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EARNINGS MANAGEMENT AND FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS LISTED ON NIGERIAN EXCHANGE GROUP

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ABSTRACT

This study ascertaines the effect of earnings management on financial performance of listed manufacturing firms in Nigeria from 2012-2021. Specifically, this study ascertaines the effect of discretionary accruals on returns on assets, returns on equity, earnings per share and net profit margin. Panel data were used in this study, which were obtained from the annual reports and accounts of twenty one (21) sampled manufacturing firms for the periods 2012-2021. Ex-Post Facto research design was employed. Descriptive statistics of the dataset from the sampled firms were used to describe using the mean, standard deviation, minimum and maximum values of the data for the study variables. Inferential statistics using Pearson correlation coefficient and Panel Least Square (PLS) regression analysis were applied to test the hypotheses of the study. The results revealed that discretionary accrual has a positive and significant effect on returns on assets, returns on equity, earnings per share and net profit margin. In conclusion, the study submits that earnings management has a significant effect on financial performance of listed manufacturing firms in Nigeria at 5% level of significance. The study recommended amongst others that firms' management, investors and stakeholders should come up with appropriate rules and guidelines to facilitate good revenue and expense management for the benefit of spurring the firms' financial performance.

1. INTRODUCTION

Financial accounting reports are produced to show the true and fair state of financial statements of an entity in order to help stakeholders in making appropriate decisions, however, current accounting practices allow a degree of choice of different policies and professional judgments in determining

the methods of measurement, basis for recognition, and even the definition of the accounting entity (Beshiru & Prince, 2014; 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 (Okafor, Ezeagba, & Onyali, 2018). Managers of organizations tend to use earnings management to manipulate accounting information presented in the financial statements to show a good picture of the organization, either to attract or mislead stakeholders (Adebimpe, Itoro, & Daniel, 2018; Olaniyi & Abubakar, 2018). Earnings, also called bottom line or net income, is an important item in the financial statements and is regarded as a performance measure for any business (Akram, Hunjra, Butt, & Ijaz, 2015). Earning figures are used in many aspects by external and internal users as a signal for performance (mohammad & Bassam, 2017). Managers therefore tend to manipulate these earnings in other to show a good picture of the organization (Olaniyi & Abubakar, 2018). This attempt or act is referred to as earnings management (Zhang & Abraham, 2020). Earnings management is the act of manipulating the company's earnings (Nuryaman , 2013).

Earnings ability is believed to have a significant effect in influencing existing and potential shareholders of companies during investment decision in the capital market (Sutthirak & Gonjanar, 2012). Prospective investors and corporations are attracted by the positive earnings status of firms (Tabassum, Kaleem, & Nazir, 2015). Generally investors will look for companies that have the best performance and invest their capital in these companies because the better the company's performance, the higher the returns that will be obtained by investors (Rieke, Sri, Juita & Dewi, 2020). Therefore, Due to the important role of the financial statements in demonstrating the performance of a company, management will try to make financial report in such a way that the performance of the company looks good to mislead the owner of the company and investors (Adebimpe, Itoro, & Daniel, 2018; Hauwa, Ocheni, & Jamila, 2017). Earnings management according to Swai (2016) is the process of taking deliberate steps within the constraints of generally accepted accounting principles to bring about desired level of reported earnings. Earnings management can also be the systematic misrepresentation of the true income and assets of corporations or other organizations (Omoye & Eriki, 2014). According to Lu (1999) as cited in Yihui (2020) earnings management is an accounting choice made by enterprise managers to maximize their own utility or maximize enterprise value within the scope allowed by accounting standards. The practice is commonly used by managers to accomplish their individual and corporate goals (Cohen & Zarowin, 2010; Roychowdhury, 2006; Zang, 2012; Omar, Rahman, Danbatta & sulaiman, 2014). Managers smooth earnings to maximize their own wealth, reduce the perceived

riskiness of the firm, enhance firm value, meet debt covenants, reduce tax and political costs and enhance the reliability of financial forecasts (Tudor, 2010). Earnings management allows companies to produce accounts that flatter their financial performance while still conforming to the Generally Accepted Accounting Principles (Ijeoma, 2014). According to Dechow and Skinner (2000), managers use Earnings management activities to manipulate earnings and conceal real company performance and hide essential financial information. Financial performance is the company's ability to manage and control its resources (IAI, 2016). It is a measure of how well a firm can use assets from its primary mode of business to generate revenues (Abakasanga, Ogbonna, & Umobong, 2019). The level of a firm performance is based on how effectively and efficiently a manager utilizes resources to achieve set objectives in the discharge of their duties (Odiwo, Chukwuma & Kifordu, 2015). According to Ubesie, Ogbu, and Mbah (2019) earnings management is used to distort the true performance of firms. One of the managers' incentives to carry out these unethical practices could be to increase financial performance, which can only occur in the short term due to the fact that in the long term the market penalizes those manipulative companies and they enjoy lower corporate performance (Ubesie, Ogbu, & Mbah, 2019).

