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INTERNATIONAL FINANCIAL REPORTING STANDARD ADOPTION AND EARNINGS MANAGEMENT IN NIGERIAN QUOTED COMPANIES

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Abstract

In this study, the researcher investigated the effects of IFRS adoption on earnings management in Nigeria. The effects of IFRS adoption has been a serious concern in financial accounting literature. This study used a sample of 68 non-financial quoted companies in Nigeria that has consistently published their audited annual financial report between 2009 and 2013. In analyzing the collected data the study adopted descriptive statistics, correlation analysis and a panel multiple regression data analysis to identify the possible effects of IFRS adoption on general earnings management and also on income-increasing and decreasing earnings management in Nigeria. The study found that IFRS adoption in Nigeria does not significantly affect the tendency of Nigeria companies to manipulate earnings generally. The study also found that Nigerian companies do not significantly practice income-increasing or decreasing earnings management activities after their adoption of IFRS. This study also found that big-4 auditors and firm size do not sufficiently create a situation where IFRS adoption affected earnings management. Therefore, it is recommended that other factors such as the institutional, cultural as well as good corporate governance practices should be taken into the consideration when implementing IFRS in Nigeria. Unlike some other countries where IFRS adoption affected investors' confidence due to the increased tendencies of companies in those countries to manipulate their earnings, analyst and investors should rely on the reported earnings of Nigerian companies under IFRS. This study also

recommended that further research be conducted in this area to improve on the findings and to provide more empirical evidence on other variables not used in our model.

Keywords: *IFRS, Earnings management, Audit quality, Firm size, Nigerian quoted companies.*

1.1 Introduction

Researches in finance and accounting get greater momentum since the universal declaration of IFRS. Approximately more than 120 countries have required or permitted the use of IFRS standards by publicly quoted companies (IASB, 2012). IFRS is a globally-accepted set of accounting Standards and Interpretations established by International Accounting Standards Board (IASB) and International Financial Reporting Interpretation Committee (IFRIC) which was actually created as a common global language for accountants all around the world and it was expected to become the key financial reporting standards for all business entities. The fundamental objective of IFRS is to develop, in the public interest, a single set of high quality, globally accepted financial accounting standards based upon clearly articulated principles (IASB, 2012). The decision to adopt IFRS in a wide and important economic area such as Nigeria cannot be over - emphasis, However, to achieve that the government need to consider several factors that may affect the adoption of IFRS in developing countries (Zeghal & Mhedbi, 2006), in which Nigeria is among.

Prior to the adoption of IFRS in Nigeria, all companies in Nigeria have been complying with Standards issued by The Nigerian Accounting Standards Board (“NASB”) which has now metamorphosed to Financial Reporting Council of Nigeria (FRCN). The NASB announced its Roadmap to convergence with IFRS in September 2010. The Roadmap requires publicly Listed Companies and significant public interest entities to comply with IFRS commencing from 1st January, 2012. While other public interest entities have been required to comply starting from 1st January, 2013 and small and medium sized entities expected to comply for period ending after 1st January, 2014.

IFRS comes with a lot of changes in way and manner the information contained in the company’s financial statement are reported. For instance, the introduction of fair value principle, which is regarded as the most important implication of IFRS, motivates more debate on the adoption of the standards. More clearly, IFRS required the usage of fair value contrary to the book value as used by Nigerian GAAP. It is believed that fair value provides up-to-date information about assets as it reflects their real value. However, impairment test is carried on goodwill under IFRS, while it expected to be amortized under NGAAP. This implies that managers have more flexibility under IFRS and may intend to use their accounting decisions to manipulate impairment test of goodwill which could affect the quality of reported earnings. The major concern about the conversion to IFRS is that it is more principle-based and there is a fear that the companies may apply the same rules differently thereby causing varying results. Furthermore,

principle-based standards give managers more flexibility to engage in earnings management and consequently resulting in high level of earnings manipulation (Callao, 2010).

Earnings management has been an issue of continuous concern for several years for regulatory bodies and accounting practitioners. For example, Hadani, Goranova and Khan (2011) argue that earnings management increases information asymmetry and negatively impacts the quality of financial reports. Earnings management is said to be the reasons for low quality of reported information. It is the choice of a manager among accounting policies which allow achieving some specific objectives (Scott, 2003). Managers use flexibilities within the accounting standard to choose accounting methods, policies and estimates in reporting process to reflect firm's future prospect (Shehu, 2013). Thus the very nature of accounting accruals gives managers a great deal of discretion in determining the earnings in any given period. Managers can apply legal and permitted accounting methods or practices which inevitably impacting negatively on earnings quality.

Presently, many countries have replaced national accounting Standards by IFRS in order to make local accounting system more transparent, reliable, relevant, understandable and more importantly to enhance financial reporting quality. However, the process of IFRS implementation varies significantly from country to country due to political, cultural, economic, legal and institutional factors. Nigeria and many developing countries are characterized by weak institutions and volatile economic and political environment which are not very conducive for effective implementation of IFRS (Tanko, 2012). In spite of several arguments and divergence views, many countries, both developed and developing, have fully adopted IFRS as their national accounting standards.

