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EFFECTS OF THE MANDATORY ADOPTION OF IFRS ON EARNINGS MANAGEMENT IN QUOTED MANUFACTURING COMPANIES IN NIGERIA

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ABSTRACT

Information contained in accounting reports is expected to reflect economic reality because virile economic decisions are based on accounting information. However, accounting reports sometimes, are distorted through earnings management with the aim to deceive users of the reports thereby, making accounting reports to be less dependable. This study examined the effects of the mandatory adoption of the IFRS on earnings management and also, the relationships between earnings management and performance indicators in quoted manufacturing companies in Nigeria. Financial statements for 2011 prepared under Nigerian Statements of Accounting Standards (SAS) and the restated 2011 financial statements using IFRS guidelines were used for the study to ensure effective comparison. In line with previous studies, discretionary accruals were used as earnings management variable, while, leverage, cash flow, growth, return on assets (ROA) and loss were performance indicators. The t-test statistic was used to test the hypothesis on the effects of the mandatory IFRS adoption on earnings management. Multiple regression was conducted to examine the relationship between earnings management and performance. The results showed that there is a significant difference in earnings management between pre and post adoption period of the IFRS in the manufacturing sector of the Nigerian economy. The results also revealed that there was an insignificant relationship between earnings management and the performance indicators before and after the mandatory adoption of the IFRS. It was recommended that regulatory authorities should increase supervision of financial reporting of quoted manufacturing companies in Nigeria.

KEYWORDS
IFRS, earnings management, financial performance, discretionary accruals.

JEL CODES
M41, M42, M48.

INTRODUCTION

Accounting information enables users of accounting reports to evaluate the performance of the firm in order to have a picture of how well or badly the firm is doing. Managers, therefore, owe it a duty to the various stakeholders especially, investors to prepare accounting reports that express the true and fair view of the business transactions for the period specified. As explained by Fisevora (2011), the information in accounting reports must show the economic reality 'faithfully'.

Sometimes, however, when businesses are doing badly, managers are tempted to use accounting techniques to enhance the apparent performance of the firm in an unjustified way (Jones, 2011). Flexibility in accounting rules allows management of various organizations to determine the direction of accounting reports by adopting accounting policies that serve the interest of management. Jones (2011) states that "managers may wish to use flexibility within accounting practices to serve a range of managerial interests by boosting profits or increasing assets through creative accounting". This is one of the reasons why different accounting information can be generated from the same business data. The adjustment of accounting figures in order to produce a desired earnings is earnings management. Rudra and Bhattacharjee (2012) state that the current idea among accountants, regulators and standard setters is that earnings management is detrimental as it deceives investors and reduces the dependability of financial reporting. Akenbor and Ibanichuka (2012), suggested harmonisation of Generally Accepted Accounting Practices (GAAP) as a means of curbing earnings management. Harmonisation of GAAP has been done by International Accounting Standards Board (IASB) by introducing International Financial Reporting Standards (IFRS) to replace GAAP of different countries.

Nigeria adopted IFRS for quoted companies in the year 2012 thereby making it mandatory for all quoted companies to prepare their financial reports in line with IFRS guidelines from 2012 financial year. Okafor and Ogiedu (2011) found evidence that IFRS have the potential for yielding greater benefits such as better information for equity holders and regulators, enhanced comparability and improved transparency of results than current GAAP, improve business performance management and impact on other business functions apart from financial reporting.

The introduction of IFRS is to improve the quality of financial reporting by providing greater disclosure, thus, improving accountability and transparency. Aker, Giacomino and Bellovary (2007) state that if earnings management is not explicitly prohibited, it means that anyone who uses information on short-term earnings is vulnerable to misinterpretation, manipulation or deliberate deception.

