INTERNATIONAL FINANCIAL REPORTING STANDARD ADOPTION AND EARNINGS MANAGEMENT: A COMPARATIVE ANALYSIS OF UK AND NIGERIA FIRMS

KWARBAI JERRY DANJUMA, PhD.

DEPARTMENT OF ACCOUNTING, BABCOCK UNIVERSITY, NIGERIA

AJIBADE AYODEJI TEMITOPE, PhD.

DEPARTMENT OF ACCOUNTING, BABCOCK UNIVERSITY, NIGERIA

ABDULRAHEEM YUSUF BOLAJI, PhD.

DEPARTMENT OF ACCOUNTING, BABCOCK UNIVERSITY, NIGERIA

And

OLURIN OLUWATOYOSI TOLUWALASE

DEPARTMENT OF ACCOUNTING, BABCOCK UNIVERSITY, NIGERIA

Abstract

The study examined the effect of IFRS on earnings management with a sample of manufacturing firms in the UK and Nigeria. The study made use of cross-sectional data obtained for a period of 10 years from 2000 - 2009 for UK and 2007-2016 for Nigeria. Both the pre-diagnostic test and post estimation were carried out to evaluate the normality of the series. This study employed Pooled Ordinary Regression to achieve its set research objectives. Discretionary accrual was used to proxy earnings management based on the Modified Jones Model. The results showed that IFRS adoption has a positive and insignificant effect on earnings management in the UK, but exerts positive and significant in Nigeria. However, the result for the other moderating variables shows that only size and cash exerted a significant effect on earnings management in both the UK and Nigeria. The study suggests that management of an organization has a significant role to play in ensuring the effective operation of the internal control system implemented. Preparation of financial statement by the stipulated laws and regulation to ensure that the financial report presented shows an accurate and fair view of the economic condition of the organization to aid the economic decision of stakeholders.

Keywords: Earnings Management, International Financial Reporting Standard (IFRS), Discretionary Accruals.

Introduction

The globalization of business had brought about the introduction of International Financial Reporting Standard (IFRS) to narrow down the areas and to present globally accepted and high-quality financial statements which will provide accurate, reliable information about firms' economic and financial performance to investors and other interested parties that will enable them to take investment decisions (Adebayo, 2017). Due to the advent of globalization, the world's capital markets have witnessed rapid expansion, diversification, and integration. This has brought about a shift away from local financial reporting standards to global standards. Hence, it is in recognition of the need to have quality financial reports that the adoption of International Financial Reporting Standard (IFRS) is becoming the trend among countries(Matthew 2015; Nwaobia, Kwarbai & Jayeoba, 2019).

Financial reporting aims to ensure that information is available for decision making. Lack of similarities in financial reporting in different countries arises due to the difference in legal and tax systems and business structures. The International

Financial Reporting Standard is intended to harmonize this diversity by making information more comparable and easier for analysis, promoting efficient allocation of resources and reduction in capital cost (Matthew 2015; Adebayo, 2017; Samuel & Diego 2018)

The compulsory adoption of International Accounting Standard Board (IASB) standards as a directive of the EU Regulation in 2005 among EU countries is one of the most famous establishments that took place in the Europe accounting system. The IASB aims to give standards which are adequate and useful, to ensure that the compulsory adoption of these standards enhances financial reporting quality.

As a result, listed companies in Europe were mandated to report their financial statements by IFRS issued by the European Parliament. Before 2005, these firms were at liberty to either choose their own local Generally Accepted Accounting Principles(GAAP) or International Financial Reporting Standard (IFRS). These standards intend to enhance the understandability and comparability of financial reports prepared by those charged with governance. Apart from understandability and comparability, financial statements displaying the accurate and fair view of the economic condition are exacted. This enables investors to learn and analyze the companies in a better way to guide their investment decisions.

As a result of the various challenges and obstacles associated with the adoption of IFRS among different countries bee it developed or developing has necessitated whether the IASB standards should be accepted or not. On 28 July 2010 a motion to adopt IFRS between January 2012 and 2014 was set by the federal government of Nigeria. All public entities quoted on the Nigeria Stock Exchange(NSE) were mandated to comply on 1st January 2012.