Prior studies have so far presented mixed results as some studies found an improvement in financial reporting quality after IFRS adoption and widely support the hypothesis that earnings management declined considerably after IFRS adoption (Cai, Courtesney & Rahman, 2008; Aussenegg, Inwinkl & Schneider, 2008).

However, this view has not been fully supported by all academicians, regulators and the business communities as their evidence fail to support the hypothesis that IFRS reduce the level of earnings manipulation (Xu 2014; Mara, 2011; Landsman and Lang, 2008; Stolowy, 2008). IFRS been a principle-based reporting standard are not sufficient condition to reduce the level of earnings manipulation and it is

obviously a fundamental fact that IFRS comes with a lot of changes in way and manner the information contained in the company's financial statement are reported and the prior literature have provided mixed evidence on the impact of IFRS adoption. However, the fundamental question that is yet to be resolved in the literatures is: the extent to which IFRS adoption reduced the level of earnings management by entities and whether the effects of IFRS adoption on earnings management is influenced by firm's size and audit quality.

Despite the fact that empirical researches concerning the effects of IFRS on earnings management had gained momentum and international relevance, however, to the best of our knowledge no study has examined the effects of IFRS adoption on earnings management in Nigeria especially with consideration to income increasing and decreasing earnings management. Furthermore, the role of big-4 audit firm on earnings management under IFRS has not been empirically tested. The moderating effect of firm size on earnings management in Nigeria has also not been given attention under IFRS regime. Therefore, the study attempts to examine the effects of IFRS on earnings management in the Nigerian quoted companies.

The broad objective of this study is to examine the effects of IFRS adoption on earnings management of listed companies in Nigeria. The specific objectives are: to examine the effects of IFRS adoption on income-increasing and income decreasing earnings management of quoted companies in Nigeria and; to test whether the effects of IFRS adoption on earnings management is influenced by firm size and audit quality of quoted companies in Nigeria.

On the bases of the above objectives, the study formulates the following null hypotheses:

H₀₁: IFRS adoption has no significant effects on income-increasing earnings management of Nigerian quoted companies.

H₀₂: IFRS adoption has no significant effect on income-decreasing earnings management of Nigerian quoted companies.

H₀₃: IFRS adoption effects on earnings management is not significantly influenced by audit quality of Nigerian quoted companies.

H₀₄: IFRS adoption effects on earnings management is not significantly influenced by firm size of Nigerian quoted companies.

As all the listed firms in Nigeria are mandated to comply with IFRS starting from 1st January, 2012, the study covers the 2009-2013. The choice of 2009 to 2013 is based on the ground that we could assign a dummy value of "1" to companies

that adopt IFRS between 2009 to 2013 and “0” otherwise. The use of this approach is supported by previous studies (Xu,2014) and also allow us to correctly assign the value of “0” to companies in Nigeria that did not comply to the mandatory IFRS adoption policy even as at 2012. The study focuses on the listed companies in Nigeria that were expected to comply with IFRS starting from 1st January, 2012. Following prior studies (Xu, 2014; Barth, Landsman & Lang, 2008; Houqe, Zijl&Karim 2012; Chua, Cheong & Gould, 2012) we exclude financial institutions. Financial firms are subject to particular financial reporting rules that can influence the earnings management in a different manner. Therefore, the study examines the effect of mandatory IFRS adoption on earnings management of non-financial companies in Nigeria.

The study contributes to the growing literatures on the effects of IFRS adoption on earnings management. Investors and analysts would find this study of particular interest in order to discover whether IFRS application affects the tendency of Nigeria companies to manipulate earnings generally. Furthermore, the study would be of immense benefit to the policy makers as it provides them with empirical answers which may support future decisions regarding financial statement reforms.

2.1 Review of Empirical Literatures on IFRS and Earnings Management

The use of International Financial Reporting Standards (IFRS) in preparing financial statement is mandatory for companies listed in the Nigerian Stock Exchange. IFRS was established to achieve the objective of developing a single set of high quality financial accounting information in order to improve investors' confidence on the financial statements and to make efficient investments' decision. The significant of IFRS adoption has led to current research field in accounting in which several literatures in both developed and emerging economies, have examined the effects of IFRS adoption on the earnings management. However, prior literatures have so far presented mixed results as some studies found an improvement in financial reporting quality after IFRS adoption and widely support the hypothesis that earnings management declined considerably after IFRS adoption adoption (Hayfa, Nadia and Sarra, 2013; Iatridis, 2010; Nina, Bernhard, Christoph, & Ann-Kristin, 2009; Paglietti, 2009; Cai, Courtesney & Rahman, 2008; Aussenegg, Inwinkl & Schneider, 2008, Christensen, Lee & Walker, 2008, Barth, Landsman & Lang, 2008, Jaggi & Li, 2004,). For instance, Hayfa, Nadia and Sarra (2013) examine the effect of IFRS on earnings quality in European Stock Market using the sample of 250 French companies listed on Euronext Paris from 2002-2007, the study found that IFRS adoption resulted in a significant improvement of value relevance of earnings.