Over the years, the practice or act of manipulating earnings has led to the failure, collapse and insolvency of some big companies both internationally and locally (Okafor, Ezeagba, & Onyali, 2018; Nwoye, Ekesiobi, & Abiahu, 2017; Ajibolade, 2008; Yoon, Miller, & Jiraporn, 2006). The internationally known financial reporting fraud cases of Enron in 2001, Xerox and WorldCom in 2002 were clearly as a result of earnings management (Yoon, Miller, & Jiraporn, 2006; Nwoye, Obiorah & Ekesiobi, 2015; Okafor, Ezeagba, & Onyali, 2018) and In the case of Nigeria, the well-publicized financial Scandals and corporate failures (Nwoye, Okoye, & Oraka, 2013) which include big corporations like the African petroleum plc, Cadbury Nigerian Plc, Lever Brothers Plc and failed Banks in Nigeria (Ajibolade, 2008; Egbunike & Udeh, 2015; Nwoye & Ogbodo, 2021).

From the reviewed literatures and to the best of our knowledge), the effect of earnings management on financial performance using net profit margin (NPM) of firms in the manufacturing sector has not been sufficiently examined in Nigeria. Majority of the studies on manufacturing firms focused on its effect on return on asset (ROA), return on equity (ROE), return on capital employed (ROCE), earnings per share (EPS). Again the fiscal year of this study will be extended to 2021 contrary to prior studies whose financial period ended in 2019. The study is therefore set out to tackle the issues raised above in order to ascertain the effect of earnings management on financial performance of listed manufacturing firms in Nigeria.

1.1 Objectives of the Study

The main objective of the study is to ascertain the effect of earnings management on financial performance of listed manufacturing firms in Nigeria. The Specific objectives of the study are:

1 To Ascertain the effect of discretionary accruals on returns on assets of listed manufacturing firms in Nigeria.

2 To Determine the effect of discretionary accruals on returns on equity of listed manufacturing firms in Nigeria.

3 To Determine the effect of discretionary accruals on Earnings Per Share of listed manufacturing firms in Nigeria.

4 To Ascertain the effect of discretionary accruals on net profit margin of listed manufacturing firms in Nigeria.

1.2 Hypotheses

a. Ho_1: Discretionary accrual has no significant effect on returns on assets of listed manufacturing firms in Nigeria.

b. Ho_2: Discretionary accrual has no significant effect on returns on equity of listed manufacturing firms in Nigeria.

c. Ho_3: Discretionary accrual has no significant effect on earnings per share of listed manufacturing firms in Nigeria

d. Ho_4: Discretionary accrual has no significant effect on net profit margin of listed manufacturing firms in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual review

2.1.1 Earnings Management

Earnings management is altering a company's earnings to make financial statements appear better than the real reports (Abraham, Zhang, Joseph, Agyemang & Ofori, 2021). Earnings management (EM) was described by Whittington and Delany (2013) as a fraudulent practice by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. Swai (2016) view earnings management as the process of taking deliberate steps within the constraints of generally accepted accounting principles to bring about desired level of reported earnings. According to Egbunike and

Udeh (2015); Okafor, Ezeagba, and Onyali (2018); Ajibolade (2008), the issue of earnings management is becoming quite rampant in organizations and has gained so much importance throughout the world following notable failures of companies as Enron, WorldCom, Tyco, Cadbury Nigerian Plc, African Petroleum Plc, Lever Brothers Plc, and failed Banks in Nigeria.

2.1.2 Types of Earnings Management

There are mainly two types of earnings management employed by management to manipulate earnings (Matsuura, 2008; Healy & Wahlen, 1999; Roychowdhury, 2006; Schipper, 1989; Zang, 2012):

2.1.2.1 Real Earnings Management (REM)

Real Earnings Management (REM) is also referred to as Cash Flow Earnings Management (CFEM). Real earnings management is a manipulation performed by company management through the company's operational activities that have direct effect on the company's cash flow (Sun & Lan, 2014). Real earnings management is a practice carried out by managers that deviates from the normal operation of the firm with the primary objective of meeting short-term earnings goals (Rowchowdhury, 2006). These departures do not necessarily contribute to firm value even though they enable managers to meet reporting goals (Rowchowdhury, 2006). According to Abraham, Zhang, Joseph, Agyemang and Ofori (2021) it is the process of changing a company's operating activities to increase current period profits. Real Earnings Management is undertaken by making changes to the structure of operation, investment and financial transactions (Zhang & Abraham, 2020). Examples of Real Earnings Management are manipulation of Research and Development expenses, overproduction, manipulation in advertising expenses and sales manipulation (Olaniyi & Abubakar, 2018).

