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ACCOUNTING CONSERVATISM AND FINANCIAL PERFORMANCE OF MANUFACTURING
COMPANIES LISTED IN NIGERIA

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Abstract

The manufacturing sector has a great potential for promoting economic growth and competitiveness in a country like Nigeria, hence the significant need for firms to have a proper financial reporting system which is accounting conservatism. The study examined the effect of accounting conservatism on financial performance of manufacturing companies listed in Nigeria. It analyzed secondary data collated from the annual report of sixteen listed banks listed on the Nigeria stock exchange market. Using multiple regression models, the study examined the combined effect of Asymmetric timeliness measure, Market to book value and Negative Accruals measure on the financial performance of manufacturing firms listed in Nigeria. The result showed that accounting conservatism has a significant effect on the financial performance of the Nigerian manufacturing sector.

Introduction

The pre-eminent aim of any firm is to increase its revenue as well as that of its shareholder. The performance of any company contributes to value of the firm, as well as to the growth of the industry and the entire economy (Efuntade & Akintola, 2020). The financial performance of an organization is significant to stakeholders as well as the government. It contributes to an economy's long-term growth and progress. It serves several dynamic benefits needed for economic change in the global economy, in addition to acting as a catalyst (Ogbodo, 2018). Managers must constantly concentrate on improving the firm's financial performance in order to meet these expectations. According to Al Shahrani and Zhengge (2016), a firm's willingness to match people and capital to strategic challenges for achieving corporate success in ethical and lawful means contributes to long-term competitive advantage.

To evaluate the performance of an organization, the financial statement is used. It can be measured by reviewing financial statements to be able to know the financial performance of the firm (Tongli, Tono, & Tanasal, 2018). The financial condition of a firm can be measured using financial performance as a metric (Mayliza, Sutra, & Fitria, 2019). According to Didin, Jusin and Mochamad (2018), financial performance relates to a company's financial status over time, and covers the accumulation and utilization of funds as determined by various capital adequacy levels, liquidity, leverage, solvency, and profitability measures. Financial performance refers to a firm's ability to manage and monitor its assets.

Manufacturing has repeatedly been found as a driver for global development and growth for the economy, and industrial growth, as part of the industrial field, is generally regarded as a vital mechanism for stimulating economic growth and development. Benson (2019) opined that manufacturing sector is the 3rd leading sector contributing to the GDP of Nigeria. Nigeria's GDP was 152.32 trillion Naira, or more than 400 billion US dollars. The industrial sector accounted for about 13% of total GDP. The industry of food, drinks, and tobacco contributed the most, accounting for 4.75 percent of the country's GDP in 2020 (Varrella, 2021). Manufacturing companies in Nigeria is beset with challenges, amongst them are power supply, regulating issues, multiplicity of taxes, trade facilitation issues, macro-economic instability, crime and poor security, politically weak financial system, poor infrastructure.

Performance is crucial in determining a company's long-term viability. It is viewed as the primary goal of profit-driven businesses. A successful enterprise is one that is effective and reliable in ensuring long-term sustainability. Performance is the responsibility of a firm's ability to obtain and handle capital in many different ways to create market edge, Financial performance depends on factors specifically related to financial statements (Iswatia & Anshoria, 2007).

The financial statement is the most important form of gathering information on companies. Users are concerned that, with the extensive use of financial statements and their continuing growth, accounting practice(s) have failed to keep up with the rapid economic and technical developments that often degrade the value of accounting results. The Financial Accounting Standards (FAS) have given the company the right to select the form or estimation used in planning the financial statement based on the company's requirements, allowing it to be more flexible in adapting to the company's economic conditions. Since future economic environments are likely to be full of uncertainty and risks, firms should be more prudent (conservative) in their accounting system selection. There has been a lot of research on conservatism, but the findings are also mixed. As a result, the aim of this research was to contribute to the conservative concept's future development.