This implies that market valuation is less associated with earnings prepared in line with IFRS than those prepared under IFRS. The explanatory power of earnings improved significantly after the transition to international standards.

In a similar study by Paglietti (2009) who specifically focused on Italian market, observed that the book value and earnings are more relevant under IFRS than those prepared in accordance with local GAAP. Cai et al (2008), examine the effect of IFRS on earnings management using the data of 32 countries from the year 2000 to 2006. The result from the finding indicates declining earnings management after both mandatory and voluntary IFRS adoption. This implies that countries with stronger enforcement generally have less earnings management.. Aussenegg et al. (2008), examine earnings management practice in 17 European public firms. They found that the extent of earnings management is largely depending on specific country factors such institutional factors, legal origin and tax system.

However, several studies have provide contrary evidence that adoption of IFRS does not always result to an improvement in the quality of accounting information or declining earnings management (Xu, 2014; Stolowy, 2008; Ahmed, Neel and Wang 2013; Mara, 2011; Kaserer and Klingler 2008; Christensen, Lee and Walker,2008; Daske & Gephardt 2008 Lin and Chen 2005; Leuz et al. 2003;). For instance, Xu (2014) posits that IFRS adoption does not reduce the level of earnings management but rather, earnings manipulation intensified after the adoption of new accounting standards among the UK private firms. Ahmed et al. (2013) explore how mandatory IFRS adoption influences earnings quality and argue that the implication of IFRS adoption significantly depends on whether IFRS provide higher or lower quality than local GAAPs, thus it is expected that higher quality standards will increase the quality of earnings. Conversely, low quality standards are expected to reduce the quality of accounting information. The authors conclude that mandatory IFRS adoption has a negative impact on the quality of accounting information. IFRS only represent pure accounting changes and not sufficient to provide the expected benefits (Mara, 2011).

Therefore, consequent upon the mixed findings from the prior studies, it is difficult to conclude whether IFRS implementation lead to a declining earnings management. Thus, this study predicts that IFRS adoption has no effect on earnings management in Nigeria.

IFRS adoption and Income Increasing Earnings Management

Prior studies indicate that incentives to manipulate earnings differ considerably. Company usually manipulate earnings upward (income-increasing earnings management) so as to escape reporting losses when they apply for loans (Goncharov & Zimmerman, 2006). This implies that companies manipulate earnings around the lending process in order to report favourable earnings. The research by Healey and Wahlen (1999) indicate that the main incentive to manipulate earnings upward are capital market expectation, contract based on reported financial statement and government regulation. Nelson (2003) carried out research on the behavioural evidence on the effects of principle and rule based standards and point out that managers tend to manipulate earnings upwards in order to enjoy more earnings-based incentives or bonuses.

Similarly, Xu (2014), examines the effects of IFRS adoption on earnings management of UK private firms using a sample of 6,859 firms and 48,480 firm-year observation from the period 2003 to 2010. The result indicates that larger firm size intensifies earnings management for IFRS adopters with income-increasing earnings management. Thus, this study predicts that IFRS adoption has no significant effect on income-increasing earnings management practice of Nigerian quoted companies.

IFRS adoption and Income Decreasing Earnings Management

Goncharov & Zimmerman (2006) examine the role of tax accounting and its impact on earnings management in Russia. The findings indicate that Russia public companies use tax management less aggressively in order to report higher quality earnings. In the same vein, Budrina (2014), conducted a study on the impact of IFRS adoption on accrual-based earnings management which is based on the sample of Russian firms during the years 2006-2012. The results demonstrate that Russian companies manipulate earnings downward (income-decreasing earnings management) in order to avoid high tax.

Furthermore, Xu (2014), examines the effects of IFRS adoption on earnings management of UK private firms in the period from 2003 to 2010 and find that IFRS adoption have the same impact on income-increasing and income-decreasing earnings management but not sufficient enough to reduce the level of earnings management and improve accounting quality. Thus, this study predicts that IFRS adoption has no significant effect on income-decreasing earnings management practice of Nigerian quoted companies.

Firm size, IFRS and Earnings management

Gassen and Sellhorn (2006) while analyzing the determinants and consequences of applying IFRS in German observed positive evidence that the propensity to adopt/comply with IFRS increases with company size. In the same vein Dumontier and Raffournier (1998) find a positive and significant influence of size on the voluntary adoption of IFRS. However, Leuz and Verrecchia (2000) did not validate the hypothesis of size in the German context.

Watts and Zimmerman (1986), in revising the positive accounting theory, stated that large firms are more likely engage in earnings management to minimize current earnings for the purpose of lowering their public visibility and minimizing their political costs. In a related study by Xu (2014) provides further evidence on the conditional effect of firm size on earnings management in UK private firm. The result from the finding indicates that firm size do not affect IFRS adopters' earnings manipulation, neither. Thus, this study predicts that IFRS adoption effects on earnings management is not significantly influenced by firm size.

