Available online www.unicrossjournals.com

JOURNAL OF CONTEMPORARY RESEARCH (JOCRES)

RESEARCH ARTICLE VOL. 2 (3) ISSN:2814-2241

Date Accepted: 31st December, 2023

Pages 61 - 73

EVALUATING EARNINGS MANAGEMENT IN THE MANUFACTURING SECTOR IN NIGERIA

Uket E. Ewa

Department of Accountancy, Faculty of Management Science, Cross River University of Technology, Calabar, NigeriaTel: +234-0803-723-8061, E-mail: uketewa@yahoo.com;uketewa@crutech.edu.ng,

Abstract

The study is to evaluate the propensity of earnings management in Nigeria by establishing the effects of short-term discretionary, long-term discretionary and total discretionary accruals on earnings persistence among quoted manufacturing companies in Nigeria. A purposive sampling technique was employed in selecting out of sixty-four (64) companies, thirty (30) (46.9 per cent companies). The study revealed earnings persistence by firms in Nigeria between 2011– 2020 is of high quality as it relates to earnings continuity and predictability. Furthermore, firms in the manufacturing sector are associated with both aggressive and conservative discretionary accruals practices and that on average they practice moderate accrual management. The overall discretionary accruals results indicate that there is the presence of short-term, long-term and total discretionary accruals among the sampled companies and all have significant reducing effect on the quality of earnings, as a result of the opportunistic manipulations by managers.I recommended that stakeholders and regulatory authorities propose the estimation of discretionary accruals using standard approach such as the cycle approach which have superior ability in detecting earnings management. The application will be a deterrence signal to managers who love to lower the quality of earnings through the use of managerial discretion in the estimation of accounting items.

Keyword: Discretionary accruals, earnings persistence, earnings management, manufacturing sector.

1.0 Introduction

Today business world is characterized by myriad of expectations. Companies in an attempt to be competitive globally and drive efficiency from staff promotes productivity based bonus and performance induced pay and allowances to the top management so as to encourage them to report good earnings at the end of their financial years.

Managers of companies are challenged to report exceptional earnings to be recognised in the industry as some effective and visionary managers as well as enhancement of the market value of the shares of their companies. Government regulatory agencies multi-requirements from companies and penalties for default is a common decimal in Nigeria. The consequence of this obnoxious tariff on the survival of business entities has also propelled company managers to seek ways and means survival strategies. There has thus been enormous manipulation of financial statements by firm's management to

protect their interests and shore up their organisation's performance for enhanced share valuation.

As creative accounting is the manipulation of accounting policies and values for the benefit or survival of entities, top management as a means to achieve performance, regulatory compliance and envisioned expectations from the public, there is the temptation for earnings manipulation by top management.

Indeed creative accounting practices are becoming very common and being blamed on the shortcoming of corporate governance among Nigerian companies. Negative creative accounting practices occurrences has led to many corporate scandals like the Cadbury, Oceanic Bank, Trade Bank, Enron, World Com, Tyco, Freddie Mac, Lehman Brothers etc.

For probity and caution, earnings quality and its components have emerged as an issue of interest to investors, managers, analyst and other market participants. Against the above, the study is geared towards ascertaining the effect of discretionary accruals on earnings quality among manufacturing companies in Nigeria.

1.2 Statement of the Problem

Company executives are challenged to report exceptional earnings so as to enhance their company's market value and to be seen as performing executives and visionary in management. Also, due to regulatory agencies duplicated requirements from companies and attached penalties for default, organisations have resorted to creative accounting practices. This creative accounting practices which involved manipulation of accounting policies and values for personal gains by top management has rendered many companies to collapse in Nigeria and globally. Accruals are a major component of earnings management which changes as company's business transactions change. Instances where the changes cannot be explained by changes in company's business activities, then those accruals can be easily assumed as discretionary. Stakeholders interested in the utilization of financial statements reports hardly figure out these discretionary-accruals and therefore assume that the earnings are of quality. The consequence of stakeholder's ignorance of the quality of the financial statement report is the firm valuation which will be over stated thus mispriced, due to the misrepresentation in the financial statements.

This study is to evaluate earnings management among manufacturing companies in Nigeria by exploring the short-term discretionary accruals, long-term discretionary accruals, and total discretionary accrualson earnings persistence among quoted manufacturing companies in Nigeria.