All Other Public Interest Entities were relied upon to embrace the IFRS for statutory purposes by January 2013 obligatorily. Small and Medium-sized Entities would compulsorily adopt IFRS by January 2014. In light of this in this way, this study looks to analyze the effect of adopting IFRS and earnings management among manufacturing firms in Nigeria as a developing economy and the United Kingdom (UK) as a developed economy.

Sulistyanto (2008) posits that the availability of rules in accounting standards may involve one of the tools that allow and aid fraud in an organization. Companies can hide their fraudulent activities by using various accounting treatments evident in the standards. Thus these standards enhance the capability of management to control and manage the company's income by their stated objectives to be achieved.

The implementation process of IFRS is being observed and studied by the researcher in different countries of the world. They state that the primary objective of IFRS is to improve transparency and enhance the quality of financial reports (Amiram, 2012; Ball, Kothari, & Robin, 2000; Daske, Hail, Leuz, & Verdi, 2008). Few researchers also argue that IFRS may contribute to improve market practice, reduce the cost of information, increase reliability, enhance better management decision and acceptability of accounting information over the world (Amiram, 2012; Ball et al., 2000).

Efforts and attempt to bring down earnings management are seen as a way to appropriate the accounting standards. Improvements in accounting standards currently being an issue are the International Financial Reporting Standards IFRS). Cai, Asheq and Courtenay (2008) reveal one of the issues of the IASB is an international standard that aims to remove many allowable accounting alternatives and is expected to limit the managements' discretion to manipulate earnings, thereby improving earnings quality.

This research intended to examine the effect of adopting International Financial Reporting Standards (IFRS) and earnings management using a sample of Nigeria and UK manufacturing companies. The study strived to examine the effect of IFRS adoption on earnings management among the manufacturing firms both in Nigeria as a developing economy and UK as a developed economy to consider the level and difference in earning management before and after the adoption of IFRS between the two countries.

Review of literature

All Companies listed among the European countries were required to adopt IFRS. As a result, all the UK listed companies needed to adhere, prepare and present their consolidated financial statements by the new standards. That is so because the new standards directly enhanced the quality of financial reports; essential to understand why a change in accounting principles and practice affects accounting quality. International Accounting Standards Board (IASB) predicts the new standards to enhance the transparency and comparability of financial reporting and improve informed judgments of users of financial reports (EC Regulation No. 1606/2002).

The UK is a nation that places a high value on investor protections to boost investor's confidence in the financial statement prepared by management. Its local accounting procedures comply mostly with International Accounting Standards which later became International Financial Reporting Standards (Haller, 2002). Although the UK GAAP and IFRS are very much alike, differences persist between UK local GAAP and IFRS. Horton and Serafeim (2009) state some differences between IFRS and GAAP financial reporting treatment, namely goodwill, share-based payments, taxation and leases. IFRS tends to be principle-based standards when compared with rule-based UK GAAP, which leaves more space for professional judgment (Nobes, 2006).

In Nigeria and Ghana, IFRS implementations are much similar. Institutional pressures brought about its development caused by multiple actors on the accounting governing process to perform accounting reforms and compensate local Nigerian GAAP with worldwide standards. However, the degree of momentum from various actors' changes during the course time forming will power towards the choice of utilizing the standards compared. As early as in the 1990s some actors became more proactive, while some just entered the process of establishing accounting standards in Nigeria by 2010. For instance, the Association of Chartered Certified Accountantshas been unable to single-handedly drive accounting reforms in Nigeria after being a great source of diffusing the IASBs standards in Nigeria since the 1990s.

In Nigeria the organizational factors surrounding the preparation of financial statement give reasons to study why IFRSs were executed; in that, it has the relevant institutional attributes that can aid standard-setters-decision making process into adopting international standards. Nigeria is home to the massive capital market

(Nigerian Stock Exchange NSE) in West Africa with over 200 listed companies. Its economy became the biggest in Africa making it ahead of South Africa which topped among other Africa nation in IFRS adoption by economy buoyancy. Furthermore, Nigeria was formerly under the British during the colonial era with a past of organizational understanding that conforms with those of British origin that can aid the adoption of the standards. Additionally, Nigeria as a country that conducts its business transactions in the English language which is the official language of the country allowing for numerous amounts of users to easily read and understands the IASBs standards in preparing financial statements to improve informed judgments of users.

