EFFECT OF EARNINGS MANAGEMENT ON PERFORMANCE OF CORPORATE ORGANISATION IN NIGERIA.

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ABSTRACT
Infection Prevention (IP) and control is a programme which prevents cross infection between This study considers the effect of Earnings Management on Performance of Corporate Organisations in Nigeria. To achieve the objective of this study, a total of 17 firms quoted in the Nigerian stock exchange market under the consumer goods sector were selected and analyzed. The data for the study were extracted from corporate annual reports and accounts of selected firms for the period 2010-2014. The study adopted Jones model. Earnings management was measured by Non-discretionary accruals obtained from modified Jones model and firm’s performance estimated by return on shareholders’ fund (ROSF), return on capital employed (ROCE), net profit after tax (PAT) and return on assets (ROA). Four research hypotheses were formulated for the study. The study adopted simple regression techniques for analysis with the aid of Statistical Package for Social Sciences (SPSS) version 20. We found that earnings management has negative, but insignificant effect on the performance of corporate firms. Consequent upon this study, it was recommended that further research should be carried out on earnings management as it affects the performance of corporate firms in the entire sectors of the economy to ascertain the major areas where it significantly affect performance of firms. This will aid management by exception.

Keyword: Corporate Organizations, Earnings management, performance of firms, corporate firms

INTRODUCTION
Information from the financial statement provides stakeholders, investors, analysts and managers with a picture of the financial performance of the organization overtime. Recent accounting practices allow a degree of choice of policies and professional judgment in ascertaining the method of measurement, basis for recognition, and even the definition of the accounting entity (Akenbor&Ibanichuka, 2012). This choice of accounting practice can involve a deliberate non-disclosure of information and manipulation of accounting figures, thereby making the business appear to be more profitable or less profitable and financially stronger than it is supposed to be. The reporting of financial information that stems from this practice provides users with accounting information that is misleading and this constitutes a threat to corporate investment and growth. Earnings management, in accounting context, can be defined as the act of intentionally influencing the process of financial reporting to obtain some personal gain. It involves the alteration of financial reports to mislead stakeholders about the organization's underlying performance, or to "influence contractual outcomes that depend on reported accounting numbers." (Free Encyclopaedia 2005)
Earnings management is recognized as attempts by management to influence or manipulate reported earnings by using specific accounting methods or increasing expense or revenue transactions, or using other methods designed to influence short-term earnings. The term earnings management as generally conceived refers to systematic misrepresentation of the true income and assets of corporations or other organizations. Earnings management occurs when managers use judgment in financial reporting in structuring transactions to manipulate financial reports, in order to either deceive some unsuspecting stakeholders about the underlying economic performance of the company, or to gain advantage of contractual outcomes that depend on reported accounting (Omoye & Eriki, 2014). Earnings management refers to the use of accounting knowledge to influence the reported figures, while remaining within the ambit of accounting rules and regulations, so that instead of showing the actual performance or position of the company, they show what the management wants the stakeholders perceive about their company. This research is anchored on agency theory.

An agency agreement is a situation where the management is separated from the owner of business. The theory advocates that shareholders hire agents to perform work; but, the principals delegate the running of the business to directors or managers who are the shareholder’s agents (Clark, 2004). Thus, agency problems can arise when one party (the ‘principals’) contracts with another party (the ‘agents’) to make decisions on behalf of the principal, in this case there is pressure on management to report impressive results stakeholders and other interest groups.

