

## **Impact of Statement of Accounting Standard 17 (Sas 17) on Financial Reporting Quality of Listed Oil Marketing Companies in Nigeria**

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### **Abstract**

*The aim of this study is to assess the degree of compliance with SAS 17 by the ten listed oil marketing companies in Nigeria. The population of the study consists of the total number of listed oil companies in Nigeria. There are currently nine (9) oil companies listed by the Nigerian stock exchange as at June 2018 (NSE Fact book, 2018). The sample size of the study is four oil companies. Data are obtained from the annual accounts and reports of listed Nigerian oil marketing companies that make up the working population for the study. Time frame for the study is ten years, covering period from 2003-2011. The disclosure requirements of SAS 17 are extracted and organized in what is termed disclosure index. Data captured in the study, will be analyze using descriptive statistical methods. The descriptive analysis involves the use of percentages, tabulations, and graphs etc, in analyzing data. Given that, the objective of the study is to measure the relationship between compliance with SAS 17 and financial reporting quality, Multiple Regression Technique will be use and the relationship between the variables will be obtained using Pearson Correlation. A computer software known as Stata will also be used in order to put more clarity and have more robust result from the analysis. The study recommends thus, Companies operating in all sectors of economy need to embrace the culture of full disclosure in line with the requirements of the regulating agencies. The best of practice is full or 100% compliance as anything short of this is a dent on the reputation of the reporting entity, The council should ensure that henceforth all sanctions are enforced as this will deter would-be violators of provisions and disclosure requirements of the standards from perpetrating and perpetuating indiscipline in the accounting profession, the international Accounting Standards Board should come up with an updated International Financial Reporting Standard for the petroleum industry. This becomes imperative in view of the global convergence on the International Financial Reporting Standard as against the former practice of local GAAPs and All the operators in the upstream sector should be compelled to list their shares in the Nigerian Stock Exchange. This will strengthen financial reporting practice and at the same boost the transparency of multinationals in the industry as quotation implies higher level of regulation*

## **1.0 INTRODUCTION**

It is essential to provide high-quality financial reporting to influence users in making investments decisions, and to enhance market efficiency. A qualitative financial report can be best achieved if properly regulated through high level of compliance with the established standards in the preparation and presentations of financial statements (Herath, 2017). Standards are guidelines, usually in form of statements which provide detailed guidance on how to deal with a specific accounting problem.

Providing high quality financial reporting information is highly important because it will positively influence capital providers and other financial information users in decision making and enhance the overall market efficiency. This implies that, financial information issued by companies has become an essential resource for many users. However, since the users of financial reports, will use it for decision making there is need for companies to provide a relevant and faithful financial report. The report should be understandable, complete, reliable, timely and comparable so that it will not mislead the financial information users in decision making (Kantudu 2017).

In response to the above need, the Nigerian Accounting Standard Board (NASB) now Financial Reporting Council of Nigeria (FRCN), a body responsible for developing accounting standard in Nigeria developed and issue statement of accounting standards, to facilitate the preparation of financial reports and provide the necessary guides on how accounting information should be prepared and reported in the annual reports, with the view to enhancing financial reporting quality in Companies operating in Nigeria.

Prior to 1<sup>st</sup> January, 2012 all accounting standard are developing and issue by Nigerian Accounting Standard Board, from 1<sup>st</sup> January, 2012 when Nigeria adopted international Financial Reporting standard (IFRS) all the IAS, IFRS and SAS are applicable in the Nigeria except that if IAS/IFRS is inconsistent with an SAS, the IAS/IFRS would be inapplicable to the extent of the inconsistency. This implies that on any matter on which IAS/IFRS and SAS make conflicting pronouncement, the SAS shall supersede the IAS/IFRS in Nigeria (Hamid, 2014). As such, oil and gas companies in Nigeria still use the provisions of Statement of Accounting Standards (SAS) namely; SAS 14 (Accounting in the Petroleum Industry: Upstream activities) and SAS 17 (Accounting in the Petroleum Industry: Downstream activities). It is to be noted that IASs and IFRSs are issued by International Accounting Standard Board (IASB) which was formerly International Accounting Standard Committee (ICAN PACK, 2014).

Over the years, numerous standards have been issued by IASB, but suffice to say that a few of these standards are actually devoted or assigned to oil and gas companies' usage (Oluwagbemiga, 2014). Moreover, the primary assignment of an accountant is to account for the operations of a company in an acceptable manner that will reflect the true and fair financial position of a company and prepare financial report to reflect such economic transactions which will be presented in the Statement of Comprehensive Income, Statement of Financial Performance, Statements of Financial Positions and Explain Key areas in the Notes to Account. Failure to provide a qualitative financial report will result in weakening the investors' confidence

*Impact of Statement of Accounting Standard 17 (Sas 17) on Financial Reporting Quality of Listed Oil Marketing Companies in Nigeria*

towards the management team and the financial reports.

It is against the above analysis that this study is aimed at investigating the impact of compliance with Statement of Accounting Standard 17 (SAS 17) on the Financial Reporting Quality listed oil marketing companies in Nigeria.

