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ACCRUALS-BASED MANAGEMENT AND THE FINANCIAL PERFORMANCE OF QUOTED MANUFACTURING COMPANIES IN NIGERIA

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Abstract:

This research study investigated the effect of accrual-based earnings management on the financial performance of manufacturing companies in Nigeria. The research cut across all listed manufacturing subsectors in Nigeria. Thus, the sample consisted of thirty four (34) manufacturing companies listed on the Nigeria Exchange (NGX). Period covered was fifteen (15) years – from 2005 to 2019. Data was collected from the annual reports concerned companies and the Nigeria Exchange (NGX) data portal. The ordinary least square (OLS) method of analysis was adopted. Thus, in addition to the multiple regression method, Augmented Dickey-Fuller (ADF) unit root diagnostic method was implemented. From the data analyses, the following results were obtained: Results of data analyses showed that there was a negative and non-significant relationship between DACC and NPMG; However, DACC had a positive and non-significant relationship with EPSH. The study thus concluded that: DACC leads to deterioration in NPMG but enhances EPSH. However, the effects of DACC on financial performance is not sufficient to support the use of these earnings management methods. It was thus recommended among other things that: that managers are discouraged from embarking on earnings management practices for personal gain; Even where earnings management is embarked for benefit of the organization, managers should ensure that they can adequately guarantee the end result (all things being equal) to be achieved before embarking on the practice.

Keywords: Earnings management; discretionary accruals; financial performance; net profit margin; earnings per share; manufacturing companies in Nigeria

INTRODUCTION

Corporate organizations are by their nature oriented towards the achievement of specific objectives that can be described as their reason for existence. The ability to achieve such objectives will determine whether the organization is regarded as "performing" or not. It will also determine the future financial and economic fortunes of not only the organization but also that of its managers. Where the organization performs very well in achieving set objectives, it will have gained the needed resources to survive and grow into the future. However, failure may result in contraction and possibly liquidation. Consequently, corporate organizations are constantly under pressure from stakeholders to deliver what could be termed 'acceptable' outcomes in the view of the various stakeholders.

[First are the firm's owners (shareholders) who expect to see returns maximized. The firm's management (agents) also have individual expectations (some of which may be questionable) to be fulfilled through the organization. Business analysts also expect the firm's returns to conform to some notions it believes are acceptable within the given industry. Governments and its agencies also keep a close watch on the firm's performance for its own reasons which include taxation, regulation, anti-trust and future growth. In the same vein, employees, creditors, vendors and suppliers among many other stakeholders all have expectations which has to be met by the organization. These pressures from stakeholders combined with loopholes in accounting laws and standards can result in an organization's accountants getting involved in earnings management.

In accounting parlance, earnings management is the act of intentionally influencing the process of financial reporting to obtain some private gain. Bruns and Merchant (1990) as cited in Akers, et al (2007, p.1) defines earnings management as attempts by management to influence or manipulate reported earnings by using specific accounting methods (or changing methods), recognizing one-time non-recurring items, deferring, or accelerating expenses or revenue transactions, or using other methods designed to influence short-term earnings. In the same vein, Ningi (2005, p.33) opined that Earnings management refers to the earnings manipulation through exercising the discretion accorded by accounting standards and corporate laws, and/or structuring activities in such a way that expected firm value is not affected negatively.

Earnings management may also take different forms. Matsuura (2008) identified two broad categories of earnings management namely, accruals earnings management and real (activity) earnings management. Our interest in the present paper is accruals-based earnings management. Accruals may be non-discretionary (normal), that is, accruals that derive from an entity's normal business activities, recognized within its proper period but not paid or received, for example, unpaid taxes and other bills. These are not subject to earnings management. Abnormal or discretionary accruals derive from adoption of accounting practices that are outside the rules in the preparation and presentation of financial information to achieve a desired objective.

It involves taking advantage of loopholes and flexibilities in accounting standards, which are allowed either in ignorance or deliberately in order not stifle business/accounting activities and reduce financial information manipulation but often results in new avenues for opportunistic accounting practices which may not always be in the best interest of the organization and its shareholders. In this research paper, we investigate how accruals-based earnings management activities affect the financial performance of manufacturing companies in Nigeria.