Research Problem
The alterations of financial statements and resultant corporate collapses are currently recurring phenomena globally. The case of Cadbury Nigeria PLC, where financial statement was overstated by approximately N13 billion stands out for mention (Okafor, 2012). Moreover, the reported fraud cases of Enron (2002) and WorldCom are internationally known financial reporting fraud cases. These deliberate managerial actions, intended towards disguising the real value of a firm’s assets, transactions, or financial position, have negative consequences on: shareholders; employees; the communities in which firms work; society at large; and managers’ reputations, job security and careers. Many countries have made efforts to address this situation so as to guarantee the credibility of the financial statements by ensuring strong corporate mechanisms and strict compliance with accounting standards. These problems are seen to be more significant in emerging markets where many market imperfections are persistent. This is particularly the case in Nigeria where cases of misappropriation of funds and manipulations of reports to suit management interest still persist despite all government efforts which is seen in issuance of corporate governance code in years 2003, 2011 and 2015 respectively. Based on the above problems, the study is therefore set out to achieve the objective stated above.

Objective of the study
Generally, this study seeks to explore the effect of Earnings Management on the performance of corporate organizations in Nigeria. However, it is set to achieve the following specific objectives:

1. To examine the extent to which earnings management affect the return on shareholders’ fund of corporate firms.
2. To examine whether earnings management has effect on the return on capital employed (ROCE) of corporate firms.
3. To evaluate the extent to which earnings management affect the net profit of corporate firms in Nigeria.
4. To determine if non-discretionary accruals has significant effect on the return on asset of corporate firms in Nigeria.

**Research Questions**
To achieve the above objective the research seeks to provide answers to the following research questions:
1. To what extent do earnings management affect the return on shareholders’ fund of corporate firms in Nigeria?
2. What level of influence donon-discretionary accruals have on the return on capital employed of corporate firms in Nigeria?
3. To what extent do non-discretionary accruals affect the net profit of corporate firms in Nigeria?
4. What is the level of impact that non-discretionary accruals has on the return on asset of corporate firms in Nigeria?

**Research Hypotheses**
To answer the stated research questions and achieve the objective of the research, the following hypotheses will be tested:
(i)  \( H_0: \) Earnings management does not significantly affect the return on shareholders’ fund of corporate firms in Nigeria.
(ii)  \( H_0: \) Earnings management does not significantly affect the return on capital employed of corporate firms in Nigeria.
(iii)  \( H_0: \) Earnings management does not significantly affect the net profit of corporate firms in Nigeria.
(iv)  \( H_0: \) Earnings management does not have any significant effect on the return on asset of corporate firms in Nigeria.

**REVIEW OF EXTANT LITERATURE**

**Rationale for earnings management**
Earnings management is said to arise because companies are subject to various forms of contractive rights, obligations and constraints based on accounts or reports. The reasons for earnings management include: to get increase investors’ confidence, ability to report stable earnings and psychological expectations due to changes in anticipated income (Heyworth, 1953), positive effects of income smoothing on expectation, on securities valuation and risk reduction(Healy &Wahen, 1999), tax motivation (Niskanen&Keloharju, 2000); Herman & Inoue, (1996), executive compensation tied to income measurement (Healy, 1985), change in accounting method or due to ways companies designed their accounting policies Fox. Sweeney (1994) reports that companies which are near violation of debt covenants are two to three times
more likely to make income increasing accounting policy changes than others. Income smoothing has also resulted from management felt-need to neutralize environment uncertainty and dampen the wide fluctuations in the firm’s operating performance subject to intermittent cycle of good and bad times (Riahi-Belkaoui, 2000). Spohr (2004) argued that given the public firm’s clearer separation of ownership and management, the strongest identified motives for income smoothing was bonus plan and job security motives. Institutional investment was positively associated with income smoothing (Carlson & Bathala, 1997).

**Earnings management and corporate performance**

Earnings management affects corporate firm performance and can even temper with shareholders wealth simply because it involves a deliberate altering of financial information to either misled investors on the real economic position of a firm or to gain some contractual benefits that depend largely on accounting numbers (Watts & Zimmerman, 1986 and Healy & Wahlen, 1999). Stakeholders obtain performance information from the financial statement prepared by the directors of the organization. Deciding whether the report from a firm’s financial statement is correct or fairly reflects a true picture of an entity, or whether a corporate governance mechanism is effective is becoming complex and surrounded with uncertainties. There exists an information gap between the managers and the external users of information. The situation whereby users allow managers to use their discretion in preparing and reporting accounting transactions for their own advantage; the management of companies will want to show their accounting results in the most favourable way by making a great one-off provision in years where a higher level of underlying earnings was generated (Ajide & Aderemi, 2014).