Onalo, Lizan and Kaseri (2014) examined the effects of changes in accounting standards on earnings management in Malaysia and Nigeria, the study, however, focused mainly on the banking industry. In addition, findings by previous researchers on the impact of IFRS on earnings management is contradictory, thereby making study on the subject inconclusive. While Jeno (2011) reported that earnings management reduced after the post-adoption period in Hungary, Xu (2014) found evidence that IFRS adoption did not reduce the level of earnings management but that earnings manipulation is intensified after the adoption of new accounting standards among United Kingdom private firms.

The fundamental objective of this study is to examine the difference in earnings management between pre and post mandatory adoption period of the IFRS in quoted manufacturing companies in Nigeria. The study focuses on the manufacturing sector because the sector is the engines of development for countries as it brings into existence outcomes of scientific discoveries, and also provides employment opportunities for greater number of members of the society.

CONCEPT OF EARNINGS MANAGEMENT

Earnings management could either be real earnings management or accrual-based earnings management. Doorn (2013) explains earnings management as a manager's choice of accounting policies or actions affecting earnings, so as to achieve some specifically reported objectives. On his part, Jones (2011) explains that managers do also go outside the rule to falsify records or even record fictitious transactions. Nejad, Zeynali and Alavi (2013) describe earnings management as the manipulation of reported earnings that will not represent economic earnings at every point in time. This means that earnings management involves adjustment of earnings to ensure that it reaches a desired level. On their part, Moehrle and Reynolds-Moehrle (2005) state that managers might increase earnings to reach benchmarks rather than reporting a net loss or decline relative to the same quarter of the prior year. These are real earnings management.

Earnings management can also be practiced by accruals. Accrual–based earnings management involves adjustment for earnings through discretionary actions taken by management in bringing some expenses not yet paid for into accounts or excluding certain expenses from the accounts of a particular year although, such expenses may be adjusted for in subsequent years.

In the view of Lev (1989), earnings indicate the extent to which a company has engaged in value-added activities and a signal that helps direct resources allocation in capital markets. Increased earnings represent an increase in company value. Graham, Harvey, and Rajgopal (2005) state that earnings management is an everyday process of corporate governance with excellent management during which management determines a reasonable budget.

Schippers (1989) state that un-managed earnings are noisy measures of a performance, and that managed earnings changes the properties of the noise, such as its amount, bias or variance. This view is supported by Arya, Glover and Sunder (2003) that in decentralized organisations, managed earnings stream can convey more information than unmanaged earnings since a smooth car ride is comfortable and reassures the passengers of the driver's expertise. Chen (2009) however, described earnings management as manipulation of the structure of equations in order to change the financial reporting. In this study, earnings management is liken to drug addiction which usually starts well but ends in disaster.

Whichever way earnings management is defined; it involves adjustment of real numbers either to favour manager's interests or to enhance company's value in the eyes of outsiders. Earnings management is like artist make-up that shows the fake beauty on one hand and ugliness in another.

AUDITOR'S ROLE IN EARNINGS MANAGEMENT

Auditors are believed to compromise when they discover earnings management. However, there are specified functions and responsibilities for auditors in the preparation and presentation of accounting reports. In addition, the auditor is limited by the rule of non-divulge of client's information except compelled by the Court. The role of management letters in the auditing procedure is important in this instance. The auditor is required to highlight his view about earnings management practices discovered in the course of audit in the management letter, although, the auditor also has the option of qualifying the audit report. Unfortunately, many users of financial reports do not take the time to read audit report even if it is qualified.

Prior researchers on earnings management, such as Doorn (2013) factored audit firms into their analyses of discretionary accruals. A dummy of 1 is used for the four leading firms usually called the 'big four' and 0 for others. It was suggested that the 'big' four audit firms are independent and will not compromise when earnings management is discovered in the course of their audit. The 'big four' audit firms in Nigeria are Akintola Williams, Deloitte & Touche; Price, WaterHouse, Coopers; Ernest & Young and KPMG Services. In this study, Audit firms were excluded from the analysis as it was found that almost all the quoted manufacturing companies in Nigeria are audited by the 'big four' audit firms as shown in the Appendix.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

From 2001, IASB assumed the accounting setting responsibilities by working actively with national standard setters to bring about the convergence of national accounting standards such as Nigerian Statements of Accounting Standards (SAS) and IFRS to high-quality solutions. According to Umoren and Ekwere (2015), as at December 2013, over 150 countries had adopted IFRS. IFRS as principle based standards are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities with specificity at the level of details sacrificed for clarity (BPP, 2012).