Accounting conservatism has become an essential traits of financial reporting that has been connected for extended period by accounting concept and implementation (Ugwunta & Ugwuanyi, 2019). One of the aspects of the accounting conventions underlying existing financial reporting is accounting conservatism. The customs or traditions that direct the preparing of accounts are accounting conventions, and they are embraced to make financial statements transparent and substantive. The conservative adage "anticipate no profits, but anticipate all losses" is included in the conservatism principle. Income anticipation requires identifying profits before verifiable legal claims are made (Ame, Saad, & Oyedokun, 2019).

In accounting and financial reporting, conservatism has been defined as an unsettled and prevailing component (Chen, Chen & Su, 2017). The importance of conservatism is that it gives management a lot of leeway in assessing a company's financial performance as long as they stay under accounting rules. The idea behind conservatism is that benefit should not be predicted, but that all expenses should be acknowledged (Watts, 2003). As a result, conservatism will have valuable insight that is yet to be captured in bottom-line figures (Felix & Umanhonien, 2015). This study seeks to find the effect of accounting conservatism on the financial performance of manufacturing companies in Nigeria.

The main objective of this paper is to determine the effect of accounting conservatism on financial performance of manufacturing companies listed in Nigeria. The specific objectives are;

- i. To investigate the impact of accounting conservatism on the return on asset of manufacturing companies;
- ii. To ascertain the effect of accounting conservatism on the Earnings per share of manufacturing companies;

In line with objectives of the study, the following null hypotheses have been formulated:

H₀₁: There is no significant impact of accounting conservatism on the return on asset of manufacturing companies

H₀₂: accounting conservatism does not have a significant impact on Earnings per share of manufacturing companies

The study adds to the development of literature related to accounting conservatism in the manufacturing industry. The significance of this study seizes to being only an extension of the accounting knowledge in the field of accounting conservatism by clarifying the concept of accounting conservatism. This would also provide new insights analysis of the effects of accounting conservatism over manufacturing company's performance. The findings are expected to be useful to shareholders (as owners), creditors, Managers, Researchers and Regulatory bodies.

Review of Related Literature

The concept of conservatism

In accounting, conservatism refers to the prudent recognition of expenses and liability, notwithstanding the uncertainty about their outcome; while income and assets are recognized only when there is full certainty of receiving them. Both scholars and accounting standard setters have attempted to provide a generally accepted definition of accounting conservatism. Bliss (1924) defines conservatism as 'anticipating no profits but anticipating all losses'. This definition is constructive but too simple. Devine (1963) links accounting conservatism to accounting information users and firms' goals. He defines accounting conservatism as a rule leading to lower average expectations of goal fulfillment in comparison with alternative measuring and reporting rules. Although this definition is more formal, uncertainty remains regarding firms' goals and the number of accounting information users.

Measuring Conservatism

In the opinion of Felix and Umanhonien (2015), all measures of conservatism rely on the effect of asymmetric recognition of gains and losses on reported accounting numbers particularly in net assets, earnings, and accruals. Three types of measures to assess conservatism that are commonly discussed are: net asset measures, earnings and accrual

measures, and earnings-stock returns relation measures. Each of these is explained as follows;

Asymmetric Timeliness Measure (AT):

"The operationalization of accounting conservatism by Basu in (1997) relies on the implication that earnings will more easily represent "bad news" than "good news". While since Warfield and Wild (1992), the timeliness of accounting awareness of economic events has been well-known, Basu (1997) was the first to associate asymmetric timeliness with accounting conservatism. The higher the asymmetrical timeliness, the greater the degree of conservatism in a business, according to Basu's scale. The accompanying cross-sectional analysis, also referred to as the Basu regression, is used empirically to determine the degree of conservatism.

The Market-to-Book ratio (MTB):

In order to quantify degrees of accounting conservatism in private firms, Ball and Shivakumar The theory behind using MTB (or BTM) as a metric of accounting conservatism is that, in general, a conservative accounting scheme appears to depress a company's net book value compared to its "real" economic value. As a result, a higher MTB (and a lower BTM) indicates more accounting orthodoxy, and vice versa. The empirical work focused on the Residual Income Valuation Model (RIVM) (Feltham & Ohlson, 1995; Zhang, 2000; Beaver & Ryan, 2000) is deeply rooted in the MTB measure.

