IJAAR PUBLISHING®

Open Access Journal of Management Sciences Research | ISSN: 3027-1975
Vol. 3, Issue 2 (2025) | www.ijaar.org

EARNINGS MANAGEMENT AND FINANCIAL PERFORMANCE OF LISTED INDUSTRIAL GOODS MANUFACTURING FIRMS IN NIGERIA

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Abstract
This study examined the effect of earnings management on the financial performance of listed industrial goods manufacturing firms in Nigeria. The specific objectives were to determine the effect of real income smoothing, artificial income smoothing, and discretionary accruals on the ROE of listed firms. The study adopted an ex-post facto research design, with a population of 12 firms and a purposive sample of 9 consistently listed firms covering the period 2015–2024. Secondary data were obtained from audited annual financial statements, and hypotheses were tested using panel regression analysis after conducting descriptive statistics. The findings reveal that: real income smoothing has a negative and significant effect on the return on equity of listed industrial goods manufacturing firms in Nigeria (β = −0.000040, p = 0.0000); artificial income smoothing has a positive but non-significant effect on the return on equity of listed industrial goods manufacturing firms in Nigeria (β = 0.002714, p = 0.1434); discretionary accruals has a negative and significant effect on the return on equity of listed industrial goods manufacturing firms in Nigeria (β = −0.107676, p = 0.0000). In conclusion, while earnings management may serve short-term managerial objectives of impression management, its long-term implications are adverse to shareholder wealth maximization and the integrity of financial reporting within Nigeria's industrial goods manufacturing sector. The study recommends that audit committees of listed firms should strengthen oversight of accrual-based adjustments to ensure they reflect genuine economic activity rather than opportunistic reporting, thereby safeguarding financial statement credibility while allowing flexibility for legitimate accrual estimations.

Keywords: Earnings Management, Financial Performance, Real Income Smoothing, Artificial Income Smoothing, Discretionary Accruals

Okeke, O. N., Ekwunife, E. N., & Akaegbobi, T. N. (2025). Earnings Management and Financial Performance of Listed Industrial Goods Manufacturing Firms in Nigeria. *Open Access Journal of Management Sciences Research. 3*(2), 69-93. DOI: https://doi.org/10.5281/zenodo.17447851

1.0 Introduction

The global business environment has witnessed significant transformations in the last few decades, driven largely by technological advancements, financial market reforms, globalization, and regulatory changes. These shifts have affected how firms operate, report their financial performance, and respond to competitive and investor pressures. Financial reporting, in particular, plays a pivotal role in ensuring transparency, accountability, and the efficient allocation of resources in an economy (Dimitrov, 2024). In fact, accurate and reliable financial statements are essential for decision-making by various stakeholders, including investors, creditors, regulators, and the general public (Mesioye & Bakare, 2024). However, the integrity of financial reports has increasingly come under scrutiny due to manipulative accounting practices that compromise the quality and reliability of reported figures. One of the most controversial issues confronting the financial reporting domain today is the practice of earnings management (Kamau & Murori, 2024). In many jurisdictions, including Nigeria, earnings management has become a critical area of concern, particularly among firms in sectors characterized by capital-intensive operations, complex accounting systems, and volatile market conditions, such as the industrial goods manufacturing sector.

The incidence of earnings management in today's business environment has sparked intense debate among academics, practitioners, and regulators (Safari, Arabzadeh & Farzinfar, 2024). According to Abdullah (2025), earnings management refers to the manipulation of financial records within the boundaries of accounting standards to present an overly favorable image of a company's financial performance or position. Unlike outright fraud, earnings management operates in the gray areas of financial reporting, exploiting the loopholes and ambiguities in accounting regulations to mislead stakeholders. While some argue that earnings management is a strategic financial management tool that enhances firm valuation and investor appeal (Ajinwo & Nwaba, 2024), others contend that it is a deceptive practice that undermines corporate transparency and ethical standards (Ikeokwu, Micha & Umobong, 2024). In recent years, several corporate scandals across the globe—including the infamous Enron and WorldCom cases—have demonstrated the devastating consequences of earnings management practices on corporate sustainability and investor trust. In Nigeria, the challenge is even more pronounced due to relatively weak institutional and regulatory frameworks, inadequate enforcement mechanisms, and limited corporate governance effectiveness. The increased complexity of financial instruments, combined with management's quest to meet market expectations, has made earnings management a recurring issue in the financial reporting process.

Earnings management is not a new phenomenon, but its relevance has intensified in contemporary financial management practices (Kamau & Murori, 2024). Thus, management may be tempted to employ earnings management techniques to manipulate earnings, smooth income, defer liabilities, or overstate assets (Safari, Arabzadeh & Farzinfar, 2024). For example, companies may adopt aggressive revenue recognition policies, manipulate depreciation methods, reclassify operating expenses, or engage in off-balance-sheet financing to inflate their financial performance metrics (Imo, 2022; Odugbemi & Adegboyegun, 2023). These practices, though often within the limits of accounting regulations, distort the true picture of financial health and may have far-reaching implications for the firm's long-term viability and stakeholder confidence (Abdullah, 2025). The manipulation of earnings, in particular, raises fundamental concerns about the reliability of financial statements and the effectiveness of internal control systems.

