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EFFECT OF EARNINGS MANAGEMENT ON FINANCIAL PERFORMANCE: A STUDY OF MANUFACTURING FIRMS IN NIGERIA

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Abstract
This study determined the effect of earnings management on financial performance of manufacturing firms in Nigeria using discretionary accruals as the independent variable while return on equity and profit margin were used for financial performance. Ex-Post Facto research design was adopted for the study. Data were extracted from annual reports and account of the sampled manufacturing firms in Nigeria from 2012-2021. Regression analysis statistical tool was employed to test the hypotheses. This study revealed that discretionary accrual has a positive and significant effect on returns on equity and net profit margin. In conclusion, the study submits that earnings management has a positive effect on financial performance of manufacturing firms in Nigeria though the effect is not statistically significant. Based on the study findings, the study recommended that firms' management should decrease the cost of goods sold and reduce the research and development investment to boost the return on equity for the period.

Key words: Discretionary accruals, Return on equity and Profit margin

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Introduction

Earnings management according to Swai (2016) is the process of taking deliberate way within the constraints of generally accepted account principles to bring about asked position of reported earnings. Earnings management can also be the methodical misrepresentation of the true income and means of pots or other associations (Omoye & Eriki, 2014). According to Lu (1999) as cited in Yihui (2020) earnings operation is an account choice made by enterprise directors to maximize their own mileage or maximize enterprise value within the compass allowed by counting norms. Earnings management allows companies to produce accounts that flatter their 'financial performance' while still conforming to the Generally Accepted Accounting Principles (Ijeoma, 2014). According to Dechow and Skinner (2000), directors use Earnings operation conditioning to manipulate earnings and conceal real company performance and hide essential fiscal information.

Financial performance is the company's capability to manage and control its coffers (IAI, 2016). It's a measure of how well a establishment can use means from its primary mode of business to induce earnings (Abakasanga, Ogbonna, & Umobong, 2019). The position of an establishment performance is grounded on how effectively and efficiently a director utilizes coffers to achieve set objects in the discharge of their duties (Odiwo, Chukwuma & Kifordu, 2015). In the commercial world, fiscal performance is an indicator in determining the health of an association (Abraham, Zhang, Joseph, Agyemang & Ofori, 2021). Performance of enterprises is of vital significance for investors, stakeholders and frugality at large. For investors the return on their investments is largely precious, and a well performing business can bring high and long- term returns for their investors (Sidra & Attiya, 2013). This is in line with Yekira and Okeoma (2013) who were of the opinion that a business that's largely profitable has the capability to award its possessors with a huge return on their investment.

From the reviewed literatures, (and to the stylish of our knowledge), the effect of earnings management on fiscal performance using net profit margin (NPM) of enterprises in the manufacturing sector has not been sufficiently examined in Nigeria. Majority of the studies on manufacturing enterprises concentrated on its effect on return on asset (ROA), return on equity (ROE), earnings per share (EPS), and earnings before interest. Again the financial time of this study was extended to 2021 negative to previous studies whose fiscal period ended in 2019. This created a gap in literature which this study filled. In an attempt to filling the gap in literature, this study concentrated on all the manufacturing enterprises in Nigeria, as against previous studies that randomly selected the sampled firms. The Specific objectives of the study are to:

1. Determine the effect between discretionary accruals and returns on equity of manufacturing firms in Nigeria.
2. Ascertain the influence between discretionary accruals and profit margin of manufacturing firms in Nigeria.

REVIEW OF RELATED LITERATURE

Earnings Management

Earnings management is altering a company's earnings to make financial statements appear better than the real reports (Abraham, Zhang, Joseph, Agyemang & Ofori, 2021). Earnings management (EM) was described by Whittington and Delany (2013) as a fraudulent practice by one or further individualities among management, those charged with governance, workers, or third parties, involving the use of deception to gain an unjust or illegal advantage. The practice is generally used by directors to negotiate their individual and commercial

pretensions (Cohen & Zarowin, 2010; Zang, 2012; Omar, Rahman, Danbatta & sulaiman, 2014).