1.3 Objectives of the study

The objective of the study is to evaluate the propensity of earnings management in the manufacturing sector of Nigeria by establishing the effects of short-term discretionary accruals, long-term discretionary accruals and total discretionary accruals on earnings persistence among quoted manufacturing companies in Nigeria.

2.0 Theoretical Framework

2.1 Agency Theory

The agency theory was propounded concurrently by Stephen Ross and Barry Mitnick. Ross theory was in terms of problems of compensation contracting as agency was seen in essence as an incentive problem while Mitnick introduced the insight that institutions form around agency and evolve to deal with agency in response to 'the essential imperfection of agency relationship.

Every one entrusted with decision making authority (responsibility) is regarded as having a duty of 'accountability'. As responsibility comes with accountability, they are expected to demonstrate how they have managed the resources entrusted to their care. Agency theory thus is a useful economic theory of accountability.

2.2 Stewardship Theory

This theory which was propounded by Dpnaldson and Davis in 1991 assumes that managers if left on their own will act as responsible officials or stewards of the assets and resources of the enterprise they control. This theory assumes that given a choice between self-serving behaviour and pro-organisational behaviour, a steward will place higher value on cooperation than defection. The theory suggests that managers are supposed to act in the best interest of the company.

3.0 Conceptual Review

Earnings management is a process whereby accountants apply their knowledge of accounting rules to manipulate the figures or numbers reported in the financial statement of a business. While Damori, et al. (2010) opined that earnings management is a purposeful intervention in external financial reporting process, with the intent of obtaining some private gains, Kirschenheiter and Melumad (2002) views earnings management as some misdeeds, misdemeanours or other transgression that alter earnings to be reported. Hamdan (2011) argued that earnings management occurs when management uses its judgment in financial reporting and in structuring transaction to alter financial reports either to mislead some stake holders about the underlying economic performance of the company or to influence contractual outcomes that depends on reported accounting numbers.

Bissessurs (2008) sees it as the manipulation of some accounting principles by managers to conceal poor performance or postpone a portion of usually good current earnings to future years. A grey area where accounting is being perverted, where managers are cutting corners and where reported earnings reflects the wishes or desires of management rather than underlying financial performance of a firm.

3.1 Discretionary Accruals

Discretionary accruals are accounting adjustment entries that are made at the discretion of management rather than being made based on objective events or transactions. These adjustment entries can have significant impact on a company's financial statements and can be used to manipulate earnings. Earnings management, as measured by high discretionary accruals, may reduce the reliability of earnings and thus the quality and value-relevance of earnings. The accruals represent that portion of total accruals which majorly impact on earnings quality. They represent exceptional accrualsie deviation of accruals from the estimated normal accruals. They are thus computed as total accruals minus non-discretionary (normal) accruals. These include recreational purchases, entertainment subscription services, research and development, donations, training and sponsorship.

De Angelo model and Healy model calculated discretionary accruals as the difference between total accruals scaled by lagged total assets in the event year and the average of that variable in the estimation period. This is restricted to one year. Discretionary accruals indicate opportunistic behaviour by managers of companies.

Unlike discretionary accruals, non-discretionary accruals are mandatory expenses/assets that is recorded within the accounting system that has yet to be realized. This include rent, payroll taxes,

3.2 Short Term Discretionary Accruals

Short-term accruals are the amount of revenue earned or expenses incurred that have not yet been received or paid for and thus remain in the balance sheet for less than a year after the date of the balance sheet. These are accruals that affect working capital accounts and reflect changes to current assets and liabilities.

3.3 Long Term Discretionary Accruals

Long-term accruals are the total amount of revenue earned from trade or service or expenses incurred from transactions but have not yet been paid for that remains on the company's statement of financial position longer than the operating cycle or for more than one year after the date of the statement of financial position.

