefulness are reliability and relevance. Efforts are being made by several authorities to determine an appropriate accounting standards so that financial statements can provide more relevant and reliable information. .Nowadays many accounting standard setters want to move towards the relevance of fair value than reliability of historical value even accounting information has to maintain them in balance sheet, because the most significant value in financial statements is represented by non-current assets. And also the company act has insisted the implementing impairment test in the companies. If the companies maintain the impairment process regularly, they can ensure the security and survive of them. Hence importance of impairment of assets has grown. International Accounting Standards no.36 (IAS 36), impairment of assets, effective in 1998, is the first such regulation adopted by many countries. The objective of the standard is to ensure that assets are carried at no more than their recoverable amount and to define how the

recoverable amount is calculated. . Assets to which IAS 36 applies include long-term assets, long term investment and intangible assets. Accounting for impairment of assets in the Nigeria is set out under International Accounting Standards (IAS 36., International Financial Reporting Standards *(IFRS),* It became operational in Nigeria in the year 2012.These standards describe potential events that result in impairment of assets, methods for calculation of the recoverable amount, and accounting for impairment of assets. The standards also prescribe disclosure of information in reference to impairment of assets in financial statements. When long –lived assets are impaired (the fair value of the asset is less than book value), the resources of a corporate body have changed in value. And this information should be disclosed in the presentation and preparation of financial statement. The recent financial crisis has led to a serious criticism concerning fair value accounting. Fair value accounting involves reporting assets and liabilities on the balance sheet at fair value and recognizing changes in fair value as gains and losses in the income statement.

Research problem

In Nigeria ,fairly related literature are on accounting systems (Jagetia and Nwadike, 1983);corporal financial reporting (Wallace, 1988);relevance of financial statement to stakeholders' investment decisions (kantude,2005).Literature on impairment of assets in Nigeria is so scanty and insufficient that it is difficult to determine value relevance of accounting information in Nigeria because IAS 36 became operational in 2012. Beisland, Hamberg and Navak, 2010),one is not aware of any expansive study that has explored the subject of value relevance of accounting information in Nigeria. Because of its introduction in Nigeria in 2012.,This study attempts to fill the gap in literature by assessing the disclosure of impairment of assets in Nigerian Banks.

Objectives of the Study

The purpose of this study was to analyse financial reporting and implementation of impairment of non-current assets in the financial reports of Nigerian banks**.**

The specific objectives of the study are :

(i) To determine the percentage of banks which disclose scope and method of impairment of assets in their annual reports for 2012

(ii) To determine the percentage of Nigerian banks which disclose impairment of classes of assets in their 2012 annual report

Hypothesis

H1: Most banks in Nigeria disclosed the scope and method of impairment of assets in their annual reports for 2012.

H2: Most banks in Nigeria disclosed impairment of classes of Assets their annual reports for 2012.

Legal Framework of IAS 36

According to IAS 36 – Impairment of assets can be referred to as a sudden or unexpected decline in an asset's service utility , like factory ,vehicle or property. The objective of Impairment of Assets is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amounts. Carrying amount is the amount at which an asset is recognized in the statement of financial position after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon .This might result from physical damage to the asset , changes to the legal code or obsolescence resulting from technological innovation . An asset is impaired when its carrying amount exceeds its recoverable amount. (IAS 36:8) At the end of each reporting period, entities are to assess whether there is an indication that an asset may be impaired. If any such indication exists, the entity is required to estimate the recoverable amount of the asset. (IAS 36:9).

The Standard prescribes the following:

- The circumstances in which an entity should calculate the recoverable amount of its assets ,including internal and external indicators or impairment;
- the measurement of recoverable amounts for individual assets and cash - generating units and
- the recognition and reversal of impairment losses.

This standard covers most non-current assets, with the exception of financial assets and non current assets classified as held for sale.

Key concepts

- An impairment loss is the amount by which the carrying amount of an asset or cash –generating unit exceeds its recoverable amount.
- the recoverable amount of an asset or a cash –generating unit is the higher of its fair value less costs to sell and its value in use.
- value in use is the present value of the future cash flows expected to be derived from an asset or cash –generating unit.
- fair value less costs to sell is the amount obtainable from the sale of an asset or a cash- generating unit in an arm's-length transaction between knowledgeable ,willing parties less the cost of disposal.

  Therefore if either the net selling price or the value in use of an asset exceeds its carrying amount, the asset is not impaired.