2.1.2.2 Accruals Earnings Management (AEM)

Generally, accrual is defined as the difference between net income and actual cash flow from operating activities (Olotu, Salawu, Adegbie, & Akinwunmi, 2019; Yihui, 2020). Accruals are the most important earnings management instruments that are used by managers to fluctuate reported income. This is because they are components of earnings that are not reflected in current cash flows, and a great deal of managerial discretion goes into their construction (Bergstresser & Phillippon 2006). Accruals earnings management means to manipulate the earnings through the utilization of accounting principles provided by generally accepted accounting principles (Olaniyi & Abubakar, 2018). This method of earnings management is accomplished through changing the choice of

accounting methods used. It is applied by changing accounting estimates such as estimates for doubtful debts and changes in the method of depreciation (Zhang & Abraham, 2020). Examples of accruals earnings management are provisions for bad debt expenses and timing asset write-offs (Olaniyi & Abubakar, 2018).

2.1.3 Financial Performance

Financial Performance is a measure of how well a firm can use assets from its primary mode of business to generate revenues (Abakasanga, Ogbonna, & Umobong, 2019). It is used to describe the state of affairs of a firm (Ironkwe & Emefe, 2019). The term is also used as a general measure of a firm's overall financial health over a given period (Abakasanga, Ogbonna, & Umobong, 2019). According to Abraham, Zhang, Joseph, Agyemang and Ofori (2021) financial performance are measured in various ways, such as shareholders' wealth maximization, profitability, and components of financial statements including sales, assets, liability and equity. For the purpose of this study, Return on Asset (ROA), returns on Equity (ROE), Earnings Per Share (EPS) and Net profit Margin (NPM) will be used as measures of financial performance.

2.2 Theoretical Review

2.2.1 Positive Accounting Theory explains how an entity's management deals with the applicable standards by choosing one of the other accounting policies among the several alternatives available (Sarah & Bilel, 2021). According to Thadeus, Paulus, Emilianus, and Henrikus (2021) positive accounting theory explains and predicts accounting practices. The theory seeks to explain why accounting practices are employed by managers and accountants in different circumstances and by different firms (Wiratama & Asri, 2020). The positive accounting theory proposed three hypotheses or assumptions that help explain the reasons why managers use earnings management or choose a particular accounting rule or method over another one. These include:

2.2.1.1 Bonus or Compensations plans Hypothesis: This hypothesis shows or predicts that management whose remuneration is based on bonuses will try to maximize its bonuses through the use of accounting methods that can increase profits and ultimately increase bonuses (Thadeus, Paulus, Emilianus, and Henrikus, 2021). According to Umobong and Ibanichuka (2016) the Bonus Plan Hypothesis explains that managers of firms with bonus plans are more likely to use accounting methods that raise or optimize present period reported income.

2.2.1.2 The political Cost Hypothesis: This Hypothesis or assumption predicts that companies are more likely to use accounting options that reduce reported earnings since larger companies are more exposed to political attention than smaller companies (Watts and Zimmerman, 1990). The theory explains that large firms are more likely to use accounting choices that reduce reported profit because they are more exposed to political cost

2.2.1.3 Debt Contracts Hypothesis: This Hypothesis or assumption predicts that managers of companies committed to financing and debt contracts choose methods and accounting policies that increase income. Managers use this method to ease financing contract terms and reduce default costs (Watts and Zimmerman, 1990).

2.2.1.4 Agency Theory. The separation between owners and managers creates an agency relationship (Olotu, Salawu, Adegbie, & Akinwunmi, 2019). According to Jensen and Meckling (1976) an "agency relationship refers to a "contract under which one or more persons (the principal(s) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent".

According to Rieke, Sri, Juita and Dewi (2020) the agent has more information about his capacity, work environment and the company as a whole. This will result in an imbalance of information between the principal and the agent, which is called information asymmetry. Information asymmetry also known as "information failure," occurs when one party to an economic transaction possesses greater material knowledge than the other party (Investopedia, 2021). Through agency relations, managers benefit from the information asymmetry between managers and shareholders, as managers are more informed when making decisions related to the company (Sarah & Bilel, 2021). Rieke, Sri, Juita and Dewi, (2020) further argued that Information asymmetry and conflict of interest encourage agents to present false information to the principal, especially if the information is related to the agent's performance.

2.3 Empirical Review

Phylice, Robert, and Ondiek (2021) examined the Influence of Earnings management on financial performance of Agricultural Firms listed in Nairobi Securities Exchange, Kenya. The study Adopted descriptive survey research design. The sample size comprises of all the 6 companies listed in Nairobi Securities Exchange as at July 2014 to July 2019. Data collected was analyzed using descriptive statistics, correlation and multiple regression. The study found out that earnings management has a positive significant effect on financial performance. Earnings management has a positive relationship with the Return on Investment (ROI) of the firms under study. The study

recommended that agricultural firms listed at the NSE should put more emphasis on Earnings management so as to improve the financial performance of agricultural firms listed on NSE and also that Performance reviews on the senior management should also focus on earnings management for improved financial performance.