Audit Quality, IFRS adoption and Earnings Management

It is generally acknowledged that audit market is segmented into at least two categories: large and small auditors, Big 4 firms and non-Big 4 firms and the most common researched and documented indicator of audit quality is whether an audit firm is one of the Big-4. Empirical evidence suggest that auditor size are correlated with accrual quality, thus firm which employed the service of Big-4 auditors (PwC, Deloitte, EY and KPMG) have significantly lower discretionary accruals than firms with non-Big 4 auditors. (Defond and Subramanyam, 1998; Kim et al. 2003; Francis et al. 2005). In other words, firms audited by Big-4 firms have lower earnings management and consequently higher earnings quality. This is because Big 4 auditors are more competent and independent than non-Big 4. It is generally believed that when an audit failure occurs, Big 4 audit firms have more to lose like brand name and reputation (Vander and Willekens, 2004).

However, Xu (2014) while examining the moderating role of audit quality's effect of IFRS adoption on earnings management in UK private firm provides evidence that audit quality has a stronger effect in constraining earnings management but no stronger effect of IFRS reporting on firms audited by Big 4 audit firms than firms audited by non-Big 4 auditors. Thus, this study predicts that IFRS adoption effects on earnings management is not significantly influenced by audit quality (Big 4 audit firms).

2.2 Theoretical framework

The study adopts the agency theory and political cost theory to underpin the study. The proponents of agency theory believe that managers are in the best position to minimize the conflicts by strictly pursuing the interest of the shareholders (Fama and Jensen 1988). This holds that managers will not act to maximise the returns to shareholders unless appropriate governance structures are implemented in the large corporation to safeguard the interests of shareholders (Jensen and Meckling 1976). In essence, managers tend to engage in unethical accounting practices through earnings management which negatively impacting on the quality of reported earnings

Political cost theory state that if a company records high profits this might be used as a ground reason for trade unions or lobby groups to take action for an increase in a share of that profit i.e higher wages, therefore companies may adopt income-decreasing accounting methods (Watts and Zimmerman, 1978). Furthermore, Jones (1991) provides empirical evidence that companies have higher negative discretionary accruals in the period of relieve investigation than the period without investigation. It proves that managers use discretionary accruals in order to report lower earnings when some political investigations occur.

3.1 Methodology

The study adopted Correlation and the Ex-post factor Design. The design is considered most appropriate because it describes the statistical relationship between two or more variables.

The population consists of all companies quoted on the Nigerian Stock Exchange as at December 31, 2013. There are 155 quoted active companies (NSE, Factbook 2013) but after excluding 50 financial companies we had 105. A total of 68 non-financial companies were drawn from the population based on the availability of data and the period of IFRS adoption which represent the sample size for this study. It should be noted that each company in the sampled population must have finished its obligation in delivering annual report for the year ended 2009 to 2013.

3.2 Model Specification

In the light of the methodological knowledge gathered and empirical literature in our previous chapters, a panel data multiple regression model is specified. By the dependent variable the study used earnings management measured by discretionary accruals based on modified Jones model. For independent variable the study used accounting standards (1 if company adopt IFRS, 0 otherwise), Firm

size (whether the firm is a large firm), and auditors type (whether the firm is audited by BIG-4 audit firms). To test whether the effects of IFRS adoption on magnitude of earnings management is influenced by firm size and audit quality, the interaction variables 'IFRS*SIZE and IFRS*BIG-4' are included in the model 3 and 4 respectively. The panel multiple regression model with an error term (ε_t) is specified in econometric form as Model 1, 2, 3 and 4 as shown below:

MODEL 1:

Model one in this study seeks to test hypotheses one, which state that IFRS adoption has no significant effects on income-increasing earnings management.

$$IEM_{it} = \beta_0 + \beta_1 IFRS_{it} + \beta_2 SIZE_{it} + \beta_3 BIG4_{it} + \varepsilon_{it}$$

MODEL 2:

Model two in this study seeks to test hypotheses two, which state that IFRS adoption has no significant effect on income-decreasing earnings management.

$$DEM_{it} = \beta_0 + \beta_1 IFRS_{it} + \beta_2 SIZE_{it} + \beta_3 BIG4_{it} + \varepsilon_{it}$$

MODEL 3:

Model three in this study seeks to test hypotheses three, which state that IFRS adoption effects on earnings management is not significantly influenced by audit quality.

$$GEM_{it} = \beta_0 + \beta_1 IFRS_{it} + \beta_3 BIG4_{it} + \beta_2 IFRS * BIG4 + \varepsilon_{it}$$

MODEL 4:

Model four in this study seeks to test hypotheses four, which state that IFRS adoption effects on earnings management is not significantly influence by firm size.

$$GEM_{it} = \beta_0 + \beta_1 IFRS_{it} + \beta_2 SIZE_{it} + \beta_3 IFRS * SIZE + \varepsilon_{it}$$

Where:

Dependent Variables:

IEM_{it} = Income increasing earnings management measured by positive discretionary accruals, (Xu,2014, Teoh et al,1998 and Ashbaugh et al, 2003)