In May 2011, Nigeria was among the pioneer members of the regional accountancy body of International Federation of Accountants (IFAC) in West Africa, which is the Association of Accountancy Bodies in West Africa (ABWA), and the Pan African Federation of Accountants in West Africa. Based on history, Nigeria committed a lot of effort in the development and establishment of worldwide acceptable accounting standards in 1976 making the country an associated member of the International Accounting Standards Committee. Internally, the accountancy profession has been creating and controlling the situation in advocating the economic success of the country. The profession has the biggest population of chartered accountants in West Africa. Furthermore, dissemination of the IASBs standards within professional caucus before their adoption in the country was aided by the professional accountancy certification organizations.

Iatridis and Joseph (2005) also state that the scope of income smoothing might be enhanced due to the dynamic nature of new standards. Ball (2006) posits that the use of fair value accounting would lead to increased opportunities for creative accounting. Heemskerk andVan der Tas (2006) state that although the new standards are adequate, the implementation of IFRS standards requires an enormous amount of management subjective decision. As a result, the quality of financial statement might not show improvement as expected. Past findings conclude that accounting quality is higher in countries where there is adequate enforcement of this standard (Byard D., Li Y., & Yu Y., 2011; Li, 2010).

Due to this fact, Hope opined that the absence of an adequate enforcement mechanism could make even the best IASB standards inconsequential. If no action is taken when the rules are infringed, the provisions remain procedures only on paper, not in operation (Hope, 2003). As a consequence, this study will give a new insight relating to the effect of adopting IFRS on earnings management among manufacturing firms. Being a comparative study between a developed economy with a higher enforcement mechanism and a developing economy with a lower enforcement mechanism.

Earnings management

Earnings management is seen as accounting practices by management intended to influence or misrepresent reported earnings through the use of accounting methods or accelerating expense or under-accruing expense or untimely recognition or deferment of revenue transactions (depending on target objective) or using other methods crafted to influence earnings (Nwaobia, Kwarbai & Jayeoba, 2019).

Presented earnings on the financial statement are referred to as valuable information for future decisions by the stakeholders. Managers may have different intention to manage earnings for income smoothing, higher stock price, bonus, etc. Earnings management is a powerful tool used by the administration to have their strategic goal which can be either opportunistic or beneficial.

Management may use their discretionary power to enhance the ability of earnings which will show the worth of firms (Subramanyam, 1996). Revenues can be managed by either real earnings manipulation or discretionary accruals. Discretional accrual is more appropriate for managers to manage the earnings in terms of cost, importance, and complexity of financial reporting (Roychowdhury, 2006). Earnings management is negatively correlated with earnings quality. It is observed that earnings management is cause for information asymmetry and hurts financial reporting quality (Hadani, Goranova, & Khan, 2011).

Discretionary or abnormal accrual is used as a proxy for earnings management which is considered by the researcher to determine the earnings quality of the financial statements. In financial accounting terms, "accrual" refers to a journal entry situation where expenses or a revenue item is recorded in the absence of any actual cash transaction. It needs adjustment for pending cases of the financial statements, which are revenues that have been earned by a firm, which are yet to be recorded in the accounts of the firm, and expenses that have been incurred by a firm but are however to be logged in the statements of the firm. The need for a mechanism to ensure information symmetry cannot be overemphasized. Hence, this study examined the effect of IFRS adoption on earning management of firms in Nigeria and UK.

Theoretical Underpinning

This study is based on Agency theory. Agency theory establishes the importance and relevance of contract agreements and conflicts of interest that can motivate creative accounting in a firm that generally perceived in two things about resolving the agency problem that exists between the principal and the agent, through effective implementation of monitoring and bonding strategies.

The principal can ensure to a reasonable level that divergences from his interest by creating adequate incentives for the agent and by providing for monitoring costs designed to reduce the unsuspected activities of the agent. Principals will also pay the agent to give resources (bonding costs) to ensure that the agent will not take any specific actions which would harm the principal or to ensure that the principal will be compensated if it is done.