Earnings management may involve exploiting opportunities to make accounting decisions that alters the earnings figure reported on the financial statements. Accounting decisions can in turn affect earnings because they have the power to determine the timing of transactions and the estimates used in financial reporting. For example, a comparatively little change in the estimates for uncollectible accounts can have a significant effect on net income, and a company using last-in, first-out methods of accounting inventory can increase net income in times of rising prices by delaying purchases to future periods. Earnings management involves the manipulation of company earnings towards a pre-determined target. This target can be achieved by a preference for more stable earnings, in which case management is said to be carrying out *income smoothing* (Wikipedia 2015). Opportunistic income smoothing can in turn signal lower risk and increase a firm's market value. Other possible motivations for earnings management include the need to maintain the levels of certain accounting ratios due to debt issues, and the pressure to maintain increasing earnings and to beat analyst targets.

**Empirical Review**

Prior research evidence on earnings management and corporate performance are evidenced in other countries as demonstrated by Ardekani, Younesi & Hashemijoo (2012) in their study of the relationship between earnings management and performance of acquiring firms in Malaysia during the period 2004-2010 using discretionary accruals derived from the modified Jones model and monthly cumulative abnormal returns as proxy for performance concludes that there is negative relationship between earning management preceding and performance of firms.
following the acquisition date for share acquirer firms. Mukhtaruddin, Relasari, Soebyakto, Irham & Abukosim (2014) observed that earnings management has a negative and insignificant influence on firms’ value. George, Louis and Sun (2008) in their study, found that pre-purchase abnormal accruals are negatively associated with future performance. Faith, Hashemi & Firuzkuhi (2011) found that companies with higher earnings management suffer lower stock liquidity. Shivakumar (2008) in his study discovered that firms which engages in earnings management underperforms in the long run.

From the reviewed literatures, there is no recent research evidence that examined the effect of earnings management on organizational performance using return on shareholders’ fund (ROSF), return on capital employed (ROCE), net profit after tax (PAT) and return on assets (ROA) of firms in the Nigerian consumer sector, hence this study.

**METHODOLOGY**

The researchers adopted ex post factor design because of its relevance in explaining relationship between independent and dependent variables which would help in actualizing the objective of this study. The population of the study comprises of the twenty eight (28) companies quoted on the floor of the Nigerian Stock Exchange (NSE) as at 2015 classified as consumer goods sector. Out of the 28 companies, a sample of sixteen (16) companies with up to date data were actually used for the study. The study made use of secondary data contained in the Annual Reports of the selected companies. These annual reports were obtained from the Fact books of Nigerian Stock Exchange 2012-2015 and the websites of the studied companies. The validity and reliability of the data are assured, having been extracted from Annual reports of companies which are produced regularly in compliance with statutory standards.

The researchers adopted Jones model (1991) for the study to analyze the effect of earnings management on corporate performance. Although no existing method is perfect in measuring earnings management, Jones model is the most commonly used. This is based on the fact that Jones model 1991, proposes a model that attempts to control the effects of changes in firm’s economic circumstances on nondiscretionary accruals (Gui&Tsui 2000). Here, corporate performance (dependent variable) is explained by the reaction of earnings management (independent variable) as shown in the model explained below:

**Corporate performance = f(earnings management)**

The components of earnings management is as defined by the modified Jones model adopted in the study. Those variables are represented as follows:

$$EM = f (Revenue)$$

$$f(Property \ Plant \ and \ Equipment)$$

$$f(Total \ Asset)$$

$$f(Net \ Receivable)$$

Earnings management is represented by Non-discretionary Accruals (NDA) as demonstrated below;

$$NDA = f[\alpha_1 (1/A_{t-1}) + \alpha_2 [(\Delta REV_t - \Delta REC_t) / A_{t-1}] + \alpha_3 (PPE_t / A_{t-1}) + E_t]$$