Abraham, Zhang, Joseph, Agyemang and Ofori (2021) examined accrual earnings management, real earnings management and firm performance of listed firms on the Ghana Stock Exchange. The study was based on a sample of 14 non-financial firms listed on the Ghana Stock Exchange from 2008 to 2019. Descriptive statistics and Panel analysis was adopted for the study. The study proxied firm performance by return on assets (ROA) and return on equity (ROE) as dependent variables. While respectively, discretionary accruals and abnormal cash flow from operations were used as independent variables supported by firm size, leverage, and liquidity as control variables. Findings of the study revealed that firms use both accrual earnings and real earnings methods to manage earnings. Results further indicate that firms employ the efficient concept of earnings management to facilitate positive firm performance. The study found evidence of a positive relationship between EM and firm performance. They recommended that authorities and facilitators should implement rules requiring transparent financial information to mitigate misleading results and reduce managers' discretion. Prospective investors must also perform an in-depth review of financial records prior to investing.

Olaoye, and Akinleye (2020) examined the relationship between accrual-based earnings, real-based earnings management and firm's value of listed manufacturing companies in Nigeria. The study was based on a sample of ten (10) purposively selected listed manufacturing firms on the Nigeria stock exchange for the period of ten (10) years (2008-2017). Data collated were analyzed using descriptive statistics, and panel least square regression technique such as pooled, fixed and random effect with various diagnostic evaluation techniques. The study measured accrual-based earnings management by abnormal discretionary accrual earnings (ADA) and real-based earning management measured by abnormal cash flow of operational activities (ACF) While return on equity (ROE) was used as a proxy of firm value. The result revealed that accrual-based earnings management measured by abnormal discretionary accrual earnings (ADA) was positively related with the firm's value captured by the return on equity (ROE) of the companies. On the other hand, the real-based earnings management measured by abnormal cash flow operation activities (ACF) was discovered to be negatively related with the firm's value captured by return on equity. Hence, they concluded that the practice of earnings management constructively benefits the manipulator of accounts.

Abdullahi, Norfadzilah, Umar, and Lateef (2020) explored the financial determinants of Earnings Management and the profitability of listed companies in Nigeria. The study employed a panel data approach on 84 listed companies on the NSE with 756 firm-year observations for the period 2010-2018 financial years. The data was analyzed with the use of Descriptive Statistics and multiple regressions to examine the model. The study reveals that earnings ability shows a significant and positively related to the profitability, which was measured using ROA. This result from this study indicates that the more the earnings ability of a company, the profitability of the listed companies in Nigeria will increase. Financial structure ability shows a significant negative association with the ROA. This further indicates that any increase in financial structure ability, profitability of listed companies in Nigeria will also increase in the same value. Furthermore, the statistical results offer evidence that non-financial factor is positively and significantly associated with the ROA. This implies that a percentage increase in non-financial factor will result in the increase of profitability of listed companies in Nigeria. The result also indicates that companies that engaged in financial determinants of Earnings Management are also seen to be more profitable.

Khuong, Nguyen,and Phung (2019) examined the Relationship between Real Earnings Management and Firm Performance of Energy Firms in Vietnam. The study was based on a sample of 29 Energy Company listed on Vietnam's stock market for the period 2010-2016. Return on asset and return on equity were used as the proxy for firm performance .The study adopted Descriptive statistics, Correlation and regression analysis in accordance with panel data, namely fixed effects model and random effects model for analysis. The results revealed that real activity earnings management positively impacts on firm performance. This implies that increasing current sales activities will have a positive impact on current earnings. However, this may be pernicious to the company in the future. There is a positive association between firm size, cash from operating activities, growth opportunities and firm performance while firm leverage and tangible asset have a negative association. Research results are significant for regulators and investors in emerging markets.

3. MATERIAL AND METHOD

The ex post facto research design was adopted in this study. Secondary data, precisely annual reports and accounts of manufacturing firms listed on the Nigerian Exchange Group for the period 2012-2021 were solely deployed. Information from the financial statements were obtained in respect of the following variables: Discretionary Accrual (DA); Return on Asset (ROA); Return on Equity (ROE); Earnings per share (EPS); Net Profit Margin

(NPM); Leverage (LEV); Firm Size (FS). The population of the study consists of the fifty-four (54) listed manufacturing firms on the Nigeria Exchange (NGX) Group as at the end of 2021 financial year. Twenty-one (21) manufacturing firms were sampled using purposive sampling technique, based on availability of data needed for the study. The study employed both descriptive and inferential statistical techniques to analyse the data. The descriptive statistic comprises measures such as the mean, median, standard deviation, minimum, and maximum values, Skewness, Kurtosis statistics. Inferential statistics of this study was carried out using Panel Least Square (PLS) regression analysis. Multiple Regression Analytical technique was used to validate the hypotheses. The modified Jones model, proposed by Dechow, Sloan, and Sweeney (1995) was used to identify earnings management by calculating discretionary accruals as a proxy for earnings management.

