

Inflation Accounting and Its Relevance in Nigerian Financial Statements: A Post-IFRS Era Analysis

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Abstract- This essay critically examines the viability of inflation accounting in the financial reporting context in Nigeria, particularly after the International Financial Reporting Standards (IFRS). While IFRS was implemented in Nigeria in 2012 to ensure higher transparency, comparability, and credibility of financial statements, its framework is largely based on historic cost accounting and mandates only inflation-adjusted reporting under extreme conditions specified in IAS 29. Nigeria's ongoing inflation, though not hyperinflationary as per IFRS standards, remains high enough to seriously distort reporting of financial data if not adjusted for price level changes. The study clarifies how inflation diminishes the real value of monetary assets, overstates profit, and understates replacement costs for fixed assets. Hence, financial statements prepared on a historical cost basis misrepresent the economic position and performance of firms. The misrepresentation has negative consequences to financial statement users—primarily investors, creditors, and policymakers—who rely on credible financial data when making decisions. Lack of inflation adjustment results in decreased relevance and accurate representation—the two essential qualitative traits of valuable financial information in the IFRS conceptual framework. The article further discusses alternatives such as Current Purchasing Power Accounting (CPPA) and Current Cost Accounting (CCA) forms of alleviating the distortion brought about by inflation. It goes ahead to advocate for a local version of an inflation accounting model in Nigeria considering the persistence of inflationary pressures. Regulatory bodies such as the Central Bank of Nigeria (CBN) and Financial Reporting Council (FRC) are summoned to develop complementary guidelines necessitating disclosures or supplementary statements on inflation for inflation-prone industries. Lastly, in conclusion, this study maintains that

inflation accounting is not only relevant but is of fundamental importance in the case of Nigeria's economy. Adoption of it would improve the integrity, transparency, and consistency of financial reports and more closely match Nigeria's reporting practices with the economic conditions firms operate in. Keywords: Inflation accounting, IFRS, Nigeria, financial statements, historical cost, hyperinflation, real value accounting

I. INTRODUCTION

Nigeria has experienced sustained inflationary pressures in recent years, with headline inflation regularly above 15% and peaking above 30% in some years (National Bureau of Statistics [NBS], 2023). This chronic inflation erodes the purchasing power of the naira and the integrity of financial reports prepared under historical cost accounting. In an environment of rapidly changing prices, the use of historical cost will fail to keep pace with the current economic circumstances of enterprises. Assets acquired many years ago may be carried at outdated amounts, revenues and expenses will not reflect current costs, and profit levels may be inaccurate. This has severe implications for stakeholders—like investors, regulators, and creditors—whose choices are influenced by financial reports.

Nigeria's adoption of International Financial Reporting Standards (IFRS) in 2012 was meant to increase the quality, comparability, and transparency of financial reporting. Nevertheless, IFRS predominantly embraces the historical cost approach except where fair value or revaluation is expressly required. Although the IFRS model does allow for inflation accounting in International Accounting

Standard (IAS) 29—Financial Reporting in Hyperinflationary Economies—the standard can only be used when an economy is indeed hyperinflationary, generally when cumulative three-year inflation is in excess of 100%. To date, Nigeria has not been classified officially as hyperinflationary according to IAS 29, despite inflation continuing to undermine the validity of financial statements (PwC Nigeria, 2023).

Practically, this means that most Nigerian firms still present their financial statements in absence of inflation adjustments, even though actual economic values have fluctuated enormously. For example, a firm with huge property, plant, and equipment acquired years ago can understate its asset base in real terms, but present artificially inflated profits simply because revenues escalate with inflation but costs, especially depreciation, remain on past bases (Obasi & Egbunike, 2020). These distortions undermine honest representation and devalue the utility of financial reports.

The consequences of ignoring inflation are extensive. Investors may be misled by trends in profits, management will make decisions based on deceptive performance indicators, and financial ratios, for example, return on assets or equity, lose credibility. In the context of a high-inflation environment like that in Nigeria, economic information that does not reflect current economic reality loses decision-usefulness. This is particularly unfortunate in such capital-intensive industries as manufacturing and energy where revaluing assets would have a material impact on reported financial position and earnings (Ijeoma & Aronu, 2013).