IFRS, therefore, requires the use of more professional judgment unlike the rules-based approach of many GAAP. The question is whether this approach has resulted in better quality financial reporting or not. Although Umoren and Ekwere (2015) report that the equity value and earnings of banks are relatively value-relevant to share prices under IFRS than under the previous Nigerian SAS and that earnings per share is incrementally value relevant during post-IFRS period, their study however, focused on the banking industry only. The banking industry is highly regulated than other sectors of the economy. The results may not be applicable to other sectors that are not as regulated.

On the basis of the above, the following hypotheses are formulated:

- H_{01}: There is no significant difference in earnings management between pre and post mandatory adoption period of the IFRS in quoted manufacturing companies in Nigeria.
- $H_{02:}$ There is no significant relationship between earnings management and financial performance of quoted manufacturing companies in Nigeria before the mandatory adoption of IFRS.
- $H_{03:}$ There is no significant relationship between earnings management and financial performance of quoted manufacturing companies in Nigeria after the mandatory adoption of IFRS.

PERFORMANCE MEASUREMENT

Operations of companies are not known until being evaluated. There are various indexes used to evaluate the performance of companies. In this study, five of such indicators are used.

LEVERAGE

Leverage represents the extent to which external financial assistance have been given to the company in relation to the companies' assets. It is the ratio of total liability of the company to its total assets. The higher the ratio, the lower the claim of ownership of the company by equity owners. Leverage is a veritable reason for the manipulation of accounting numbers. According to Duke and Hunt (1990) as cited in Xu (2014), leverage is a proxy for tightness of debt covenant restraints and the higher the leverage, the higher the probability for the firm to violate debt covenant. Consequently, firms with high leverage have the incentive to manipulate earnings to be favoured. Callao and Jarne (2010) supported this view that higher leverage causes greater earnings management.

CASH FLOW

Cash flow represents the actual cash generated from operations of the company. Net cash flow from operating activities as represented in the statement of cash flow is used for this study. Cash flow is included in the study because earnings equal cash flows plus accruals. Earnings are manipulated either through accruals or cash flows, (Liu, 2011).

GROWTH

Growth is the increase in the index used for its determination by the company in one year over another year. Growth is a variable used for performance differences. In this study, growth is determined as percentage change in revenue in the year under study over the preceding year revenue. Skinner and Sloan (2002) as cited in Xu (2014) argue that firms that experience growth engage more in earnings management because market have higher expectations for growing firms. Managers in such firms would want to report certain earnings to avoid disappointment from shareholders.

RETURNS ON ASSETS

Return on Assets (ROA) is a test of financial profitability of an enterprise. Financial profitability involves generation of revenues and controlling expenses. It is the combination of an ability to make a sale at a price that exceeds the total costs to the business. ROA is measured as a ratio of profit after Interest before tax to total assets. ROA is included because firms that have not been able to generate enough profit to cover the cost of assets may be tempted to engage in earning management.

LOSS

The income statements of companies compare revenue against expenses incurred in generating the revenue. The essence is to determine the reward for the efforts of the owners of the company. However, there are times when the expenses are more than the revenue resulting in a loss. Loss is therefore, depletion of equity-owners' fund. Loss incurring companies may want to engage in earnings management so as to impress the equity-owners.

THEORETICAL FRAMEWORK

AGENCY THEORY

One of the features of public limited liability companies is, the separation of ownership from management thereby creating a principal-agent relationship. The central idea behind the principal-agent model is that the principal is too busy to do a given job and so hires the agent and cannot also monitor the agent perfectly. This relationship, most often, results in a conflict of interest. Management may make self-interested decisions and manipulate information on performance through earnings management by presenting figures which the shareholders cannot easily verify (Eisenhardt, 1989). Beattie, Brown, Ewers, John, Manson, Thomas, and Turner (1994) state that 'a basic assumption in positive accounting theory is that agents are rational individuals concerned with furthering their own self-interest'.