The word monitoring includes something beyond estimation and perception of the conduct of the agent, yet besides, it includes control of agent conduct, for instance through strategies working standards, budget restrictions, pay and so forth. Bonding costs made to build up and affirm to a system that guarantees that the agent is acting to the most significant advantage of the principal, for example, enhancing dividend policy and total debt/financing (Jensen & Meckling 1976).

The relationship between the IFRS adoption and the earnings management

An empirical finding of the impact of IFRS adoption on earnings management indicates different outcomes. Van-Tendeloo and

Vanstraelen (2005) in their examination of impact on earnings management of the intentional adoption of IASB models, uncovered that entities that had embraced IASB standards willfully did not have critical changes as to earnings management.

Barth, Landsman and Lang (2008) completed a study to break down change in accounting quality of firms recorded in 21 nations that embraced IAS/IFRS in the period 1994-2003. They set that organizations selecting IAS/IFRS have a superior accounting quality. Concerning earnings management, their discoveries show that a decrease in creative accounting and overseeing of earnings towards the achievement of an objective.

Zegal, Chtourou, and Sellami (2011) analyzed the compulsory adoption of IASB standards in France, chose an example of 353 listed firms for the period 2003-2006. They used discretionary accruals as an intermediary for earnings management, by assessing them with the Kothari (2005) cross-sectional model. They found a decrease in earnings management because of the mandatory adoption of IASB standards.

Wanqing (2014) carried out a study to see the impacts of adopting International Financial Reporting Standards (IFRS) on earnings management of private firms in the UK. The period covers the year 2003 to 2010; the study likewise looked at whether the effect of embracing IFRS is restrictive on audit quality and firm size. The outcomes demonstrate that IFRS adoption does not diminish the dimension of earnings management; also, consequent earnings control is escalated after the approval of new accounting practice among UK private firms.

The researcher's discoveries examined, depicted how clashing outcomes that move from the decrease (Barth, Landsman &Lang 2008) shows a decrease; Chen, Tang, Tjiang and Lin (2010); and Zegal, Chtourou and Sellami (2011) also indicate a decline in earnings management. To expansion (Callao & Jarne 2010; Wanqing, 2014) of earnings management, with one investigation where the move from local GAAPs to IASB principles did not deliver huge contrasts (Van-Tendeloo & Vanstraelen 2005).

We assume that diversity as to cultural factors; institutional environment, business environment and level of economic development enables accounting systems still different from one country to the another, not taking into consideration the approval of a single set of accounting standards.

Majority of the past research analyzed the impact of IFRS adoption on earnings management, using European countries as samples to get their results and conclude their findings. Therefore this research examined the effect of IFRS adoption on earnings management being a comparative study between Nigeria and UK manufacturing firms. This study compared the effect of adopting IFRS on earnings management among the manufacturing firms in Nigeria and United Kingdom As a consequence; we formulate the following hypotheses to understand the effect of adopting IFRS on earnings management using a sample Nigeria and UK manufacturing firms.

H°: There is no significant effect of IFRS adoption on earnings management among quoted manufacturing firms in Nigeria and United Kingdom.

Methodology

An *ex-postfacto* research design was adopted in this study. The study made use of ten manufacturing firms. Data were gathered from Annual reports of manufacturing firms for a period from 2000 to 2009 in the UK and data from Nigerian manufacturing firm covering a period from 2007 to 2016.

This paper proposed to direct an investigation dependent on secondary data, which indicated whether the presentation of IFRS is sufficient in giving a higher nature of the financial report, by watching the dimension of earnings management. The unit of analysis was the listed manufacturing firms in Nigeria and the UK. In this paper, discretionary accrual was utilized as a measure to earnings management dependent on the modified Jones model. As indicated by DuCharme, Malatesta, and Sefcik (2001) accruals models are generally used because their strategy includes the simple income management procedures supposedly used to forestall detection by the executives. Accrual demonstrates the choice of accounting strategies as well as the effect of acknowledgment timing for incomes and expenses, asset write-downs and changes in accounting estimate.