While IFRS seeks comparability on a country-by-country basis, it does not, arguably, react adequately to inflationary economies except when IAS 29 is applied. Critics argue that the threshold test for applying IAS 29 is too high and fails to capture the peculiar challenges of emerging markets like Nigeria, where there has been persistent inflation but not hyperinflationary according to the strict wording of

the standard (Okafor & Uchenna, 2022). Thus, the demand for the reinstitution or innovation of inflation-adjusted financial reporting as a convention even outside the scope of IAS 29 is gaining widespread acceptance among Nigerian accounting professionals and scholars. The application of inflation accounting in Nigeria, therefore, becomes significant because of its ability to provide more useful financial data, leading to better assessment of firm performance, time comparability, and heightened investor confidence.

Besides, the greater the integration of Nigeria in the international capital markets, the more important solid financial reporting becomes. Foreign investors and world stakeholders are likely to use inflation-adjusted reports to point at transparency and prudence. Therefore, Nigerian firms that voluntarily report inflation effects on their disclosures, even going beyond IAS 29, may gain credibility from foreign investors (Akinyomi & Okpala, 2013).

While the post-IFRS era in Nigeria has experienced improved consistency and compliance in financial statements, the retention of historic cost accounting in an inflationary economy diminishes the reliability and applicability of financial statements. The author's argument is that inflation accounting is not only still relevant but also necessary in the Nigerian setting. It is important that regulators and preparers alike search for ways of incorporating inflation adjustments, whether through reinterpretation of existing IFRS standards or by lobbying for domestic amendments that better reflect Nigeria's economic reality.

II. LITERATURE REVIEW

Inflation and financial reporting have been extensively studied, especially where there has existed a situation such as Nigeria's, in which inflation has been a persistent macroeconomic issue. Scholars like Okafor and Adegbite (2016) opine that historical cost accounting underlying majority of the financial statements is significantly diminished in an

economy that is inherently inflationary. In this case, the asset figures are normally reported at acquisition cost without any adjustment to provide for loss of purchasing power, thereby leading to understated asset bases and overestimation of income and return ratios. This results in a skewed portrayal of corporate well-being for finance, especially for businesses in capital-intensive industries.

Oladipo (2021) also advances this position by highlighting the way that inflation makes financial reports less accurate and comparable over time. His view is that profit margins appear artificially elevated, not necessarily because companies are necessarily performing any better but because revenues increase faster than costs recorded at earlier values. This state, if not adjusted through inflation-accounting, leads to investor, creditor, and regulatory uninformed decision-making. The case is more serious when these masked figures are used in taxation and dividend policy, which can ultimately translate to capital depletion and misallocation of economic resources.

Since Nigeria's implementation of the International Financial Reporting Standards (IFRS) in 2012, there was expected greater transparency and comparability in financial reporting. IFRS introduced the possibility of quantifying fair value in standards like IFRS 13 and provided a vehicle for handling hyperinflationary effects in the form of IAS 29. IAS 29—Financial Reporting in Hyperinflationary Economies—requires restatement of financial statements into the currency unit of the date of the reporting period's end, if the economy can be determined to be hyperinflationary. But, by IAS 29 definition, hyperinflation is typically related to compound inflation of around or over 100% over three years.

Although Nigeria has been afflicted by double-digit inflation in the past few years—between 13% and 25% since 2016 on average—it never technically met under the threshold for using IAS 29 (NBS, 2024).

Accordingly, Nigerian firms still prepare financial statements under the historic cost system, to which a number of scholars infer is increasingly detached from economic reality. The lack of enforcement of IAS 29 in the midst of significant inflationary pressures is a regulatory and practical failing. Uche and Okoye (2023) are of the view that while the Nigerian regulatory framework accepts the shortcoming of traditional cost accounting, weaknesses in enforcement and infrastructure to support real-time inflation adjustment impede reform.

For the purpose of minimizing inflation distortions without unleashing IAS 29, others advocate increased usage of fair value accounting under IFRS 13. Fair value accounting attempts to measure present market values rather than historical costs, which may better reflect liabilities and assets' economic value. However, as Ijeoma and Nwobu (2022) state, fair value measurement is discouraged in Nigeria by the fact that there are difficulties such as the absence of active markets in some asset classes, subjectivity of valuations, and disparity in application among firms. These limitations reduce the reliability of fair value estimates and further emphasize the need for formal inflation accounting methods.

