

A FIRM'S PERFORMANCE IN NIGERIA: THE IMPACT OF ACCOUNTING POLICIES.

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ABSTRACT

The research study investigated the effects of accounting practises on Nigerian business performance. Investigating how accounting practises in the disclosure of inventory and receivables affect Nigerian enterprises' return on assets was one of its two main objectives. For the study, an ex post facto research design was used, and secondary data on the listed consumer goods industry was taken from the financial statements and the CBN statistical bulletin. The study found that the disclosure of inventory and receivables by accounting procedures had a considerable impact on the return on assets of enterprises in Nigeria. So, in order to improve the comparability of accounting information, it is advised that Nigerian enterprises follow the relevant accounting practises. In order to stop the management's dishonest practises, they must also guarantee uniformity in the use of accounting policies. Additionally, oversight bodies and other parties involved in the process should hold the corporations responsible for any gaps in the adoption of ethical and proper accounting procedures. Regulating legislation should be passed by the government to make sure businesses perform their accounting duties ethically.

The following keywords are important: Nigeria, return on assets, inventories, receivables.

INTRODUCTION

The goal of modern accounting is to provide decision-makers with timely, accurate, and pertinent financial information that they may utilise to make important financial choices involving company entities. Accounting information is seen by individuals who make decisions and are concerned with their financial information as a real tool in the implementation of an entity's rules and policies (Barako, 2017). According to Ballesta and Meca (2017), accounting is a methodical process that detects, documents, measures, categorises, confirms, summarises, analyses, and communicates financial data. It exposes a company's profit or loss for a specific time period, as well as the amount and kind of assets and liabilities, owner equity, and other relevant information. It entails gathering, logging, summarising, and reporting financial data used to assess and track a company's economic activities. Accounting principles are crucial for a proper interpretation of the information in the financial statements, according to Akpaka (2015). The accounting principles applied in the preparation of the financial statements must be stated explicitly by the company. Because several accounting standards permit different treatments for the same transaction or item, it is crucial to disclose accounting rules. If the accounting policies are not clearly stated, users of financial statements will not be able to compare the financial information with that of other businesses. Hence, the foundations, guidelines, standards, and processes employed in the creation and presentation of financial accounts are known as accounting policies.

On the other side, accounting policies are internal corporate norms that personnel adhere to when recording financial transactions, according to Amaefule, Onyekpere, and Kalu (2018). Accounting is used by company directors and owners to track, summarise, and analyse financial activities. Although though financial transactions must be recorded in accordance with generally accepted accounting principles (GAAP), business owners are given some leeway when creating accounting procedures. Business owners are required to adopt accounting policies when recording certain financial transactions under GAAP because it is a principles-based framework rather than a rules-based one (Akintola & Chris, 2018). Moreover, Amaefule, Onyekpere, and Kalu (2018) point out that

in order to foster comparability between financial accounts from various accounting periods, accounting policies must be used consistently.

Statement of the Problem

In order to prepare a company's financial statements, which comprise any accounting processes, measurements, and procedures for presenting the pertinent data, accounting policies are the specific rules and practises put in place by the management team (Bushman & Smith, 2018). While ratios are typically used in understanding and analysing financial statements, financial statement analysis tries to analyse management performance in several key areas, including as profitability, efficiency, and risk (Zaiyol, Andrew, & Udende, 2017). Ratio analysis has several limits, with the main one being the issue that arises when businesses prepare their financial statements using various accounting standards. Yet, the analysis and interpretation of financial statements that have been released could be considerably impacted by the accounting policy choice. One requirement for the company to lower contracting expenses is the accounting strategy to be chosen. As a result, the interpretation of financial statements is greatly influenced by the many accounting policies that a reporting organisation may use. The financial situation of the company as well as the income statement are both impacted by the various accounting policies. All the key ratios, including return on capital employed, are impacted by this both directly and indirectly. Ratio analysis has many limits, with the main one being the issue. Users of accounting information are therefore required to read the whole financial statement. Even if two companies are in the same industry, the accounting procedures used must be understood in order to determine how to compare them. As a result of the foregoing, the choice of this study was motivated by the anticipated dearth of knowledge regarding the impact of accounting policies on firm performance in Nigeria, which warrants further research. By choosing accounting techniques that maximised their own usefulness, management had a good chance of manipulating the information in the financial statements to suit its own interests.