According to Egbunike and Udeh (2015); Okafor, Ezeagba, and Onyali (2018), the issue of earnings management is getting relatively rampant in associations and has gained so important significance throughout the world following notable failures of companies as Enron, WorldCom, Tyco, Cadbury Nigerian Plc, African Petroleum Plc, Lever Sisters Plc, and failed Banks in Nigeria.

Earnings Management and Financial Performance

Arguments have been raised that the magnitude of earnings management practices may impact firm performance (Abraham et al., 2021). Earnings management affects commercial firm performance and can indeed temper with shareholders wealth simply because it involves a deliberate altering of financial information to either mislead investors on the real profitable position of a establishment or to gain some contractual benefits that depend largely on counting figures (Healy & Wahlen, 1999). Several studies on the relationship between earnings management and financial performance have been carried out to determine the extent of the impact; the study by Reza and Tayebeh (2016) which was conducted in Iran, delved the relationship between the addendum- grounded earnings management and unborn financial performance of enterprises. The study set up that there's a significant relationship between addendum- grounded earnings operation and unborn fiscal performance. Okafor, Ezeagba, and Onyali (2018) studied the effect of Earnings management on the performance of commercial associations in Nigeria. The results showed that earnings operation has negative, but insignificant effect on the performance of commercial enterprises. The disquisition by Naila, Ahmad, and Mian (2014) on real Earnings operation and unborn Performance which was conducted in Pakistan provides substantiation that enterprises engaged in real earnings management (REM) conditioning through deals manipulation to report advanced earnings have worse financial performance in future. Amarjit, Nahum, Harvinder, and Neil (2013) examined Earnings operation, establishment Performance, and the Value of Indian Manufacturing enterprises and set up that the more violent the practice of earnings management, the lesser it’s adverse effect on commercial rate of return on means in the ensuing time. Phylice, Robert, and Ondiek (2021) delved the Influence of Earnings management on financial performance of Agricultural enterprises listed in Nairobi Securities Exchange, Kenya. The study set up out that earnings omanagement has a positive significant effect on financial performance.

Accruals Earnings Management (AEM)

Generally, addendum is defined as the difference between net income and factual cash inflow from operating conditioning (Olotu, Salawu, Adegbie, & Akinwunmi, 2019; Yihui, 2020). supplements are the most important earnings operation instruments that are used by directors to change reported income. This is because they are factors of earnings that aren't reflected in current cash overflows, and a great deal of directorial discretion goes into their construction (Bergstresser & Phillippon 2006). The aacrual conception is a pivotal account principle that requires companies to fete or admit income and expenditure particulars when the benefit is attained and the charges incurred rather than when the cash is paid or entered. This is one of the generally accepted account principles (GAAP) that directors take advantage of to increase or drop performance (Dechow & Skinner, 2000). Accrual control does not include changing the company's underpinning conditioning; rather, it involves opting account styles to reflect colorful conditioning carried out by the company (Abraham et al., 2021). According to Dechow and Skinner (2000) supplements operation involves choices within generally

accepted account principles (GAAP) that try to “obscure” or “mask” true profitable performance. Accruals earnings management means to manipulate the earnings through the application of counting principles handed by generally accepted account principles (Olaniyi & Abubakar, 2018).

Discretionary Accruals

According to EI Idrissi, Rigar, and Grine (2021) Discretionary Accruals (DA) is the difference between total accrual (TA) and the non- discretionary Accruals (NDA). Management accrual is also called abnormal supplements and it is the accrual part which involves the manipulation of account data (Rieke et al., 2020). The discretionary component of accruals provides management with the opportunity to manipulate earnings; they are used as a measure of earnings management (DeFond & Jimbalvo, 1994; Dechow, Sloan, & Sweeney, 1995; Bartov, Gul, & Tsui, 2001 Bowman & Navissi 2003). They are deduced from relinquishment of account practices that are outside the rules in the medication and donation of financial information to achieve an asked ideal (Apollos, Jerry, & Olajumoke, 2019). Discretionary accruals can be exploited by directors hence optional supplements are reserved as an index in the discovery of earnings management (Zhang & Abraham, 2020). According to Egbunike and Udeh (2015) Discretionary accruals represent voluntary adjustment.