Where:

$$\Delta REV_t = \text{revenue in year } t \text{less revenues in year } t-1 \text{scaled by total assets at } t-1$$

$$\Delta REC_t = \text{net receivable in year } t \text{less net receivables in year } t-1$$
PPE\(_t\) = gross property plant and equipment in year \(t\) scaled by total assets at \(t-1\)

\(A_{t-1}\) = total assets at \(t-1\)

\(\alpha_1, \alpha_2, \alpha_3\) = constants

\(E_t\) = the residual which represents the firm specific discretionary portion of total accruals.

The component of corporate performance (CP) is defined by the performance ratios selected for the study as:

\[
CP = f(ROCE, ROA, ROSF, NP)
\]

Where:

\(ROCE\) = Return on Capital Employed

\(ROA\) = Return on Asset

\(ROSF\) = Return on Shareholders Fund

\(NP\) = Net Profit Margin

The effect of earnings management (represented by the non-discretionary accruals demonstrated above) on corporate performance is tested using simple regression analysis on each hypothesis developed. The following equations are tested for each of the four stated hypotheses;

Hypothesis 1

\[ROCE(Y) = \alpha_0 + \alpha_1NDA + \mu_j\]

Hypothesis 2

\[ROA(Y) = \alpha_0 + \alpha_2NDA + \mu_j\]

Hypothesis 3

\[ROSF(Y) = \alpha_0 + \alpha_3NDA + \mu_j\]

Hypothesis 4

\[NP(Y) = \alpha_0 + \alpha_4NDA + \mu_j\]

**DATA PRESENTATION AND ANALYSIS**

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT</td>
<td>-1928865.00</td>
<td>225629747.00</td>
<td>18271548.4706</td>
<td>41311509.28985</td>
</tr>
<tr>
<td>PAT</td>
<td>-1685342.00</td>
<td>45472992.00</td>
<td>8491307.2745</td>
<td>12155753.10148</td>
</tr>
<tr>
<td>REV</td>
<td>233259.00</td>
<td>519799955.00</td>
<td>85121258.0196</td>
<td>116349124.52151</td>
</tr>
<tr>
<td>TA</td>
<td>1856104.00</td>
<td>378273496.00</td>
<td>82092877.1765</td>
<td>98182269.99709</td>
</tr>
<tr>
<td>SHEQ</td>
<td>-4608386.00</td>
<td>221947942.00</td>
<td>37414952.9804</td>
<td>53422632.45334</td>
</tr>
<tr>
<td>CAPEMP</td>
<td>-4608386.00</td>
<td>262382188.00</td>
<td>43220772.5882</td>
<td>62135263.93608</td>
</tr>
</tbody>
</table>

Source: Researcher’s Computation using SPSS version 20 software, 2016

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>REV</td>
<td>85121258.0196</td>
<td>116349124.52151</td>
</tr>
<tr>
<td>TA</td>
<td>82092877.1765</td>
<td>98182269.99709</td>
</tr>
<tr>
<td>IREV(_t)</td>
<td>.4298159</td>
<td>.67181084</td>
</tr>
<tr>
<td>E</td>
<td>.0179675</td>
<td>.06348941</td>
</tr>
<tr>
<td>PPE(_t)</td>
<td>.5722916</td>
<td>.26504564</td>
</tr>
</tbody>
</table>

Source: Researcher’s Computation using SPSS version 20 software, 2016

**Test of Hypotheses**
Hypotheses one

$H_0$: Non-discretionary accrual does not significantly affect the return on shareholders’ fund of corporate firms in Nigeria.