3.1 Model Specification

$ROA_{(i,t)} = \alpha_0 + \beta_1 DA_{(i,t)} + \beta_2 Leverage_{(i,t)} + \beta_3 FS_{(i,t)} + \mu$..... (1)

$ROE_{(i,t)} = \alpha_0 + \beta_1 DA_{(i,t)} + \beta_2 Leverage_{(i,t)} + \beta_3 FS_{(i,t)} + \mu$..... (2)

$EPS_{(i,t)} = \alpha_0 + \beta_1 DA_{(i,t)} + \beta_2 Leverage_{(i,t)} + \beta_3 FS_{(i,t)} + \mu$.....(3)

$NPM_{(i,t)} = \alpha_0 + \beta_1 DA_{(i,t)} + \beta_2 Leverage_{(i,t)} + \beta_3 FS_{(i,t)} + \mu$.....(4)

Where:

$ROA_{(i,t)}$ = Returns on asset of firm í at time t

$ROE_{(i,t)}$ = Returns on Equity of firm í at time t

$EPS_{(i,t)}$ = Earnings per share of firm í at time t

$NPM_{(i,t)}$ = Net profit margin of firm í at time t

α_O = Constant

$\beta_1 - \beta_4$ = Coefficients of the regression

$DA_{(i,t)}$ = Discretionary Accruals of firm í at time t

$Leverage_{(i,t)}$ = Leverage of firm í at time t

$FS_{(i,t)}$ = Firm Size of firm í at time t

μ = Error term

4. RESULT AND DISCUSSIONS

4.1 Test of Hypotheses

4.1.1 **Hypothesis One**

Ho: Discretionary accrual has no significant effect on returns on assets of listed manufacturing firms in Nigeria.

Table 1: Panel Least Square (PLS) regression analysis testing the effect of DA on ROA

Dependent Variable: ROA

Method: Panel Least Squares

Date: 01/16/23 Time: 17:26

Sample: 2012 2021

Periods included: 10

Cross-sections included: 21

Total panel (balanced) observations: 210

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.996077	0.165237	12.08009	0.0000
DA	0.306462	0.017497	17.51501	0.0000
LEV	-0.054047	0.016213	-3.333566	0.0010
FS	-0.162722	0.017683	-9.202419	0.0000

R-squared	0.664637	Mean dependent var	0.354003
Adjusted R-squared	0.656240	S.D. dependent var	0.098111
S.E. of regression	0.078719	Akaike info criterion	-2.228696
Sum squared resid	1.406653	Schwarz criterion	-2.169087
Log likelihood	261.4144	Hannan-Quinn criter.	-2.204653
F-statistic	73.42539	Durbin-Watson stat	2.067979
Prob(F-statistic)	0.000000		

Source: Researcher's computation (2023) using E-Views 10.0

Table 1 shows the regression result of discretionary accruals and return on assets. It shows that, given a unit increase in DA, ROA will increase by 30.65% approximately. Table 4.3 shows that, the t-value for DA is 17.51501 with a probability value of 0.0000, suggesting that discretionary accrual exerts a significant and positive effect on ROA at 5% significant level. Similarly, a negative but

significant relationship exists between LEV (β2 = -0.054047, p-value = 0.0010 < 0.05), FS (β2 = -0.054047, p-value = 0.0000 < 0.05)

ROA = 1.996077 + 0.306462DA - 0.054047LEV - 0.162722FS

The implication of this model is that holding other factors constant, an increase in DA will cause ROA to increase by 30.65%. Conversely, an increase in LEV and FS will cause ROA to reduce by 5.40% and 16.27% respectively. The adjusted R-squared of 0.656240 suggests that variation in ROA is explained by DA, LEV and FS fluctuations by 65.62% while the remaining 34.38% is explained by other factors outside the model.

4.1.1.1 Decision

The value of F-statistic of 73.42539 with the associated probability of 0.000000 is greater than the significance level of 0.05; the null hypothesis (Ho) is rejected and the alternate hypothesis (H1) therefore accepted at 5% level of significance implying that discretionary accrual has a positive and significant effect on return on assets of listed manufacturing firms in Nigeria.

4.1.2 Hypothesis Two

Ho: Discretionary accrual has no significant effect on returns on equity of listed manufacturing firms in Nigeria.