Financial Performance

Financial Performance is a measure of how well an establishment can use means from its primary mode of business to induce earnings (Abakasanga, Ogbonna, & Umobong, 2019). It's used to describe the state of affairs of an establishment (Ironkwe & Emefe, 2019). The term is also used as a general measure of an establishment's overall financial health over a given period (Abakasanga, Ogbonna, & Umobong, 2019). In the commercial world, financial performance is an indicator in determining the health of an association (Abraham, Zhang, Joseph, Agyemang & Ofori, 2021). Judges and investors use financial performance to compare analogous enterprises across the same assiduity or to compare diligence or sectors in total (Investopedia, 2021). It tells investors about the general well- being of an establishment. It is a shot of its profitable health and the job its operation is doing. There are numerous stakeholders in a company, including trade creditors, bondholders, investors, workers, and operation.

According to Abraham et al. (2021) financial performance are measured in colorful ways, similar as shareholders' wealth maximization, profitability, and factors of financial statements including deals, means, liability and equity. In terms of dimension, several scholars measured fiscal performance else in their study Rieke, Sri, Juita & Dewi (2020) Measured financial performance by Return on Asset(ROA) and by Debt to Equity rate (DER); Rotcharin (2020) Measured financial performance by Return on means (ROA); Uadiale (2010) measured fiscal performance by return on equity (ROE) as the proportion of profit after duty to issued share capital and return on capital employed (ROCE) as the proportion of profit after duty to issued share capital plus reserves; Kechi (2011) measured financial performance by return on means (ROA) and profit periphery(PM); Fazlzadeh, Hendi, and Kazeem (2011) measured financial performance as the net income to total means and ordinary income to total means; Olaniyi and Abubakar (2018) measured financial performance by Return on Equity (ROE) and Earning per Share(EPS). For the purpose of this study, Return on Asset (ROA), returns on Equity (ROE), Earnings Per Share (EPS) and Net profit margin (NPM) were used as measures of financial performance.

Return on Equity (ROE)

Return on equity is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested (Anas, 2016). It is one of the all-time favorites and perhaps most widely used overall measure of corporate financial performance (Rappaport, 1986). Return on equity is measured by dividing net income by shareholders equity (Ding, Li, & Wu, 2018; Liu, 2019; Petitjean, 2019). In other words, Return on Equity indicates the amount of earnings generated by each dollar of equity. It can be a valuable insight into a company's operations (Adam, 2016). It demonstrates how beneficial an organization is, by expressing the measure of benefits an organization gets with its shareholders' investments (Abraham *et al.,* 2021). In general, the higher the Return on equity the better, as high Return on equity companies, all other things being equal, will produce more earnings and free cash flow that can be used to support a higher level of growth, keep the company financially strong, and provide cash returns to shareholders (Adam, 2016).

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Shareholders Equity}} \times 100\%$$

Net Profit Margin (NPM)

According to Tedi, Suharto, and Akhmad (2017), Profit Margin is a ratio that measures a company's ability to generate net profits at a predetermined level of sales. Net profit margin relates the net profit (net income) of the business to the sales revenue of the same period. That is, it measures the proportion or percentage of revenue (net sales) earned as net profit after deducting all expenses including interest and tax. Net profit margin is estimated by dividing net profit by Sales revenue. According to Davit, Alcina, and José (2016) net profit margin is the percentage of revenue remaining after all operating, interest, taxes and preferred stock dividends have been deducted from a company's total revenue. Davit *et al.* (2016) further argued that it is the best measure of profitability since it shows how good a company is at converting revenue into profits available for shareholders. Tedi *et al.* (2017) observed that this ratio allows users to interpret the company's ability to keep costs down for a certain period.