INFORMATION THEORY

The important attribute of accounting numbers is their information content and it provides useful signals to stakeholders (Schipper, 1989). However, in some business relationships, one party may have information advantage over the other. Information asymmetry occurs when a party to a transaction has information advantage over the other party to the transaction. Vladu and Matis (2010) as cited in Fagbemi, Abogun and Salami (2013) argued that information asymmetry has the potential to explain the multiple incentives found on the financial market to manipulate accounting data and to assess the consequence of such behaviour. Ibiyeomie (2015) posited that information is the greatest asset of any decision-maker whether in business or individual endeavour; an uninformed mind is unusually deformed in decision-making.

RESEARCH METHODS

RESEARCH DESIGN

This study used the quasi-experimental design. This is considered most appropriate since the study evaluates the effects of IFRS on earnings management covering two periods; before and after the mandatory adoption. Asika (1991) states that quasi-experimental design is most appropriate when there is no variation group in the design and the group is compared only with itself.

DEFINITION OF VARIABLES AND MODEL SPECIFICATION

Based on prior studies, (Jones, 1991; Scholer, 2005), discretionary accruals is used as earnings management variable which is the dependent variable. Performance indicators employed as independent variables are leverage, cash flow, growth, return on assets (ROA) and loss. The modified Jones model was adopted for this study. Return on assets (ROA) was factored into the model in line with Kothari, Leone and Wasley (2005) modified Jones model.

To estimate discretionary accruals, total accruals using Kothari modified Jones model is first estimated as follows:

$$TA_{it} = \Delta\text{Non-cash Current Assets less } \Delta\text{Current Liabilities less depreciation} \quad - \;\; - \; - \qquad 1$$

The next step is to estimate non-discretionary accruals as follows:

$$NDA = \beta_0\frac{1}{A_{t-1}} + \beta_1\frac{\Delta REV_{it}}{A_{t-1}} + \beta_2\frac{PPE_{it}}{A_{t-1}} + \beta_3 ROA_{i,t-1} + v_{it} \quad - \quad - \quad - \qquad 2$$

The last step is to determine discretionary accrual as the difference between total accruals and non-discretionary accruals. The discretionary accruals is used to test hypothesis one. Discretionary accrual model is as follows:

$$DA_{it} = \frac{TA_{it}}{A_{t-1}} - \left[\frac{1}{A_{t-1}} + \beta_0\frac{1}{A_{t-1}} + \beta_1\frac{\Delta REV_{it}}{A_{t-1}} + \beta_2\frac{PPE_{it}}{A_{t-1}} + \beta_3 ROA_{it-1} + v_{it}\right] \quad - \quad - \quad - \qquad 3$$

Where TA_{it} is total accruals for firm i in year t; ΔNon-cash current assets is change in current assets less change in cash and cash equivalent; ΔCurrent liabilities is change in current liabilities; NDA is Non-discretionary accruals; and ΔREV_{it} is change in revenue divided by total assets in preceding year; PPE_{it} is net property, plant and equipment divided by assets in the preceding year; ROA_{it} is returns on assets in period t; A_{t-1} is total assets in the preceding year and v_{it} is error term.

In order to test hypotheses two and three, the following regression model was employed:

$$P_{it} = B_o + B_1 Leverage_{it} + B_2 Cashflow_{it} + B_3 Growth_{it} + B_4 ROA_{it} + B_5 Loss_{t-1} + v_{it} \quad - - - \qquad 4$$

Where P_{it} is the earnings management resulting from absolute value of discretionary accruals in $year_t$, $Leverage_{it}$ is ratio of total liability to total assets in $year_t$, $Growth_{it}$ is percentage change in revenues in $year_t$, $Cash\ flow_{it}$ is ratio of cash flow from operations in $year_t$ to total assets at the end of the year, ROA is ratio of profit after tax to total assets while loss is represented by 1 if the firm incurred loss in $year_{t-1}$ and 0 if no loss was incurred. The performance variables are used based on their roles in earnings management as explained in the conceptual framework.