Table 2: Panel Least Square (PLS) regression analysis testing the effect of DA on ROE

Dependent Variable: ROE

Method: Panel Least Squares

Date: 01/16/23 Time: 17:27

Sample: 2012 2021

Periods included: 10

Cross-sections included: 21

Total panel (balanced) observations: 210

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.285012	0.603479	10.41463	0.0000
DA	0.532972	0.165802	3.214505	0.0015
LEV	-0.068168	0.059213	-1.151234	0.2508
FS	-0.583635	0.064580	-9.037345	0.0000

R-squared	0.310843	Mean dependent var	0.647953
Adjusted R-squared	0.301735	S.D. dependent var	0.344053
S.E. of regression	0.287499	Akaike info criterion	0.361967
Sum squared resid	18.76279	Schwarz criterion	0.421576
Log likelihood	-37.80722	Hannan-Quinn criter.	0.386010
F-statistic	34.12935	Durbin-Watson stat	2.716894
Prob(F-statistic)	0.000000		

Source: Researcher's computation (2023) using E-Views 10.0

The panel regression output on the effect of discretionary accruals on return on equity as shown in table 4.4 reveals the beta coefficient (β), t-statistic and probability values of the variables. It could be inferred from Table 2 that discretionary accrual (β_1) with correlation factor equals to 0.532972; t-statistic = 3.214505; p-value = 0.0015 < 0.05). In the same vein, LEV has a beta coefficient (β_2) = -0.068168; t-statistic = -1.151234; p-value = 0.2508 >0.05). Furthermore, for FS the beta coefficient (β_3) = -0.583635, t-statistic = -0.583635; p-value = 0.0000 < 0.05). The drawn inference shows that DA positively and significantly correlates with ROE; LEV has an inverse and non-significant relationship with ROE. Similarly, FS has an inverse but significant relationship with ROE.

ROE = 6.285012 + 0.532972DA - 0.068168LEV - 0.583635FS

The implication of this model is that holding other factors constant, a unit increase in DA will increase ROE by 53.30%, while a unit increase in LEV and FS will cause ROE to reduce by 6.82% and 58.36% respectively. The adjusted r-squared with 0.301735 shows that the independent and control variables (DA, LEV, and FS) has 30.17% influence on the dependent variable (ROE). The remaining 69.83% is caused by other factors outside the scope of this study. The Durbin-Watson statistic = 1.716894 shows that there is no auto-correlation problem in the study, since the value is less than 2.0 approximately.

4.1.2.1 Decision

Following the p-value result of 0.0015 which is less than 0.05 (5%), this study upholds that discretionary accrual has a positive and significant effect on returns on equity of listed manufacturing firms in Nigeria at 5% significant level, hence the alternate hypothesis (H_1) is accepted, while, the null hypothesis (Ho) is rejected.

4.1.3 Hypothesis Three

Ho: Discretionary accrual has no significant effect on earnings per share of listed manufacturing firms in Nigeria.

Table 3: Panel Least Square (PLS) regression analysis testing the effect of DA on EPS

Dependent Variable: EPS

Method: Panel Least Squares

Date: 01/16/23 Time: 17:28

Sample: 2012 2021

Periods included: 10

Cross-sections included: 21

Total panel (balanced) observations: 210

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.439203	0.211467	11.53466	0.0000
DA	0.271873	0.014156	19.20529	0.0000
LEV	-0.030393	0.020749	-1.464818	0.1444
FS	-0.227314	0.022630	-10.04487	0.0000

R-squared	0.359165	Mean dependent var	0.199337
Adjusted R-squared	0.350695	S.D. dependent var	0.125024
S.E. of regression	0.100743	Akaike info criterion	-1.735316
Sum squared resid	2.303876	Schwarz criterion	-1.675707
Log likelihood	204.4290	Hannan-Quinn criter.	-1.711273
F-statistic	62.40838	Durbin-Watson stat	1.369643
Prob(F-statistic)	0.000000		

Source: Researcher's computation (2023) using E-Views 10.0

The panel regression output on the effect of discretionary accruals on earning per share as shown in Table 3 reveals the beta coefficient (β), t-statistic and probability values of the variables. It could be inferred from Table 3 that discretionary accrual (β1) with correlation factor equals to 0.271873; t-statistic = 19.20529; p-value = 0.0000 < 0.05). In the same vein, LEV has a beta coefficient (β2) = -0.030393; t-statistic = -1.464818; p-value = 0.1444 > 0.05). Furthermore, for FS the beta coefficient (β3) = -0.227314, t-statistic = -10.04487; p-value = 0.0000 < 0.05). The drawn inference shows that

DA positively and significantly correlates with EPS; LEV has a negative and non-significant relationship with EPS. Similarly, FS has a negative but significant relationship with EPS.