Inflation accounting, particularly under the present cost accounting (CCA) and general price-level accounting (GPLA) methods, has been viewed as alternative or supplementary framework. The CCA method is where asset values and costs are linked to current replacement costs, while GPLA links numbers by a general price index for purposes of maintaining financial data's real worth. Neither of these methods is officially required within Nigeria's reporting system today, but several empirical studies have proven them to be effective. Arowoshegbe and Emmanuel (2016), for instance, applied the prevailing cost model in manufacturing firms and demonstrated that restated financial statements reported more realistic profitability and solvency indicators during times of inflation.

Also, inflation-accounting reporting is well-suited for outside stakeholders but is equally vital in internal decision-making. Financial reports are essential to managers for budgeting, cost control, and performance measurement. Without inflation adjustment, managers may underinvest in capital replacement or misestimate profitability levels, with long-term operating inefficiencies being the outcome of the same. Consequently, inflation-free financial information taints the quality of managerial judgments (Akinyemi & Ogunleye, 2020).

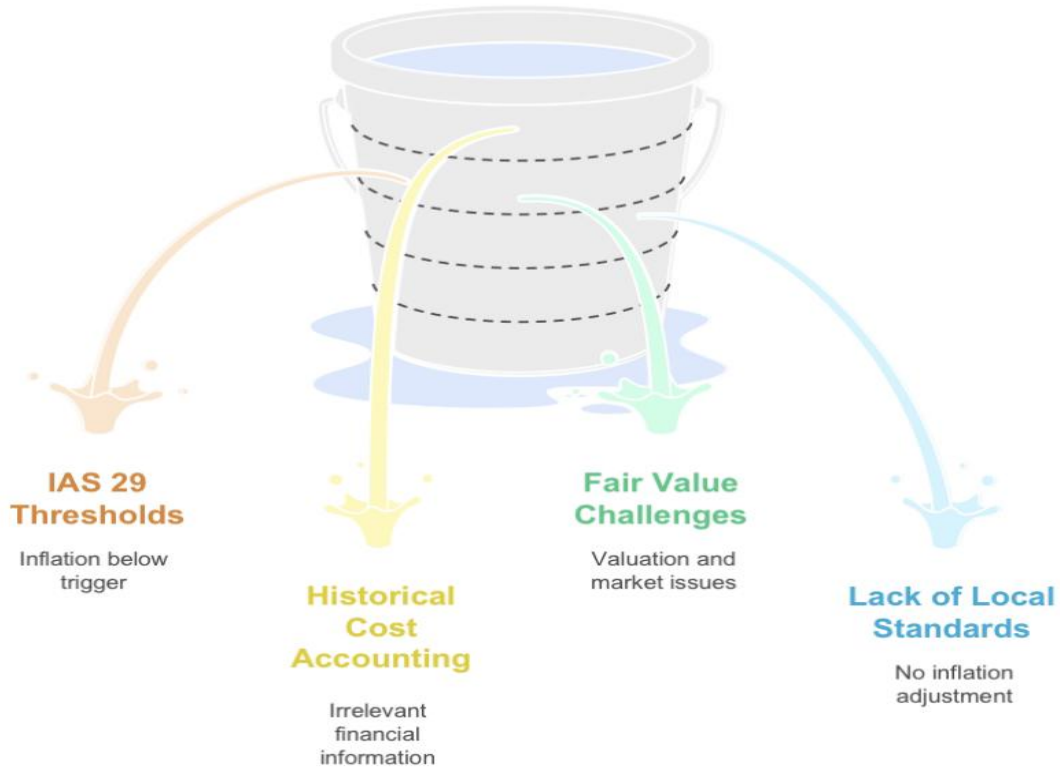
Policy-wise, the literature also contends that Nigerian accounting regulators, for example, the Financial Reporting Council of Nigeria (FRCN), need to reconsider the application guidelines and thresholds of IAS 29. As the inflationary conditions have persisted—albeit not meeting the technical requirements of hyperinflation—there may be some case in supporting the use of inflation accounting models tailored to an economy such as Nigeria's. The ongoing failure of the Central Bank of Nigeria to manage inflation (CBN, 2023) goes to highlight the need for the same.