Accounting Treatment

- The recoverable amount of an asset should be estimated, if at the reporting date, there is an indication that the asset could be impaired. The recoverable amount of the following assets should be determined, annually, irrespective of whether there is an indication of impairment:
    - Intangible assets with an indefinite useful life
    - intangible assets not yet ready for use; and goodwill

- An impairment loss should be recognized in profit or loss the asset is carried at the revalued amount in accordance with IAS 16 or IAS 38 in which case it should be dealt with as a revaluation decrease . After recognition of the impairment loss, the depreciation charge for subsequent periods is based on the revised carrying amount.
- An entity should reassess at each reporting date whether there is any indication that impairment losses recognized in a prior period no longer exist or has decreased .If any such indication exists, the entity should estimate the recoverable amount of that asset. An impairment loss recognized in prior periods should be reversed if and only if ,there has been a change in the estimates used to determine recoverable amount since the last impairment loss was recognized. If that is the case ,the carrying amount of the asset should be increased to its recoverable amount ,but only to the extent that it does not increase the carrying amount of the asset above the carrying amount that would have been determined for the asset(net of amortization or depreciation) if no impairment loss had been recognized in prior years.

Presentation and disclosure

The following should be disclosed for each class of assets class of assets and for each IFRS 8 reportable segment:

- amount recognized in the statement of comprehensive income for:
  -impairment losses ; and
  -reversals of impairment losses

- amount recognized directly in comprehensive income for
  -impaired losses ;and
  -reversals of impairment losses.

THEORETICAL FRAMEWORK.

Many researchers consider impairment loss a complex phenomenon that cannot be interpreted by one theory (Cormier et al. 2005). Therefore, this study has used a multi theoretical framework, depending on three interactive theories (Neu and Simmons 1996; Cormier et al. 2005; Collin et al. 2009) which provide a good explanation of motives and reasons for applying impairment loss. The Agency theory can explain management's choice in applying impairment loss (Jensen and Meckling 1976), while Legitimacy theory explains the extent and content of financial reporting, stating corporate disclosure practice (Gray et al.1995; O'Dwyer et al. 2005), and Signalling theory explains how a firm, by acting in a specific way, can create a specific reputation (Spence

1973).Accountability theory focuses on the relationship between the company and its users (stakeholders) regarding the nature of the financial information and the disclosure in the annual report (Drever 2007).

Agency Theory

Agency theory, is an approach that involves the application of game theory to the analysis of a particular class of interactions, viz. “situations in which one individual (the agent) acts on behalf of another (the principal) and is supposed to advance the principal’s goals.” So, the managers are working on behalf of the investors (Shapiro 2005), shareholders (suppliers of capital) act as principals while managers act as agents (firm).The adoption of the agency logic increased during the 1980‘s as companies started replacing the hitherto corporate logic of managerial capitalism with the perception of managers as agents of the shareholders (Zajac et al. 2004). The subsequent stream of literature would break with the tradition of largely treating the firm as a black box and the assumption that the firm always sought to maximize value (Jensen 1994). In Agency theory, the main problem is that the agent may not be operating in the best interests of the principal (Agency Gap). as well, the principal needs information which is used to evaluate the performance. This may lead to problems of information asymmetry; this causes agency problems such as moral hazard and adverse selection (Hoque 2006) which arises from the fact that managers always act in their own interests to maximize their personal wealth, probably because they have personal goals that are different from those of the shareholders (McWilliams and Siegel 2001; Miller 2002). For instance, the principal and agent may differ in their risk preference, thus leading the agent's' actions to be different from what was expected by the principal (this issue is called the problem of risk-sharing, which the agency problem is likely to increase). Theoretically, the nature of the relationship between principals and agents is a difficult issue; this encourages a significant role for improving performance by using IAS, corporate governance mechanisms and external auditing, which monitor management behaviour. Managers and shareholders may have duo conflict of interest. The manager/shareholder –debt –holder conflicts and shareholder –manager conflict. Therefore, managers may apply certain plans or actions that are not acceptable to shareholders or/and debt-holders, thus leading to conflict (Jensen and Meckling 1976; Watts 1977; Kelly 1983). This conflict will encourage the emergence of agency costs. These costs consist of the following:

(1) Monitoring costs incurred by the principal to monitoring the agent's behaviour; The principal is responsible to pay the costs related to the process of measuring and monitoring the agent work, the monitoring process should be done by certain groups that have sufficient experience and appropriate incentives to ensure a fair and successful control of the tasks undertaken by the management. But Deegan (2000)states excessive control may prevent innovation and restrict the administration work). The monitoring process should guarantee that the agent have the ability to perform his stewardship role.