### **1.1 Statement of Research Problem**

Business firms are considered to have a separate existence and personality of its own. The firm considered to be separate legal entity with the power to have life of its own, own property, assets, create liabilities, sue and be sued in its own name. Moreover, in the modern business world today, there is a complete separation between ownership and control, shareholder provide their resources/ capital for business and employ expert to come and manage the affairs of the business. This separation brought about a relationship between the management and owners of the business (Kantudu, 2014). Financial statement provided by the management have to be qualitative because it is the only source of knowledge through which the absentee (capital providers) can know how well their resources is being utilized, asses the performance of the managers who manage their investment and ensure the security and safety of their investment. In addition, different users require financial information for assistance in their economic decisions, this information can only be obtain through the financial statements (Herath 2017). Over dependence of users on the financial statement is crucial and if the financial statement is not accurate, true and fair and lack quality then it will influence the users to making wrong decision.

However, despite the importance and endless benefits that accrues to the Nigerian

economy in making oil companies to comply with accounting standards, to the best of my knowledge, there have been few studies on application of the requirements of statement of accounting standards 17 (SAS17). Compliance with accounting standards has become an important issue globally, this is due to problems encountered by firms which leads loss of millions dollar and naira. For instance, there were some scandals that rocked the corporate financial circles in Nigeria in the late1990s that seriously cast doubt on financial statements being prepared by these entities. Stocks manipulation was one of these scandals. Lever Brothers (now Unilever), Cadbury and IPWA plc had their own fair share of these wrongly prepared financial statements. Non-existing and obsolete stocks were often included in the financial statements of these entities to give inflated profits. On the other side of the globe, the accounting profession was again rocked by series of scandals at the beginning of the 21st century. In the United States, to be precise, the Enron Corporation in 2001 acknowledged that for nearly five previous years, its financial statements were erroneously prepared by not following the generally accepted accounting practices. The company actually lost \$586 million from 1997 to 2001. Closely followed by this scandal was that of WorldCom Inc which admitted that it had failed to report more than \$7 billion in expenses over five quarterly periods. Its financial reports indicated that it had been profitable but it had actually lost \$1.2 billion during the same period. (Michael 2013). Therefore, this study aimed at assessing the impact of the application of the requirements of SAS 17 on the financial reporting quality of listed oil marketing firms in Nigeria.

### **1.2 Objectives of the Study**

*Impact of Statement of Accounting Standard 17 (Sas 17) on Financial Reporting Quality of Listed Oil Marketing Companies in Nigeria*

The aim of this study is to assess the degree of compliance with SAS 17 by the ten listed oil marketing companies in Nigeria. The specific objectives are

- i. To examine whether Nigerian oil marketing companies do apply requirement of SAS 17.
- ii. To determine the impact of compliance with SAS 17 on the financials reporting quality of oil marketing companies in Nigeria.

### **1.3 Statement of Research Hypothesis**

With reference to the above statement of problems and the objective to the study, the following hypotheses were developed to serve as a guide to the study.

#### **Hypothesis One:**

Ho1 – Listed Nigerian oil marketing companies do not apply the Requirement of SAS 17.

HA1 – Listed Nigerian oil marketing companies apply the provision of SAS 17

#### **Hypothesis Two:**

Ho2 – There is no relationship between application of the requirement of SAS 17 and financial reporting quality.

HA2 – There is relationship between application of the requirement of SAS 17 and financial reporting quality.

## **2.0 LITERATURE REVIEW**

### **2.1 Concept of Accounting Standard**

An accounting standard is a statement issued by the appropriate standard-setting body locally or internationally on a specific area or topic in financial accounting, the acceptance/application of which is mandatory for preparers and users of financial statements (Tahir, 2014). Accounting standards are guidelines which define how companies have to display transactions and events in their financial

statements; they are not purely technical rules but the outcome of highly political processes (Fogarty, Hussein, & Ketz, 1994). Accounting standard are therefore statement which specify how some economic transaction and other events are to be recognized, measured, presented and disclosed in financial statements.

### **2.2 Evolution of Accounting Standard in Nigeria**

The history of Nigerian accounting standard dates back to 8<sup>th</sup> September, 1982 when the Nigerian Accounting Standards Board (NASB) was formed as a private sector initiative closely associated with institute of Chartered Accountant of Nigeria (ICAN). This board was initially an advisory body charge with the responsibility of developing, publishing and updating statement of accounting standards and to promote and enforce compliance with the standards by all financial statement preparers in the country. The board was later transformed to Government owned in the year 1992.

The board members comprise of representatives from the government and other interest group such as Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN). The Nigeria Accounting Standard Board (NASB) followed suit by issuing SAS 14 (Accounting in the Petroleum Industry: Upstream Activities) through Chief R.U. Uche's Committee. The standard came into effect from January 1, 1994. Similarly, through the effort of the same committee, NASB issue SAS 17(Accounting in the Petroleum Industry: Downstream Activities) which came into effect on January 1, 1998.

In 2003, the Nigerian Accounting Standards Board Act was enacted - which now makes

*Impact of Statement of Accounting Standard 17 (Sas 17) on Financial Reporting Quality of Listed Oil Marketing Companies in Nigeria*

it mandatory for accountants preparing corporate reports to adhere strictly to the provisions of all issued accounting standards and on 18<sup>th</sup> May 2011 The Nigerian Accounting Standards Board (NASB) was replaced by Financial Reporting Council of Nigeria following a Bill passed by the senate. The FRC is a unified independent regulatory body for accounting, auditing, actuarial, valuation and corporate governance. The replacement was done to enhance the quality of financial statement issued in Nigeria.(wikians.com).