While the use of IFRS has improved the quality and comparability of Nigerian financial reporting, literature strongly posits the enduring relevance of inflation accounting in Nigeria's post-IFRS environment. The double-edged disadvantage of historic cost accounting and uneven use of fair value provide a strong case for re-consideration of inflation-adjusted financial reporting. Until regulatory gaps, institutions, and technique are filled, financial statements in Nigeria will continue to support nominal rather than real financial positions.

III. POST-IFRS ANALYSIS: THE GAP IN INFLATION ADJUSTMENT

Since Nigeria adopted International Financial Reporting Standards (IFRS) in 2012, expectations were high that the quality, comparability, and transparency of financial reporting would greatly be improved. Despite some improvement experienced, a chronic problem still goes unaddressed: inflation-adjusted accounting that has not been implemented in Nigeria in spite of its persistently high rate of inflation environment. Although IFRS has provisions for a solution of hyperinflation in International Accounting Standard (IAS) 29—Financial Reporting in Hyperinflationary Economies, de facto use of such a standard is still latent due to threshold technical requirements in Nigeria. IAS 29 only comes into effect when a country's compound inflation has exceeded 100% over three years, which Nigeria has not technically experienced, despite experiencing inflation rates of between 15% and 30% in recent years (NBS, 2024).

This lack of regulation has significant implications for financial statement usefulness and reliability. Financial reports prepared on the basis of historical cost accounting become irrelevant in such macroeconomic situations, not reflecting assets' and liabilities' true economic value or the real equity. As a result, significant financial ratios—such as return on assets, profit margins, and net worth—may be erroneous. For instance, revenues may be exaggerated through higher selling prices. Nevertheless, cost of goods sold or depreciation charges may not have increased proportionally, as such costs are calculated on old cost figures. Such manner tends to create a false impression of profit and may lead to over-dividend pay-out, wrong investment, or miscomputation of tax liability (Oladipo, 2021).



In addition, this failure of inflation adjustment erodes two of the essential qualitative properties of financial reporting in the IFRS Conceptual Framework: relevance and faithful representation. Relevance is compromised when financial report users cannot make economic judgments on the basis of reports that are not accompanied by today's price realities. Faithful representation is breached when figures in

the balance sheet or income statement no longer reflect the substance of the financial position of the company. This shortfall is a significant challenge to stakeholders such as investors, creditors, and regulators, who are interested in obtaining information to evaluate the solvency, performance, and sustainability of companies (Uche & Okoye, 2023).



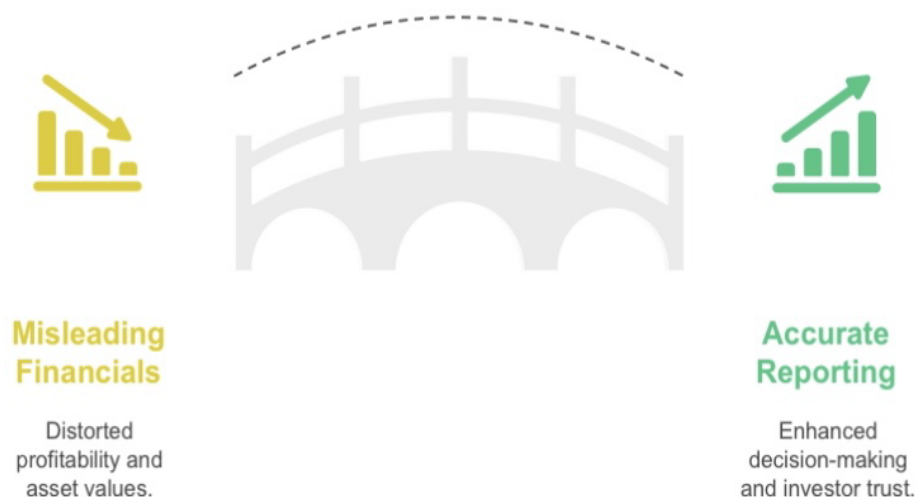
Moreover, IFRS encourages fair value accounting through IFRS 13 but it only succeeds in Nigeria with monumental challenges regarding valuation, lack of active markets, and technical capabilities. Consequently, even during accounting in terms of IFRS, statements are still insensitive to inflation. Without trigger mechanisms for formal inflation adjustments under IAS 29 or locally generated standards, Nigeria's post-IFRS reporting system remains vulnerable to macroeconomic distortions. This reflects an urgent need for regulatory transformation or local application of IFRS to fit Nigeria's continuous inflationary environment.