SAMPLE SIZE AND SAMPLING PROCEDURE

Judgmental sampling was adopted in selecting the companies. Only companies that have adopted IFRS in the year 2012 and have filed their audited accounts with the Nigerian Stock Exchange (NSE) at the appropriate time were selected. A total of 20 companies met our need.

DATA COLLECTION

Secondary data was employed for the analysis. Audited financial statements of the companies for the year 2011 prepared under SAS and re-stated financial statements for 2011 prepared using IFRS guidelines were collected from Nigeria Stock Exchange (NSE). A total of 20 companies meet our definition for the analysis. This gives a 40 data year base. The years covered were the years the various companies changed from using SAS rules to using IFRS guidelines.

METHODS OF DATA ANALYSES

Descriptive and inferential statistics were employed in answering the research questions. In analysing the effect of IFRS on earnings management before and after the mandatory adoption of IFRS, t-test statistic was carried out on the discretionary accruals for the two periods. Relationships between earnings management and performance were determined using multiple regression and correlation analysis.

DATA ANALYSES, PRESENTATION AND INTERPRETATION

HYPOTHESIS 1

H_{01}: There is no significant difference in earnings management between pre and post mandatory adoption period of the IFRS in quoted manufacturing companies in Nigeria.

Based on equation 3, discretionary accruals for the two periods and the t-tests for hypothesis 1 is as presented in the Appendix.

INTERPRETATION OF RESULTS

Based on the SPSS results of the t-test, it was found that before the mandatory adoption of IFRS, manufacturing companies in Nigeria had a significantly lower earnings management of -0.437 ± 0.49 at the end of 2011 using Nigerian statements of accounting standards (SAS), compared to the value of -0.875 ± 0.44 at the beginning of 2012 using IFRS. $t(19) = 3080$, p-value = 0.006. Since the p-value is less than 0.05, the null hypothesis is rejected while the alternative hypothesis that there is a significant difference in earnings management is accepted.

HYPOTHESIS 2

$H_{02:}$ There is no significant relationship between earnings management and financial performance of quoted manufacturing companies in Nigeria before the mandatory adoption of IFRS.

Hypothesis 2 was analyzed using multiple regression to examine the relationship between earnings management and performance indicators as stated in equation 4 at 5% level of significance. Results of regression analysis carried out are as follows:

Regression Model 1

$P_{it} = -.434 + .576Leverage_{it} - .043Cashflow_{it} + .043Growth_{it} - 2.061ROA_{it} - .540Loss_{t-1}$

The *F-cal* of 0.916 is less than the *F-critical value* $f(5,14) = 2.96$. ($p = 0.499 > 0.05$). This shows that performance indicators used in the regression model is statistically insignificant in estimating the variation in the discretionary accruals. Since all the five independent variables are statistically insignificant in relation to discretionary accruals, the null hypothesis (H0) is accepted and it was concluded that there was insignificant relationship between earnings management and performance indicators used in this study in the Nigerian manufacturing sector before the mandatory adoption of IFRS.

HYPOTHESIS 3

$H_{03:}$ There is no significant relationship between earnings management and financial performance of quoted manufacturing companies in Nigeria after the mandatory adoption of IFRS.