EPS = 2.439203 + 0.271873DA - 0.030393LEV - 0.227314FS

The implication of the model is that one naira increase in DA will exert an increase of 27.19% on EPS. While, one naira increase in LEV and FS will make EPS to reduce by 3.04% and 22.73% respectively. The adjusted r-squared with 0.350695 shows that the independent and control variables (DA, LEV, and FS) has 35.07% influence on the dependent variable (EPS). The remaining 64.93% is caused by other factors outside the scope of this study. The Durbin-Watson statistic = 1.369643 shows that there is no auto-correlation problem in the study, since the value is less than 2.0 approximately.

4.1.3.1 Decision

Consequent upon the p-value = 0.0000 which is less than 0.05 (5%), this study submits that discretionary accrual has significant and positive effect on earnings per share of listed manufacturing firms in Nigeria at 5% significant level, hence the alternate hypothesis (H1) is accepted, while, the null hypothesis (Ho) is rejected.

4.1.4 Hypothesis Four

Ho: Discretionary accrual has no significant effect on net profit margin of listed manufacturing firms in Nigeria.

Table 4. Panel Least Square (PLS) regression analysis testing the effect of DA on NPM

Dependent Variable: NPM

Method: Panel Least Squares

Date: 01/16/23 Time: 17:30

Sample: 2012 2021

Periods included: 10

Cross-sections included: 21

Total panel (balanced) observations: 210

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.174081	0.261888	8.301563	0.0000
DA	0.206400	0.071952	2.868580	0.0045
LEV	-0.012497	0.025696	-0.486330	0.6272
FS	-0.205014	0.028026	-7.315274	0.0000

R-squared	0.223048	Mean dependent var	0.213841
Adjusted R-squared	0.212780	S.D. dependent var	0.140618
S.E. of regression	0.124764	Akaike info criterion	-1.307621
Sum squared resid	3.533494	Schwarz criterion	-1.248012
Log likelihood	155.0303	Hannan-Quinn criter.	-1.283579
F-statistic	21.72240	Durbin-Watson stat	1.632338
Prob(F-statistic)	0.000000		

Source: Researcher's computation (2023) using E-Views 10.0

The regression result in Table 4 shows that the coefficient correlation of discretionary accrual (DA) (β1) equals to 0.206400 with a probability value of 0.0045. LEV (β2) has a coefficient factor of -0.012497 with a probability value of 0.6272, while, the beta coefficient for FS (β3) = -0.205014 has a p-value equals to 0.0000. the association between the variables show that DA positively and significantly correlates with NPM; LEV negatively but significantly associates with NPM. Similarly, FS has a negative relationship with NPM, but, however significant.

NPM = 2.174081 + 0.206400DA - 0.012497LEV - 0.2050144FS

The model implies that one naira increase in DA will lead to a corresponding increase of 20.64% on NPM and a naira increase in LEV and FA will respectively lead to 1.25% and 20.50% reduction in NPM. The adjusted r-squared of 0.212780 shows that the independent and control variables (DA, LEV, and FS) has 21.28% influence on the dependent variable (NPM). The remaining 78.72% is caused by other factors outside the scope of this study. The Durbin-Watson statistic = 1.632338 shows that there is no auto-correlation problem in the study, since the value is less than 2.0 approximately.

4.1.4.1 Decision

Considering the p-value = 0.0045 which is less than 0.05 (5%), this study posits that discretionary accrual has significant and positive effect on net profit margin of listed manufacturing firms in Nigeria at 5% significant level, hence the alternate hypothesis (H1) is accepted, while, the null hypothesis (Ho) is rejected.

4.1.5 Discussion of Findings

The regression result for hypothesis I shows that, given a unit increase in DA, ROA will increase by 30.65% approximately. It shows that, the t-value for DA is 17.51501 with a probability value of

0.0000, suggesting that discretionary accrual exerts a significant and positive effect on ROA at 5% significant level. Similarly, a negative but significant relationship exists between LEV (β2 = -0.054047, p-value = 0.0010 < 0.05), FS (β2 = -0.054047, p-value = 0.0000 < 0.05). The value of F-statistic of 73.42539 with the associated probability of 0.000000 is greater than the significance level of 0.05; the null hypothesis (Ho) is rejected and the alternate hypothesis (H1) therefore accepted at 5% level of significance implying that discretionary accrual has a positive and significant effect on return on assets of listed manufacturing firms in Nigeria.

The findings of this study is in line with the works of Cho and Chung (2022); Sanchez-Ballesta and Yagua (2022). But contradicts the findings of Dung and Dang (2021); Adnan and Siddiquim (2022).