IV. IMPLICATIONS FOR THE USERS OF FINANCIAL STATEMENTS

Integrity in financial reporting is paramount to the functioning of capital markets. Financial statements are the primary source of information for rational and timely economic decisions to creditors, regulators, investors, and other parties. In inflationary economies such as Nigeria, however, historical cost

accounting traditionally produces misleading presentations of a firm's financial health. The failure to adjust monetary amounts for inflation renders profitability misrepresented, liabilities underestimated, asset values overstated, and ultimately adversely affects decision-making by financial statement users.

In particular, inflation affects the validity of net income amounts disclosed in income statements. Revenues will reflect current price levels, whereas most expenses, such as depreciation and cost of goods sold, are determined based on outdated historical costs. This difference will artificially inflate profit levels, presenting a misleading picture of profitability. As Okafor and Adegbite (2016) observed, Nigerian firms appear more profitable during periods of peak inflation due to such reporting distortion, which can be deceiving to investors as well as the management. Such overstatement of profitability can encourage unwarranted dividend payouts or higher tax impositions, thereby diminishing the actual capital base of the company.



Inflation also leads to misstating asset values on the balance sheet. Fixed assets, when considered at historical cost, do not account for the increased cost of replacement in the current economic times. It is particularly the case with capital-intensive enterprises whose asset replacement maintains business continuity. Understated asset values make

stakeholders perceive incorrectly the actual financial health and solvency of a company, based on Oladipo (2021). Creditors may, for instance, overestimate the credit worthiness of a company based on exaggerated equity or net worth figures and lend to companies inadvisedly.

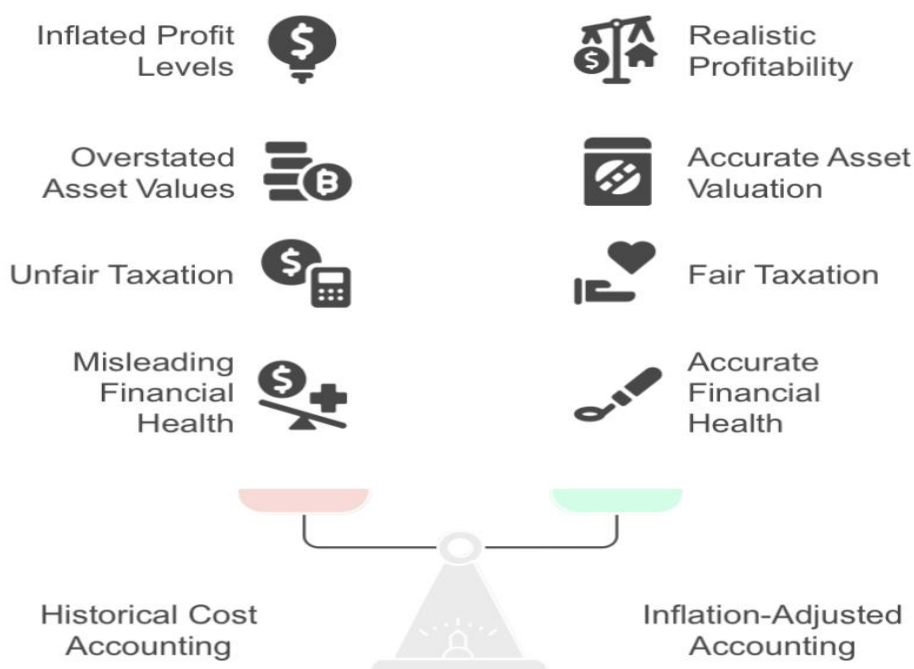
Taxation is another area in which not applying inflationary accounting will have severe implications. Business companies in Nigeria are taxed on accounting profits as disclosed. Whenever such profits are inflated due to lack of reflection of inflationary effects, companies tax gains that are in unreal terms of purchasing power. This causes a redistribution of wealth from the private to the public sector and it erodes retained earnings, decreasing reinvestment as well as growth possibilities (Egielewa, 2021). Inflation-adjusted accounting is thus not only needed for accurate reporting of profits but also for fairness in taxation.