The results of regression analysis carried out are as follows:

$P_{it} = -.497 - .110Leverage_{it} - 1.267Cashflow_{it} - 1.323Growth_{it} + .870ROA_{it} + .122Loss_{t-1}$

The *F-cal* of 1.231 is less than the *F-critical value f(5,14)= 2.96.* ($p = 0.346 > 0.05$). This shows that performance indicators used in the regression model is statistically insignificant in estimating the variation in the discretionary accruals. Since all the five independent variables are statistically insignificantly related to the discretionary accruals, the null hypothesis (H0) is accepted and it was concluded that there was insignificant relationship between earnings management and performance indicators used in this study in the Nigerian manufacturing sector after the mandatory adoption of IFRS

DISCUSSION OF THE FINDINGS

Based on the analysis of the research hypotheses, the following findings were made:

1. There is a significant difference in earnings management between the period before and after the mandatory adoption of IFRS by quoted manufacturing companies in Nigeria. Earnings management increased from an average of -0.4896 to -0.8750. This indicates that the mandatory adoption of IFRS has given more freedom to managers to engage in earnings management. This is in line with the findings of Xu (2014) that IFRS adoption does not reduce the level of earnings management but that earnings manipulation is intensified after the adoption of new accounting standards among UK private firms. Jeanjean and Stolowy (2008) also empirically found that the pervasiveness of earnings management did not decline after the introduction of IFRS, and in fact increased in France.
2 There is an insignificant relationship between earnings management and financial performance in quoted manufacturing companies in Nigeria before the mandatory adoption of IFRS. This means that performance indicators did not have strong influence on earnings management before the mandatory adoption.
3 There is an insignificant relationship between earnings management and financial performance in quoted manufacturing companies in Nigeria after the mandatory adoption of IFRS. This result indicates that pervasiveness of earnings management in quoted manufacturing companies in Nigeria is not strongly influenced by the performance variables employed in this study. Earnings management is likely to be influenced by other factors apart from leverage, cash flow, growth, ROA and loss.

CONCLUSION

It can be concluded that there is a significant difference in earnings management between the pre and post mandatory adoption periods of IFRS in quoted manufacturing companies in Nigeria. Earnings management increased after the mandatory adoption of IFRS. It was also revealed that there is an insignificant relationship between earnings management and performance of quoted manufacturing companies in Nigeria before and after the mandatory adoption of IFRS. This suggests that performance indicators used in this study have no strong bearing on earnings management in the quoted manufacturing companies in Nigeria, before and after the mandatory adoption of IFRS.

RECOMMENDATIONS

Findings from this study call for some recommendations.

1. Regulatory Authorities such as Financial Reporting Council of Nigeria (FRCN) should enforce total compliance with IFRS guidelines.
2. Members of top management of quoted manufacturing companies in Nigeria should be made to hold a minimum percentage of shares in companies they manage. This will reduce the conflict of interest between managers and shareholders.
3. Researchers in Nigeria should consider other performance indicators such as dividend per share, earnings per share and return on equity in examining the relationship between earnings management and performance.

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APPENDIX

TABLES

TABLE 1: LIST OF COMPANIES SAMPLED AND THEIR AUDITORS

COMPANIES	AUDITORS
1ST ALUMINIUM	BDO
BERGER PAINTS	Akintola Williams, Delloit & Touche
CHEMICAL & ALLIED	PWC
DANGOTE CEMENT	Akintola Williams, Delloit &Touche /Zakari
DANGOTE FLOUR	Akintola Williams, Delloit & Touche
DANGOTE SUGAR	Akintola Williams, Delloit & Touche
DN MEYER	Akintola Williams, Delliot & Touche
FLOUR MILLS	Akintola Williams, Delloit & Touche
GUINNESS	KPMG SERVICES
NATIONAL SALT	Akintola Williams, Delloit & Touche
NBL	KPMG Services
NESTLE	KPMG Services
NGC	Akintola Williams, Delliot
PAINTS & COATINGS	Olokun-Obafemi
PORTLANDS PAINTS	PWC
PZ CUSSON	PWC
UAC	PWC
UNILEVER	PWC
VITAFOAM	Akintola Williams, Delliot & Touche
VONO	Ernest & Young