Negative Accruals Measure (NA):

Givoly and Hayn (2000) suggest a conservatism measure that focuses as a subset of the book value of the company on non-operating accruals. The reasoning for the use of negative accruals is that the mechanism of accruals employs accounting conservatism to delay the identification of economic benefits and speed up the recognition of economic losses. The rate of accrued accruals in a company steadily grows more and more unfavorable by such a mechanism of delaying profits and accelerating losses (Givoly & Hayn, 2000).

Financial Performance

Good financial performance of any firm not only plays a role in growing the stock value of the individual firm, but also contributes to the growth of the whole sector, which inevitably leads to the general development of the economy (Banafa, Muturi & Ngugi, 2016). Assessing the output determinants of manufacturing businesses performance has become more relevant in corporate finance literature because, as intermediaries, these entities not only have a risk transfer mechanism, but also help guide the funds allocated to sustain market activities in the economy.

According to Rahul (2017) a company's performance is its ability to achieve its target objectives from its available resources. Suleiman (2013) viewed a firm's performance as the result of a company's assessment or strategy on how well a company accomplished its goals and objectives. Financial performance provides a deductive measure of how well a company can use assets from business operations to generate revenue. Van Horne (2015) defined financial performance as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term according to Pandey (2011) is used as a general measure of the overall financial health of a business. Research on the firm's financial performance emanates from organizations theory and strategic

management. The notion of financial performance is used to describe performance of an entity with the legal status of a company.

Return on Asset

The return on assets ratio is a profitability ratio, also referred to as the return on total assets, which measures the net income earned by total assets over the period by comparing the net income to the average total assets. In other words, the ratio of return on assets or ROA calculates how well a business can utilize its assets over a period to maximize income.

As the primary aim of business assets is to create sales and generate income, this combination lets both management and customers see how effectively the company can turn its asset investments into profits. As capital assets are always the largest investment for most firms, you should look at ROA as a return on investment for the company.

This ratio is most frequently illustrated in the review of financial statements, so it can demonstrate economic performance in producing income. ROA will calculate the potential of the company to produce income in the past to be expected in the future. The assets in question are cumulative corporate assets derived from the capital itself or from international capital transformed into corporate assets that are used for corporate survival (Rosikah, Dwi, Muthalib, Azis, & Miswar, 2018).

Earnings per Share

Earnings per share are the amount of income divided by the number of outstanding shares of the firm. Earnings per share are a ratio used to assess corporate's performance in generating profits for shareholders. The effectiveness of management in administering capital can be seen in its ability to generate benefit. Since the income earned allow the management to enhance the well-being of the stakeholders (Arma, 2018).

The EPS of an entity whose shares are publicly traded is regarded as a very important measure of performance. It is therefore important that EPS should be reported on a standard basis for all relevant companies. Even today, EPS is considered to be the single most popular, widely used financial performance benchmark of all. Graham, Harvey and Rajgopal (2004) surveyed 400 financial executives in the USA and reported that the majority, by far, were of the opinion that earnings were the most important performance measure they report to outsiders.

Theoretical framework

For this analysis, the theoretical structure is based on agency theory. The representation of management ownership in industrial companies gives the viewpoint of the role of agency theory. Companies have broadly dispersed management that would not usually engage in the day-to-day operation of the company's affairs. In this situation, an agent is assigned to oversee the company's daily activities. Dissemination of ownership and power creates the risk of conflicts of interest that result in costs between agents and principals. The introduction of the Agency theory to resolve the administrative disappearances of the 1970s and 1980s was one of the important facets of industry in the 1990s (Simerly & Mingfaing, 2000). Berle and Means (1932) created the classical Agency thinking, which discovered that ownership and power that were disconnected in larger companies due to thinning in equity roles offered an incentive for professional executives to behave in their own best interest. Jensen and Meckling (1976) and Grossman and Hart (1982) are pioneers in the study of Agency theory, considering the earlier works of Berle and Means (1932).