Variable Measurement

Dechow and Skinner, (2000) posit that earnings management are commonly undetectable. Past research has set up various types of models to recognize earnings manipulation (Kothari *et al.,* 2005; Peasnell, pope & Youthful, 2000). Accruals accounting measures firms effectiveness and efficiency through acknowledgment of economic transaction, not necessarily when genuine money exchanges happen. Total accruals (TA) include non-discretionary accruals (NDA) and discretionary accruals (DA). Discretionary accruals are characterized as total accruals less anticipated ordinary accruals. Non-discretionary accruals are not thought out of the normal accruals originating from operational exercises, so the remainders of the total accruals are discretionary accruals.

Because non-discretionary accruals are increasingly hard to control, we accept they are unfit to oversee. What's more, discretionary accruals are viewed as a sign of earnings management. Jones Model (Jones, 1991) postulates that prudence is not practiced over income and property, plant and equipment. In any case, it is reprimanded that Jones Model is not unusual to catch the effect of sales- based control.

In this way, Dechow (1994) modifies the Jones Model to include the development of credit sales in the first model. The Modified Jones Model is better at identifying earnings management and is generally utilized. We utilize this model to assess discretionary accruals in this study.

Firstly, we use the following expression to calculate total accruals (TA_{it}), by Callao (2010):

$Ta_{it} = \Delta REC_{it} + \Delta Inventories_{i,t} - \Delta Payables_{it} - DEP_{it}$---------------- (1)

Where:

$\Delta REC\ it$ = Change in accounts receivables.

$\Delta Inventories\ it$ = Change in inventories.

$\Delta Payables\ it$ = Change in accounts payable.

DEP= Depreciation and Amortization expenses.

Then we obtain non-discretionary accruals following the linear regression:

$TA_{it} / A_{it-1} = \alpha 1\ [1/ A_{it-1}] + \alpha 2\ [\Delta REV_{it}/ A_{it-1}] + \alpha 3\ [PPE_{it}/ A_{it-1}] + \mu$ (2)

Where:

TA_{it} =Total Accruals

A_{it-1}= Total Assets

ΔREV_{it} = Change in Revenue

PPE= Total property, plant and equipment,

μ= Error term.

The first Modified Jones Model with time-series plan was fit for this study. Data used for analysis secondary data which contemplated long time series data for the estimated time frame to gauge the coefficient. Annual reports of manufacturing firms in Nigeria and UK were gotten to understand the effect of IFRS adoption on earnings management over a timeframe of ten years, five years pre-adoption and five years post adoption of International Financial Reporting Standard.

In this manner, we estimated the second equation (2) by cross-sectional methods. Under this method, we estimated equation (2) independently for every industry-year mix. To guarantee a useful estimation of the regression coefficients, every combination contains no less than ten observations. The industry is assembled by the first two-digit NACE Rev. 2 code.

After the industry and time-explicit parameters are obtained from equation (2), we join them with firm-explicit data to compute estimated discretionary accruals, utilizing the accompanying equation:

$$NDA_{it} = \alpha 1\ [1/A_{it-1}] + \alpha 2\ [(\Delta REV_{it} - \Delta REC_{it})/A_{it-1}] + \alpha 3\ [PPE_{it} / A_{it-1}] \qquad (3)$$

Where NDA_{it} is the Non-Discretionary Accruals for the firm i in year t, α1, α2, α3 equal to the regression coefficients α1, α2, α3 from equation (2) respectively.

Finally, we utilize this formula to generate the absolute values of Discretionary Accruals for this research:

$$DA_{it} = |TA_{it} - NDA_{it}| \qquad (4)$$

Model specification

To test how hypotheses and achieve how research objectives, we employ this regression model:

DA= f (IFRS, SIZE, CASHFLOW, GROWTH)………………… (1)

$DA = \beta_0 + \beta_1 IFRS + \beta_2 SIZE + \beta_3\ CASHFLOW + \beta_4\ GROWTH + \mu$… (2)

Where *DA* is the absolute value of discretionary accruals, scaled by lagged total assets, IFRS is a dummy variable (Post IFRS=1, Pre IFRS =0), SIZE, CASHFLOW, GROWTH, are control variables. SIZE is the common logarithm of Total asset, GROWTH is the percentage change in revenues, and CASHFLOW is cash flow from operations.