$$\text{Net profit margin} = \frac{\text{Net Income}}{\text{Sales revenue}} \times 100\%$$

Empirical Review

Abraham, Zhang, Joseph, Agyemang and Ofori (2021) examined accrual earnings management, real earnings management and firm performance of listed enterprises on the Ghana Stock Exchange. The study was grounded on a sample of 14non-financial enterprises listed on the Ghana Stock Exchange from 2008 to 2019. Descriptive statistics and Panel analysis was espoused for the study. Findings of the study revealed that enterprises use both addendum earnings and real earnings styles to manage earnings. Results further indicate that enterprises employ the effective conception of earnings operation to grease positive establishment performance. The study set up substantiation of a positive relationship between EM and firm performance. Rieke, Sri, Juita, and Dewi (2020) examined the effectiveness of firm performance and earnings management to stock prices. The study espoused the unproductive exploration design. The study was grounded on a sample of 22 enterprises listed on the Indonesia Stock Exchange under the consumption sector manufacturing companies for the period 2016- 2018. The data was anatomized using descriptive statistics and multiple retrogression fashion. firm performance uses profitability delegates measured through Return

on assets (ROA) and influence measured through Debt to Equity rate(DER), while the deputy for earnings operation used is the factual specific model, videlicet working capital supplements. The results of the study indicate that the performance of companies proxied through ROA and DER is suitable to have a significant positive effect on stock prices in registered manufacturing sector manufacturing companies on the Indonesia Stock Exchange. The results of this study prove that investors are veritably concerned about the information contained in the fiscal statements published by the company, especially information about gains or gains attained by the company and the debt used by the company for its operations, while earnings operation is suitable to give an influence but not significant on stock prices. Olaoye, and Akinleye (2020) examined the relationship between accrual- based earnings, real- based earnings operation and firm's value of listed manufacturing companies in Nigeria. The study was based on a sample of ten (10) intentionally named listed manufacturing firm on the Nigeria stock exchange for the period of ten (10) times (2008- 2017). The result revealed that accrual- based earnings operation measured by abnormal discretionary accrual earnings (ADA) was appreciatively related with the establishment's value captured by the return on equity (ROE) of the companies. On the other hand, the real- based earnings operation measured by abnormal cash inflow operation activities (ACF) was discovered to be negatively affiliated with the firm's value captured by return on equity. Hence, they concluded that the practice of earnings operation constructively benefits the manipulator of accounts. Rotcharin (2020) examined the Consequences of Real Earnings operation on unborn establishment Performance of Thai Listed Companies. The sample comprised Thai listed companies, Thailand with 2068 establishment- time compliances. Period of study was between 2013- 2017.). Data was anatomized using Descriptive statistics, Pearson correlation fashion and STATA software Real Earnings operation (REM) was proxied by deals manipulation, product manipulation, and optional charges manipulation while financial performance was measured using Return on means (ROA). The analysis of data drawn from Thai listed companies depicts that individual ways of real earnings operation significantly damage unborn performance. The findings hold constant over the robustness tests for deals manipulation and product manipulation. Wael and Mukdad (2019) examined firm performance and earnings management. The final sample was 52 enterprises listed on the Egyptian Stock Exchange from 2009- 2014. Descriptive Statistics and Retrogression analysis was used to dissect the data and in testing the thesis. Discretionary accrual was used to measure earnings operation, while earnings and cash overflows from operations are used as a deputy for firm performance. The results showed that, compared to enterprises with high performance, enterprises with low performance have lower retrogression measure of earnings on cash overflows. These results can be interpreted as indicating that low performance enterprises engage in further earnings operation (increase their earnings operation practices) than high performance enterprises. Ubesie, Ogbu, and Mbah (2019) examined the Effect of Accruals Earnings management on Share Price of Quoted Nigerian enterprises. The study adopted Ex-post facto exploration design. Data were sourced from the published checked financial statements and accounts of enterprises quoted on the Nigeria Stock Exchange (NSE). The study was grounded on a sample of ten (10) sectors intentionally tried for twelve (12) times (2006 – 2017). The study employed the panel least places while assuming fixed goods to test the effect of accrual- based earnings operation on share prices of the ten (10) sectors and performing in one hundred and fifteen (115) compliances. The findings of the study revealed that Discretionary Adjustment Accruals (DAA) been positive and significant conforms to previous studies that distinguish earnings operation based on optional supplements. This suggests that discretionary accrual adaptation provides directors in Nigerian quoted enterprises the openings to manipulate earnings and hence share prices. Okafor, Ezeagba, and Onyali (2018) examined the effect of Earnings operation on the