DEM_{it} = Income decreasing earnings management measured by negative discretionary accruals, (Xu,2014, Teoh et al,1998 and Ashbaugh et al, 2003)

GEM_{it} = General earnings management level measured by absolute discretionary accruals based on modified Jones Model by Dechow et al. (1995)

Independent Variables:

IFRS = Dummy variable, equals “1” if a company uses IFRS between 2009 to 2013, “0” otherwise

SIZE = Total asset. The interaction value of firm size with IFRS is measured by a dummy variable, which equals 1 if a company is large (i.e above sample average) and “0” otherwise. This approach classifying companies size using dummy variable was adopted from the recent work of Xu(2014)

BIG4 = Audit quality, measured by a dummy variable which equals “1” if a company uses big 4 audit firm and “0” otherwise. The big 4 audit firms are KPMG, Deloitte, Earnest and Young and PWC.

IFRS*SIZE= Interaction effect between firm size and IFRS adoption (Xu, 2014)

IFRS*BIG4= Interaction effect between audit quality and IFRS adoption (Xu, 2014)

4.1 Results and Discussion

This section presents the result of data analysis and tests of hypothesis formulated earlier in the paper. First, descriptive statistics, followed by the correlation matrix table and then the summary of regression result are presented and analyzed, and then policy implications and recommendation will be drawn and made from the findings of the study

Discriptive Statistics

Table 4.1, 4.2 and 4.3 show the discriptive statistics for increasing earnings management, decreasing earnings management and general earnings management respectively.

Table 4. 1: Descriptive Statistics for increasing earnings management

Variables	Mean	Max	Min	Std. Dev	Jarque-Bera
IEM	0.106	1.040	0.000	0.137	2501(0)*
SIZE	3.375	5.150	3.302	6838	3558.6(0)*
BIG4	0.536	1	0	0.500	27.66(0)*
IFRS	0.524	1	0	27.66	27.66(0)*
All data obs	166				

Source: Eviews output (2015)

Note: *1% Level of Significance, ** 5% Level of Significance, ***10 % Level of Significance

The results in Table 4.1 above provide some insight into the nature of the selected Nigerian quoted companies that practiced increasing earnings management for the period 2009 to 2013. From the result, the mean of increasing earnings management firms in our sample is 10%. This means that firms with positive earnings management above 10% would be seen as highly over stating their earnings. The result also reveals that 53% of our sampled companies used BIG4 audit firms while 52% of such firms are IFRS compliant. The Jarque-Bera (JB) which test for normality or the existence of outliers or extreme values among the variables shows that all the variables are normally distributed at 1% level of significance.

Table 4.2: Descriptive Statistics for decreasing earnings management

Variables	Mean	Max	Min	Std. Dev	Jarque-Bera
DEM	-0.101	-0.000	-0.868	0.121	1001.7(0)*
SIZE	3367	5.920	4790	64890	8744.0(0)*
BIG4	0.637	1	0	0.481	29.78(0)*
IFRS	0.465	1	0	0.500	29.00(0)*
All data observations	174				

Source: Eviews output (2015)

Note: *1% Level of Significance, ** 5% Level of Significance, ***10 % Level of Significance

The results above provide some insight into the nature of the selected Nigerian quoted companies that were used in this study. It shows the mean (average) for each of the variable, their standard deviation (degree of dispersion) and Jarque-Bera (JB) statistics (normality test) for both companies that practices decreasing earnings management.

Table 4. 3: Descriptive Statistics for general earnings management

Variables	Mean	Max	Min	Std. Dev	Jarque-Bera
GEM	8.820	1.040	-0.868	0.166	1198(0)*
SIZE	3371	5.920	3302	6652	1132(0)*
BIG4	0.5882	1	0	0.492	56.900(0)*
IFRS	0.4941	1	0	0.500	56.666(0)*
All data observations	340				

Source: Eviews output (2015)

Note: *1% Level of Significance, ** 5% Level of Significance, ***10 % Level of Significance

The results above provide some insight into the nature of the selected Nigerian quoted companies that were used in this study. It shows the mean (average) for each of the variable, their standard deviation (degree of dispersion) and Jarque-Bera (JB) statistics (normality test) for both companies that practice combined earnings management. The result shows that about 58% of the firms selected were audited by the Big-4(KPMG, PWC, AKINTOLA WILLIAMS DELOITTEE and ERNST and YOUNG) while about 49% of these companies are IFRS compliant. Lastly, the Jarque-Bera(JB) statistics shows that most of the variables are normally distributed at 1% levels of significance. This therefore means that there is no outlier in the data that would impair the generalization from this study.