The regressed coefficient analysis for hypothesis II shows that discretionary accrual (β1) with correlation factor equals to 0.532972; t-statistic = 3.214505; p-value = 0.0015 < 0.05). In the same vein, LEV has a beta coefficient (β2) = -0.068168; t-statistic = -1.151234; p-value = 0.2508 >0.05). Furthermore, for FS the beta coefficient (β3) = -0.583635, t-statistic = -0.583635; p-value = 0.0000 < 0.05). The drawn inference shows that DA positively and significantly correlates with ROE; LEV has an inverse and non-significant relationship with ROE. Similarly, The adjusted r-squared with 0.301735 shows that the independent and control variables (DA, LEV, and FS) has 30.17% influence on the dependent variable (ROE). The remaining 69.83% is caused by other factors outside the scope of this study. The Durbin-Watson statistic = 1.716894 shows that there is no auto-correlation problem in the study, since the value is less than 2.0 approximately. Following the p-value result of 0.0015 which is less than 0.05 (5%), this study upholds that Discretionary accrual has a positive and significant effect on returns on equity of listed manufacturing firms in Nigeria at 5% significant level.

The result of this study is in consistent with the results of Parwar, Hussain, Abdul-Waheed, Qaisar and Mehboob (2021).But negates the works of Al-Duais, Mazrah, Mohammad and Almasawa (2022).

The panel regression output for hypothesis III revealed that discretionary accrual (β1) with correlation factor equals to 0.271873; t-statistic = 19.20529; p-value = 0.0000 < 0.05). In the same vein, LEV has a beta coefficient (β2) = -0.030393; t-statistic = -1.464818; p-value = 0.1444 > 0.05). Furthermore, for FS the beta coefficient (β3) = -0.227314, t-statistic = -10.04487; p-value = 0.0000 < 0.05). The drawn inference shows that DA positively and significantly correlates with EPS; LEV has a negative and non-significant relationship with EPS. Similarly, FS has a negative but significant relationship with EPS. The implication of the model is that one naira increase in DA will exert an

increase of 27.19% on EPS. While, one naira increase in LEV and FS will make EPS to reduce by 3.04% and 22.73% respectively. The findings of this study corroborates the studies of Thoppan, Robert & Vijay, 2021); O'Callaghan, Ashton & Hodgkinson (2018) but contrary to the findings of Gregova, Smrcka, Michalkova & Svabova (2022).

The regression result for hypothesis IV shows that the coefficient correlation of discretionary accrual (DA) (β1) equals to 0.206400 with a probability value of 0.0045. LEV (β2) has a coefficient factor of -0.012497 with a probability value of 0.6272, while, the beta coefficient for FS (β3) = -0.205014 has a p-value equals to 0.0000. the association between the variables show that DA positively and significantly correlates with NPM; LEV negatively but significantly associates with NPM. Similarly, FS has a negative relationship with NPM, but, however significant. The model implies that one naira increase in DA will lead to a corresponding increase of 20.64% on NPM and a naira increase in LEV and FA will respectively lead to 1.25% and 20.50% reduction in NPM. The adjusted r-squared of 0.212780 shows that the independent and control variables (DA, LEV, and FS) has 21.28% influence on the dependent variable (NPM). The remaining 78.72% is caused by other factors outside the scope of this study. Considering the p-value = 0.0045 which is less than 0.05 (5%), this study posits that discretionary accrual has significant and positive effect on net profit margin of listed manufacturing firms in Nigeria at 5% significant level.

The findings of this study supports the results of Kuncara, Djuminah, Arifah, Goestjahjanti & Kiswanto (2023); Zhong, Ren and Wu (2022) but opposite to the results of Gajdosikova, Valaskova and Durana (2022); Valaskova, Adamko, Michalikova and Macek (2021).

CONCLUSION AND RECOMMENDATIONS

This study assessed the effect of earnings management on financial performance of listed manufacturing firms in Nigeria. Data was obtained from annual reports and account and publications from the Nigerian Exchange Group for the manufacturing firms that operated during 2012-2021. In addition, the correlation of specific earnings management such as discretionary accrual and dependent variable measures such as returns on assets, returns on equity, earnings per share and net profit margin were assessed. To determine the relationship that exists amongst the variables and the effect thereof, Pearson correlation coefficient and Panel least square regression estimate were employed. This study revealed that discretionary accrual has a positive and significant effect on returns on assets, returns on equity, earnings per share and net profit margin. In conclusion, the

study submits that earnings management has a significant effect on financial performance of listed manufacturing firms in Nigeria at 5% level of significance.

Based on the findings of this study, it is recommended that:

The study therefore recommends that since earnings management appears to be successful in persuading shareholders to assign higher value to firms with more positive accruals, firms should discretionally utilise earnings management to sustain the returns on assets.

Also, Firms' management should decrease the cost of goods sold and reduce the research and development investment to boost the return on equity for the period.

Also, Firms' management and stakeholders should come up with appropriate rules and guidelines to facilitate good revenue and expense management for the benefit of spurring the firms' earnings per share.

Finally, Considering the positive relationship between discretionary accruals and net profit margin, corporate managers has to reasonably apply earnings management for tax savings, provision of positive information to investors, easier access to required capital, and stability of a company's profits and losses over a sustained period

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