performance of commercial associations in Nigeria. The study espoused ex post factor exploration design in explaining the relationship between independent and dependent variables. The study was based on a sample of 17 enterprises quoted in the Nigerian stock exchange request under the consumer goods sector for the period 2010- 2014. They measured Earnings management by Non- discretionary accrual attained from modified Jones model and firm's performance estimated by return on shareholders' fund (ROSF), return on capital employed (ROCE), net profit after tax (PAT) and return on means (ROA). The study espoused Descriptive statistics and simple retrogression ways for analysis with the aid of Statistical Package for Social Science (SPSS) interpretation 20. The results showed that earnings operation doesn't ply significant influence on the performance of commercial enterprises in the Nigerian consumer goods sector. Sunardi (2018) empirically examined the effect of earnings management on establishment's value ahead and when IFRS perpetration was moderated by the life cycle of establishment. The study population was 127 manufacturing companies that go public and listed on the BEI 2010- 2016. The sample for the study were the 192 enterprises that completed their fiscal report in time 2010- 2016, fiscal report time 2010- 2011 (96 observation) was to explain before applying of IFRS while fiscal report (96 observation) time 2012- 2016 explained when operation of IFRS. The descriptive and retrogression results of the study revealed that before the perpetration of IFRS, earnings management had no effect on firm value. Still, the perpetration of IFRS showed that earnings operation had a positive and significant effect on firm value. It was farther discovered that deals growth and age of establishment strengthen the influence of earnings management on firm value before perpetration of IFRS. On the other hand, the chance variable of deals growth, capital expenditure value and age of establishment strengthens the influence of earnings operation on company value during company perpetration. Reza and Tayebeh (2016) examined the relationship between the addendum- grounded earnings operation and unborn fiscal performance of enterprises. The sample size of the study comported of 120 enterprises listed on Tehran stock exchange (TSE) Iran for the period 2006- 2013. Data was anatomized using the measure of central tendency similar as mean, standard and measures of statistical dissipation similar as standard divagation. The suppositions were tested using panel data retrogression model. The study, still, used return on asset (ROA) as a measure of performance while earnings management was proxied by addendum- grounded earnings operation, fiscal influence and firm size, and espoused Dechow model presented in 2002 in assessing the quality of supplements. The results showed that there's a significant relationship between accrual- based earnings operation and unborn financial performance. Based on the findings, it's recommended that unborn studies should also consider other variables similar as the return on equity (ROE) and profitable value added (EVA) as delegates for firm performance and examine their association with addendum- based earning operation. Also considering the circumstances governing some diligence, it feels applicable to examine the earnings management miracle with regard to the characteristics of diligence. Egbunike and Udeh (2015) examined The Effect of Earnings operation on Earnings and Bespeak- Value per Share of named Quoted Companies in Nigeria. The study espoused ex-post facto research design. The population of the study was drawn from 15 named companies under the Consumer Goods Companies and Empires section of the Nigerian Stock Exchange (NSE) for a period of 10 times (2004- 2013). The data was anatomized using descriptive statistics and Pooled Ordinary Least Places (POLS) retrogression. Earnings operation was estimated using Jones (1991) Model. The dependent variables were Earnings Per Share (EPS) and Bespeak Value Per Share (BVPS). The results show that for enterprises with high optional supplements, earnings operation appreciatively affects earnings per share; and, book value per share of the enterprises. Grounded on the findings, the study recommends the establishment and perpetration of programs and practices able of exposing directorial