Empirical Review

Accounting conservatism and Return on Asset

El-Habashy (2019) studied the impact of accounting conservatism on corporate performance indicators in Egypt. 40 most active non-financial companies balance data was collected within the period 2009 – 2014 to test the hypothesis of this study. Panel data was used for this study and ROA was one of the variables used in representing accounting performance. Accounting conservatism has a substantial positive effect on organizational performance indicators, according to the findings of the study. This represents the favorable impact of business profitability on shareholders, which results in a good financial position for the company.

In Nigeria, Aminu and Hassan (2017) look into the relationship between accounting conservatism and bank results. They used panel regression to analyze data from ten banks over a five-year period (2012-2016). Return on assets (ROA) was used as a measure of bank's performance. The findings revealed a strong link between accounting conservatism and bank performance in Nigeria. In Nigeria, conditional accounting conservatism and bank performance are positively correlated, whereas unconditional accounting has a negative correlation with bank performance. Managers of Nigerian banks should use conditional conservatism in financial statements, according to the analysis, to reduce information asymmetry.

Accounting conservatism and Earnings per Share

Abbas, Zabihollah and Ommolbanin (2014) researched on the conservatism in accounting and its effect on earnings response coefficient in Tehran stock exchange listed companies. The book-to-market ratio was used for conservatism, and EPS and other variables was used to calculate earnings management. The research's statistic population consisted of 154 firms that are listed on the Tehran Stock Exchange, with the surveys spanning the years 2007 to 2012. Several models were calculated and theories were examined using panel regression analysis. The results indicate that conservatism and earnings reaction coefficient have a negative and meaningful relationship.

Sana'na (2016) examined the effect of accounting conservatism on financial performance indicators in the Jordanian insurance companies. The financial performance of the Jordanian insurance companies was represented using Earning per Share (EPS). Secondary data was used for this study and 12 insurance companies were used as the simple size. The result showed that Accounting conservatism policies are practiced by Jordanian insurance companies, and accounting conservatism policies have a significant and positive effect on financial indicators related to the performance of Jordanian insurance companies, as measured by return on asset, earnings per share (EPS), and market value of shares, for the year (2007 to 2014).

Methodology

This study adopted *ex-post facto* design in which secondary data was collected from financial statements of manufacturing companies in Nigeria listed on the stock exchange market. This study's population consists of all twenty (20) consumer goods manufacturing companies listed on the Nigerian Stock Exchange (NSE) as at December 31st, 2021. For the course of this research, only sixteen (16) Food and Beverages manufacturing companies was adopted for this study. Ten (10) year financial data of manufacturing companies (2010 – 2019) under the study, to examine the effect of accounting conservatism on Return on assets and Earnings per share.

Model specification

To achieve the Objective of this study, multi regression model was adopted.

$$Y = f(X)$$

Where:

Y = Dependent variable (Financial Performance)

x = Independent variable (Accounting Conservatism)

The sub variables under Accounting Conservatism are represented as (x_1 , x_2 & x_3)

x_1 = Asymmetric Timeliness Measure (AT)

x_2 = Market-to-Book ratio (MTB)

x_3 = Negative Accruals Measure (NA)

While the sub variables under Financial Performance are represented as (y_1 & y_2)

y_1 = Return on assets

y_2 = Earnings per share

The Models:

$$ROA_{it} = \alpha_0 + \beta_1 AT_{it} + \beta_2 MTB_{it} + \beta_3 NA_{it} + \varepsilon_{it} \dots \dots \dots \text{Model 1}$$

$$EPS_{it} = \alpha_0 + \beta_1 AT_{it} + \beta_2 MTB_{it} + \beta_3 NA_{it} + \varepsilon_{it} \dots \dots \dots \text{Model 2}$$