Correlation Analysis

Table 4.4, 4.5 and 4.6 show the correlation values between the dependent variable and the independent variables and also the relationship between the independent variables themselves. The values were extracted from the Pearson Correlation of two-tailed significant

Table 4.4 Correlation Matrix for Increasing Earnings Management

	IEM	SIZE	BIG4	IFRS
IEM	1			
SIZE	-0.056	1		
BIG4	-0.041	0.334	1	
IFRS	-0.027	0.102	-0.015	1

Source: Eviews output (2015)

Table 4.4 focuses on the correlation between Income increasing earnings management (IEM), Firm size (SIZE), Big4 (BIG4) and IFRS adoption (IFRS). The results show that for the quoted companies in Nigeria, IFRS and increasing earnings management (IFRS; IEM= -0.027) was negatively and weakly associated. This implies that the adoption of IFRS reduces the tendency for companies to engage in increasing earnings management practice. The results also show that firm size and Earnings management (SIZE; PEM=-0.056) was negatively and weakly associated. This implies that the bigger the quoted company in our sample, the less they are likely to engage in increasing earnings management practices. In the case of audit type, (BIG4; PEM=-0.041) was also weakly and negatively associated with increasing earnings management. This suggests that the use of BIG4 audit firms by these company's decrease the tendency for them to engage in increasing earnings management.

Table 4.5 Correlation Matrix for Decreasing Earnings Management

	DEM	SIZE	BIG4	IFRS
DEM	1			
SIZE	0.032	1		
BIG4	-0.033	0.281	1	
IFRS	0.061	0.108	-0.040	1

Source: Eviews output (2015)

Table 4.5 focuses on the correlation between decreasing earnings management (DEM), FIRM SIZE (SIZE), Big4 (BIG4) and IFRS (IFRS). The results show that for the quoted companies IFRS and income decreasing earnings management (IFRS; DEM=0.061) was positively and weakly associated. This suggests that the adoption of IFRS increases the tendency for them to engage in decreasing earnings management practices.

Table 4.6 Correlation Matrix for General Earnings Management

	GEM	SIZE	BIG4	IFRS
GEM	1			
SIZE	-0.010	1		
BIG4	-0.094	0.306	1	
IFRS	0.048	0.105	-0.033	1

Source: Eviews output (2015)

Table 4.6 focuses on the correlation between general earnings management (GEM) and the independent variables: FIRM SIZE (SIZE), Big4 (BIG4) and IFRS (IFRS). The results show that for the quoted companies in Nigeria, IFRS and general earnings management (IFRS; GEM=-0.048) was negatively and weakly associated. This implies that the adoption of IFRS increases the tendency for them to engage in earnings management practices. A close look at the correlation matrix also revealed that no two explanatory variables were perfectly correlated. This means that there is the absence of multicollinearity problem in our model. Multicollinearity between explanatory variables may result to wrong signs or implausible magnitudes in the estimated model coefficients, and the bias of the standard errors of the coefficients.

Regression Results

In testing the fundamental hypotheses the study adopted a panel multiple regression analysis for the formulated models. Given that the impact of IFRS adoption differs in the direction of discretionary accruals (Deegan and Unerman, 2006), therefore, the study partition the sample and conduct the regressions for these three dependable variables which are positive discretionary accruals,

negative discretionary accruals and absolute discretionary accruals represented as panel 1,2,3 and 4 in Table 4.7. The results obtained are reported and discuss as follows.

Table 4.7

	Panel 1 WLS	Panel 2 WLS	Panel 3 WLS	Panel 4 WLS
C	0.117 (10.441) [0.000]	-0.119 (-2.133) [0.034]	0.0151 (0.882) [0.378]	-0.004 (-0.307) [0.758]
IFRS	-0.006 (-0.357) [0.721]	0.014 (1.482) [0.140]	6.930 (0.330) [0.741]	0.012 (0.632) [0.526]
SIZE	-9.150 (-0.093) [0.000]*	0.001 (0.396) [0.692]		-1.410 (-0.669) [0.503]
BIG 4	-0.007 (-0.452) [0.651]	-0.009 (-0.711) [0.477]	-0.013 (-2.016) [0.044]*	
IFRS*BIG 4			0.013 (0.785) [0.482]	
IFRS*SIZE				1.380 (0.669) [0.505]
R-Squared	0.05	0.05	0.06	0.05
Adj-R-Squared	0.04	0.03	0.05	0.04
F-Statistic	10.23(0.04)	10.2(0.04)	10.2(0.02)	10.3(0.04)

Source: Eviews output (2015)

Note: (1) Parentheses () are t-statistic while bracket [] are p-values. * is 5% level of significance

WLS (Weighted Least Square)

Panel 1: Increasing Earnings Management Regression Results

This section examines how the independent variables relate to increasing earnings management strategy. The result was corrected with the white's heteroschadasticity method. From the result in table 4.6 above it can be observed

that the R-squared and R-Square adjusted was 0.05 and 0.04 respectively. This extremely poor coefficient of determination clearly shows that increasing earnings management is not easily explained by most explanatory variables. This implies that firm size, BIG4 audit firm and IFRS adoption do not easily explained the systematic variations in increasing management among the sampled companies in Nigeria. The F-Statistics value of 10.23 and its p value of 0.04 shows that the model overall was statistical significant at 5%.

Specifically, IFRS adoption (IFRS) was found to be statistically insignificant at 5% levels and was negatively associated with increasing earnings management practices in Nigeria. The result from this finding provides evidence for the failure to reject the null hypothesis H1 which suggests that IFRS adoption has no significant effect on increasing earnings management practices in Nigerian quoted companies. This result is in line with the study conducted by Xu (2014) who argued that IFRS adoption is not sufficient to reduce the level of earnings management and improve accounting quality. Since IFRS is more flexible and provide more room for accounting decision which consequently reduces the positive effects of IFRS.