**Table 3. Model Summary**

<table>
<thead>
<tr>
<th>Mode</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.080(^a)</td>
<td>.006</td>
<td>-.010</td>
<td>.23857337</td>
</tr>
</tbody>
</table>

\(^a\) Predictors: (Constant), NDA

Source: Researcher’s Computation using SPSS version 20 software, 2016

**Table 4. ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>.023</td>
<td>1</td>
<td>.023</td>
<td>.402</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>3.529</td>
<td>62</td>
<td>.057</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>3.552</td>
<td>63</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^a\) Dependent Variable: ROSF
\(^b\) Predictors: (Constant), NDA

Source: Researcher’s Computation using SPSS version 20 software, 2016

**Table 5. Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.174</td>
<td>.051</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NDA</td>
<td>.027</td>
<td>.043</td>
<td>.080</td>
</tr>
</tbody>
</table>

\(^a\) Dependent Variable: ROSF

Source: Researcher’s Computation using SPSS version 20 software, 2016

The result obtained from table 5. above shows the model summary results which sought to establish the explanatory power of the independent variables (non-discretionary accruals) for explaining and predicting the dependent variable (return on shareholders’ fund). R, the correlation coefficients, (the linear correlation between the observed and model predicted values of the dependent variable) showed a value of 0.080. R square, the coefficient of determination (the squared value of the correlation coefficients) showed a value of 0.006 or 0.6% (table 3) of the variation in the dependent variable (return on shareholders’ fund) is explained by the model. This means that the total variation in return on shareholders’ fund is explained by 0.6% in non-discretionary accruals.
The results of the analysis of variance (ANOVA) and ordinary least square regression analysis showed in tables 3 and 5 respectively to evaluate the level of significance of non-discretionary accruals on return on shareholders’ fund revealed that return on shareholders’ fund is explained by 0.174 and 0.027 as demonstrated in the regression model used to test the level of effect that non-discretionary accruals has on shareholders’ fund as shown below:

$$\text{ROSF} = 0.174 + (0.027) \text{NDA}$$

This means that earnings management as proxied by NDA multiplied by the regression coefficient 0.027 and added to the y-intercept/constant 0.174 has a positive but insignificant effect on the return on shareholders’ fund. Hence, the contribution of non-discretionary accruals to the model is insignificant because p-value (0.528) is greater than the alpha value of 0.05. Hence, we accept the null hypothesis which states that non-discretionary accruals do not significantly affect the return on shareholders’ fund of corporate firms.

**Hypothesis Two**

**H₀:** Non-discretionary accruals do not have any significant effect on the return on capital employed of corporate firms in Nigeria.

### Table 6. Model Summary

<table>
<thead>
<tr>
<th>Model 1</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.034a</td>
<td>.001</td>
<td>-.015</td>
<td>.40761325</td>
</tr>
</tbody>
</table>

*a.* Predictors: (Constant), NDA

Source: Researcher’s Computation using SPSS version 20 software, 2016

### Table 7. ANOVA*a

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.012</td>
<td>1</td>
<td>.012</td>
<td>.070</td>
<td>.792b</td>
</tr>
<tr>
<td>Residual</td>
<td>10.301</td>
<td>62</td>
<td>.166</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10.313</td>
<td>63</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*a.* Dependent Variable: ROCE
*b.* Predictors: (Constant), NDA

Source: Researcher’s Computation using SPSS version 20 software, 2016

### Table 8. Coefficients*a

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>-.070</td>
<td>.087</td>
<td></td>
<td>4.263</td>
</tr>
<tr>
<td>NDA</td>
<td>.319</td>
<td>.073</td>
<td>-.034</td>
<td>-.265</td>
</tr>
</tbody>
</table>

*a.* Dependent Variable: ROCE
The result obtained from table 6 above shows the model summary results which sought to establish the explanatory power of the independent variables (non-discretionary accruals) for explaining and predicting the dependent variable (return on capital employed). R, the correlation coefficients, (the linear correlation between the observed and predicted model values of the dependent variable) showed a value of 0.034. R square, the coefficient of determination (the squared value of the correlation coefficients) showed a value of 0.001 or 0.1% of the variation in the dependent variable (return on capital employed) is explained by the model. This means that the total variation in return on capital employed is explained by 2.2% in non-discretionary accruals.