STATEMENT OF PROBLEM

The one good reason why a business organization that appear healthy on paper would suddenly find itself in financial difficulties to the point of being propped up with government assistance or worse still go into liquidation may not be unrelated to the use of unethical and opportunistic practices such as massaging their earnings to give the impression that the firm is performing better. Earnings management, if used sparingly can be of some benefit to a business organization, however, the danger lies in either overly relying on massaging earnings to give a false impression of the business or managers doing so for personal benefits. In each case, the long term effect tend not to be in the best interest of the organization and its owners. Earnings management involves the alteration of financial reports in order to mislead stakeholders about the firm's underlying performance, or to influence contractual outcomes that depend on reported accounting numbers.

Earnings management normally has a positive effect on earnings quality, and is likely to weaken the credibility of financial reporting if exposed (Akers, Giacomino, & Bellovary, 2014; Healy & Wahlen, 1999; Schipper, 1989). However, Remenaric, Kenfelja and Mijoc (2018) argued that even though earnings management can have a positive impact on a company's business in the short term, in the long run it will likely result in decreased stock prices, insolvency, and even bankruptcy. In addition, the prevalence of earnings management can become an indictment of a lax regulatory agency and environment which is prone to abuse by unscrupulous individuals. According to Osisioma and Enahoro (2006), accounting processes and choice of policies resulting from many judgments at the same time are capable of manipulation. Consequently, this research is aimed at investigating the relationship between earnings management and the financial performance of quoted manufacturing companies in Nigeria.

RESEARCH OBJECTIVES

The aim of this research effort is to investigate and determine how accrual-based earnings management practice affect the financial performance of quoted manufacturing companies in Nigeria. The specific objectives of the study are to:

- Determine whether discretionary accruals management practice significantly affects the net profit margin of quoted manufacturing companies in Nigeria
- Determine whether discretionary accruals management practice significantly affects the Earnings Per Share of quoted manufacturing companies in Nigeria

ASYMMETRIC INFORMATION THEORY

Information asymmetry arises in situations where one party in a relationship or contract has access to better or superior information in comparison to the other party or parties. Information asymmetry models have a basic assumption that at least one party to a contract/transaction/relationship has relevant information, whereas the other(s) do not. Information asymmetry is a relevant theory in this research from two perspectives. First is from the perspective of information dissemination through the accounting/financial reports produced by the organization for the use of organizational stakeholders. And second through earnings management and manipulation wherein managers take advantage of privileged information at their disposal for opportunistic behaviour and personal benefit.

Trueman and Titman, (1988) in Chu and Song (2010) noted that information asymmetry is a precondition to the practice of earnings management to occur. Thus, the general use of accounting information by investors, creditors and financial analysts to value firm's stock creates a motivation for managers to manage earnings in an attempt to

influence short-run stock market value of the firm. This is considering that earnings management practices are perpetrated away from the scrutiny of investors and creditors who would most probably not invest in the firm if active cases of earnings management or manipulation are exposed. They further noted that when managers or insiders have the information that other external shareholders do not have, the managers or controlling shareholders can apply earnings management to escalate the problem of information asymmetry to protect their private/personal interest (Richardson, 2000). For example, managers may manage earnings to give the impression that the organization's income is more predictable (smoother) than is actually the case because funds providers and investors view such earnings behaviour as a favourable pre-condition.

POSITIVE ACCOUNTING THEORY

The Positive Accounting Theory developed by Watts and Zimmerman (1978) was focused on trying to predict the actions of managers of business organizations when faced with choices of different accounting policies. It also tries to predict how firms' managers will react when new accounting standards are proposed. The theory, in attempt to understand accounting policy decisions, examines a range of relationship, or contract, in place between the entity and suppliers of equity capital(owners), managerial labour(management) and debt capital (lenders or debt holders). Positive accounting theory is based on an underlying economic assumption called the "rational economic person" assumption, which assumes that all individuals act in their own self-interest and are rational wealth maximisers. According to Scott, (2003), positive accounting theory attempts to make good predictions for real world and practical accounting events. Watts and Zimmerman (1978) investigate the factors influencing management's attitude on accounting standards including management compensation plans, regulation, political costs, taxes and accounting information production.