The dependent variable is earnings management detected by using discretionary accruals. The independent variables are whether the firm has adopted IFRS or not.

For the control variables, we choose SIZE, CASHFLOW, and GROWTH in the regression model.

Data analysis, interpretation and discussion of findings

In achieving the set objective of this study, panel data were gathered from the annual reports of the sampled manufacturing firms in the UK and Nigeria for the period under review. To validate the correctness of the model estimated, the following diagnostic tests were performed, and the results are discussed in this section. The criteria include Wooldridge test for autocorrelation in panel data and Breusch-Pagan / Cook-Weisberg test for heteroskedasticity. The results of the diagnostic test are shown in Table 1.

Table 1: Diagnostic Test Results

UK	F-stat	P Value

Wooldridge test for autocorrelation in panel data	37.194	0.0037
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity	0.10	0.7557
NIGERIA		
Wooldridge test for autocorrelation in panel data	14.849	0.0182
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity	17.46	0.0000

Source: ***Authors computation (2019)***

These diagnostic tests were completed to determine the decision and fitness of the estimation techniques to be utilized in testing the hypotheses of this study. The Hausman test was completed to decide if fixed effect, random effect or pooled ordinary least square estimation techniques is the most fitting for the model. The Hausman specification test has its null hypotheses that the distinction in the coefficient of a model isn't efficient, and thus the random effect estimation technique is fitting. The results of the Hausman test demonstrated that the data set does not align with the presumptions of Hausman specification test thus; the data were analyzed utilizing pooled Ordinary Least Square (OLS).

Likewise, the Breusch-Pagan/Cook-Weisberg test for heteroskedasticity was done to determine whether the variance of the residuals is constant. This test has a null hypothesis of the continuous variation of the residuals; the result of the analysis indicated probability value higher than the 5% level of significance for the UK. This recommends that the study cannot reject the null hypotheses of constant variance, demonstrating that the difference of the residual is consistent. In testing for autocorrelation in the panel data, the Wooldridge test was conducted. This test has null hypotheses of no first-order autocorrelation and its outcome for the model indicates that the p-value for the UK which is 0.7557 is higher than the 5% level of significance. This delineates the study cannot reject the null hypotheses consequently, showing the absence of autocorrelation in the model. Wooldridge test for autocorrelation in panel data was conducted. This test has hypotheses of no first-order correlation. The outcome shows a statistical value of 37.194 which is greater than 5% level of significance. These show that the null hypotheses can be accepted.

For Nigeria, the result of the Breusch-Pagan / Cook-Weisberg test for heteroskedasticity showed a p-value of 0.0000 which is lower than the 5% level of significance. This indicates that the study can reject the null hypothesis hence suggesting the presence of autocorrelation in the model. Wooldridge test for autocorrelation in panel data shows a statistical value of 14.849 which is higher than the 5% level of significance. This depicts that the null hypothesis of the study can be accepted.

Regression Analysis

Table 2: Regression Results of the impact of IFRS adoption on Earnings management in UK and Nigeria

	UK				NIGERIA			
Variables	**Coef.**	**Std.E**	**t-stat**	**Prob.**	**Coef.**	**Std.E**	**t-stat**	**Prob.**
IFRS	525.4171	820.716	0.64	0.525	7805348	4681893	1.67	0.100
SIZE	4705.711	311.2055	15.12	**0.000**	1.49e+07	3631963	4.11	**0.000**
CASH	-604.6649	210.1189	-2.88	**0.006**	-3609249	3664576	-0.98	0.330
GROWTH	-52.34176	981.946	-0.05	0.958	1167747	1.05e+07	0.11	0.912
Constant	-40648.29	3651.993	-11.13	0.000	-1.96e+08	6.91e+07	-2.84	0.007
No of Obs	50				50			
R-squared	0.8407				0.3660			
F-Statistic	61.49				5.47			
Prob.	**0.0000**				**0.0011**			