The result of the ANOVA and ordinary least square regression analysis showed in table 4.3.8 to evaluate the level of significance of non-discretionary accruals on return on shareholders’ fund revealed that return on capital employed is explained by 0.319 of the constant in the model and -0.070 when cast against non-discretionary accrual as demonstrated in the model used to test the level of influence on discretionary accruals has on return on capital employed as shown below;

\[
\text{ROCE} = 0.319 + (-0.070) \text{NDA}
\]

This means that earnings management as proxied by NDA multiplied by the regression coefficient -0.070 and added to the y-intercept/constant 0.319 has a negative relationship and it also signifies the earnings management as defined by NDA has low level of effect on return on capital employed. The contribution of non-discretionary accruals to the model is insignificant because p-value (0.792) is greater than the alpha value of 0.05.

Hence, we accept the null hypothesis which states that non-discretionary accruals does not have any significant effect on the return on capital employed of corporate firms.

\textbf{Hypothesis Three}

\textbf{H\textsubscript{0}}: Non-discretionary accrual does not significantly affect the net profit of corporate firms in Nigeria.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|}
\hline
Model & R & R Square & Adjusted R Square & Std. Error of the Estimate \\
1 & .049\textsuperscript{a} & .002 & -.014 & .70103752 \\
\hline
\end{tabular}
\caption{Model Summary}
\textsuperscript{a} Predictors: (Constant), NDA
\end{table}

Source: Researcher’s Computation using SPSS version 20 software, 2016

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|c|}
\hline
Model & Sum of Squares & Df & Mean Square & F & Sig. \\
1 & Regression & .074 & 1 & .074 & .151 & .699\textsuperscript{b} \\
 & Residual & 30.470 & 62 & .491 & & \\
\hline
\end{tabular}
\caption{ANOVA\textsuperscript{a}}
\textsuperscript{a} Source: Researcher’s Computation using SPSS version 20 software, 2016
\end{table}
The result obtained from table 4.3.7 above shows the model summary results which sought to establish the explanatory power of the independent variables (non-discretionary accruals) for explaining and predicting the dependent variable (net profit). R, the correlation coefficients, (the linear correlation between the observed and model predicted values of the dependent variable) showed a value of 0.049. R square, the coefficient of determination (the squared value of the correlation coefficients) showed a value of 0.002 or 0.2% of the variation in the dependent variable (net profit) is explained by the model. This means that the total variation in net profit is explained by 0.2% in non-discretionary accruals.

The result of the ANOVA and ordinary least square regression analysis showed in table 4.3.8 and 4.3.9 respectively to evaluate the level of significance of non-discretionary accruals on net profit revealed that the net profit generated by the sampled firms is explained by 0.071 constant factor and -0.049 when cast against non-discretionary accruals as demonstrated in the regression model used to test the level if effect that earnings management has on the net profit of firms as shown below;

\[
NP = 0.071 + (-0.049) \text{NDA}
\]

This means that earnings management as proxied by NDA multiplied by the regression coefficient -0.049 and added to the y-intercept/constant 0.071 has a negative relationship with corporate net profit. Hence, we accept the null hypothesis which states that non-discretionary accruals do not significantly affect the net profit of corporate firms.

**Hypothesis Four**

H\(_0\): Non-discretionary accrual does not have any significant impact the return on asset of corporate firms in Nigeria.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.071</td>
<td>.149</td>
<td>.475</td>
</tr>
<tr>
<td></td>
<td>NDA</td>
<td>-.049</td>
<td>.126</td>
<td>-.049</td>
</tr>
</tbody>
</table>

a. Dependent Variable: NP

Source: Researcher’s Computation using SPSS version 20 software, 2016
The result obtained from table 4.3.10 above shows the model summary results which sought to establish the explanatory power of the independent variables (non-discretionary accruals) for explaining and predicting the dependent variable (return on asset). R, the correlation coefficients, (the linear correlation between the observed and model predicted values of the dependent variable) showed a value of 0.019. R square, the coefficient of determination (the squared value of the correlation coefficients) showed a value of 0.00 or 0% of the variation in the dependent variable (return on asset) is explained by the model. This means that the total variation in return on asset is explained by 3.2% in non-discretionary accruals.