LITERATURE REVIEW.

Theoretical Framework:

The Positive Accounting Theory

In the middle of the 1960s, Positive Accounting Theory (PAT), which serves as the study's foundation, was developed. Its roots can be seen in the 1960s works of popular theorist Fama, particularly in his work on the Efficient Markets Hypothesis (Ugbede, Mohd, & Ahmad, 2014). Positive accounting theory gained popularity thanks to Gordan's (1964) publications. He claimed that Senior Onipe, Musa, and Isah (2015) highlighted that Jensen and Meckling (1976) established and used positive agency theory to examine the connection between the organization's owners and managers inside the contract network. Just before to this time, Italian Researcher Aldo Amaduzzi wrote a book titled "Conflitto ed equilibrio di interessi nel bilanciamento dell'impresa" (Conflict and Equilibrium of Interests in Corporate Financial Statements), which was published in 1949. In this book, he examined financial statements (and their content) as the equilibrium result of a conflict of interests between various corporate stakeholders. (2018) Amaefule, Onyekpere, and Kalu His work was not seen as mainstream because of the linguistic barrier. The goal of positive accounting theory is to provide solutions to the issues that can arise in agency interactions (Alsaeed, 2016). A contract under which the manager (agent) is hired by the organization's owners (the principal(s)) to carry out some task on their behalf is described as an agency relationship. Under this structure, the owners give the manager some discretion over decisions. Given that both parties are utility maximizers with different philosophical perspectives, there may be mismatched and diverging interests between them. Managers would aim to maximise the usefulness of the company, which includes income, while owners would want to maximise the net present value of the company. For the vast majority of time, the agent won't always operate in the principal's best interests. By withholding crucial information about the organisation, the operatives could potentially conceal

information for their own gain (Okolie & Omoregie, 2014). Because they frequently are unable to monitor or assess the choices made by their agents, owners are faced with moral conundrums. Due to this conflict of interest, the agency must spend money to resolve the issue.

Conceptual framework

Accounting Policies:

The exact guidelines and practises that a company's management team has put in place and which are used to create its financial statements are known as its accounting policies. They consist of all measurement systems, accounting techniques, and disclosure presentation protocols (Umobong, 2015). Accounting principles and accounting policies are different in that the former are the regulations for accounting and the later are how the organisation complies with those standards. On the other hand, accounting policies, according to Ugbede, Mohd, and Ahmad (2014), are a set of rules that direct how a business generates its financial statements. These rules are employed primarily to cope with difficult accounting procedures such depreciation techniques, goodwill recognition, preparation of research and development (R&D) costs, inventory value, and financial account consolidation. Although these procedures may vary from one business to the next, all accounting procedures must adhere to generally accepted accounting principles (GAAP) and/or international financial reporting standards (IFRS). Accounting principles can be viewed as a framework that a business is supposed to operate inside. The framework is rather flexible, though, and the management team of a firm can decide on particular accounting practises that are helpful to the company's financial reporting (Onipe, Musa, & Isah, 2015). The unique practises of a corporation are very significant because accounting standards can be lax at times. Understanding a company's accounting practises might show if management is conservative or aggressive when declaring earnings. Investors should consider this when evaluating the quality of earnings by looking at earnings reports. In addition, external auditors should check the company's procedures to make sure they comply with GAAP when hired to analyse a company's financial statements (Okolie & Omoregie, 2014).