Table 3.1: summary of Variable Measurement

Variables	Abbreviation	Measurement	Justification
Return on Asset	ROA	$\frac{\text{net income}}{\text{total asset}}$	Aigbedo (2020), Kyere & Ausloos (2020).
Earnings per Share	EPS	$\frac{\text{total earnings}}{\text{no of outstanding shares}}$	Ramzan, Amin & Abbas, (2020), Thomas, Riyadi, Abidin, & Iqbal, (2020).
Asymmetric Timeliness Measure	AT	$\frac{EPS_{it}}{P_{it}} = \alpha_0 + \alpha_1 DR_{it} + \beta_0 Rit + \beta_1 Rit DR_{it} + \varepsilon_{it}$ <p>EPS_{it}: Earnings per share for firm i year t P_{it}: Opening stock market price for firm i year t Rit: Stock markets return for firm i year t DR_{it}: Dummy variable that is equal to 1 if the stock market return for firm in year t is negative, and equal to 0 if the stock market return for firm i in year t is non- negative.</p>	Basu (1997), Pae (2007)
Market-to-Book ratio	MTB	$\frac{\text{Market capitalization}}{\text{Total book Value}}$	Hanaa (2019), Li, H., Henry, D. and Wu, X.(2020)
Negative Accruals Measure	NA	$NA = T \text{ ACC} - OPACC$ <p>T ACC: Total Accrual, calculated as Net Income (after depreciation) – Operating Cash Flow OPACC: Operating accrual, measured as $\Delta \text{Inventory} + \Delta \text{Debtors} + \Delta \text{Other current assets} - \Delta \text{Creditors} - \Delta \text{Other current liabilities}$</p>	Klein & Marquadt (2006), Qiang (2007)

Findings

Descriptive Analysis

All variables looked to be properly distributed based on the data analysis. The result shows that Asymmetric Timeliness Measure (AT) has a mean and standard deviation with the values of -2.51 and 0.156 with a minimum and maximum value of -0.644 and 1.243 respectively. Market-to-Book ratio (MTB) has mean and standard deviation with the values of 4.210 and 16.030 with minimum and maximum value of -168.661 and 75.572. Negative Accruals Measure (NA) has mean and standard deviation with the values of -0.035 and 0.394 with minimum and maximum value of -2.814 and 3.3145 respectively. Table 2 also shows that ROA also have a mean value of 6.553 and a standard deviation value of 8.992. EPS have a mean value of 3.254 and a standard deviation value of 8.505.

Table-2: Descriptive Statistics

Variables	Mean	Std. Dev	Min	Max
ROA	6.553	8.992	-44.161	26.517
EPS	3.254	8.505	-3.253	57.63
AT	-2.51	0.156	-0.644	1.243
MTB	4.210	16.030	-168.661	75.572
NA	-0.035	0.394	-1.284	3.3145

Table-3: Multicollinearity Test

Variable	VIF	1/VIF
AT	2.37	0.421
MTB	2.33	0.428
NA	1.21	0.829
	Mean = 1.97	

The test was conducted in order to confirm the multicollinearity in the data set adopted for this study. The result in the VIF test was stated in table 4.1.2 above. The result of the correlation matrix was corroborated by the result of the variance inflation factor to explain the nature of associations among the variables. The result of the variance inflation factor is as presented together with the multicollinearity test results in Table 4.2. In Baltagi (2015), the benchmark for Mean of the Variance Inflation Factor is 5.0 while for the individual reverse factor is 1. Considering the reverse variance inflation factor of each of the variables all below the threshold of "1" with the average of the aggregate for all the periods being all less than the benchmark of 5.0; this confirmed the report of the correlation matrix which indicated that there was no multicollinearity problem.

Testing of Hypotheses and Discussion of Findings

Test of Hypothesis One

Hypothesis One:

Research Objective:

To investigate the impact of accounting conservatism on the return on asset of manufacturing companies.

Research Hypothesis (Ho):

There is no significant impact of accounting conservatism on the return on asset of manufacturing companies.