(2) Bonding costs incurred by the agent to assure the principal that he/she will not apply actions that may destroy the principal's interest. Watts (1986,) provide examples to clarify the bonding costs, such as expenditure on audit committees, non executive directors and internal auditors.
(3) the residual loss which represents the difference in actions between the agent and principal if the principal takes the action himself/herself (Jensen and Meckling 1976; Watts 1977). Rodney

and Muller (2004,p.329)suggest this type of cost "arising because the manager‘s decisions do not optimize the project‘s outcomes for the client, either because the manager is behaving opportunistically, or because they do not fully understand the owner‘s requirements". Moreover Jensen and Smith (1985, p.4) suggest residual loss "represents the opportunity loss remaining when contracts are optimally. Therefore, there are still agency losses arising from conflicts of interest. These are known as residual loss". In other words represent the imbalance between the monitoring cost and the bonding cost. And this happened when the agent failure to satisfy the needs of the shareholders about monitoring the agent's performance.

The effect of agency theory on asset impairment studies can be observed in prior studies such as (Francis et al. 1996; Beatty and Weber 2006) which provide conflicting results in the assessment of the relationship between corporate impairment mechanisms and earnings management on the one hand, and quality of accounting information on the other hand. Therefore, using agency theory as a framework to explain how asset impairment is used through earnings management is an appropriate approach for this study.

Signalling Theory

The main idea of signaling theory is that one party (the management) sends some meaningful Information about their performance to another party (the stockholders or other users) to attract the users‘attention. Signals have changeable degrees of reliability, and a number of them are quite highly correlated with the quality they represent; the problem is deciding how the signal is associated with the quality which it represents and identifying the main elements of the signal that keep it reliable (Watts and Zimmerman 1978). Aduda and Chemarum (2010) state that the signaling model was first proposed by Brennan and Copeland in 1988.According to the signaling theory, financial information acted as a means of passing information from managers to stockholders. The signaling model of stock splits showed that stock splits served as costly signals of managers’ private information because trading costs increased as stock prices decreased.

According to Francis et al. (1996) write-off disclosures potentially convey three kinds of information. The first is information about decreases in economic values of assets; from this view, we expect that unexpectedly large (small) write-offs result in decreases (increases) in market-adjusted returns. The second type of information relates to changes in management strategies; impairment affect security returns because they are a signal of expected improvements in future performance, with larger write-offs having more positive price effects. Finally, write-offs may convey information about the firm's willingness and ability to apply earnings management discretion. Spence (1973) detects that, according to this theory, companies need to distinguish themselves from other companies in terms of the quality of financial statement and achievement. Also, because optional disclosure is considered one of the methods available for the implementation of this, distinguished companies are eager to increase the level of optional disclosure, hoping to maintain their share price or improve it. By conclusion that write-downs are a signal of the potential performance improvement is fully consistent with Aboody‘s findings (1999) that an asset write-off may help to resolve problems caused by information asymmetries. Internal managers can signal important information that they hold by writing-down the assets they have; this would be a signal of better future performance (Aboody 1999). Furthermore , the company may disclose the impairment loss in order to give a signal that it is striving explicitly

for improvement and development in the current period and coming future; logically, if a write-off decision is related to restructuring, the market may show the write-off as an effective management reaction to a bad business environment such as the disposal of an unprofitable production line of the business (Francis et al. 1996). A firm's adoption of impairment loss is related to how signals affect firm value; companies use impairment loss to achieve private objectives, by positive or negative signalling about the firm value. Information asymmetries can be decreased if one party has more information signals than others. High-quality firms want to differentiate themselves from low-quality firms through the information disclosed. Zucca and Campbell (1992) state that some workers in the trade and academics acknowledge that the decline in the assets value is an indicator of the acquisitions operations or merger with other companies of the same size, which leads to changes in the structure of the capital. Meanwhile (Rees et al. 1996) consider recording impairment as a means of providing value relevant signals to investors, although this theory provides an explanation of the use of impairment loss as a means of disclosure or dissemination of data. One of the existing interpretations of impairment practice is that it may be seen as a signal for stakeholders, to inform them that reforms are coming in the near future, and impairment loss is also used when the management is new, as an indicator of the bad performance of the previous administration (Vanza et al. 2011). Also, impairment loss is considered a signal about firm efficiency, because there are two possible meanings of the signals: the first is that the managers may be using asset impairment (write-downs) either to respond to unfavourable changes in the firm's economic value (negative signal) or to give insight (proof) to investors that they are dealing with the past problems, so that improvement in future performance can be expected (positive signal) (Xu 2007). Previous studies, in contrast, have concluded that assets impairment (write-off) generally has negative information content when announced (Hirschey and Richardson 2003; Seetharaman, Sreenivasan et al. 2006). Past studies confirmed some evidence that impairment may send different signals. Francis et al. (1996) found that investors consider impairment (write offs) as negative news and discovered a significant positive reaction to restructuring charges consistent with the view that greater flexibility in measuring and recognizing restructuring charges allows management to use these items as a signal about expected future performance . Bartov (1993) proved that the three-day cumulative abnormal returns around impairment (write-off) announcement are negatively related with asset write-down amount. Even though such information content cannot reveal whether investors consider assets write off disclosures as value-relevant information when setting asset prices, they at least show that the market will interpret the asset write-offs announcement differently according to the information type they contain (Churyk 2005; Dahmash et al. 2009). Arthurs ,Busenitz,Hoskisson and Johnson (2009) discovered that signals have the effect of sensitizing the market and therefore indirectly affect consumer preference.