Inventory' Accounting Policies

The method a company will use to account for its inventory must be decided. On the company's taxable profit, the choice may have a significant impact. Several cost flow assumptions, estimations of the value of inventory losses, and accounting procedures for valuing inventory are used (Akintola & Chris, 2018).

Flow of Cost

A company is presumed to sell its oldest inventory first according to the first-in, first-out (FIFO) cost flow method. FIFO calculates a company's cost of goods sold, or COGS, using its lowest expenses because costs tend to increase over time. Profits are maximised, while the tax burden is largest. As prices are rising, last-in, first-out, or LIFO, minimises taxable profit, which has the opposite impact. The physical movement of inventory may differ significantly from cost flow predictions (Ahmad, Hashem, & Haydar, 2016).

Assessing Stock

Three methods are offered by the Internal Revenue Service to value a company's closing inventory. The ending inventory value under the cost method is equal to the initial value + inventory purchases less COGS. Instead, a business can employ the "lower of cost or market value" strategy, in which it deducts from the value of its inventory any products that don't bring in enough money to cover their cost (Agyei-Mensah, 2012). A LIFO cost flow assumption cannot be used in conjunction with this approach. The final option is the retail inventory approach, in which a business determines a cost-to-retail price ratio and uses the ratio to apply to sales to get COGS for the period. Widely accepted accounting rules require a corporation to match expenses with the income they earn and spend.

Accounts Receivable

It is a legally binding demand for payment by a business to its client or clients for items delivered and/or services provided in fulfilment of the client's order, according to Okolie and Omoregie (2014). These typically take the form of invoices that a firm issues and sends to the client for payment within a predetermined time limit. An asset on a balance sheet is represented by accounts receivable. The billing of a customer for the goods and services they have requested is dealt with through a number of accounting activities. They can be contrasted from notes receivable, which are obligations established by formal legal documents called promissory notes.

Accounting Policies on Receivables

Receivable accounts, according to Zaiyol, Andrew, and Udende (2017), are the company's claim to the assets of its clients. Many firms' current assets, which include receivables in significant amounts, are investments. On the other hand, Umobong (2015) describes receivables as "book debts" that the company anticipates collecting in the near future, and those receivables are sums of money owing to the company for a little period of time. Receivables are investments, according to Ugbede, Mohd, and Ahmad (2014), thus there shouldn't be too many or too few of them. Instead, the question to ask is if the rate of return that the company may expect from its receivables is at least as high as the possible profit from other obligations. According to Onipe, Musa, and Isah (2015), selling on credit becomes more profitable if it is possible to do so because it increases sales, earnings, and customer retention. As a result, businesses should sell more merchandise on credit than in cash. Yet, a company's ability to generate a profitable return on its investment in receivables depends on the number of credit sales, the length of the collection process, and the credit policy used.

Implications of Accounting Policies on Firm Performance

Onipe, Musa, and Isah (2015) added that if selling on credit is an option, doing so makes sense because it boosts profitability and sales while also retaining and attracting clients. Companies ought to sell more products on credit than cash as a result. The amount of credit sales, the duration of time it takes to collect them, and the credit policy used all affect a company's ability to make a profit on its invest in receivable.

Appropriate structure: Accounting policies effectively give businesses a structure to disclose their financial statements, ensuring that they adhere to a defined manner. Giving investors with a benefit Investors will have more faith in the company and the figures if it is disclosed to them that specific accounting principles have been followed, and the financial statements will be simpler to compare to those of other companies.

Disclosure

Companies must declare the accounting principles they employ, according to Umobong (2015). Companies should abide by proper disclosure standards, which are outlined in the policies' specific regulations for releasing information to investors.