Table - 4: Test of Hypothesis One

	MODEL ONE			
	GENERALIZED LEAST SQUARES			
Variable	Coeff	Std.Err	t-	Prob
Constant	5.958	0.662	8.99	0.000
AT	21.545	4.228	5.10	0.000
MTB	0.116	0.040	2.89	0.004
NA	-3.135	1.681	-1.87	0.064
Adj. R ²	0.1980			
F-Stat	F _(3, 156) = 14.09			
Probability of F-Stat	0.000			
Hausman Test	chi ² ₍₃₎ = 10.15 (0.0173)			
Testparm Test	F _(9, 132) = 2.53 (0.0103)			
Heteroskedasticity	chi ² ₍₁₎ = 5.16 (0.0231)			
Serial Auto-	F _(1, 15) = 17.950 (0.0007)			
Pesaran's test	6.489, Pr = 0.0000			

Source: Author's Work (2021)

Interpretation

Diagnostic Tests

Hausman tests for the model determining the most appropriate estimating technique between Fixed Effect and Random Effect were conducted at significance level of 5 per cent; The results of the tests with p -values of 0.0173 being lower than the 5 per cent level of significance chosen for the study reveal that Fixed Effect is the most appropriate estimator according to its null hypothesis which states that there is presence of unsystematic difference in the model coefficients; thus, the study does reject the null hypothesis. The confirmatory test on the result of Hausman tests were conducted using Testparm Test. This was done to determine the most appropriate estimating technique between the Fixed Effects and Pooled OLS, with null form of "no panel effect" that is "no significant difference across units". The results with p -values of 0.0103 validates the results of the Hausman test, thus confirmed the appropriateness of the Fixed Effect. Therefore, the fixed effect was used for the analyses of model one.

Breusch-Pagan/Cook-Weisberg Test with p -value of 0.0231 indicated that there is presence of heteroskedasticity problem in the model, which implies that the variation in the residual of the model over the period "t" in the model is trending. The existence of associations among the coefficients of the model and its residuals were tested using Wooldridge test for serial autocorrelation as an unhealthy association result to the error terms being smaller than expected and the co-efficient of determination being higher than normal. The statistics derived with p -values of 0.0007 negate the null hypothesis which states that there is no first order autocorrelation. This implies that there is autocorrelation problem among the series in the model. Pesaran's test was used to test the model for cross sectional independence and it showed that the model has a cross sectional independence problem since the p -value is 0.0000.

The result showed that it has a heteroskedasticity, auto correlation and cross sectional independence problem. The model was analysed using general least square, panel () option was used to correct the heteroskedasticity, auto correlation and cross sectional independence problem.

Based on the results of the diagnostic tests carried out on Model One is Fixed effect.

$$ROA_{it} = \alpha_0 + \beta_1 AT_{it} + \beta_2 MTB_{it} + \beta_3 NA_{it} + \varepsilon_{it} \dots \dots \dots \text{Model 1}$$

$$ROA_{it} = 5.958 + 21.545AT_{it} + 0.116MTB_{it} - 3.135NA_{it} + \varepsilon_{it} \dots \dots \dots \text{Model 1}$$

Interpretation

The result of the regression model presented in Table 4.2.1 (Model One) evidenced that Asymmetric Timeliness Measure (AT) has significant positive effect on Return on Asset (ROA) ($\beta_1 = 21.545$, $\rho=0.00$); a unit increase in AT would result to 21.545% increase in ROA. Market-to-Book ratio (MTB) has significant positive effect on Return on Asset (ROA) ($\beta_2 = 0.116$, $\rho=0.04$); a unit increase in ACP would result to 11.66% increase in ROA. While Negative Accruals Measure (NA) has negatively but insignificantly influence ROA. The explanatory powers of the independent variable reflect that the variation in the independent variables yield 19.8% variation in the ROA, while the remaining 80.2% changes in ROA is caused by other factors not captured in this model. The probability of the F-test (ρ -values of 0.00) showed that accounting conservatism measured as Asymmetric Timeliness Measure (AT), Market-to-Book ratio (MTB) and Negative Accruals Measure (NA) significantly affects the financial performance of manufacturing companies listed in Nigeria.

Decision:

Considering the probability of the F-test (ρ -value of 0.00) which is less than the chosen level of significance for this study at 5%, thus, this study rejected the null hypothesis which stated that Accounting conservatism has no significant effect on Return on asset of manufacturing companies listed in Nigeria; and hereby accepted the alternate hypothesis which says Therefore, Accounting conservatism has a significant effect on Return on asset of manufacturing companies listed in Nigeria.