4.0 Empirical Review

Jamadar et al (2021) study on earnings management and discretionary accruals which investigated the earnings pattern and earnings management of the firms based on different models of discretionary accruals as proxies for earnings management revealed firms in the negative earnings group are significantly more involved in earnings management than other firms. Olaoye & Akinleye (2020) study onthe relationship between accrual-based earnings, real-based earnings management and firms' value in Nigeria which adopted descriptive and panel least square regression technique revealed accrual-based earnings management captured by abnormal discretionary accrual earnings (ADA) has positive relationship with the return on equity (ROE) a measure of firm value while a negative relationship was also revealed between the real-based earnings management proxied by abnormal cash flow of operation activities (ACF) and ROE measures of firm value of the quoted manufacturing companies in Nigeria. The result further revealed ADA led to 31.04 per cent on ROE a measure of firm value of the quoted manufacturing companies in Nigeria. Nuraddeen & Ladan (2018) which investigated earnings management practices among non-financial listed industries in Nigeria and applied OLS method of estimation to estimate discretionary accruals as proxy of earnings management using Modified Jones Model (1995) revealed all the listed non-financial firms manipulate their earnings. The sector that manipulated earnings the most was the natural resources sector while the health care sector was the least and thus recommended that Security and Exchange Commission (SEC) should formulate a policy that should regulate the financial and operations activities of non-financial sectors especially natural resources sector that manage earnings most.

Ogneva (2015) study which evaluated the effect of accruals on return shocks using an asset pricing model for specifying the additional return based on quality of accruals stock with low quality of accruals in average experiencing more negative fluctuations. Fattahi, et al. (2014) study which examined the impact of earnings management on the value of the accounting information revealed no significant relationship between earnings management and value relevance of the accounting information. Mezerji, et al (2013) study which investigated the relationship between accounting information quality with discretionary accruals and stability of earnings result revealed firms that provided high quality information had lower

discretionary accruals in comparison to low quality firms.

5.0 Study Population

The study population is the 64 listed manufacturing companies in the Nigeria Exchange Group as at December 31, 2020. The companies are appropriate for the study because they are public institutions running under strict corporate governance regulations and thus their financial reports are deemed reliable.

5.1 Sample Size and Sample Size Determination Technique

A purposive sampling technique is employed in selecting out of sixty-four (64) companies thirty (30) (46.9 per cent) above ten percent generally recommended in sampling literature.

Model specification: EQ (EP) = β_0 + fDA

$EP = \beta_0 + \beta_1 STDA_t + \beta_2 LTDA_t + \beta_3 TDA_t + \alpha CON + e_t$---------- (1)

Where:

EQ = Earnings Quality, EP= Earnings Persistence, TDA = Total Discretionary Accruals, STDA = Short-Term Discretionary Accruals, LTDA = Long-Term Discretionary Accruals, CON = Control Variable is Firm size(FSIZE), β_0 = Constant term, $\beta_1 - \beta_3$= Coefficients of the independent variables, α = Coefficients of the control variables, e_t = stochastic term.

Appriori Expectation:

It is reasonably expected that $\beta_1 - \beta_3$ will be negative and statistically different from zero.

6.0 Data analyses

Table 1: Descriptive Statistics for firms

	EPERS	STDA	LTDA	TDA	FSIZE
Mean	0.714800	0.187357	-0.172809	-0.072573	5.676783
Median	0.714800	0.147287	-0.777466	-0.051661	5.391262
Maximum	0.714800	0.33228	0.921434	0.007067	8.983829
Minimum	0.714800	-0.2126	-.5970113	-1.756294	3.343014
Std. Dev.	0.000000	0.79333	0.58756	0.149123	1.330568

Source: Researcher's computation

The following accrual components relate to short-term discretionary accruals:

INVAC=Accruals related to Inventory, ARAC= Accruals related to Accounts Receivable, OCAAC=Accruals related to Other Current Assets, APAC=Accruals related to Accounts Payable, ITPAC=Accruals related to Interest Tax Payable, OCLAC=Accruals related to Other Current Liabilities

The following Accrual components relate to long-term discretionary accruals:

PPEAC= Accruals related to Property, Plant and Equipment, INTAC=Accruals related to Intangibles, NCPAC=Accruals related to Non-Current Provisions

The Table 1 revealed that the mean value of earnings persistence among the target firms is 0.715. The value indicates that present year earnings have the capacity to move into the future. This indicates that the earnings of the firms in Nigeria between the period 2011-2020 are quality, as it relates to earnings continuity and predictability. The descriptive analysis shows that earnings have

predictive power and have the capacity to continue into the future. The reason for the high persistence recorded in the study is attributable to the fact that the earnings performance in the period studied was high among the firms selected for inclusion in the study.