Source: ***Authors computation (2019)***

Table 2, presents the effect of IFRS adoption on earnings management in the UK and Nigeria, the result showed that IFRS has positive effect on earnings management of firms in Nigeria and UK, this is indicated by the direction of their coefficient 525.4171. Although the effect is not significant, however, only size and cash have significant influence with a p-value of 0.000 and 0.006 respectively. The result is corroborated with the R-squared value for the UK 0.8407 (84.07%). Indicating that 84.07% of the changes in the earning management can be explained by the adoption of IFRS, SIZE, and CASH & GROWTH). This finding of this study is not consistent with the aprior expectation that IFRS adoption has a significant effect on earnings management. Hence, this study is in line with the study of Wanqing Xu (2014) who posits that IFRS adoption does not reduce the degree of earnings management; instead, income smoothing is intensified after the adoption of new IFRS standards among the UK private firms. This finding agrees with the studies of Callao and Jarne (2010) and Van and Vanstraelen (2005) where they indicatedthat no decrease in earnings management practiceswith the transition from domestic GAAPs to IASB standards. Furthermore, cash and growth both have a negative relationship with earnings management with a coefficient of -604.6649& -52.34176 respectively. Hence, the P-value is 0.000 indicating a significant effect of IFRS on earnings management.

The R-squared obtained for Nigeria showed to be weak compared to UK. It stood at 36.60%. Indicating that 36.60% of the changes in earning management as the result of the adoption of IFRS and control variables. IFRS adoption and size separately exhibit positive and significant relationship with earning management with coefficient of 7805348 & 1.49e+07 & and p-values of 0.102 & 0.000 respectively. This finding confirms with the study of Barth, Landsman, and Lang (2008); Chen, Tang, Tjiang, and Lin (2010), Zegal, Chtourou and Sellami (2011) which indicates a reduction of the earnings management as a consequence of the mandatory adoption of IASB standards.

The result of the two countries poses a challenge on the effectiveness of IFRS.While in UK, there is a positive and strong effect of IFRS on earnings management, it is different

Nigerian. The results also revealed a significant negative relationship between cash and earnings management. Growth shows a coefficient of 1167747 and a p-value of 0.912 which stipulates that a positive and insignificant relationship exists between growths of a firm and earnings management. Therefore, the model shows that there is a significant relationship between IFRS adoption and earnings management in Nigeria taking into cognizance the control variables.

Conclusion and recommendation

The objective of this study was to ascertain the effect of IFRS adoption on earnings management in the context of UK from (2000–2009) and Nigeria from (2007-2016). Hence, this study utilized the pooled ordinary regression to achieve its research objective. This study was conducted to provide some evidence on the effect of IFRS adoption on earnings management across two countries. Specifically, the study offers new evidence on the effect of IFRS adoption on earnings management. This was done by ascertaining the role that size, cash flow, and growth play in the IFRS-earnings management nexus. The findings of this study indicate the following:

A positive and insignificant relationship exists between IFRS adoption and earnings management in the UK while IFRS adoption affects earnings managements by 84%. Further analysis involving the interaction of IFRS adoption and other control variables in the study indicates different results. Size has a positive and significant relationship on earnings management, but, cash and growth show a negative relationship on earnings management; however, cash indicates a significant relationship on earnings management. This concludes that size and growth moderate the relationship between IFRS adoption on earnings management.

A positive and significant relationship exists between IFRS adoption and earnings management in Nigeria, while IFRS adoption affects earnings management by 36.6%. Also with the inclusion of the control variables, size and growth show a positive relationship on earnings management, but size has a significant effect. However, Cash indicates a negative and significant relationship on earnings management.

As the findings suggest, adopting IFRS for the preparation of financial statement could have little or no impact on the level of earnings management as evident in the case of the UK. The degree of earnings management in a firm still comes down to the integrity of management to prepare and present financial statements that will portrait the accurate and fair view of the economic condition of a firm. This is paramount to improve informed judgments of investors and other stakeholders in the firm. This study provides vital contributions to scholars as well as other interested parties because it discloses that there exist other stringent factors that affect earnings management which may reduce or increase the positive effect of IFRS Adoption. These discoveries have significant implications for policymakers in an organization in developed and developing nations.

References

Adebayo KI (2017). Adoption of International Financial Reporting Standards and Performance Reporting Of Nigerian Deposit Money Banks. Babcock University Ilishan Remo, Ogun State, Nigeria.