Firm Size (SIZE) appears to be negatively and significantly associated with positive earnings management strategy. The statistical significance level is at 1% levels. This implies that earnings management is significantly influenced by firm size. Therefore, the larger a firm is, the less likely that it would adopt increasing earnings management strategy in order to take advantage of low-tax payment. However, this result is contrary to the prior studies (Xu, 2014; Kim et al. 2003) which provide evidence that larger firm size is positively and significantly influencing income-increasing earnings management. Besides, Audit Quality (BIG4) was found to be statistically insignificant at 5% levels and was negatively associated with increasing earnings management practices in Nigeria. This implies that higher audit quality reduces the tendency of Nigerian companies to manipulate earnings upward.

Panel 2: Decreasing Earnings Management Regression Results

This section examines how the independent variables relate to decreasing earnings management strategy. The regression result after correcting for heteroschadasticity using white correction method are presented in table 4.7 above. From the result it can be observed that the R-squared and R-Square adjusted was 0.05 and 0.03. This extremely poor coefficient of determination clearly shows that decreasing earnings management is not easily explained by most explanatory variables. This implies that firm size, BIG4 audit firm and IFRS

adoption do not easily explained the systematic variations in decreasing earnings management practices among the sampled companies in Nigeria. The F-Statistics value of 10.2 and its p value of 0.04 shows that the model overall was statistical significant at 5%.

Specifically, IFRS adoption (IFRS) was found to be insignificant at 5% levels and positively associated with decreasing earnings management practices in Nigeria. The result from this finding provides evidence for the failure to reject the null hypothesis H2 which states that IFRS adoption has no significant effect on income-decreasing earnings management in Nigeria. This result is in line with the study conducted by Xu (2014) who argued that IFRS adoption is not sufficient to reduce the level of earnings management and improve accounting quality. However, this result contradicts the work of Budrina (2014) who argued that IFRS adoption significantly results in decreasing earnings management. The finding also contradict the studies by Goncharov and Zimmerman (2006), who examine the role of tax accounting in Russia and conclude that Russia companies use income-decreasing earnings management in order to avoid high tax.

Firm Size (SIZE) appears to be positively and insignificantly associated with decreasing earnings management strategy which is in consistent with prior studies (Xu, 2014; Kim, Liu and Rhee, 2003). While Audit Quality (BIG4), was found to be insignificant at 5% levels and was negatively associated with decreasing earnings management practices in Nigeria with a value of -0.009. This result reveals that earnings management decreases with higher audit quality. Big 4 auditor can provide more professional and qualitative service than non-Big 4 auditors, hence high audit quality work as a constraint on earnings manipulation. This result is contrary to the study conducted by Xu (2014) who argued that private firms in UK audited by Big 4 audit firms mostly engage in income-decreasing earnings manipulation. Auditors in UK could tolerate more tax-induction (income-decreasing) earnings management because it is a low tax alignment country in which auditors gets less pressure from tax authorities.

Panel 3: General Earnings Management with Interaction in IFRS Adoption and Big 4 Audit firm

This section examines how the independent variables relate to earnings management when there is an interaction between IFRS adoption and Big 4 audit firm type. The regression result after correcting for heteroschadasticity using white correction method are presented in table 4.7 above. From the result it can be observed that the R-squared and R-Square adjusted was 0.06 and 0.05 respectively. This extremely poor coefficient of determination clearly shows that

general earnings management is also not easily explained by most explanatory variables. This means that firm size, BIG4 audit firm, IFRS adoption and interaction between IFRS adoption and BIG 4 audit firm do not easily explain the systematic variations in general earnings management among the sampled companies in Nigeria. The F-Statistics value of 10.2 and its p value of 0.02 shows that the model overall was statistical significant at 5%.

Specifically, IFRS adoption (IFRS) was found to be statistically insignificant at 5% levels with a value of 6.930 and was positively associated with earnings management practices in Nigeria. This implies that IFRS adoption has no significant effect on earnings management in Nigeria. While IFRS interaction with big4 (IFRS*BIG4) appears to be positively and insignificantly associated with earnings management strategy. This suggests that the interaction between IFRS adoption and audit quality (Big 4) is not a significant determinant of a company's ability to manipulate its earnings. Based on this finding we fail to reject the null hypothesis H3 which suggests that IFRS*BIG4 interaction has no significant effect on earnings management. This result is in line with the study conducted by Xu, 2014. The effects of IFRS adoption on earnings management are not different between companies audited by Big 4 audit firms and non-Big 4 audit firms. Although audit quality (Big 4) affects earnings management generally, it does not affect the reported magnitudes of earnings management when firms adopt IFRS (after including the interaction variable IFRS*BIG4). Besides, Audit Quality (BIG4) was found to be statistically significant at 5% levels with a p- value of 0.044 and was negatively associated with earnings management practices in Nigeria with a value of -0.013. This implies that the earnings management decreases with higher audit quality. Prior studies provide evidence that higher audit quality work as a constraint on the extent of earnings manipulation, for instance, Medhat and Kevin (2010), found that public firms show lower level of earnings management when they are audited by Big 4 audit firms. This is in line with our result and could be based on the fact that Big 4 audit firms provide higher audit quality so as to avoid losses in case audit failure occurs (DeAngelo, 1981).