The inadequacy of the Statement of Accounting Standards (SASs) and in addition with so many issues actually necessitated the Nigerian government to introduce series of economic reform programs in the various sector on the economy in order to correct the aberration and to proper the country among the twenty most developed Nations in the World by the year 2020 (Masud, 2013). He points out the most prominent reforms in the financial reporting practices in the Oil and Gas encompass the adoption of international financial reporting standards (IFRSs), the replacement of the Nigerian Accounting Standards Board (NASB), the body responsible for the insurance of SAS with the financial Reporting Council (FRC) and the establishment of the IFRS academy. There is no doubt that these different reforms are recent to improve the general financial reporting quality and practices of Nigerian companies, improve the comparability and transparency of their financial statement and reduces information asymmetry in the Oil and Gas sector especially, moreover, a petroleum industry Bill (PIB) with the purpose at revamping the Oil and Gas sector has been debated on by the National House of Assembly in Nigeria.

The standards which are applicable in Nigeria are Statement of Accounting Standards (SAS) issued by the Nigerian Accounting Standards Board (NASB), International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC) and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). All the standards, IAS, IFRS and SAS are applicable in Nigeria except that if an IAS/IFRS is inconsistent with an SAS, the IAS/IFRS would be inapplicable to the extent of the inconsistency. This implies that on any matter on which an IAS/IFRS and an SAS make conflicting pronouncements, the SAS shall supersede the IAS/IFRS in Nigeria. However, with effect from first January 2012, when Nigeria adopted IFRS in financial reporting, the reverse is the case. In other words, with effect from first January, 2012, IAS/IFRS was adopted in Nigeria, and SAS will only be applicable where no IAS or IFRS is issued on the same item. However, through all the IAS and IFRS that were issued by IASC and IASB none of the standards specifically deals with oil and gas or mineral due to the peculiar nature of accounting for petroleum and international politics for oil and gas. This is why all countries prefer using their local standard when it comes to oil and gas industry.

In Nigeria however IFRS 6 (– exploration for and evaluation of mineral resources), SAS 14 (accounting in the Petroleum industry - Upstream Activities) and SAS 17 (Accounting in the Petroleum Industry – Downstream Activities) are the standards that provide guidance for the treatment of all costs incurred in Oil and Gas exploration and production. Moreover, it is good to note

*Impact of Statement of Accounting Standard 17 (Sas 17) on Financial Reporting Quality of Listed Oil Marketing Companies in Nigeria*

that IFRS 6 does not specifically deal with oil and gas but rather is dedicated strictly for the extractive industry to provide guidance for the treatment of acquisition, exploration and evaluation costs natural resources and it has limited application. In other words it does not apply before a company get the legal right to explore for oil (does not apply during geological and geophysical studies, seismic data studies, area photography etc.) (Tahir, 2014). It is applied only after the company acquired the license to find and produce and it will also fail to apply as soon as oil is found.

### **2.3 Required Practice and Disclosure by SAS17**

SAS 2 stipulates that Information to be disclosed in Financial Statements, should be such that it assist users to assess the financial liquidity, profitability and viability of a reporting entity should be disclosed and presented in a logical, clear and understandable manner (NYOR 2009). Activities in oil and gas industry are divided into two segments, which are the upstream sectors and downstream sectors. Activities in the upstream sector are Exploration and production (Hamid, 2017) while downstream activity involves transporting, refining and distribution and marketing of oil, gas and derivatives (Ejededawe, 2014).

SAS 17 is standards that governs the activities in the downstream sector, and it include items of economic transaction which all oil companies operating in the downstream sector in Nigeria, are under obligation to disclosure in the preparation and presentation of their financial statement. The Standard comprises paragraph 44-54 of Statement of Accounting Standards (SAS) issued by Nigerian Accounting Standard Board and it has the following provisions:

#### **(A) Accounting policies**

“Accounting policies are the specific principles, rules and procedures implemented by a company’s management team and are used to prepare its financial statements (investopedia.com P.1)

Sec 44 stated that all companies operating in the downstream sector oil and gas industry shall state in their financial statement accounting policies adopted in the preparation of those statements.

Sec 45 of the standard also state that an oil company may use either Full cost or the Successful Efforts method. However, any method and accounting policy used should be consistently applied and also be disclosed under one caption rather than as notes to individual items in the financial statements.

#### **(B) Catalysts**

Catalysts are chemical substances that are used to speed up the cracking of hydrogen. There are short-life catalyst (consumable) and long-life catalyst. Short-life catalyst last for less than a year whereas long-life catalyst last longer.

Sec 46 of the standard requires that the Costs of short life catalyst should be expensed in the year in which they are incurred while costs of long life catalysts should be capitalized and written off over the life of the refinery. Where long life catalysts are generated, the costs of regeneration should be capitalized and amortized over the life of regeneration.

#### **(C) Turn-Around Maintenance**

Refinery and petrochemical plant are expected to run continuously for about two years until they are shut down fully for major called turn-around. Sec 47 requires that the Turn-around maintenance costs should be capitalized and amortized over the expected period before the next turn around maintenance will be due

**(D) Stand-by Equipment**

These refer to plants and other facilities which are not constantly used in production activities. They are required to provide backup in case of breakdown of operating. Even though some school of thought argued that these assets should not be depreciated like other fixed asset, because it does not contribute to revenue generation and that its value may appreciate during inflation. The opponent of this school argued that, stand by equipment should be depreciated like other asset because it has future service potentials and it guarantees uninterrupted production activities. Moreover, the purpose of depreciation is not to determine the value of an asset but rather to allocate its cost. However Sec 48 of the standard required that, *Stand-by-Equipment* should be depreciated over the expected useful life of similar equipment in use. For example, a generator kept as guide against generator breakdown shall be depreciated in a similar manner as to which the one in use is depreciated.