Amiram D. (2012). Financial information globalization and foreign investment decisions. Journal of International Accounting Research, 11(2): 57-81.

Ball R, Kothari S, Dan RA (2000). The Effect of International Institutional Factors on Properties of Accounting Earnings. Journal of Accounting and Economics 29: 1-52.

Barth ME, Landsman WR, Lang MH. (2008). International accounting standards and accounting quality. Journal of Accounting Research 46: 467-498.

Byard D, Li Y, & Yu Y. (2011). The effect of mandatory IFRS adoption on financial analysts'information environment. Journal of accounting research 49(1): 69-96.

Callao (2010). Have IFRS affected earnings management in the European Union? Accounting in Europe 7: 159-189.

Callao S, Jarne, JS (2010).Have IFRS Affected Earnings Management in the European Union? Accounting in Europe 7 (2): 159-189.

Chen H, Tang Q, Jiang Y, Lin Z, (2010). The Role of International Financial Reporting Standards in Accounting Quality: Evidence from the European Union", Journal of International Financial Management and Accounting, 21 (3): 220-278.

Daske H, Hail L, Leuz C, & Verdi R (2008). Mandatory IFRS reporting around the world: Early Evidence on the economic consequences. Journal of accounting research 46(5): 1085-1142.

Dechow P. (1994). Accounting earnings and cash flows as measures of firm performance: the role of accounting accruals, Journal of Accounting and Economics 18 (1): 3-42.

Dechow PM and Skinner DJ (2000). Earnings management: reconciling the views of accounting academics, practitioners, and regulators. Accounting Horizons 14 (2): 235.

DuCharme LL Malatesta PH Sefcik SE. (2001). Earnings management: IPO valuation and subsequent performance. Journal of Accounting, Auditing & Finance 16(4): 369-396.

Heemskerk M. and Van der Tas, L. (2006). Verandering in resultaatsturing als gevolg van de invoering van IFRS. Maandblad voor Accountancy en Bedrijfeconomie, nov. 2006, 571-579.

Hope OK, (2003). Firm-level Disclosure and the Relative Roles of Culture and Legal Origin, Journal of International Financial Management & Accounting, 14 (3): 218-248.

Horton J, Serafeim G. (2009). Market reaction to and valuation of IFRS reconciliation adjustments: First evidence from the UK. Review of Accounting Studies.

Iatridis G, Joseph N (2005). A conceptual framework of accounting policy choice under SSAP 20. Managerial Auditing Journal, 20 (7): 763–778.

Jensen MC, Meckling WH. (1976). Theory of the Firm: Managerial Behavior: Agency Cost and Ownership Structure. Journal of Financial Economic, 3(4): 305-360.

Jones JJ (1991). Earnings Management during Relief Investigations. Journal of Accounting Research,Vol. 20(2): 193-228.

Li S (2010). Does mandatory adoption of International Financial Reporting Standards in the European Union reduce the cost of equity capital? The accounting review, 85(2), 607-636.

Nobes C (2006). The survival of international differences under IFRS: towards a research agenda. Accounting and Business Research, 36(3): 233–245.

Nwaobia AN, Kwarbai JD Fregene OO (2019). Earnings management and corporate survival of listed manufacturing companies in Nigeria, International Journal of Development and Sustainability, 8 (2): 97-115.

Peasnell KV, Pope PF. Young S. (2000). Detecting earnings management using cross-sectional abnormal accruals models. Accounting and Business Research, 30 (4): 313.

Samuel M Diego W. (2018). Unintended effects of IFRS adoption on earnings management: The case of Latin America, Emerging Markets Review, 38: 377-388. https://doi.org/10.1016/j.ememar.2018.11.004.

Van -Tendeloo B, Vanstraelen A (2005). Earnings Management under German GAAP versus IFRS. European Accounting Review, 14(1): 155-180.

Wanqing X (2014). The Effects of IFRS Adoption on Earnings Management: Evidence from the UK Private Firms.

Zeghal D, Chtourou S, Sellami Y (2011). "An analysis of the effect of mandatory adoption ofIAS/IFRS on earnings management", Journal of International Accounting, Auditing and Taxation, 20 (2): 61–72.