Panel 4: General Earnings Management with Interaction in IFRS Adoption and Firm Size

This section examines how the independent variables relate to earnings management when IFRS adoption is interacted with Firm Size. The regression result after correcting for heteroschadasticity using white correction method are presented in table 4.7 above, from the result it can be observed that the R-squared and R-Square adjusted was 0.05 and

0.04 respectively. This extremely poor coefficient of determination clearly shows that general earnings management is also not easily explained by most explanatory variables even after introducing interaction variables. This implies that firm size, BIG4 audit firm, IFRS adoption and interactions between IFRS adoption and firm size do not easily explained the systematic variations in general management among the sampled companies in Nigeria. The F-Statistics value of 10.3 and its p value of 0.04 shows that the model overall was statistical significant at 5%.

Specifically, IFRS adoption (IFRS) was found to be statistically insignificant at 5% levels with a value of 0.634 and was positively associated with earnings management practices in Nigeria. This implies that IFRS adoption has no significant effect on earnings management in Nigeria. Furthermore, IFRS interaction with size (IFRS*SIZE) appears to be positively and insignificantly associated with earnings management strategy. The result from this finding provides evidence for the failure to reject the null Hypothesis H4, which suggests Mandatory IFRS interaction with size, does not have a significant effect on earnings management. This result is in line with the study conducted by Xu, 2014. This means that the effects of IFRS adoption on earnings management are not different between large companies and small companies. Besides, Firm Size (SIZE) appears to be negatively and insignificantly associated with earnings management practice among the sampled firms in Nigeria.

5.1 Conclusion and Recommendations

In this study, an attempt was made to examine the impact of IFRS adoption on earnings management practices in Nigeria and investigate whether the effects of IFRS adoption are influenced by audit quality and firm size. The empirical research of this study is based on the sample of 68 non-financial quoted companies in Nigerian that has consistently published their audited annual financial report between 2009 and 2013. The dependent variables are positive discretionary accruals, negative discretionary accruals and absolute discretionary based on modified Jones model. For independent variable we used accounting standards (1 if company adopt IFRS, 0 otherwise), Firm size (whether the firm is a large firm), and auditors type (whether the firm is audited by BIG-4 audit firms). To test whether the attributes of firm (size and auditors type) impact the effects of IFRS on the magnitude of earnings management, the interaction variables 'IFRS*SIZE and IFRS*BIG-4' are included in the model. Using a panel data multiple regression model, this study provides strong evidence that IFRS adoption in Nigeria does not significantly affect the tendency of Nigeria companies to manipulate earnings generally. It is specifically documented that Nigerian

companies did not significantly practice income-increasing or decreasing earnings management activities after their adoption of IFRS, while the big-4 auditors and firm size did not sufficiently create a situation where IFRS adoption affected earnings management.

Political cost theory states that if a company records high profits this might be used as a ground reason for trade unions or lobby groups to take action for an increase in a share of that profit i.e. higher wages, therefore companies may adopt income-decreasing accounting methods. Results from this study clearly indicate that companies in Nigeria are more likely to understate earnings than overstate it due to tax reduction reasons, to maintain yearly income smoothing and to distribute less cash to shareholders in the form of dividend and for the purpose of union negotiations. More clearly, the finding suggests that the quoted firms in Nigeria are not likely to engage in increasing earnings management. The findings of this research are relevant to researchers, investors, regulators and practitioners as they give an insight on the impact of mandatory IFRS adoption on the level of earnings management practices in Nigeria.

The study, therefore, recommends that:

- 1) The investors and analysts should rely on the reported earnings of Nigerian companies under IFRS to make business and economic decision.
- 2) Other factors such as the institutional framework, legal structure, as well as good corporate governance practices should be strengthened and be taken into the consideration while implementing IFRS in Nigeria.
- 3) That regulatory authority should device means of encouraging quoted companies in Nigeria to employ the service of Big4 audit firm so as enhance high audit quality. The results indicate that high audit quality work as a constraint on earnings manipulation and consequently, reducing the level of earnings management practices.

There are limitations to this study. First, the effect of IFRS adoption would vary from country to country due cultural, political and economic differences. This is because IFRS only represent pure accounting changes and not sufficient to provide the expected benefits. This may affect the outcome of this research. Second, the study focused only on selected non-financial companies in Nigeria. The study excluded financial firms because they are subject to particular financial reporting rules that can influence the earnings management in a different manner. Therefore, further research should expand the sample size to include both financial and non-financial sectors in Nigeria. This will assist in documenting the effects of IFRS adoption on earnings management of all quoted companies in Nigeria.

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