**(E) Depreciation of plants and Equipment**

Depreciation is the allocation of the original purchase cost of fixed asset over its estimated useful live (Wall Street prep). According to sec 49 The costs of refining or petrochemicals plants and equipment's should be depreciated on a straight line basis over the useful life of the assets or, if operating at normal levels of production, on the basis of expected throughput. The method used should be disclosed and consistently applied.

Throughput is estimated quantity of crude oil that the refinery can process over its useful life. Depreciation is method by which cost of long term fixed asset is spread over a future period, when these assets are

expected to be in service and help generate revenue for a company.

**(F) Debottlenecking, Major Plant Rehabilitation and Replacement of Major Components**

Debottlenecking is a form of plant modification in refining and petrochemical companies which essentially result in increased capacity. Plant rehabilitation on the other hand refers to a major repairs and maintenance undertaking with the view to prolong the economic life of the asset. The treatment of these costs is covered by Sec 50 of SAS 17 as follows;

- i) Where major plant rehabilitation, result in a significant and identifiable increase in output or betterment of the plant, the cost should be capitalized and amortized over the period over which the benefits is expected to last. In any other case, it should be expensed as incurred
- ii) Where debottlenecking or replacement of major components result in a significant and identifiable increase in output or betterment of the plant, the cost should be capitalized and amortized over the period over which the benefits are expected to last. In any other case, it should be expensed as incurred.

**(G) Marketing and Distribution Operations**

Bridging Costs Claims; bridging claims is the entitlements of a marketer for transportation of bulk petroleum product from a depot outside the specified area of that government approved zones of distribution. It is a payment made by the government to the marketers which serve as

a compensation for transportation of bulk petroleum product from a depot outside the specified area of that government approved zones of distribution with the view to enhance petroleum availability across the nation. They are claims that are supposed to be refundable to the marketers by the government through the NNPC.

Sec 51 state that Bridging costs which are recoverable from government through NNPC should be set up as claims receivable. Where they remain outstanding for an unreasonable length of time, adequate provision should be made for them. Claims not recovered within two years should be fully provided for.

#### **(I) Automotive Turbine Kerosene (ATK) Overbilling Claims**

These are claims made by marketers for ATK billed by NNPC at international rate when the product is sold for local consumption. Sometimes ATK sold to local marketers are billed at international rate which is higher than what is supposed to be sold for local consumption, in situations like this, the local marketers are entitled make a claim with appropriate document for ATK that has been billed and paid for at international rate which is however sold for local use.

Sec 52 requires that ATK overbilling claims should be set up as a receivable. Where they remain unpaid for an unreasonable length of time, they should be provided for claims not recovered within two years should be fully provided for.

#### **(K) Liquefied Natural Gas Operation Take or Pay Contracts**

The LNG operations involve collection and transmission of LNG from field to liquefaction plant where it will be manufactured into final product for consumption. Manufacturing of natural gas

entails treatment of LNG and compressing it into liquid.

#### **2.4 Take or Pay Provision**

In gas industry goods (gas) is deemed delivered to the buyer the moment they are loaded into the ship or pipeline for transportation. Therefore, the buyer must pay for it whether they take it or not this is termed as Take or Pay. Sometimes the contract allows the buyer to take delivery in the subsequent period instead. In some cases, the customer pays for and he is willing to take the minimum contracted quantity of gas but the supplier is unable to supply the contracted quantity. The shortfall will be treated in accordance with sec 53 and 54 of SAS 17 as follow

Sec 53 state that where a purchaser is unable to take his entitlement under a take or pay contract, with a right of makeup, the purchaser should treat the amount paid as receivable. Conversely, the supplier should treat the advance received as deferred revenue. The deferred revenue should be recognized when the makeup right is exercised by the purchaser.

Sec 54; where a supplier is unable to deliver the quantity contracted, the amount received from the purchaser should be treated as a liability by the supplier while the purchaser should treat the amount paid as prepayment.

#### **2.5 The Need for SAS 17**

SAS 17 was issued due to the need to fully standardize reporting practice in the petroleum industry, companies operating in the downstream sector need an accounting standard that would regulate their financial reporting practice and for this purpose, SAS 17 was issued by the Nigerian Accounting Standards Board (Barde 2009).

#### **2.5.1 Importance of Applying Accounting Standards**



The importance of compliance with the requirements of accounting standards is that it enhances transparency, accountability, standardization, uniformity and comparability which in turn enriches the quality of decision of the users and helps in proper allocation of resources in an economy. Regulation of accounting information is aimed at ensuring that users of financial statements receive a minimum amount of information that will enable them take meaningful decisions regarding their interest in a reporting entity. The bodies responsible for these regulations are often statutory agencies such as the Accounting Standards Board, Securities and Exchange Commission and the Stock Exchange. The bulk of this framework is usually contained in Accounting Standards.

According to Mary, Okoye, Adelinan and Samson (2012) the main concern of standard is to established how information should be presented, what information should be presented and how assets and other economic transactions should be recognized, measured and disclosed in the financial statements of an entity.

Leveti (1998) stated that application of accounting standards will help to reduce wide judgmental intuition and discretion which has reduced the work of the external auditors considerably. Moreover, accounting standards allow for considerable way of consistency in the application of accounting policy which has helped to strengthen comparability.

Machael (2013) stated that Proper application of accounting standards will enable users to assess the financial soundness of an entity in terms of liquidity risk, financial risk and business risk. It will also enable the users have knowledge of how properly an entity manage its cash

through the look at its cash flow statement. Accounting standard are viewed as cornerstone engendering credibility in the preparation of financial statements used in making decision.