TABLE 2: PRE AND POST ADOPTION DISCRETIONARY ACCRUALS

COMPANIES	PRE-NDA	PRE-DA	POST-NDA	POST-DA
1ST ALUMINIUM	0.59269585	-0.553198416	1.167621035	-1.15842436
BERGER PAINTS	0.477732045	-0.513386097	0.574021548	-0.780963248
CHEMICAL & ALLIED	0.299260526	-0.259827982	0.564060282	-0.506975549
DANGOTE CEMENT	0.722715472	-0.81317773	1.092581943	-1.128058203
DANGOTE FLOUR	0.341808721	-0.343591127	0.672795417	-0.676667067
DANGOTE SUGAR	0.478020091	-0.48580959	0.528210586	-0.548559386
DN MEYER	0.783316072	-0.800698767	0.748549924	-0.778792449
FLOUR MILLS	0.260462754	-0.054758103	0.404164639	-0.198459988
GUINNESS	0.655217652	-0.597330248	0.899511021	-0.841623617
NATIONAL SALT	0.407617261	0.522895053	0.788026426	-1.019702846
NBL	0.57687956	-0.6137455	0.911689019	-1.236360296
NESTLE	0.944973977	-1.006142555	1.192206823	-1.87730155
NGC	0.701269428	-0.631283883	0.858454308	-0.914015684
PAINTS & COATINGS	0.522766371	-0.522127806	0.467477112	-0.467027551
PORTLANDS PAINTS	0.389832126	-0.389902579	0.318688177	-0.318758629
PZ CUSSON	0.508249315	-0.318580873	0.535472929	-0.359308007
UAC	0.666131544	-0.733102992	1.647431358	-1.568011236
UNILEVER	0.703594534	-0.807288871	0.820145847	-0.929298566
VITAFOAM	0.646719046	1.081427968	0.602207369	-1.442110444
VONO	0.872638198	-0.90480363	0.916991704	-0.750351148
TOTAL		-8.744433729		-17.50076982
MEAN		-0.437221686		-0.875038491

PRE-NDA = Pre-Adoption non-discretionary accruals
PRE-DA = Pre-Adoption discretionary accruals
POST-NDA = Post-Adoption non-discretionary accruals
POST-DA = Post-Adoption discretionary accruals

Detailed Data Analysis of Hypothesis 1

T-TEST RESULTS

TABLE 3: PAIRED SAMPLES STATISTICS

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	PRE-ADOPTION DAit	-.4372	20	.49175	.10996
	POST-ADOPTION DAit	-.8750	20	.43664	.09764

TABLE 4: PAIRED SAMPLES TEST

	Paired Differences					t	df	Sig. (2-tailed)
				95% Confidence Interval of the Difference				
	Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1 PRE-ADOPTION DAit – POST-ADOPTION DAit	.43782	.63578	.14216	.14026	.73537	3.080	19	.006

Detailed Analysis of Hypothesis 2

TABLE 5: DESCRIPTIVE STATISTICS

	Mean	Std. Deviation	N
P_{it}	-.4896	.43683	20
LEVERAGE	.5352	.14339	20
CASHFLOW	.1213	.16148	20
GROWTH	.1814	.15122	20
ROA	.1255	.09233	20
LOSS	.2000	.41039	20

TABLE 6: CORRELATIONS

		Pit	LEVERAGE	CASH FLOW	GROWTH	ROA	LOSS
Pearson Correlation	P_{it}	1.000	.060	-.242	-.060	-.228	-.262
	LEVERAGE	.060	1.000	.093	-.012	-.036	.282
	CASHFLOW	-.242	.093	1.000	-.309	.577	-.024
	GROWTH	-.060	-.012	-.309	1.000	.109	.059
	ROA	-.228	-.036	.577	.109	1.000	-.437
	LOSS	-.262	.282	-.024	.059	-.437	1.000
Sig. (1-tailed)	P_{it}	.	.401	.152	.401	.166	.132
	LEVERAGE	.401	.	.349	.480	.441	.114
	CASHFLOW	.152	.349	.	.092	.004	.459
	GROWTH	.401	.480	.092	.	.324	.402
	ROA	.166	.441	.004	.324	.	.027
	LOSS	.132	.114	.459	.402	.027	.
N	P_{it}	20	20	20	20	20	20
	LEVERAGE	20	20	20	20	20	20
	CASHFLOW	20	20	20	20	20	20
	GROWTH	20	20	20	20	20	20
	ROA	20	20	20	20	20	20
	LOSS	20	20	20	20	20	20