Legitimacy Theory

Hallberg and Persson (2011) stated that legitimacy theory stemmed from the idea that there is a social contract between the firm and society. By fulfilling this contract, the firm will be considered legitimate. The contract is met when the firm discloses its accounting information in a certain way (Watson et al. 2002). The idea of a social contract between business and individual members of society suggests that, while the main aim of a business is to make profits, it also has a moral obligation to act in a socially responsible manner (Sethi 1979). Suchman (1995) stated that legitimacy is 'a generalized perception or assumption that the actions of the companies are

desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs.According to Deegan (2006), legitimacy theory asserts that organizations continually seek to ensure that they operate within the bounds and norms of their respective societies, A firm that is seen as legitimate has better chances to survive and acquire the required support for sustainable operations (Meyer and Rowan 1977), so firms strive to be legitimized by becoming or remaining acceptable within the social environment in which they are operating. Also, Zimmerman (1998) stated that legitimacy is the result of a positive judgement by individuals and organizations in a society of the appropriateness of an organization. It is based upon the notion that business operates in society using a social contract where it agrees to perform various socially desired actions in return for approval of its objectives, other rewards and its ultimate survival (Larson 2002). Legitimacy theory explains the extent and content of financial reporting, and also clarifies the willingness to disclose information by pointing out that firms want to guarantee their continued existence in society (Reich 1998) by providing detailed information to satisfy the society needs that protect their services (Shocker and Sethi 1973). Therefore, companies use measures to ensure that their activities and performances are acceptable to the environment (that the companies are operating in); one important step is to disclose any information that may affect the community (Wilmshurst and Frost 2000; Mobus 2005). Those who advocate regulated environmental information claim that at least minimum information is ensured by these regulations (Maltby 1997; Tenbrunsel, Wade-Benzoni et al. 2000). Companies should fulfill the social contract and act in a way that is consistent with the investors' expectations (Philippe 2006). If the investors expect firms to apply IAS 36, firms may feel forced to do so to continue being seen as legitimate. It is advisable for companies to report their financial activities in line with the expectation of the Community based on the financial regulation for their survival.

Accountability theory

Kanthapanit et al. (2011), explained the **accountability theory** as a technique to explain the reasons for a firm's management decision to apply impairment losses. This theory stated that a corporation's management reacts in a way that protects all users of financial information. Keasey and Wright (1993) stated that the "accountability involves the monitoring, evaluation and control of organizational agents to ensure that they behave in the interests of shareholders and other stakeholders". Thus, this theory focuses on the relationship between the company and its users (stakeholders) regarding the nature of the financial information and the disclosure in the annual report (Drever 2007).

LITERATURE REVIEW

As companies compete globally for scarce resources, investors and creditors as well as multinational companies are required to bear the cost of reconciling financial statements that are prepared using national standards.It was argued that a common set of practices will provide a level playing field for all companies worldwide (Murphy 2000). Cai and Worg (2010) posited that having a single set of internationally acceptable financial reporting standards will eliminate the need for restatement of financial statements, yet ensure accounting diversity among countries, thus facilitating cross –border movement of capital and greater integration of the global financial markets.Alp and Ustardag (2009) conducted a research on the development

process of financial reporting standards around the world and its practical results in developing countries found that Turkey had encountered several complications in the adoption of IFRS.