The table also revealed that the mean value of short-term discretionary accruals among the firms between 2011-2020, was 0.189, with a minimum value of -0.213 and maximum value of 0.332. The values indicate that on the average, management of earnings related to current assets and liabilities are about 19 percent of average total assets. The standard deviation of 0.79 indicates that short-term discretionary accruals do not have wide dispersion from the mean. Thus, managers ofthe firms within the period ofstudy have been engaged in managing earnings emanating from components in current assets and liabilities.

The analysis of the components of short-term discretionary accruals in Table 2 revealed that in the manufacturing sector, discretionary accruals related to inventory had an average of 11.7 percent of assets. This result indicates that inventory valuations, write-off, appreciation and estimations are associated with both aggressive and conservative discretionary accruals, with maximum value of positive 24.032 (indicating aggressive discretionary accruals) and minimum value of negative -5.478 (indicating conservative discretionary accruals).

Furthermore, the mean value of short-term accruals attributable to accounts receivable in Table 2 was -0.283, indicating that on average, 28 percent of short-term accruals were contributed by managerial estimations in accounts receivables. The maximum and minimum value of 3.851 and -6.976 indicate that discretionary accruals attributable to accounts receivable were also both aggressive and conservative, with conservative discretionary accruals (in the ten-year period, 2011-2020) exceeding the aggressive discretionary accruals, since the mean value is negative. The mean value of 28 percent indicates that on the average higher short-term discretionary accruals is attributable to accounts receivables in the form of managerial estimations regarding provisions for bad and doubtful debts, bad debt write-off, and debtors' tenure estimations, as well as discounts and credits to debtors. Short-term discretionary accruals arising from measurement and reporting of other current assets in Table 2 revealed a mean value of 0075, with maximum and minimum values of 10.49 and -1.83 respectively. The mean result suggests that 7 percent of short-term discretionary accruals is attributable to other current assets, while the maximum and minimum values 10.49 and -1.83 also indicate that firms in the manufacturing sector were associated with both aggressive and conservative discretionary accruals.

The overall results suggest that among current assets components of short-term discretionary accruals, accounts receivables accruals had the highest average discretionary management, followed by inventory accruals, and accruals in other current assets.

A cursory inspection of the components of short-term liability accruals in Table 2 showed that the mean value of accounts payable accruals in Table 2 was 0.07, with a maximum and minimum value of 10.42 and -15.87. These values indicate that about 7 percent of short-term discretionary accruals were attributable to accounts payable, which have within the ten years been used as both aggressive and conservative accruals strategies by firms. Similarly, the average

accruals of other current liabilities were 0.0197, indicating that accruals in other current liabilities such as accrued expenses, make up about 2 percent of short-term discretionary accruals. The values of accruals in other current liabilities range between 1.95 and -2.00, revealing the presence of aggressive and conservative short-term accruals.

Finally, short-term accruals attributable to income tax payable had a mean value of 0.183, indicating an 18.3 percent contribution to total short-term accruals. Maximum and minimum values of 10.42 and -15.87 also indicate that both aggressive and conservative short-term accruals were found in the measurement of income tax payable. Among the three short-term liability accruals, income tax payable accruals constitute greater bulk of the short-term discretionary accruals, followed by accounts payable, and then other current liabilities. Regarding long-term discretionary accruals, Table 1 also revealed the mean value of long-term discretionary accruals among the companies studied between 2011-2020 as -0.173 with a minimum value as -0.597and maximum value of 0.921. The mean value of -0.173 indicates that there is a long-term discretionary accrual of about 17 percent of total assets.

The minimum and maximum values indicate that on average, the sampled firms included in this study practice moderate accruals management, with both aggressive and conservative discretionary accruals.An analysis also of the properties of long-term discretionary accruals in Table 2 revealed that on the average, long-term discretionary accruals associated with non-current provisions are about 1.239, long-term discretionary accruals related to Property, Plants and Equipment (PPE) are about 0.486, and long-term discretionary accruals associated with intangibles are 0.429. This indicates that long-term discretionary accruals result more from the measurement, estimations and reporting of non-current provisions. These provisions include the estimation of pensions, guarantees (product warranty claims and customer refunds), asset impairment, restructuring liabilities and sales allowance by closure or reorganization, future unavoidable lease obligations, onerous contracts, future operating losses, amongst others.