exploitative practices aimed at investor deception and that can also dock earnings operation in Nigerians enterprises; and, the safeguard of investor return through the relinquishment and use of International Financial Reporting norms in other sectors. Ijeoma (2014) examined the effect of Earnings operation on the Nigerian banking assiduity. The study espoused Survey exploration design and collected data through the use of Primary source. The study was grounded on a sample of 50 repliers. The banks studied were First Bank, Guarantee Trust Bank, Access Bank and Sterling Bank. Statistical tools used to dissect the data were the Kruskal- Wallis test and the multiple bar map analysis. The result of the study revealed that the major reason for Earnings management practices in the Nigerian banking industry was to inflate the operating costs to reduce exposure to levies. It was further set up that other crucial reasons for Earnings operation practice in the Nigerian banking industry include to help maintain or boost the share price by reducing the apparent situations of borrowing, making the company appear subject to lower threat and of a good profit trend, to inflate the quantum of operating costs in order to reduce exposure to levies, to report a steady trend of growth in profit, rather than slow unpredictable gains with a series of dramatic rises and falls, and to effect changes in counting programs in order to discourage findings faults in the company's account system. It was observed that Earnings operation has significant impact on banks torture in Nigeria. It was further observed that effective measures can check the practice of Earnings operation in the Nigerian banking industry.

Methodology

The study adopted the *ex-post facto* research design. *Ex-post facto* research design is adopted because the study relied on historical accounting data obtained from annual reports and accounts of companies, and because the researcher is also interested in establishing the causal relationship between the dependent and independent variables.

The population of this study consists of the fifty-four (54) listed manufacturing firms on the Nigeria Exchange (NGX) Group as at the end of 2021 financial year.

The sample size of this study comprised of twenty-one (21) manufacturing firms listed on the Nigeria Exchange (NGX) Group as at the end of 2021 financial year. The study adopted the Purposive sampling technique to select manufacturing companies that consistently filed their annual reports with the Nigerian Exchange Group for the study period (2012-2021). The full list of the companies is show in appendix.

The data was extracted from the annual reports and statements of accounts of the selected companies. Specifically, the Statement of Financial Position and Statement of Profit or Loss and Comprehensive Income provided data in computing the selected ratios.

Method of Data Analysis

The study employed both descriptive and inferential statistical techniques to analyze the data. Descriptive statistic comprises measures such as the mean, median, standard deviation, minimum, and maximum values, Skewness, Kurtosis statistics. Inferential statistics of this study was carried out using regression analysis which was used to predict the value of a variable based on the value of the other variables.

Model Specification

In order to test for the relevance of the hypotheses regarding the effect of earnings management on financial performance of manufacturing firms listed on the Nigeria Exchange (NGX) Group, the models specified below were used to regress the data obtained for the

study. This study adopted the model of Abraham, Zhang, Joseph, Agyemang and Ofori (2021):

$ROE_{(i, t)} = \alpha_0 + \beta_1 DA_{(i, t)} + \beta_2 Leverage_{(i, t)} + \mu$………. i

$NPM_{(i, t)} = \alpha_0 + \beta_1 DA_{(i, t)} + \beta_2 Leverage_{(i, t)} + \mu$……… ii

Where:

$ROE_{(i, t)}$ = Returns on Equity of firm ί at time t
$NPM_{(i, t)}$ = Net profit margin of firm ί at time t
α_O = Constant
$\beta_1 - \beta_4$ = Coefficients of the regression
$DA_{(i, t)}$ = Discretionary Accruals of firm ί at time t
$Leverage_{(i, t)}$ = Leverage of firm ί at time t
μ = Error term

Discretionary Accrual

Total accruals are also the sum of discretionary accruals and nondiscretionary accruals. To calculate the discretionary accrual value, which is an indicator of earnings management, it is done by reducing the total accruals with non-discretionary accruals (Dechow, Sloan, & Sweeney, 1995).