Local and Foreign investors will have more confidence in the financial information of a firm which is governed by Accounting standard in preparing Financial statement. Muhammad (2012), in his assessment of some selected listed banks in Nigeria found that banks recognize losses more frequently if accounting standards (IFRS) are applied.

### **2.6 Problems Associated with not Applying Accounting Standards**

Failure to properly apply the requirements of accounting standards would result to inconsistency in the preparation of financial statements, lack of accountability and distortion in the financial reports which in turns results to poor financial reporting practices and dissemination of accounting information that is of less value to any particular group of users. Mary, Okoye, Adelinan and Samson (2012)

### **2.7 Problems Encountered in Applying Accounting Standards in Nigeria**

Despite the significance of accounting standard in the oil and gas downstream sectors especially SAS 17 in enhancing the quality of disclosure in the financial statements and by extension the decision of the users, application of the requirements of accounting standard is not without problems. For example, the World Bank reports (2004) state that the main problem of applying accounting standards in Nigeria is poor accounting education and training on financial reporting which contributed to weaknesses of the financial reporting and auditing regime. The report recommended upgrading professional education and training as a way to assist in the

implementation of accounting standards in Nigeria (NYOR, 2009).

### **2.8 Financial Reporting Quality**

Financial Statements are often referred to as historical records. Some people say they give information only about the past. Nevertheless, the Financial Statements serve varied purposes to its users. The users of companies Financial Statement are not only internal such as management and staff of the organization, but also include, external users, such as Government, creditors, prospective investors, shareholders, analysts, researchers and so on and so forth. These users required financial information for different purposes. Investors use it to know whether it will be worthwhile to invest, Shareholder will use it to assess how their investment is being managed as well as what comes to them as dividend. Government is interested in the financial Statement not only for tax purposes but also for regulatory purposes, so as to protect the investors and the economy as a whole. For these reasons, what is disclosed in the financial statement of utmost importance (NYOR 2009).

Over the years, financial statements have been the crucial source through which investors and other stakeholders derive information about entity. This implies that financial statement that is not clear concise and effective have an adverse impact on the effective communication channel between entities and their financial statement users (Mackintosh, 2014). A worth disclosure in the financial statement is that which provide sufficient information that can help financial statement information users in decision making. Relevant and sufficient information made available to users via the financial statement will assist them in making quality decisions. For this reason, government itself has stepped in not only to enforce disclosure

but to stipulate what information should be disclosed to the general public. In Nigeria, this is through the Banks' and Other Financial Institutions Decree (BOFID), Companies and allied matters decree, and disclosure requirement by Securities and Exchange Commission (SEC) and Accounting Standards released by the Nigerian Accounting Standard Board (NASB) from time to time.

However, disclosure within the financial statement should focus on their primary objective of providing useful information that will help users in decision making and in assessing the management performance and stewardship of the resources entrusted to it. In other words, information to be disclosed in the financial statement should be of material relevance rather than disclosing information to satisfy the requirement of a particular standard without considering the material relevance of such information to the users and entity as a whole.

There is therefore need for financial to be qualitative by being *Relevant, Understandable, Reliable, Completeness, Objective, Timeliness and Comparable* in view of the above analysis Jack, Mackintosh, Crook, Shying and Everett (2014) postulated that for financial statement to be of real help users it should tell the entity's financial story by providing the following information's:

- Information for understanding the entity's financial position, performance, cash flows and prospects.
- A disaggregation of the individual balances at a level of detail that enables the key components of primary financial statements to be understood.
- Information about significant business developments.

*Impact of Statement of Accounting Standard 17 (Sas 17) on Financial Reporting Quality of Listed Oil Marketing Companies in Nigeria*

- Matters of importance to the business.
- The specific financial risks to which the business is exposed, together with their context and managements approach to those risks.
- An explanation of the basis for recognition and measurement of line items in the primary financial statements, in particular when management exercised its judgment.
- Information relating to items not recognized in the statement of financial position that, if or when recognized, will have a significant effect on future cash flows.

However, it is good to note that financial statement does not and cannot provide the primary user with all the information that he needs and financial statement is one of many sources of financial information

## **2.9 Elements of Qualitative Financial Information**

Different users require financial information for assistance in their economic decisions this can be obtained through the financial statements. Therefore, the dependent of users in the financial statements is crucial, and if the financial information is not accurate or not true and fair then users may end up making wrong decision (misleader). This implies that not qualitative financial statement will lead to wrong decision.

According to Kantudu, (2017) for cooperate financial statement to be qualitative and useful for decision making it should be *Relevant, Reliable, Understandable, Complete, Objective, Timeliness and Comparable*. These points are briefly explained below.

**Relevance:** Financial information that is not relevant is useless. Information is regarded as relevant if it is capable of influencing the decision of user. Therefore, financial report

is said to be relevant if it seeks to satisfy as much as possible, users' information needs (Kantudu 2017). Through relevance, information users can evaluate whether they are moving along the right path i.e. making correct decision (Arora, 2016). Entities need to consider the level of information for material transactions. In other words, the amount of information to be disclose for items, as additional information may not necessarily be material. The decision to include or exclude such information should be based on whether the omission would change users' economic decisions. This requires case-by-case judgment.