The results indicate that there is a great amount of long-term discretionary accruals attributable to non-current provisions estimations. The discretionary accruals in PPE, was a little higher than the discretionary accruals in PPE, with discretionary accruals in PPE being about 48.6 percent of total assets, and discretionary accruals in intangibles being about 42.9 percent of total assets.

The total discretionary accruals variable showed a mean value of -0.07, with a minimum value of -1.756 and maximum value of 0.007. The values indicate that, on the average, the total discretionary accrual is quite moderate, accounting for about 7 percent of total assets. The inspection of all three values, average, minimum and maximum indicate that the firms .

Table 2: Descriptive Statistics Components of short-term discretionary accruals

	INVAC	ARAC	OCAAC	APAC	ITPAC	OCLAC	PPEAC	INTAC	NCPAC
Mean	0.117	-0.283	0.075	0.070	0.183	0.020	0.485848	0.428786	1.238845
Median	0.000	0.000	0.000	0.001	0.000	0.000	0.344446	0.027169	0.089627
Maximum	24.032	3.851	10.488	10.418	5.846	1.949	8.415394	37.40488	123.0520
Minimum	-5.478	-6.976	-1.832	-15.866	-9.997	-1.999	4.52E-05	3.02E-06	0.000000
Std. Dev.	1.569	5.609	5.547	6.254	7.310	1.832	0.887619	2.301177	8.881069
Observations	300	300	300	300	300	300	300	300	300

Source: Researcher's computation

majorly practice conservative total discretionary accruals over aggressive total discretionary accruals. The standard deviation of 0.149 indicates that the panel data does not have a wide deviation from the mean.

The overall discretionary accruals results indicate that there is the presence of short-term discretionary accruals, long-term discretionary accruals and total discretionary accruals among the sampled companies in this study, between 2011 and 2020. Analyzing both short-term and long-term discretionary accruals has helped reveal the true nature of managerial discretion in estimating accrual components, which total discretionary accruals do not provide for. While overall average total discretionary accruals revealed a conservative discretionary accrual value of -7 percent of total assets, short-term discretionary accrual revealed an aggressive discretionary accrual value of 18.7 percent of total assets, and long-term discretionary accrual revealed a conservative discretionary accrual value of -17.3 percent of total assets.

Firm size (which is measured as logarithm of total assets) revealed a mean value of 5.68, and a standard deviation of 1.33. The maximum and minimum values of firm size were 8.98 and 3.34. The result thus indicates that the firms included in this study are large companies.

The correlation between discretionary accrual variables and earnings quality in Table 3 above revealed the following results, at 0.05 level of significance. Earnings persistence has a negative and significant relationship with short-term discretionary accruals (r=-0.447, *p=0.000*), negative and significant relationship with short-term discretionary accruals (r=-0.512, *p=0.000*), and negative and significant relationship with total discretionary accruals (r=-0.321, *p=0.000*). The correlations indicate that the relationship between earnings persistence and short-term discretionary accruals is about 45 percent, significant at the 0.05 level. The relationship between earnings persistence and long-term discretionary accruals is about 51 percent, significant at the 0.05 level. The relationship between earnings persistence and total discretionary accruals is about 32 percent, significant at the 0.05 level.

Table 3: Pearson Moment Matrix Coefficient of Study Variables

	EPERS	STDA	LTDA	TDA	FSIZE
EPERS	1.000				

STDA	-0.447	1.000			
	(0.000)	-----			
LTDA	-0.512	-0.612	1.000		
	(0.000)	*(0.000)*	-----		
TDA	-0.321	-0.370	0.121	1.000	
	(0.000)	*(0.000)*	*(0.036)*	-----	
FSIZE	0.393	-0.021	0.395	0.173	1.000
	(0.000)	*(0.720)*	*(0.000)*	*(0.002)*	-----

Source: Researcher's computation

The relationships among the dimensions of discretionary accruals revealed that short-term discretionary accruals have a negative and significant relationship with long-term discretionary accruals (r=-0.612, *p=0.000*), and negative and significant relationship with total discretionary accruals (r=-0.370, *p=0.000*). Long term discretionary accruals have positive and significant relationship with total discretionary accruals (r=0.121, *p=0.000*). The correlation coefficients could be explained by the aspects of discretionary accruals mostly found in the three categories of discretionary accruals understudied in this work. Since the descriptive statistics revealed that the majority of the discretionary accruals in short-term assets and liability components of the sampled firms were aggressive discretionary accruals, while the majority of the discretionary accruals in non-current assets and liability components of the sampled firms were conservative discretionary accruals, and total discretionary accruals were mostly conservative discretionary accruals estimations, the negative relationship between short-term discretionary accruals (which are mostly estimated aggressively) and both long-term and total discretionary accruals (which are mostly estimated conservatively) is expected. This is so because majority of short-term discretionary accruals are estimated to increase profits, while majority of both long-term and total discretionary accruals are estimated to reduce or shift profits to next financial years.