According to Setyorini and Ishak, (2012) positive accounting theory describes business organizations in terms of a collection of contracts – a nexus of contracts. For example, there are contracts with managers, suppliers of capital, employees, government and regulators and most importantly with investors. The contracts are necessary to get individual parties to act to maximize the wealth of the owners. However, there will be contracting costs associated with the contracts, for example, costs of negotiating with and maintaining and monitoring the performance of the parties involved. Thus, the theory holds that firms will seek to minimize the contracting costs and this will affect the policies adopted, including the accounting policies (Graffikin, 2007). They were of the opinion that individuals act to maximize their own utility and management chooses or discriminates against specific accounting standards based on self-interests. For example managers have incentives to choose accounting standards which report lower earnings due to tax, and political and regulatory systems (Osho & Ayorinde, 2018). Conversely, they also have incentives to make accounting choices that inflates earning in order to qualify for performance based remunerations and bonuses. From the above, it can be inferred that Positive Accounting Theory is relevant for research on earnings management.

ACCRUAL-BASED EARNINGS MANAGEMENT

Previous research has shown that accruals-based earnings management is the most common method adopted by firms. In a nutshell, accruals are the difference between a firm's earnings and its cash flows. Accruals are a standard component of a firm's transactions and as such, feature prominently in earnings management activities. For example, a firm makes a sale on credit, the sale is duly recognized as earnings not minding whether or not cash has been received or not. This leads to the creation of a receivable that is cancelled when cash is finally received in the future. Accounting standards allow discretion for managers when providing financial information to stakeholders. Managers have been known to exploit this discretion by recognizing revenues before they are earned or delaying the recognition of expenses which have been incurred, which results in accruals (McVay, 2006).

Accruals-based earnings management occurs when managers intervene in the financial reporting process by exercising discretion and judgment to change reported earnings without any cash flow consequences. Firms can be aggressive with their accounting choices by bringing forward earnings from a future period by speeding up the recognition of revenues or considerably slowing down the recognition of expenses in the books, thus increasing earnings in the current period. This creates what is called discretionary accruals in the literature. Accrual earnings management has an accrual reverse in the period after manipulation. The increase in profit at this time will result in a decrease in profits in the next period. Conversely, a decrease in current profits generated through the accrual method will result in an increase in profits in the next period. Since accruals reverse over time, earnings will be lowered automatically by the number of earnings that was brought forward in the previous period (Kothari et al., 2012). Healy (1985) asserts that discretionary accruals present the accounting mediation preferred by executives to manage earnings.

Thus, while the component of the accrual imposed by the accounting regulator in adjusting a firm's cash flows is the non-discretionary accruals. The component managers can choose within the flexibility of accounting regulations in adjusting a firm's cash flows is the discretionary accruals. Thus, one may be led to conclude that discretionary accruals are essentially the creation of the manager within the limits of discretion granted him/her by accounting standards. There are several methods for recognizing and calculating discretionary accruals in literature. Of these, the most accepted are the Jones model and the modified Jones model. This is the most common model used to capture earnings management (Doukakis, 2014).

EMPIRICAL REVIEW

Ubesie, Nwankwo and Ogbogu (2020) appraised the impact of earnings management on the financial performance of consumer goods firms in Nigeria. Their study adopted the ex-post facto research design using the simple regression analysis for analysis of pooled data obtained from three selected consumer goods firms in Nigeria. The findings of their research revealed that earnings management does not have significant impact on financial performance of consumer goods firms in Nigeria. The study suggested that there should be conscious effort by management of consumer goods firms to improve the earnings management situation in order to impact on financial performance of the sector. Furthermore, there should be an emphasis on the equity of firms as a means of widening ownership fund position and internal source of capital.

Abdullahi, Norfadzilah, Umar and Ademola (2020) investigated the level of financial determinants of earnings management on the profitability of 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. Data was analysed using multiple regression to examine the model. Findings revealed that earnings ability shows a significant and positively relationship with profitability, which was measured using ROA. This result indicates that the more the earnings ability of a company, the profitability of the listed companies will increase. The result also indicates that companies that engaged in earnings management are also seen to be more profitable.

Khuong, Liem and Minh (2020) investigated the relationship between accrual-based earnings management, real activities management and corporate cash holdings. Findings suggested that real activities management has a positive impact on cash holdings, while accruals-based earnings management has a negative impact on this measure. The positive link between real earnings management and cash holdings implies that significant diminutions in discretionary production costs and selling expenses permit managers to mask the genuine performance of the firm, thus increasing information asymmetry. On the other hand, the inverse relationship between accruals based earnings management and cash holdings may prove that accruals can be helpful in alleviating the information differentials between the firm and other stakeholders.