Test of Hypotheses Two

Hypothesis Two:

Research Objective:

To investigate the impact of accounting conservatism on the Earnings per Share of manufacturing companies.

Research Hypothesis (Ho):

There is no significant impact of accounting conservatism on the Earnings per Share of manufacturing companies.

Table-5 Test of Hypothesis Two

	MODEL ONE			
	POOLED OLS WITH CLUSTER STD. ERR.			
Variable	Coeff	Std.Err	t-test	Prob
Constant	2.559	0.677	3.78	0.000
AT	-0.924	4.320	-0.21	0.831
MTB	0.1467	0.041	3.59	0.000
NA	-2.189	1.717	-1.27	0.204
Adj. R ²	0.0636			
F-Stat	F _(3, 156) = 4.60			
Probability of F-Stat	0.0041			
Hausman Test	chi ² ₍₃₎ = 2.15 (0.5424)			
Breusch & Pagan LM Test	chi ² ₍₁₎ = 330.54 (0.000)			
Heteroskedasticity Test	chi ² ₍₁₎ = 44.30 (0.0000)			
Serial Auto-Correlation	F _(1, 15) = 2836.324 (0.0000)			
Pesaran's test	0.749, Pr = 0.4537			

Source: Author's Work (2021)**Interpretation****Diagnostic Tests**

Hausman tests for the model determining the most appropriate estimating technique between Fixed Effect and Random Effect were conducted at significance level of 5 per cent; The results of the tests with p -values of 0.5424 being higher than the 5 per cent level of significance chosen for the study reveal that Random Effect is the most appropriate estimator according to its null hypothesis which states that there is presence of unsystematic difference in the model coefficients; thus, the study does reject the null hypothesis. The confirmatory tests on the results of Hausman tests were conducted using Breusch and Pagan LM. This was done to determine the most appropriate estimating technique between the Fixed Effects and Pooled OLS, with null form of "no panel effect" that is "no significant difference across units". The results with p -values of 0.000 validates the results of the Hausman test, thus confirmed the appropriateness of the Random Effect. Therefore, Random Effect was used for the analyses of model three.

Breusch-Pagan/Cook-Weisberg Test with p -value of 0.0000 indicated that there is presence of heteroskedasticity problem in the model, which implies that the variations in the residuals of the model over the period "t" in the model is trending. The existence of associations among the coefficients of the model and its residuals were tested using Wooldridge test for serial autocorrelation as an unhealthy association result to the error terms being smaller than expected and the co-efficient of determination being higher than normal. The statistics derived with p -values of 0.0000 negate the null hypothesis which states that there is no first order autocorrelation. This implies that there is autocorrelation problem among the series in the model. Pesaran's test was used to test the model for cross sectional independence and it showed that the model has no cross sectional independence problem since the p -value is 0.4537.

The result showed that it has a heteroskedasticity and auto correlation problem. The model was analysed using general least square, panel () option was used to correct the heteroskedasticity and auto correlation.

Based on the results of the diagnostic tests carried out on Model Two is Random effect.

$$EPS_{it} = \alpha_0 + \beta_1 AT_{it} + \beta_2 MTB_{it} + \beta_3 NA_{it} + \varepsilon_{it} \dots \dots \dots \text{Model 2}$$

$$EPS_{it} = 2.559 - 0.924AT_{it} + 0.147MTB_{it} - 2.189NA_{it} + \varepsilon_{it} \dots \dots \dots \text{Model 2}$$

Interpretation

The result of the regression model presented in Table 4.2.3 (Model Two) evidenced that Asymmetric Timeliness Measure (AT) has a negative but insignificant effect on Earnings per Share (EPS) ($\beta_1 = -0.924$, $p = 0.831$). Market-to-Book ratio (MTB) has a significantly positive effect Earnings per Share (EPS) ($\beta_2 = 0.147$, $p = 0.000$); Negative Accruals Measure (NA) has negatively but insignificantly influence EPS. The explanatory powers of the independent variable reflect that the variation in the independent variables yield 6.3% variation in the EPS, while the remaining 93.7% changes in EPS is caused by other factors not captured in this model. The probability of the F-test (p -values of 0.0041) showed that accounting conservatism measured as Asymmetric Timeliness Measure (AT), Market-to-Book ratio (MTB) and Negative Accruals Measure (NA) significantly affects the Earnings per Share of manufacturing companies listed in Nigeria.