Prior researchers got the evidence that impairments disclose private information to reduce uncertainty about firm value in the period prior to the global financial crisis (GFC). During the global financial crisis (GFC) a significant number of firms, confronted by unprecedented market volatility, substantial declines in profitability and sustained falls in stock prices, needed to recognize asset impairments (Amir Vanza and et al, 2011). Fair value accounting records assets and liabilities of an entity at estimates of their current values. In view of the economic value concept, independently of any legal aspect ,companies should periodically assess their assets' impairment .(Reistem ;Lander, 2004).From a valuation perspective ,the aim of impairment is to adapt the book value to the asset's ability to produce future benefits, i.e. asset valuation is practiced through the fair value (Riedl et al,2004). Perhaps the negative aspect is the fact that impairment practices raise significant disclosure challenges, as they imprint some degree of subjectivity on financial statements, considering that they demand judgments and estimate (Riedl et al,2004). Chambers (2007) found evidence that annual impairment testing improves financial reporting. However, he also found evidence that elimination of systematic amortization reduced the quality of financial reporting. Also, Smith (1994) revealed that application asset impairment should not lead to performance impairment. Actually, the result is expected to be quite the opposite: this disclosure may bring important benefits to the company, such as capital allocation within the company, and result in substantial increases in overall performance. Meanwhile, Adams (2002) found that the recent discussion on financial reporting and corporate governance tells us that ,even in relatively mature fields of reporting and disclosure, there is still more that can be done ,which indicates that accounting information cannot yet satisfy the user's needs. From the survey for literature review, it appears that: First, most studies concentrate on three pivotal aspects relating to impairment; the first considers applying impairment as a tool to provide accurate information and increase transparency by increasing the representational faithfulness of reported information (Fitzsimons and McCarthy 2002; Chambers 2007; Giannini 2007; Barth et al. 2008). The second pivot considers the impairment concept as a tool for manipulation (McNichols and Wilson 1988; Zucca and Campbell 1992; Adams 2002;Chen et al. 2004; Jordan and Clark 2004; Riedl 2004). The third pivot examines the association between impairment loss and market reaction, or stock prices reaction, and performance (Smith 1994; Francis et al. 1996).

Cotter et al. (1998) tested a sample of Australian industrial companies to find the factors influencing asset write-downs, and whether managers have a motivation to apply assets impairment. Their results indicate that the mean of the asset write-down as a percentage of total assets is 4.4%. They found similar results to those of Francis et al. (1996) that managements often have a motivation to impair assets when the financial statements are able to absorb such impairment, and a write-down is more likely if there has been a change in management. Regarding the first pivot, there are no adequate studies in the accounting literature that investigate the effect of asset impairment on improving the quality of accounting information in developing countries. The following studies have been conducted in developed countries, such as Barth et al's study (2008) to determine the impact of the application of international accounting

standards on improving the quality of the accounting information published. Results indicate that companies that have implemented IAS improved the quality of their published information; Wild (2001) emphasized the urgent need to provide users with the necessary information enclosed with the financial statement in order to analyze the business. From the same perspective, Chambers (2006) found evidence that annual impairment testing of goodwill has improved financial reporting, and also found evidence that the elimination of systematic amortization has reduced the quality of financial reporting. This represents an important indicator for applying this study, because of the conflicting results of previous studies (Smith 1994; Francis et al.1996) in explaining the linkage between impairment information and firms�' performance; they found that impairment has a negative effect on companies' performance according to the users' perspective, and they saw impairment as negative news . Adams (2002) has suggested that the term ―transparent financial information‖ needs to be given framework and substance, and his primary results indicate that compliance with the provisions of SFAS 142 is somehow better than the results in prior studies which examined other reporting requirements (still irregular and unpredictable); consequently, there is huge criticism about the shortage of information relating to the impairment concept. Anandarajan et.al (2000) said that investors are not getting what they expect from impairment. And all these studies appearing in the literature review applied econometric models to discover the impairment influence, while in this thesis the researcher has applied a new methodology using questionnaires and interviews to measure the users' opinions.