On the other hand, inflation-adjusted accounting, either the current cost method or general price level accounting, provides a more realistic picture of economic reality. By making these adjustments, financial statements can preserve the purchasing power of capital, equate revenues and expenses more realistically, and reflect more realistic asset values. These benefits significantly enhance qualitative financial information characteristics such as relevance, comparability, and accurate representation, as emphasized by the IFRS Conceptual Framework (IFRS Foundation, 2018). For investment or credit decision-making readers, these improvements result

in greater trust in the disclosed amounts and better risk assessment.

Also, inflation-adjusted financial statements improve inter-temporal comparability. Without inflation adjustment, comparing financial performance over time is unsound since consistency is lost in monetary amounts. This inhibits trend analysis and performance measurement, particularly in economies with changing price levels like Nigeria. Investors who would want to assess the long-run profitability or strategic progress of a company are disadvantaged unless financial data are adjusted for inflation (Uche & Okoye, 2023).

Finally, inflation accounting adoption aligns with the overall IFRS goal of financial statements being a fair and true representation of an entity's financial situation and performance. Though IAS 29 has not been made applicable in Nigeria, continued inflationary conditions necessitate that it would be required either to embrace its standard or to develop one of local inflation adjustment. Unless such reforms are achieved, Nigerian companies' financial reports will remain partially detached from economic reality, exposing the users to undue risks.



V. RELEVANCE OF INFLATION ACCOUNTING IN TODAY'S NIGERIA

Inflation accounting remains highly relevant in today's Nigeria due to the ongoing and sometimes volatile inflationary environment which affects the reliability and comparability of the financial reports. While Nigeria has adopted the International Financial Reporting Standards (IFRS) in 2012 to improve transparency and align with world practices, the financial reporting environment of Nigeria is still not sufficiently equipped to handle the effects of inflation distortion. The IFRS accounting model handles inflation only theoretically by means of IAS 29, Financial Reporting in Hyperinflationary Economies, which is used only if a compound rate of inflation over three years exceeds 100%. Although Nigeria has experienced double-digit inflation routinely—averaging over 15% for the past five years (National Bureau of Statistics [NBS], 2024)—this has never been above the IAS 29 level, and therefore the standard is not applied in practice. In line with this, financial statements continue to be prepared according to historical cost accounting, even though increasingly this method is no longer appropriate in reflecting economic reality.

Persistent application of historical cost compromises the qualitative characteristics of financial statements—primarily, relevance and faithful representation, as outlined in the IFRS Conceptual Framework (IFRS Foundation, 2018). Asset valuations end up being less than real, depreciation fails to capture current replacement costs, and income statements capture nominal profitability rather than real profitability. These become crucial in areas such as banking, manufacturing, and construction, where fixed assets and long-term investments become core. For example, manufacturing companies may hold

plant machinery bought a decade ago at rates that are now outdated, which misrepresents investors and undervalues capital maintenance needs. Similarly, banks may apply overstated profits due to nominal as opposed to real terms being used for computing interest revenues, hiding real value loss by inflation (Oladipo, 2021).

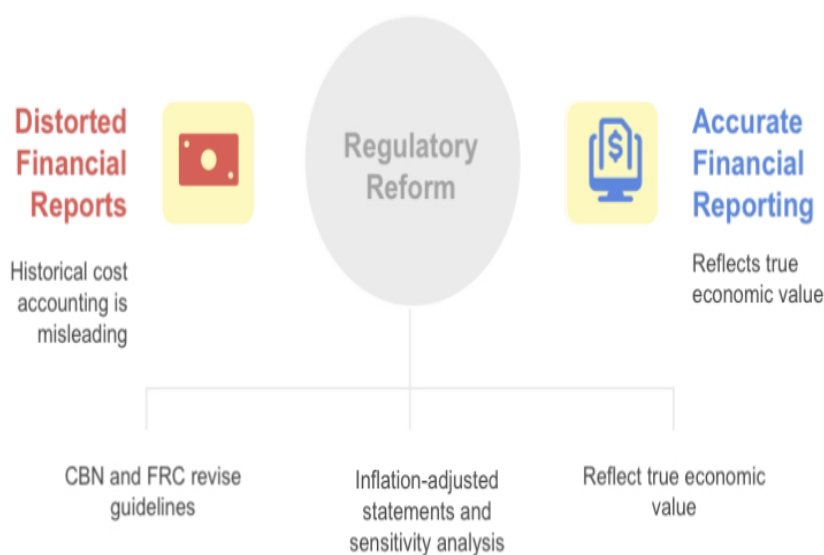
Given such problems, inflation accounting practices—such as Current Purchasing Power Accounting (CPPA) or Current Cost Accounting (CCA)—are essential to include. CPPA scales historic amounts using a general price index to preserve the purchasing power of amounts reported. CCA, on the other hand, reports asset amounts and expenses as a function of replacement cost at the time. Both approaches deliver greater relevance through the guarantee that financial reports reflect the true economic value of transactions. As maintained by the argument of Okafor and Adegbite (2016), the application of these methods would improve inter-period comparability as well as reduce information asymmetry for financial report users.