Discretionary accrual is total accruals minus non-discretionary accruals i.e

$DACC_t = TACC_t - NDACC_t$

Discretionary accrual is total accruals minus non-discretionary accruals

$DACC_t = TACC_t - NDACC_t$ ---------------- - - - i

or

$DACC_t = \frac{TACC_t}{TA_{t-1}} - NDACC_t$

Where;
$DACC_t$ = Discretionary accrual
$TACC_t$ = Total accruals
$NDACC_t$ = Non-discretionary accrual

Decision Rule

Reject the null hypothesis and accept the alternative hypothesis, if the P-value of the test is less than 0.05 significant level.

Data Analysis

Table 1: Descriptive Statistics

	ROE	NPM	DA	LEV
Mean	0.655000	0.213000	0.196000	1.322000
Median	0.565000	0.195000	0.205000	1.130000
Maximum	1.620000	0.460000	0.280000	2.160000
Minimum	0.330000	0.020000	0.090000	1.010000
Std. Dev.	0.378601	0.154636	0.059852	0.368324
Skewness	1.813821	0.353986	-0.583679	1.304159
Kurtosis	5.359956	1.752559	2.321365	3.602075
Jarque-Bera	7.803822	0.857223	0.759696	2.985755
Probability	0.020203	0.651413	0.683966	0.224725
Sum	6.550000	2.130000	1.960000	13.22000
Sum Sq. Dev.	1.290050	0.215210	0.032240	1.220960
Observations	10	10	10	10

Source: E-Views 9.0 output, 2023

Interpretation

This study considered descriptive statistics (mean, standard deviation, minimum and maximum) for the panels for 210 observations (that is, 21 firms x 10 years). Averagely, the return on equity of the studied firms stood at 65.50%, having a minimum return on equity of 33%, a maximum ROE of 162% with a standard deviation of 0.3786. The NPM of sampled firms is 21.30% on the average with a minimum NPM at 2%, a maximum of 46% and a standard deviation of 0.1546. The mean financial leverage of the sampled firms is 1.3220.the maximum leverage incurred is 2.1600 with a minimum leverage level at 1.0100. The firm size indicated by the logarithm of total assets is averagely 9.6740 with a minimum of 9.2500 and a maximum of 10.0700.

Test of Hypotheses

Hypothesis One

Ho_1: There is a significant effect between discretionary accrual and returns on equity of manufacturing firms in Nigeria.

H_1: There is no significant effect between Discretionary accrual and returns on equity of manufacturing firms in Nigeria.

Table 2: Panel Least Square (PLS) regression analysis testing the effect of DA on ROE

Dependent Variable: ROE
Method: Least Squares
Date: 09/02/23 Time: 23:01
Sample: 2012 2021
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.500588	0.677753	0.738599	0.4842
DA	2.038218	2.216849	0.919421	0.3885
LEV	-0.185385	0.360232	-0.514625	0.6227

R-squared	0.144210	Mean dependent var	0.655000
Adjusted R-squared	-0.100301	S.D. dependent var	0.378601
S.E. of regression	0.397135	Akaike info criterion	1.234242
Sum squared resid	1.104011	Schwarz criterion	1.325018
Log likelihood	-3.171212	Hannan-Quinn criter.	1.134662
F-statistic	0.589790	Durbin-Watson stat	2.272685
Prob(F-statistic)	0.579809		

Source: E-Views 9.0, 2023

The regression output on the effect of discretionary accruals on return on equity as shown in table 2 reveals the beta coefficient (β), t-statistic and probability values of the variables. It could be inferred from table 2 that discretionary accrual (β_1) with correlation factor equals to 2.038218; t-statistic = 0.919421; p-value = 0.389 > 0.05). In the same vein, LEV has a beta coefficient (β_2) = -0.185385; t-statistic = -0.514625; p-value = 0.623>0.05). The drawn inference shows that DA positively but not significantly correlates with ROE; LEV has an inverse and non-significant relationship with ROE. The adjusted r-squared with 0.100301 shows that the independent and control variables (DA, LEV) has 10% effect on the dependent variable (ROE). The remaining 90% is by other factors not included in the model.