According to the second pivot, some firms which have negative incomes try to apply impairment loss to achieve other purposes (to achieve private goals for the company or administration). For instance, Deming et al. (2005) examined whether listed firms in China that have negative earnings manipulate accounting information by using impairment loss and whether there is any motivation to apply a big bath. They find that earnings management has a significant effect on the reported impairment, and assert that firms with negative earnings have a strong big bath incentive. Furthermore, Francis et al. (1996) state that managers have incentives to manage earnings by impairment. Duh et al. (2009) state that firms reporting more impairment losses have probability to reverse impairment losses to avoid an earnings decline in a following period and this used by firms with greater debt ratios. This result has been confirmed by Trottier (2013) state that impairment reversals significantly increase the possibility for management to smooth income. Beatty and Weber (2006) stated the following:"We find evidence suggesting that firms'asset pricing considerations affect their preference for above the line versus below –the –line accounting treatment and firms' debt contracting bonus, turnover and exchange delisting incentives affect their decisions to accelerate or delay expense recognition. Our study contributes to the accounting choice literature by examining managers' use of discretion when adopting a mandatory accounting charge and by developing and testing explicit cross –sectional hypotheses of the determinants of firms' preferences for immediate below –the –line versus delayed above –the –line expense recognition which indicates the manipulation of accounting numbers.

Impairment is considered a technique used for manipulation by top management through earnings management see (Trueman and Titman 1988; Schrand and Wong 2000). The best definition of earnings management is that it is intended interference in the external financial

reporting method with the aim of obtaining a number of private gains Schipper (1989). Moreover, manipulation may be used to satisfy the external demand (meet earnings forecasts and increase short prices), or to meet internal demands relating to optimal contracting. But Strong and Meyer (1987) conclude that the most important reason to apply the big bath concept is a change in senior management, especially if the new chief executive comes from outside the company. Jordan and Clark (2004); Sevin and Schroeder (2005) show that firms with extremely poor earnings are more likely to take a big bath, and all the evidence indicates that depressed earnings could be the main reason for a company to take the write-down (impairment).

The capital markets and global economy have become increasingly integrated. It is highly significant and of great benefit to have a uniform set of a recognized financial reporting standards. The harmonization of accounting standards is absolutely vital to building long –term global financial stability, creating truly international capital markets and providing full transparency for credit management,(Hansen,2003). The essential regulatory requirements of financial reporting is that the carrying amounts of assets which are disclosed in financial statements should not exceed their recoverable amounts. If it exceeds , then the carrying amount should be decreased. This implies a decrease of the carrying amounts results in impairment of assets which is regarded as impairment loss. In general ,previous studies had shown that accounting practices were determined by the interaction between accounting standards and the motivation of individuals, be they private or public (Ball et al, 2003).

METHODOLOGY

Research design

We adopted descriptive design which entails the use of percentage.

Data Collection

In order to meet the objectives of the study , the instrument of data collection for this research was secondary data collected from the annual reports of the banks for year 2012.

Population

There were twenty two banks in Nigeria as at the year 2012.

Sample

In this study, the banks in Nigeria are selected to examine their level of compliance and disclosures of asset impairment information in their annual reports.
Out of the twenty two banks, the sample size chosen is eleven banks which represent 50% of all the banks based on previous researchers (for instance, also the sample size is based on the statistical believe that where a small sample is selected randomly ,the result will give a true representation of the population.

RESULTS AND FINDINGS

Disclosure of Significant information

Disclosure of information on significant impairment of Assets are set out under the IFRS ,companies should disclose additional information for each significant impairment. Therefore the

percentage of banks which disclosed information on significant impairments in 2012 was examined. The results are presented in Table 1.
In the results 100% of banks disclosed the accounting policy for asset impairment. Also 100% of banks recognized impairment losses in the income statement, cash flow and financial position .While 91% of banks disclosed the measurement method.

Table 1: Percentage of Banks in Nigeria which disclosed the scope and method of impairment of assets in their annual reports for 2012

	Frequency	Percentage
1. Disclosure of accounting policy for asset impairment	11	100%
2. Impairment losses recognized in the Income statement, Cash flow and financial position	11	100%
3. Disclosure of the measurement method	10	91%

Disclosure of impairment of assets

This research is based on the investigation of the percentage of banks which disclosed impairment of classes of assets in their financial statement. An overview of the percentage of Banks which disclosed impairment of classes of non - current assets is given in Table 2.
The research showed that 100% of Banks disclosed impairment of classes of assets as required by IFRS. All the non - current assets are shown by Banks with the exception of Computer hardware and Computer software in which 82% and 73% of Banks showed them.

Table 2:. Percentage of Banks in Nigeria which disclosed Impairment of Classes of Non- Current Assets for the Period 2012

	Frequency	Percentage
Property ,Plant and Equipment	11	100%
Motor Vehicle	11	100%
Computer Hardware	11	100%
Computer Software	9	82%
Goodwill	8	73%
Investment	11	100%
Loans and Advances	11	100%

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