Nwaobia, Kwarbai and Fregene (2019) examine the effect of earnings management on the survival of manufacturing entities in Nigeria. A sample size of thirty companies with complete data for the study was purposively selected from the 66 listed manufacturing companies for a period of 12 years spanning from 2005 to 2016 and secondary data drawn from published financial statements of sample companies were used. Data were analysed using descriptive and inferential (OLS regression) statistics. Findings of the research revealed that earnings management (EM) proxied by discretionary accruals jointly with corporate governance (CG) proxies exerted significant effect on corporate survival. Individual effects of EM and CG proxies on corporate survival were mixed.

Umoren, Ikpantan and Ededeh (2018) assessed the influence of accrual-based earning management on financial reports of deposit money banks in Nigeria. The research was motivated by the corporate collapse and failures experienced in the banking sector amidst the clean audit reports. The methodology adopted was ex-post facto - using descriptive and inferential statistics, a sample of 10 deposit money banks were judgmentally selected for a period of 8 years. The results revealed that discretionary accruals exerted significant negative relationship on the returns on asset of deposit money banks in Nigeria in pre and post IFRS eras. The results also showed that there existed relationships between accrual-based earnings management and financial performance of DMBs.

Okafor and Ezeagb (2018) considered the effect of earnings management on performance of corporate organisations in Nigeria. Using a sample of 17 firms quoted in the Nigerian stock exchange market under the consumer goods sector and data extracted from corporate annual reports and accounts of selected firms for the period 2010-2014. The study results from simple regression technique found that earnings management had negative, but insignificant effect on the performance of corporate firms. Consequent upon this finding, it was suggested 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 affects performance of firms.

METHODOLOGY

For the purpose of this research, the ex post facto research design is considered to be the appropriate design. This is because the ex post facto research examines past occurrences in order to understand and make predictions about the current state and future occurrences. Data for the research were collected from secondary sources – specifically from the annual financial reports and accounts of the companies in the sample. The period covered in the research was 16 years spanning from 2004 to 2019. Accrual-based earnings management was collected using that Modified Jones Model which is currently the most widely used and accepted model for detecting earnings management. Financial performance is measured in terms of Net Profit Margin (NPMG) and Earnings Per Share (EPSH) while firm size (SIZE) is incorporated into the equation above as moderating variables. The basic method of analyses adopted for this research effort is the Ordinary Least Square (OLS) Multiple Regression Analysis technique. In order to proactively take of some of the problems associated with the OLS method, certain diagnostic tests will be conducted. This will include test of normality and unit root test. Where it is shown that the dataset is not normally distributed, it will be converted to its log form which will also ensure that it is standardized for uniform interpretation. Thus, in this study the following models will be used to test the proposed hypotheses:

$NPMG = \beta_0 + \beta_1 DACC + \beta_2 SIZE + \varepsilon$ 1
$EPSH = \beta_0 + \beta_1 DACC + \beta_2 SIZE + \varepsilon$ 2

NPMG = Net Profit Margin (Dependent Variable)
EPSH = Earnings Per Share (Dependent Variable)
DACC = Discretionary Accruals Management (Independent Variable)
SIZE = Firm Size (Moderating Variable)

DATA AND ANALYSIS

Table 1: Summary of Unit Roots Test Results using Augmented Dickey Fuller

VARIABLE	ADF Unit Root Test		
	t-stat (5%)	**Prob.**	**Order of integration**
NPMG	-2.8670	0.0000	I(0)
EPSH	-2.8670	0.0000	I(0)
DACC	-2.8670	0.0000	I(0)
FSIZ	-2.8670	0.0000	I(0)

Table 1 shows the unit roots test results using ADF method. The results show that all variables vis-à-vis; Net Profit Margin (NPMG); Earnings Per Share (EPSH); Discretionary Accruals (DACC); and the moderating variable - Firm Size (FSIZ) were all stationary at level I(0) order of integration using both the Augmented Dickey-Fuller test method. These result imply that on the basis of the ADF test methods, the data is stationary (no unit root) in its present form. Thus, the absence of unit root in the data set implies that the ordinary least square (OLS) regression model is appropriate for further analysis.