**Understandability:** Users cannot use financial information they cannot understand. This does not necessarily mean simplicity or that the information must be presented in an elementary term, for that may not be consistent with proper description of complex economic activities. It does not mean that judgment need to be applied in holding a balance between the need to ensure that all material matters are disclosed and the need to avoid confusing users by the provision of much details (Kantudu, 2017). Accounting is often called the language of business, users are not required/expected to be professionals to be able to translate accounting information but rather should have a basic level of understanding about the financial statement. This is why where standard required a disclosure of complex information which cannot be translated by users. The reporting entity take measure by explaining the item in the notes to account to enhance understandability of the financial information. While the accounting standards dictate disclosures, an entity should ensure the notes adequately explain the economic substance of the transaction. The entity may

disclose additional information where it is important for an understanding of the performance of the company. Management should consider which accounting policies are significant to the user in understanding specific transactions and therefore should be disclosed. Management should also consider including significant accounting policies as part of the relevant notes, to increase Understandability.

**Reliable:** This is the extent to which information is verifiable, presently faithful and neutral. Kantudu (2014) stated that The information presented in the financial statement should be such that user can independently verify it. Although in certain circumstances it may be useful for an entity to supply information which cannot be verifiable in this way. Verifiability implies the consensus among the firm's measure. For example, a historical cost of a piece of land reported in the financial statement can be highly verified, the cost can be traced to exchange transaction of the land however the market value of that land may be more difficult to verify because different appraisers could value it differently.

**Complete:** information is said to be complete if it provides the users with, as much as possible a round picture of the economic activities of the reporting entity (Kantudu 2014)

**Objective:** this means that preparer of financial information should be faithfully and unbiased. Their perception should not be biased as to favor the interest of any user group. The information presented should be objective, complete, neutral, free from errors and unbiased.

**Timeliness:** financial statement should be prepared and published as at that time they are needed. In In Nigeria, oil and gas companies financial year is line with

government fiscal year which must starts January 1 and ends December 31st and companies do not mostly have the discretion to vary it.

**Comparability:** the information should be expressed in terms which enable the users to compare the entities results over time and with other similar entities.

### **2.10.1 Effect of Compliance with Standards on Financial Reporting Quality**

Quality of accounting information is expressed as being capable of making a difference in a decision by helping users form predictions about the outcome of past, present and future events, or to confirm or correct expectations. Failure to comply with standard will make accounting report misleading (NYOR, 2009 cited Moonitz, 1961)

Recent studies have shown the existence of a relationship between the disclosure of accounting information and economic effects. The disclosure of value-relevant accounting information reduces the information asymmetry on the market and, consequently, the risk of investors making mistakes in their decisions. In Malaysian, Hossain and Adams (1994) studied voluntary disclosure and found that firm size, ownership structure and foreign listing status were significant in explaining the level of voluntary disclosure. However, there was no evidence to support any association between disclosure levels and leverage, assets in place and auditor size. In Australia, empirical research by Klumpes (1997) demonstrated that the voluntary disclosure of defined benefit pension plan (DBPP) information by employers is value-relevant to investors and carries potential proprietary costs.

### **2.11 Theoretical framework**

*Impact of Statement of Accounting Standard 17 (Sas 17) on Financial Reporting Quality of Listed Oil Marketing Companies in Nigeria*

This section provides the theoretical underpinning of the paper. This study is best explained by the agency theory.

Agency theory identifies the agency relationship with one party, the principal who delegates work to another party, the agent. In the context of a corporation, the owners are the principal and the directors the agent. In organizations, agency theory vested the power of ensuring qualitative financial report has been prepared on the board of directors and others appointed managers. In the modern enterprise, the agent-principal relationship which existed as a result of separation of ownership from control, has resulted in the emergence of a consequential conflict of interest. Ideally, managers as agents are expected to monitor corporate affairs in a most profitable manner so as to maximize the value of the owners as principals and protect the interest of other stakeholders. Accounting standards on the others hand are designed to ensure agents and principal interest are aligned and shareholder interests are protected and thus agency cost minimize.

### **3.0 Research Methodology**

The population of the study consists of the total number of listed oil companies in Nigeria. There are currently nine (9) oil companies listed by the Nigerian stock exchange as at June 2018 (NSE Fact book, 2018). The sample size of the study is four oil companies. Several researches conducted previously on disclosure determinants used secondary data (NYOR, 2009 and Tahir, 2008). Since these techniques have yielded qualitative results, this study will therefore, use data from secondary source. Data are obtained from the annual accounts and reports of listed Nigerian oil marketing

companies that make up the working population for the study. Time frame for the study is ten years, covering period from 2003-2011. The disclosure requirements of SAS 17 are extracted and organized in what is termed disclosure index. The purpose of the index is for scoring, grading and assessment of extent of compliance by company. Level of accounting information disclosed in the financial statements of the companies will be determined by appropriately scoring each of the items disclosed. The aggregate score of all the variables would then be used in weighing and assessing the level/degree of compliance with the requirements of SAS 17 by Oil marketing companies in Nigeria. Thus, the following formula is used:

$$La = \sum \frac{V_x}{M_x} \times \frac{100}{1}$$

Where:

$\sum$  = summation or addition

La = Level of compliance

$V_x$  = Scores of all the variables applied by sample oil companies

$M_x$  = Maximum scores for variables expected to be applied by sample oil marketing companies.

The level/degree of disclosure of accounting information by oil marketing companies will be assessed and graded depending on the outcome of the computation as shown in Table 4 below. The range is between 0% - 100%. Data captured in the study, will be analyze using descriptive statistical methods. The descriptive analysis involves the use of percentages, tabulations, and graphs etc, in analyzing data. Given that, the objective of the study is to measure the relationship between compliance with SAS 17 and financial reporting quality, Multiple Regression Technique will be use and the

relationship between the variables will be obtained using Pearson Correlation. A computer software known as Stata will also be used in order to put more clarity and have more robust result from the analysis.