Firm Performance

The phrase "firm performance" can refer to the operation of the firm as a whole as well as to organisational performance. According to Kamaruzaman, Mazlifa, and Maisarah (2017), a company's performance is measured by its "firm performance," which may depend on both the efficiency of the company and the market in which it competes. It is often referred to as the company's "financial stability" or "financial health" in the finance industry. The performance of a corporation can be assessed using a variety of financial metrics. Revenue, return on equity, return on assets, profit margin, sales growth, capital sufficiency, liquidity ratio, and stock prices are a few examples of common financial measurements (Kajola, 2008).

Return on Assets

An indication of a company's profitability in relation to its total assets is called return on assets (ROA). It provides a manager, investor, or analyst with insight into how well a company's management uses its resources to produce profits (Ibiamke & Ateboh-Briggs, 2014). According to Isenmila and Adeyemo (2013), return on assets (ROA) essentially indicates what profits were made from invested capital (assets). The ROA of publicly traded companies can vary significantly and is heavily influenced by the sector. This is why it is preferable to compare ROA when used as a comparative metric to a firm's historical ROA figures or to the ROA of a comparable company. According to Barako (2017), the ROA statistic gives investors an insight of how well the business converts the capital it invests into net income. The better the ROA number, the more money the business is making on less capital invested.

Empirical Review

A study of Nigerian company financial reports' comparability and accounting practises was conducted in 2014 by Okolie and Omoregie. Using a cross-sectional survey of the accounting practises of 12 companies listed on the Nigerian Stock Exchange, data was collected using this design (NSE). The study's analytical method was the chi-square statistic, and it was shown that accounting policies are consistent in their management, number of types offered, layout, and shape. Yet, the quality, disclosure, and content of their financial statements, as well as their overall accounting practises, are not consistent across all of them.

International Financial Reporting Standards and the financial performance of manufacturing enterprises in Nigeria from 2007 to 2016 were the subjects of a study conducted by Amaefule, Onyekpere, and Kalu (2018). The gathered data were analysed using descriptive analysis (mean) and inferential statistics (paired sample t-test). According to the analysis's findings, the adoption of IFRS in Nigeria has a little impact on a company's EPS but a considerable negative impact on its ROA.

The effect of IFRS implementation on the accountability of Nigerian firms was studied by Zaiyol, Andrew, and Udende (2017). In order to compare secondary data, annual reports of Nigerian companies were used, specifically the major financial statement content of earnings per share, profit for the year, and number of disclosures. The link between IFRS and NGAAP was examined using the Pearson correlation coefficient. The investigation's conclusions showed that there are statistically significant quantitative discrepancies between financial reports prepared under IFRS and SAS. A study on the implementation of IFRS and the usefulness of the financial statements of Nigerian listed banks was conducted in 2015 by Adebimpe and Ekwere. In their investigation, the authors used least-squares regression and descriptive statistics. The sample consists of 12 listed Nigerian banks, and it specifically used financial statement data from the pre-adoption years of 2010 and 2011 and 2012 and 2013. (the post-adoption period). The analysis's findings showed that under IFRS rather than the preceding Nigerian SAS, bank equity value and earnings are substantially more relevant to share prices. The results also showed that while book value of equity per share is progressively less value relevant throughout the post-IFRS period, earnings per share is incrementally more value relevant.

CONCLUSION

This research thus draws the conclusion that accounting policies on disclosure of inventory and receivables considerably affect the return on assets of enterprises in Nigeria based on the data. The following suggestions were made in response to the findings above: In order to always guarantee a low average day to sell inventory, the study advises managers of manufacturing enterprises to implement modern inventory forecasting methodologies that will assist them determine the optimal inventory levels to keep at any given time. The companies ought to automate their fundamental account receivable cycles. This is predicated on the idea that it can lower transaction costs and that many organisations can save a lot of money by automating account receivables processes.

RECOMMENDATIONS

The accounting regulatory authority should be tough in enforcing best practices as adopted to permit a clear comparison mechanism among businesses in the same industry, among other suggestions. In order to accurately assess the firm's performance over time, management of the company should also guarantee complete adherence to financial reporting.

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