Decision:

Considering the probability of the F-test (p -value of 0.0041) which is less than the chosen level of significance for this study at 5%, thus, this study rejected the null hypothesis

which stated that Accounting conservatism has no significant effect on Earnings per Share of manufacturing companies listed in Nigeria; and hereby accepted the alternate hypothesis which says Therefore, Accounting conservatism has a significant effect on Earnings per Share of manufacturing companies listed in Nigeria.

Discussion of findings

Accounting conservatism and Return on Asset (ROA)

The finding of this study on the effect of Accounting Conservatism on financial performance depicted the expected result for accounting conservatism which has a positive significant effect on ROA. This implies that Manufacturing companies with high ROA were conservative during the study period. This supported the report of Fariz, Mohammed, Zulkepli and Kamaluddin (2020) to give a significant and positive relationship between accounting conservatism proxies and financial performance (ROA). This is also aligned with the underpinning theory (agency theory) and supported the report of the study of Lawal & Shehu (2016) conducted in Nigeria but while this study found a significant effect.

Accounting conservatism and Earnings per Share (EPS)

The finding of this study shows that accounting conservatism has no significant effect on Earnings per Share of manufacturing companies listed in Nigeria. Asymmetric Timeliness Measure (AT) has a negative but insignificant effect on Earnings per Share (EPS). Market-to-Book ratio (MTB) has a significantly positive effect Earnings per Share (EPS). Negative Accruals Measure (NA) has negatively but insignificantly influences EPS. This study is in line with Abbas, Zabihollah, & Ommolbanin (2014). However, Sana'na (2016) examined the effect of accounting conservatism on financial performance indicators in the Jordanian insurance companies. The result showed that Accounting conservatism policies are practiced by Jordanian insurance companies, and accounting conservatism policies have a significant and positive effect on financial indicators

Conclusion

This study focused on accounting conservatism (Asymmetric Timeliness Measure (AT), Market-to-Book ratio (MTB) and Negative Accruals Measure (NA)) and its effect on financial performance in manufacturing listed in Nigeria, for 10 years.

The result shows that accounting conservatism have a significant effect on the ROA and EPS of manufacturing companies listed in Nigeria.

Recommendations

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

1. Managers of manufacturing firms should use conservatism in their financial management practices to handle information asymmetry. This is due to conservatism's positive effect on the manufacturing firm's performance. Accounting conservatism is sometimes defined as an equilibrium reaction used to minimize valuation reduction caused by knowledge asymmetry or confidential data between investors and managers.
2. Firms in Nigeria should be expected to prepare and present their financial statements in a completely transparent and error-free way, with any company found breaching accounting record integrity facing severe penalties from the appropriate authorities.
3. Since non-operating accruals are discretionary, the study recommends that companies detected manipulating discretionary non-operating accruals in a way that

interferes with the true and fair interpretation of corporate performance and misleads stakeholders be severely penalized.

Suggestions for further studies

This study focused on the effect of accounting conservatism on financial performance of manufacturing companies listed in Nigeria. The study considered Return on assets (ROA) and Earnings per share (EPS) as financial performance and independent variables (Asymmetric Timeliness Measure (AT), Market-to-Book ratio (MTB) and Negative Accruals Measure (NA) were used as measures of Accounting conservatism. The study also covered a time frame of ten (10) years resulting to 160 balanced panel data of manufacturing firms quoted on the Nigerian Stock Exchange website. This study further suggests a focus on comparing different countries because there is a paucity of literature on this. In addition, further studies should expand the scope in terms of the time span covered to extend beyond the ten (10) years used for this study.

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