Firm size has a positive and significant relationship with earnings persistence (r=0.393, *p=0.000*), negative and insignificant relationship with short-term discretionary accruals (r=-0.021, *p=0.720*), positive and significant relationship with long-term discretionary accruals (r=0.393, *p=0.000*), and positive and significant relationship with total discretionary accruals (r=0.173, *p=0.002*).

Overall, earnings persistence is more negatively correlated with discretionary accruals in the estimation and measurement

of non-current assets and liabilities components such as Property, Plant and equipment (PPE), intangibles, and non-current liabilities and provisions. This is followed by discretionary accruals pertaining to the estimation and measurement of short-term accruals components such as inventory, receivables, prepayments, payables, income tax liabilities, accruals, amongst others. The results are contained in Tables 4 and 5

Table 4
Pearson Moment Matrix Coefficient of Short-term Discretionary Accruals Variables

	INVAC	ARAC	OCAAC	APAC	ITPAC	OCLAC
INVAC	1.000					

ARAC	0.033	1.000				
	0.5607					
OCAAC	0.023	0.031	1.000			
	0.6902	*0.5902*				
APAC	-0.113	-0.010	-0.008	1.000		
	0.0513	*0.8697*	*0.8884*			
ITPAC	-0.008	-0.061	-0.353	0.032	1.000	
	0.8858	*0.2912*	*0.0000*	*0.5794*		
OCLAC	-0.013	-0.086	-0.445	0.081	0.683	1.000
	0.8247	*0.1356*	*0.0000*	*0.1632*	*0.0000*	

Source: Researcher's computation

INVAC=Accruals related to Inventory, ARAC= Accruals related to Accounts Receivable, OCAAC=Accruals related to Other Current Assets, APAC=Accruals related to Accounts Payable, ITPAC=Accruals related to Interest Tax Payable, OCLAC=Accruals related to Other Current Liabilities.

Table 5
Pearson Moment Matrix Coefficient of Long-term Discretionary Accruals Variables

	PPEAC	INTAC	NCPAC
PPEAC	1.000		
INTAC	0.464	1.000	
	0.0000		
NCPAC	0.326	0.142	1.000
	0.0000	*0.0141*	

Source: Researcher's computation

PPEAC= Accruals related to Property, Plant and Equipment, INTAC=Accruals related to Intangibles, NCPAC= Accruals related to Non-Current Provisions

Panel B regresses long-term discretionary accruals on earnings persistence. Panel C regresses total discretionary accruals on earnings persistence. Panel D regresses all the discretionary accruals dimensions on

earnings persistence. Each panel employed Firm size as a control and moderating variable. The results of the regression are presented in Table 6 below.

The R-squared values of the four models in Table 6 below indicate that the independent variable (short-term discretionary accruals) explains about 52 percent variation in earnings persistence in Panel A. Similarly, in Panel B, long-term discretionary accruals explain about 64 percent variation in earnings persistence and in Panel C, total discretionary accruals explain about 65 percent variation in earnings persistence. The multivariate results in Panel D indicates that short-term discretionary accruals, long-term discretionary accruals and total discretionary accruals jointly explain about 71 percent variation in earnings persistence. The R-squared results indicate that the independent variables of the study have power to predict changes in the dependent variable.

The F-statistic ratio and p-values of 148.5 (*p=0.000*) for Panel A, 148.5 (*p=0.000*) for Panel B, 148.1 (*p=0.000*) for Panel C, and 73.7 (*p=0.000*) for Panel D indicate that the models are statistically fit, and the variables specified are perfect in the Panel Generalized Least Square (PGLS) estimation employed to solve the problems of heteroscedasticity, serial correlation and cross-sectional dependence.