TABLE 7: MODEL SUMMARY[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.496[a]	.246	-.023	.44175	.246	.916	5	14	.499	2.515

a. Predictors: (Constant), LOSS, CASHFLOW, LEVERAGE, GROWTH, ROA

b. Dependent Variable: Pit

TABLE 8: ANOVA[b]

Sum of Squares	Df	Mean Square
.894	5	.179
2.732	14	.195
3.626	19	

a. Predictors: (Constant), LOSS, CASHFLOW, LEVERAGE, GROWTH, ROA

b. Dependent Variable: Pit

Detailed Analysis of Hypothesis 3

TABLE 9: DESCRIPTIVE STATISTICS

	Mean	Std. Deviation	N
Pit	-.8750	.43664	20
LEVERAGE	.5452	.17272	20
CASHFLOW	.1343	.17782	20
GROWTH	.2118	.21849	20
ROA	.1244	.10567	20
LOSS	.2000	.41039	20

TABLE 10: MODEL SUMMARY[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.553[a]	.305	.057	.42393	.305	1.231	5	14	.346

a. Predictors: (Constant), LOSS, GROWTH, LEVERAGE, CASHFLOW, ROA

b. Dependent Variable: Pit

TABLE 11: ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.106	5	.221	1.231	.346[a]
	Residual	2.516	14	.180		
	Total	3.622	19			

a. Predictors: (Constant), LOSS, GROWTH, LEVERAGE, CASHFLOW, ROA

b. Dependent Variable: Pit

TABLE 12: CORRELATIONS

		Pit	LEVERAGE	CASHFLOW	GROWTH	ROA	LOSS
Pearson Correlation	Pit	1.000	-.013	-.196	-.385	-.285	.081
	LEVERAGE	-.013	1.000	.080	-.167	-.334	.273
	CASHFLOW	-.196	.080	1.000	-.371	.398	-.052
	GROWTH	-.385	-.167	-.371	1.000	.398	-.041
	ROA	-.285	-.334	.398	.398	1.000	-.361
	LOSS	.081	.273	-.052	-.041	-.361	1.000
Sig. (1-tailed)	Pit	.	.478	.204	.047	.111	.367
	LEVERAGE	.478	.	.369	.241	.075	.122
	CASHFLOW	.204	.369	.	.054	.041	.413
	GROWTH	.047	.241	.054	.	.041	.432
	ROA	.111	.075	.041	.041	.	.059
	LOSS	.367	.122	.413	.432	.059	.
N	Pit	20	20	20	20	20	20
	LEVERAGE	20	20	20	20	20	20
	CASHFLOW	20	20	20	20	20	20
	GROWTH	20	20	20	20	20	20
	ROA	20	20	20	20	20	20
	LOSS	20	20	20	20	20	20

TABLE 13: COEFFICIENTS[a]

		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	Pit	-.497	.403		-1.235	.237	-1.361	.366					
	LEVERAGE	-.110	.628	-.043	-.175	.864	-1.458	1.238	-.013	-.047	-.039	.803	1.245
	CASHFLOW	-1.267	.816	-.516	-1.552	.143	-3.017	.484	-.196	-.383	-.346	.449	2.227
	GROWTH	-1.323	.648	-.662	-2.041	.061	-2.714	.067	-.385	-.479	-.455	.471	2.122
	ROA	.870	1.532	.211	.568	.579	-2.416	4.156	-.285	.150	.126	.361	2.772
	LOSS	.122	.265	.115	.459	.653	-.447	.691	.081	.122	.102	.798	1.253

a. Dependent Variable: Pit

REQUEST FOR FEEDBACK

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