The result of the ANOVA and ordinary least square regression analysis showed in table 4.3.11 and 4.3.12 respectively to evaluate the level of significance of non-discretionary accruals on return on shareholders’ fund revealed that return on assets is explained by 0.075 constant factor model and 0.002 when cast against non-discretionary accruals as demonstrated in the regression model used to test the level of impact earnings management has on return on assets as shown below;

\[ \text{ROA} = 0.075 + (0.002) \text{NDA} \]

This means that earnings management as proxied by NDA multiplied by the regression coefficient 0.002 and added to the y-intercept/constant 0.075 has a positive relationship with return on total assets. It also signifies that NDA have low impact on return on assets. The contribution of non-discretionary accruals to the model is insignificant because p-value (0.883)
is greater than the alpha value of 0.05. Hence, we accept the null hypothesis which states that non-discretionary accruals do not have any significant impact on the return on total asset of corporate firms.

DISCUSSION OF FINDINGS:

The findings from this study have shown that earnings management represented by the modified Jones model (1991) has negative but insignificant effect on the return on shareholders’ fund. This is evidenced from ordinary least square regression analysis used in the study which demonstrated that for every unit change in earnings management, there will be a -0.009 change in return on shareholders’ fund. This finding is in line with Ardekani, Younesi&Hashemijoo (2012) who examined the relationship between earnings management and performance of acquiring firms in Malaysia. According to them, there is a negative relationship between earnings management preceding and performance of firms following the acquisition date for share acquirer firms in Malaysia.

In summary, the study revealed that earnings management as represented by non-discretionary accruals (NDA), has negative, but insignificant effect on the performance variables (i.e. return on capital employed, return on asset, return on shareholders’ fund and net profit margin) tested in this study, this to some extent is in consonance with the findings of most previous researches reviewed in this work. Also, Ajide&Aderemi (2014), in their study of the effect of earnings management on dividend policy in Nigeria concluded that earnings management has a negative relationship with dividend policy of a firm, but insignificant in the determination of dividend pay-out.

CONCLUSION

The study dwelt on a more robust, yet simple understanding of the effects of earnings management on the performance of corporate firms in the Nigerian consumer goods sector using appropriate yardsticks. This study provides empirical evidence that earnings management measured by the modified Jones model exert a negative but insignificant influence on corporate performance in Nigeria. The study made use of the ex-post facto research design. Annual reports prepared by seventeen companies were used for the study. The criterion for selection of sample was on the basis of availability of data. The financial performance measures, used for the study were return on capital employed, return on asset, return on shareholders’ fund and net profit margin. Simple linear regression analyses were run with the aid of SPSS version 20 software. Sequel to the analysis and findings of this study, the researchers conclude that earnings management does not exert significant influence on the performance of corporate firms in the Nigerian consumer goods sector. Nevertheless, the little influence exerted is negative.

The issue of earnings management has come to stay as a result of the flexibility in accounting regulations that has given room for such practices. This therefore requires constant research in this area of study to unveil some underlying issues.
RECOMMENDATION

The researchers recommended that users of the financial statement should not be negligent of the different techniques used to manipulate earnings reported in the financial statement. Also, more research should be carried out on the subject matter of earnings management as it affect the performance of corporate firms in all the sector of firms quoted in the Nigerian stock exchange including the consumer goods sector as indicated in this study, as this will provide a more palatable basis for the comparison of our findings with that of other researchers to guide all stakeholders.

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