**4.0 RESULTS AND DISCUSSION**

The objective of the study is to assess the level of compliance with SAS 17 by the Nigerian oil marketing companies. The data h SAS 17 on the 15 requirements disclosure by the sampled and results were shown in Table 5 below

reflects accounting information disclosure based on the requirements disclosure of SAS 17.

**4.1 Compliance Index**

Compliance index presents the extent of compliance with the provisions of SAS 17 by four (4) oil marketing companies. To achieve this, annual accounts of the working population (oil marketing companies) were used to assess the level of compliance wit

**Table 5: Summary of Compliance**

S/N	Oil Marketing Companies	SAS 17 Compliance		
		Total Score	Expected Application	Total Application %
1	AP Oil Nigeria Plc	5096.4691	1100	67.44
2	Chevron Oil Nigeria Plc	7624.5930	1100	79.47
3	Oando Oil Nigeria Plc	6982.3483	1100	72.66
4	Total Oil Nigeria Plc	8081.0670	1100	86.37

**Source: Computed from the Annual Reports and Account of Selected Oil Marketing Companies**

Table 5 shows a 10-year summary of the total application of the requirements of SAS 17 (represented by v<sub>1</sub> to v<sub>11</sub>). The requirements are presented as vertical columns (v<sub>1</sub>-v<sub>11</sub>) so are the total scores, the expected scores and the total application of SAS 17. The application index of each of the selected companies and percent compliance . The oil marketing companies were ranked on the basis of their scores for the ten (10) years.

per variable are presented horizontally as rows. Detailed application index for the individual requirements of the sampled companies is shown in Tables 1.

**4.2 Grading and Ranking of Selected Oil Marketing Companies**

The analyses of data were based on the disclosure requirements of SAS 17

**Table 6: Total Compliance Index with SAS 17 by the Selected Oil Marketing Companies**

S/N	Oil Marketing Companies	Compliance Score (%)	Remarks	Ranking
1	AP Oil Nigeria Plc	67.44	Strongly complied	4 <sup>th</sup>
2	Chevron Oil Nigeria Plc	79.47	Semi-strongly complied	2 <sup>nd</sup>
3	Oando Oil Nigeria Plc	72.66	Semi Strongly complied	3 <sup>th</sup>
4	Total Oil Nigeria Plc	86.37	Strongly complied	1 <sup>st</sup>

**Source: Computed from the Annual Reports and Account of Selected Oil Marketing Companies**

Table has shown that the selected oil marketing companies are not applying the requirements of SAS 17 (v<sub>8</sub> and v<sub>9</sub>) with the seriousness it deserved. The enactment of NASB Act in 2003 corresponds with an increase in the application of Bridging Claims requirement (v<sub>8</sub>) but the firms remained adamant on ATK over billing claims and its related provisions. As a result, application index of SAS 17 by four selected companies has been very low indeed. The highest level of SAS 17 application was recorded by Total Oil Nigeria Plc at 86.37, followed by Chevron Oil Nigeria Plc at 79.47, Oando Oil Nigeria Plc at 72.66 and lastly AP Oil Nigeria Plc at 67.44. A close

look at the company total compliance revealed that in line with our grading, a significant level of disclosure is adhered to SAS 17.

**4.3 Results of Correlation Analysis**

Pearson Correlation analysis was performed to explain the relationships among all the variables in the study. Specifically, Pearson correlation was used to examine the correlation coefficient among the variables. From the a priori Stated in the previous chapter, a positive relationship is expected between the measures of Net Income, CFO, Total Assets, Size, Age and CI variable. Table 7 presents the correlation coefficients for all the variables considered in this study.

**Table 7: Pearson Correlation**

Constructs	CI	Net Income	CFO	Total Assets	Size	Age
CI	1	.778	.643	.691	.612	.587
Net Income	.778	1	.469	.615	.705	.513
CFO	.643	.469	1	.888	.322	.309
Total Assets	.691	.615	.888	1	.158	.159
Size	.612	.705	.322	.158	1	.232
Age	.587	.513	.309	.159	.232	1

\*

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

Table 7 presents the correlation analysis between the application of the requirement of SAS 17 and financial reporting quality of oil marketing companies. In this study, the highest correlation between the independent and dependent variables as shown in the correlation matrix was between Net Income

and compliance index (CI) which was positively significant at .01 level ( $r = .778, p < .01$ ). Considering this highest value of the correlation coefficient it means that all the variables of this study were within the acceptable range as discussed above and would not cause any problem of multicollinearity. In the case of correlation between CFO and the dependent variable CI

result demonstrated moderately correlate between CFO and CI at ( $r = .643, p < .01$ ). However, the correlation matrix indicates strong positive statistical correlation between Total Assets and CI at ( $r = .691, p < .01$ ). Correlation between Size, Age and CI was also positively significant at .01 level ( $r = .612, p < .01; .587 p < .01$ ) respectively. This correlation result suggests that there is strong relationship between the application of the requirement of SAS 17 and financial reporting quality in oil marketing companies.