Table 6: Panel Generalized Least Square Hierarchical Regression Results

		Panel A	**Panel B**	**Panel C**	**Panel D**
Intercept	α	**0.715**	**0.715**	**0.715**	**0.715**
	(p-value)	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*
	[t-stats]	[8.63]	[8.63]	[8.63]	[8.63]
STDA	α	**-0.098**			**-0.054**
	(p-value)	*(0.043)*			*(0.000)*
	[t-stats]	[3.63]			[3.63]
LTDA	α		**--0.049**		**-0.070**
	(p-value)		*(0.000)*		*(0.000)*
	[t-stats]		[8.21]		[8.00]
TDA	α			**-1.321**	**-0.044**
	(p-value)			*(0.000)*	*(0.000)*
	[t-stats]			[4.60]	[3.82]
FSIZE	α	**0.357**	**0.221**	**0.273**	**0.220**
	(p-value)	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*
	[t-stats]	[17.21]	[17.08]	[17.24]	[16.96]
R-Squared		.52	.64	.65	.71
F-statistic		148.5	148.5	148.1	73.7
F(*Prob*)		0.000	0.000	0.000	0.000

Source: Researcher's computation ****denotes significance at the 0.05 level*

The results of the effect of Firm size, which is the control variable, revealed that firm size has a positive and significant effect on earnings persistence in all four models, with a coefficient of α=0.357 (*p=0.000*) for Panel A, α=0.221 (*p=0.000*) for Panel B, α=0.273 (*p=0.000*) for Panel C, and α=0.220 (*p=0.000*) for Panel D. Thus, firm size prior research indicates positive impact on earnings persistence of quoted companies. The positive impact is between 0.220 – 0.357.

7.0 Conclusion

The results of the study affirmed the postulation and conjecture that earnings management through discretionary accruals haver a significant effect on the quality of earnings of profit firms and the earnings management evaluation through short-term, long-term and total discretionary accruals proxies, the results clearly indicates that the use of these different aspects of discretionary accruals as earnings management tools have differential effect on the quality of accounting earnings. The result also highlights discretionary accruals distort earnings quality, and reduce the persistence of earnings.

References

Bissessur, S. W. (2008). Earnings quality and earnings management: The role of accounting accruals.

Damori, D., Saeida, S., &FallahzadehAbargouei, A., (2010), Study the overreaction of investors to patterns of past performance of companies listed on Tehran Stock Exchange. *Accounting and auditing evaluations, 47*, 54-62

Dechow, P., Ge, W. &Schrand, C. (2012) Detecting earnings management: a new approach. *Journal of Accounting Research, 50*(2), 275-334.

Fattahi, R., Addin, M. &Abtahi, Y. (2014). Impact of earning management on value-relevance of accounting information of the firms listed on the Tehran stock exchange. *Interdisciplinary Journal of Contemporary Research in Business, 6*, 2

Hamdan, A. (2011). The impact of the accounting reservation in improving the quality of financial reporting: An empirical study. In the Jordanian industrial public shareholding companies. *Journal of Derasat, University of Jordan, 38*(2).

Jamadar, Y., Ong, T. S., Abdullah, A. A., &Kamarudin, F. (2021). Earnings and discretionary accruals. Managerial and Decision Economics, 1–9. https://doi.org/10.1002/mde.3391

Kirshenheiter, M. &Melumad, N. D. (2002). Can Big Bath and earnings smoothing Co exist as equilibrium financial reporting strategies. *Journal of Accounting Research*

Mezerji, S. K., Abbaszadeh, M. R., Nowghabi , M. H., &Nooghabi, M. J. (2013). The relationship between accounting information quality with discretionary accruals and stability of earnings. *Interdisciplinary Journal of Contemporary Research in Business*, *5*(6), 105-112

Nuraddeen, U. M., &Ladan, S. (2018). Analyses of earnings management practice in Nigeria: Evidence from listed non-financial industries. KASU Journal of Accounting Research and Practice, 7(2), 1-15.

Ogneva, M. (2015). Accural quality, realized returns, and expected returns: The importance of controlling for cash

flow shocks. *The Accounting Review, 87*(4), 1415-1444.

Olaoye, C. O., &Akinleye, M. J. (2020). Accrual earnings management, real earnings management and firm's value of quoted manufacturing companies in Nigeria. Business Administration and Business Economics, 39(3), 119-140.

.