Following the p-value result of 0.579809 which is higher than 0.05 (5%), the null hypothesis (H_1) is rejected and the alternate hypothesis (Ho) therefore accepted implying that there is no

significant effect between discretionary accrual has a positive and significant effect on returns on equity of listed manufacturing firms in Nigeria at 5% significant level.

Hypothesis Two

Ho_2: There is a significant effect between discretionary accrual has no significant effect on net profit margin of manufacturing firms in Nigeria.

H_2: There is no significant effect between discretionary accrual and net profit margin of manufacturing firms in Nigeria.

Table 3: Panel Least Square (PLS) regression analysis testing the effect of DA on NPM

Dependent Variable: NPM
Method: Least Squares
Date: 09/02/23 Time: 23:14
Sample: 2012 2021
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.206495	0.290725	0.710278	0.5005
DA	0.452416	0.950925	0.475764	0.6487
LEV	-0.062155	0.154523	-0.402237	0.6995

R-squared	0.056087	Mean dependent var	0.213000
Adjusted R-squared	-0.213603	S.D. dependent var	0.154636
S.E. of regression	0.170352	Akaike info criterion	-0.458570
Sum squared resid	0.203140	Schwarz criterion	-0.367795
Log likelihood	5.292851	Hannan-Quinn criter.	-0.558151
F-statistic	0.207968	Durbin-Watson stat	1.887822
Prob(F-statistic)	0.817075		

Source: E-Views 9.0, 2023

The regression result in table 3 shows that the coefficient correlation of discretionary accrual (DA) (β_1) equals to 452416 with a probability value of 0.649. LEV (β_2) has a coefficient factor of -0.062155 with a probability value of 0.699. The association between the variables shows that DA positively but not significantly correlates with NPM; LEV negatively and significantly associates with NPM.

The adjusted r-squared of 0.214 shows that the independent and control variables (DA, LEV) has 21% influence on the dependent variable (NPM). The remaining 79% is caused by other factors outside the scope of this study. Considering the p-value = 0.649 which is higher than 0.05 (5%), the alternate hypothesis (Ho) is rejected and the null hypothesis (H_o) therefore accepted implying that there is no significant effect between discretionary accrual and net profit margin of listed manufacturing firms in Nigeria at 5% significant level,

Conclusion and Recommendations

This study assessed the effect of earnings management on financial performance of listed manufacturing firms in Nigeria. This study obtained data from annual reports and account and publications from the Nigerian Exchange Group for the manufacturing firms that operated during 2012-2021. In addition, the correlation of specific earnings management such as discretionary accrual and dependent variable measures such as returns on equity and net profit margin were assessed. Regression analysis was employed. This study revealed that discretionary accrual has a positive and significant effect on returns on equity, and net profit margin. The result of this study is in consistent with the results of Parwar, Hussain, Abdul-Waheed, Qaisar and Mehboob (2021); Kuncara, Djuminah, Arifah, Goestjahjanti & Kiswanto

(2023), but negates the works of Al-Duais, Mazrah, Mohammad and Almasawa (2022). In conclusion, the study submits that earnings management has a positive effect on financial performance of manufacturing firms in Nigeria though the effect is not statistically significant. Based on the study findings, the study recommended that;

i. Enterprises' operation should drop the cost of goods vended and reduce the exploration and development investment to boost the return on equity for the period.
ii. Considering the positive relationship between optional supplements and net profit margin, commercial directors have to nicely apply earnings operation for duty savings, provision of positive information to investors, easier access to needed capital, and stability of a company's gains and losses over a sustained period.

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