In order to improve inflation reporting practices, domestic regulatory bodies must step in where global norms are silent or voluntary. The Central Bank of Nigeria (CBN) and Financial Reporting Council (FRC) should strengthen national financial reporting guidelines by revising them or replacing them with new ones to require inflation disclosures, particularly in public interest entities' annual reports. Disclosures may take the format of extra inflation-adjusted statements, sensitivity analysis, or narrative explanations of the effect inflation has had on the firm's financial performance and future projections. These policy reforms would move Nigerian financial reporting closer to economic substance and increase stakeholders' confidence.



The use of inflation accounting is also underscored by its potential to enhance macroeconomic stability. By providing realistic earnings and valuations, inflation-accounted financial reports can guide more appropriate fiscal and monetary policy measures. For instance, if policymakers and revenue authorities have access to inflation-adjusted profit figures, they are less likely to impose tax charges on inflated profits, thereby avoiding unintended contractionary effects on private sector investment (Egielewa, 2021).

Also, from the perspective of corporation governance, inflation-adjusted accounting promotes accountability by discouraging overstating performance and the scope for earnings manipulation. This is especially valuable in Nigeria where financial statement manipulation and lack of transparency have been a common occurrence (Uche & Okoye, 2023). Audit committees and boards of directors would value better knowledge of the company's financial health to facilitate more effective monitoring and strategy planning.



Briefly put, inflation accounting is no longer an optional add-on in the current economic landscape of Nigeria—it is now a necessity. Financial reports will keep veering away from economic reality and misleading investors, regulators, and managers unless proper adjustments for inflation are accomplished. Institutionalization of reporting with inflation adjustment—either through IFRS application amendment or national enactment—is therefore a necessary step toward more credible and decision-relevant financial reporting in Nigeria.

CONCLUSION

Inflation remains a threat to the reliability and truthfulness of financial reporting in Nigeria, whose application of historical cost accounting under high inflation conditions is prone to preparation of unbalanced financial reports. Although Nigeria has adopted the International Financial Reporting Standards (IFRS) since 2012, the restricted application of inflation-adjusted accounting—specifically when IAS 29 is not activated—undoes the true and fair presentation of the financial information. This creates a broad difference between the economic situations encountered by firms and the financial narratives presented. As a result, financial statement users such as investors, creditors, and regulators can be misled regarding the profitability, asset structure, and solvency of a firm.

Inflation accounting remains not only relevant but essential in present-day Nigerian settings. It ensures that amounts reported reflect money's actual purchasing power and the assets' replacement cost at the time. Continuation of using historical cost unadjusted in an inflationary world negates two most significant qualitative attributes of financial information—relevance and representation in a faithful manner. Such mismatch reduces the decision usefulness of financial reports, with resulting potentially harmful economic implications, e.g., inefficient use of capital and unjustifiably high taxation charges.

To respond to this, Nigeria can strive to devise complementary national reporting guidelines that mandate or encourage inflation-adjusted reporting, particularly from inflation-sensitive sectors such as banking, manufacturing, and infrastructure. Reforms by the Central Bank of Nigeria (CBN) and Financial Reporting Council (FRC) can involve adding inflation disclosures or requiring supplementary inflation-adjusted financial reports. Aligning IFRS with the local macroeconomic situation by adjusting it contextually or by adding additional disclosures will significantly improve Nigerian financial statement transparency, comparability, and credibility. Lastly, embracing inflation accounting will not only ensure greater company accountability but also boost investor confidence and improve the nation's reporting mechanism in its inflation economy.

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