**4.4 Results of Regressions Analysis**

This section presented the results of hypotheses testing related to oil marketing companies in Nigeria do not significantly comply with the requirements of SAS 17. To understand the actual effects of the selected oil marketing companies under investigation

on compliance index, multiple regression analysis was conducted. The multiple correlations (R), squared multiple correlations ( $R^2$ ) and adjusted squared multiple correlations ( $R^2_{adj}$ ) indicate how well is the combination of independent variables predicts the dependent variable. The result showed that the regression equation with all the independent variable was significant at  $R = .639, R^2 = .518, R^2_{adj} = .348, F = (42.674), p < .000$ . The coefficient of determination of  $R^2$  value, which indicates the explanatory power of the independent variables are .518. This means that 51.8(52%) of change in compliance index is accounted for by the explanatory variables while the adjusted R-squared of 51.8(52%) further justifies this effect. The F-values of (42.674) shows that the models had overall significant results.

**Table 8: Results of Regression Analysis**

<b>Independent Variables</b>	<b>Beta (<math>\beta</math>) values</b>	<b>t- values</b>	<b>P values</b>
Net Income	.623	.876	.000
CFO	.393	.319	.000
Total Assets	.473	.367	.000
Size	.459	.512	.005
Age	.269	.453	.005
F			42.674
R			.639
R Square			.518
Adjusted R Square			.348
Durbin-Watson			1.624



**Source: Generated from SPSS 22.0**

Table 8 reveals the regression result revealed that the relationship between the application of the requirement of SAS 17 and financial reporting quality (Net income, CFO, Total Assets, Size and Age) are in line with the stated expected result. The result of net income indicates that the probability of getting a t-value ratio as large as .876 in absolute value is less than .000. In other words, the regression weight for profitability in the prediction of financial reporting quality with the compliance of SAS 17 is significantly different from zero at the .000 level (two-tailed). It also indicates that the proposed effect was statistically significant ( $\beta = .623$ ,  $P < .000$ ). The beta coefficient for the effect of profitability was .623, which invariably means that for every unit increase. This reveals that there is relationship between application of the requirement of SAS 17 and Net income of the companies.

Similarly, the result of cash flow operating activity (CFO) reveals that the probability of getting a t-value ratio as large as .319 in absolute value is less than .000 for leverage. The regression weight for CFO in the prediction of financial reporting quality with the compliance of SAS 17 is significantly different from zero at the .000 level (two-tailed). The result also reveals that the proposed effect was statistically significant ( $\beta = .393$ ,  $P < .000$ ). The beta coefficient for the effect of CFO with the compliance of SAS 17 was .393. This indicates that there is relationship between application of the requirement of SAS 17 and CFO of the companies.

Furthermore, the result indicates that the probability of getting a t-value as large as .367 in absolute value is .473 for Total Assets of the companies. In other words, the regression weight for Total Assets in the prediction of

SAS 17 compliance by oil marketing companies is significantly different from zero at the .000 level (two-tailed). And also shows that the hypothesized path of Total Assets of companies is positive (.367) and statistically significant ( $P < 0.473$ ). This means that the application of SAS 17 of selected oil marketing companies did not affect their Total Assets. The result contradicts the arguments that total assets of the companies influenced by the application of SAS 17.

Also the result indicates that the probability of getting a t-value as large as .512 in absolute value is .341 for Size of oil marketing companies. In other words, the regression weight for Size in the prediction of SAS 17 compliance by the companies is significantly different from zero at the 0.05 level (two-tailed). And also shows that the hypothesized path of Size of companies is positive (.512) and statistically significant ( $P < .459$ ). This shows that the size of selected oil marketing companies do not affect by the application of SAS 17.

Finally, the also result indicates that the probability of getting a t-value as large as .453 in absolute value is .269 for Age of oil marketing companies. In other words, the regression weight for size in the prediction of SAS 17 compliance by the companies is significantly different from zero at the 0.05 level (two-tailed). And also shows that the hypothesized path of size of companies is positive .453) and statistically significant ( $P < 0.269$ ). This indicates that age of selected oil marketing companies does not affect the level of compliance of SAS 17.

**5.0 CONCLUSION AND RECOMMENDATIONS**

The application of the requirements of SAS 17, which jointly regulates disclosure of accounting information by Oil Marketing Companies, is

mixed in nature. Consequent upon the findings as presented in tabular form with compliance percentage arrived at there is no doubt that selected Oil Marketing Companies has complied substantially with the Statement of Accounting Standard (SAS) 17 for its upstream operation even though the disclosure is not full as expected. It equally concludes that selected four (4) Oil Marketing Companies has made full disclosure with respect to the Statement of Accounting Standard (SAS) 17 while reporting the downstream operation. This goes to testify to the fact that auditors, opinion of true and fair view was carefully formed. It can therefore be inferred that selected Oil Marketing Companies and financial statement is substantially transparent for the period under review.

In view of the findings above, the study recommends thus,

- i. Companies operating in all sectors of economy need to embrace the culture of full disclosure in line with the requirements of the regulating agencies. The best of practice is full or 100% compliance as anything short of this is a dent on the reputation of the reporting entity.
- ii. The council should ensure that henceforth all sanctions are enforced as this will deter would-be violators of provisions and disclosure requirements of the standards from perpetrating and perpetuating indiscipline in the accounting profession.
- iii. The international Accounting Standards Board should come up with an updated International Financial Reporting Standard for the petroleum industry. This becomes imperative in view of the global convergence on the International Financial Reporting Standard as against the former practice of local GAAPs.

- iv. All the operators in the upstream sector should be compelled to list their shares in the Nigerian Stock Exchange. This will strengthen financial reporting practice and at the same boost the transparency of multinationals in the industry as quotation implies higher level of regulation.

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