Table 2: Regression Result

Dependent Variable: NPMG
Method: Panel Least Squares
Sample: 2005 2019: Periods included: 15
Cross-sections included: 34: Total observations: 510

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.334904	0.072476	-4.620928	0.0000
DACC	-0.008161	0.004223	-0.193378	0.8467
FSIZ	0.060788	0.010004	6.076206	0.0000

R^2 = 0.0681; Adjusted R^2 = 0.0625; F-Stat = 12.319; Prob (F-Stat) = 0.000;
Durbin-Watson Stat = 2.038

From the regression results in table above, it is observe that there is a negative relationship between discretionary accruals (DACC) and net profit margin (NPMG). With a coefficient of regression (B) value of -0.008161 implying that a unit increase is predicted lead to a 0.008161 decrease in net profit margin and vice versa. However, the relationship was not statistically significant considering than the computed t-statistic value of -0.1934 was less than the critic t-statistic value of 1.962. The moderating variable (FSIZ) had a positive and statistically significant relationship with net profit margin - a coefficient of regression value of 0.0608 and probability of t-statistic value of 0.000. In all, the coefficient of determination value of 0.0681 implies that only about 6.81% of the variations in net profit margin can be attributed to variations in discretionary accruals (DACC) and firm size (FSIZ).

Table 3: Regression Result

Dependent Variable: EPSH
Method: Panel Least Squares
Sample: 2005 2019: Periods included: 15
Cross-sections included: 34: Total observations: 510

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-7.527005	4.908798	-1.53337	0.1258
DACC	0.004123	0.002858	1.442585	0.1498
FSIZ	1.482611	0.677598	2.18804	0.0291

R^2 = 0.1141; Adjusted R^2 = 0.083; F-Stat = 9.418; Prob (F-Stat) = 0.0477;
Durbin-Watson Stat = 1.8567

Table 3 indicates a positive relationship between discretionary accruals (DACC) and earnings per share (EPSH). With a coefficient of regression (B) value of 0.0041 implying that a unit increase in discretionary accruals (DACC) is predicted lead to a 0.0041 units increase in earnings per share (EPSH) and vice versa. However, the relationship between the variables was not statistically significant considering than the computed t-statistic value of 1.443 was less than the critic t-statistic value of 1.962. However, the moderating variable (FSIZ) had a positive and statistically significant relationship with net profit margin with the implication that increase in firm size (FSIZ) is predicted to be accompanies by increase in financial performance in terms of earnings per share (EPSH). The coefficient of regression (B) gave a value of 1.443 and probability of t-statistic value of 0.0291. In the global statistics section, the coefficient of determination value of 0.1141 implies that only about 11.41% of the variations in earnings per share (EPSH) can be attributed to variations in discretionary accruals (DACC); real earnings management (REMG); and firm size (FSIZ).

DISCUSSION OF FINDINGS

Discretionary Accruals Management and Net Profit Margin

The result of data analysis revealed a negative relationship between discretionary accruals management practices and the net profit margin of listed manufacturing companies in Nigeria. The coefficient of regression between the variables reported a value of -0.008161 which implies that increasing in the use of discretionary accruals management as a method of managing earnings is bound to lead to lower financial performance in terms of net profit margin. However, the accompanying t-statistic value of -0.1934 is less than the critical t-statistic value 1.962 with the implication that the effect of discretionary accurals management on net profit margin is not statistically significant. Thus, even though discretionary accruals management may lead to reduced net profit margin, its effect size is quite negligible. This finding is an indication that the use of discretionary accruals in managing earnings may not be such a widespread practice among manufacturing companies in Nigeria as previously believed. However, were it to be prevalent as thought, its effect on companies bottom line may not be as deteriorating.

The above finding is similar to those of Umoren, Ikpantan and Ededeh (2018); César, Antonio, and Newton (2016); and Amarjit, Nahum, Harvinder and Mathur (2013) who all reported a negative relationship between discretionary accruals earnings management and the financial performance of companies. The findings also reinforce the empirical a priori expectation that accruals based earnings management can distort the future earnings potential of organizations utilize future earnings potential to overcome present financial constraint and thus shift present financial burdens to the future (Maherani, Ranjbar & Fathi, 2014). However, our findings differ from a considerable number of other who reported a positive relationship between accruals earnings management and financial performance (Yulius, 2017; Sayari, Mraihi, Finet & Omri, 2013; Raoli, 2013). This point to the conceptualized position that earnings management may and in fact is used in many cases to smoothen out uncertainties associated fluctuations in a company. Thus giving an impression of a stable and predictable earnings profile which is a sought after earnings characteristics by potential investors and financial analysts. Finally, our findings also differ from those whose outcomes reported a statistically significant relationship between accruals earnings management and financial performance (Maherani, Ranjbar & Fathi, 2014; Yulius, 2017; Amarjit, et. al, 2013). Finally, this finding is in line with the theoretical position that earnings management can potentially distort the future earnings capacity of the firm - especially where accruals earnings management is embarked on for benefit of managers.

DISCRETIONARY ACCRUALS MANAGEMENT AND EARNINGS PER SHARE

The discretionary accruals management practices of manufacturing companies was also analysed to determine how it affects financial performance in terms of earnings per share. Using the regression model, it was shown that there was a positive relationship between discretionary accruals and earnings per share of manufacturing companies in Nigeria. The coefficient of regression for the relationship between the variables gave a value of 0.004123 which indicates that a unit increase in discretionary accruals is predicted to lead to a commensurate increase in earnings per share. Furthermore, the relationship was not statistically significant considering that the computed t-statistic gave a value of 1.4426 which is less than the critical t-statistic value of 1.962. This finding was further buttressed by the computed probability of t-statistic value of 0.1498 which exceeds the established 0.05 critical limit. Thus, it was concluded that discretionary accruals management does not significantly influence the financial performance of manufacturing companies. This finding provides evidence that accruals earnings management practices may have minimal effect on the bottom line of companies in Nigeria.

Several previous research findings on the subject matter also reported a positive relationship between accruals earnings management and financial performance (Umobong & Ibanichuka 2016; Yishu, et. al, 2015; Wangui, 2017; Pranesh, 2017). This findings affirm the empirical position that earnings management can benefit the organization depending on the reason for it. For example, the Debt Covenant Hypothesis of the Positive accounting theory identified that one of the major reasons form earnings management by organizations was funds providers the impression that the finances of the organization was healthy in order to qualify for or not to breach borrowing agreement. In this case, an organization may merely manage its earnings in order to attract new funding from banks or investors. Thus, earnings management could lead to better performance in the future - of course on the proviso

that the organization's resources will be subsequently better managed in the future. However, a consistent utilization of earnings management practices may end up exposing the organization to both moral and morale risks.
We also note that earnings management appear to have contradictory effects on financial performance depending on the metric use in measuring financial performance. Thus, while we recorded negative relationship with net profit margin, earnings per share had a positive relationship with earnings management. However, in both case the results were not statistically significant. The research by Umobong and Ibanichuka (2016) reported similar findings where the authors examined accounting manipulations using timing of assets and firm's financial performance using Return on assets, Return on Equity and Earnings per share based on Secondary. The Study indicated a positive relationship between earnings management and return on assets and earnings per share while negative relationship was reported for earnings management and return on equity.

CONCLUSIONS AND RECOMMENDATIONS

Discretionary accruals management practice leads to deterioration in net profit margin of quoted manufacturing companies in Nigeria. However the extent of deterioration in net profit margin as result of the use of discretionary accruals practices is quite negligible. The use of discretionary accruals management practice helps to improve the earnings per share of manufacturing companies in Nigeria. However, discretionary accruals management practices cannot be relied on to to achieve the financial performance objectives of the firm as its effect size is minimal. Managing earnings through discretionary accruals method contributes to improvement in the economic value added of manufacturing companies in Nigeria. Again, the magnitude of discretionary accruals' effect on economic value added is not sufficient to contribute significantly to the bottom line of manufacturing companies in Nigeria.

From the conclusions, it is recommended that: managers should be discouraged from embarking on earnings management practices for personal gain. This can be achieved through the corporate governance mechanism (especially the audit committee) to closely monitor the activities of managers. Where a manager is implicated in conducting earnings management for personal benefit, such a manager should be strictly punished as a deterrent to others. Even where earnings management is embarked for benefit of the organization, managers should ensure that they can adequately visualize the end result (all things being equal) to be achieved before embarking on the practice. Hence, if the final outcome of the practice does not make a meaningful contribution to the financial performance of the company, then it may not be worth the effort to proceed with the practice. For example, the use of financial and statistical simulations (with acceptance/rejection criterion) will likely give insight and provide information as whether management should proceed with the practice or not. It is further suggested that manufacturing companies in Nigeria should as much as possible discourage the use of earnings management practice as its benefits to the organization tends to be short term and may end up compounding financial difficulties in the future.

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