The effect of earnings management on financial performance is a complex and multidimensional issue that demands critical attention. Financial performance, typically

measured using indicators such as return on assets (ROA), return on equity (ROE), net profit margin, and earnings per share (EPS), reflects the ability of a firm to utilize its resources efficiently and generate sustainable profits (Barak & Sharma, 2024; Khushboo, Manish, Rashmi, Praveen & Anjali, 2025). However, when earnings management practices are used to artificially enhance these indicators, the financial statements may no longer reflect the underlying economic reality of the firm (Kamau & Murori, 2024). In the short term, firms may benefit from inflated profits, improved stock prices, or enhanced investor perceptions. However, the long-term consequences can be detrimental, including reputational damage, reduced investor confidence, regulatory sanctions, and eventual financial distress. For instance, firms that engage in income smoothing or earnings management may mask underlying operational inefficiencies, leading to suboptimal resource allocation and flawed strategic decisions.

Moreover, Ikeokwu, Leyira, and Umobong (2024); Oyewobi and Omorogbe (2024) and Mensah, Ruby, Osei, Bashiru, and Agyemang (2024) argued that earnings management may weaken the effectiveness of corporate governance structures, as boards and audit committees may become complicit or unable to detect subtle manipulations in the financial reports. Despite the adoption of International Financial Reporting Standards (IFRS), which aim to enhance transparency and comparability in financial reporting, the persistence of earnings management practices in the Nigerian corporate domain indicates a gap between regulatory intent and actual practice. Financial reporting ought to serve as a true and fair representation of a firm's financial position and performance. The principles of transparency, accountability, and accuracy are put in place to guide the preparation of financial statements, ensuring that stakeholders such as investors, creditors, regulators, and management have access to reliable information for sound decision-making. When accounting practices adhere strictly to established standards such as the International Financial Reporting Standards (IFRS), financial reports become an essential tool for evaluating firm performance, assessing operational efficiency, and determining the viability of investments.

However, there is a growing prevalence of earnings management practices in Nigeria that undermine the integrity of financial reporting (Ajinwo & Nwaba, 2024). Rather than presenting financial statements based on the actual financial realities of the firm, many corporate entities engage in the manipulation of accounting figures to project an exaggerated or misleading image of financial performance. Managers often exploit the loopholes in accounting standards to engage in earnings management, income smoothing, aggressive revenue recognition, and asset overstatement—all in a bid to meet profit targets, attract investors, or avoid regulatory scrutiny. In Nigeria's industrial goods manufacturing firms, this issue is exacerbated by harsh economic conditions, inadequate enforcement of regulatory standards, and weak internal control systems. Consequently, reported financial performance metrics may be inflated or distorted, creating a disconnect between reported figures and actual firm productivity.

The continued application of earnings management practices poses significant threats to the financial health and sustainability of listed manufacturing firms in Nigeria. It erodes investor confidence, distorts market valuations, and compromises the credibility of financial statements (Safari, Arabzadeh & Farzinfar, 2024). In the long run, these practices can result in poor investment decisions, resource misallocation, regulatory sanctions, and reputational damage. Furthermore, stakeholders who rely on manipulated financial reports may be misled into believing that firms are performing optimally when, in fact, they are financially vulnerable. This deception can lead to financial losses for investors, deteriorating corporate governance standards (Khaleel & Ibrahem, 2024), and reduced economic competitiveness of

the industrial goods manufacturing sector. If left unchecked, the widespread use of earnings management could weaken the overall financial reporting framework in Nigeria and hinder sustainable development in the manufacturing industry.

The empirical literature on the effect of earnings management on financial performance has predominantly focused on sectors like banking, consumer goods, and general manufacturing. However, the specific impact on industrial goods manufacturing firms in Nigeria remains underexplored. While scholars such as Ozondu, Iwara, Okeke, Udefi, Romaine, Chinweuba, and Chukwunwike (2025), Ikeokwu, Leyira, and Umobong (2024), and Ajinwo and Nwaba (2024) have examined earnings management in manufacturing firms, no study has specifically focused on industrial goods manufacturing firms in Nigeria. Moreover, while the role of income smoothing, discretionary accruals, and artificial income smoothing has been examined in other sectors, the use of artificial income smoothing in the industrial goods sector remains a gap. Only Edem (2024) has explored artificial income smoothing, but that study focused on the banking sector, and Iredele, Adeyeye, and Owoyomi (2022) examined it within the consumer goods sector. Furthermore, studies like Umoh (2025), Ikeokwu, Micha, and Umobong (2024), and Oyewobi and Omorogbe (2024) have focused on data up until 2023, with no research covering the 2024 accounting year. As a result, the impact of earnings management practices on industrial goods manufacturing firms in Nigeria remains inadequately addressed, particularly in relation to the 2024 period. Thus, this study aims to fill this gap by examining the effects of real income smoothing, artificial income smoothing, and discretionary accruals on the return on equity of listed industrial goods manufacturing firms in Nigeria, with an emphasis on the 2024 accounting year-end.

1.1 Objectives of the Study

The main objective of the study is to examine the effect of earnings management on financial performance of listed industrial goods manufacturing firms in Nigeria. The specific objectives are:

1. To determine the effect of real income smoothing on the return on equity of listed industrial goods manufacturing firms in Nigeria.

2. To ascertain the effect of artificial income smoothing on the return on equity of listed industrial goods manufacturing firms in Nigeria.

3. To analyse the effect of discretionary accruals on the return on equity of listed industrial goods manufacturing firms in Nigeria.

1.2 Research Hypotheses

H01. Real income smoothing has no significant effect on the return on equity of listed industrial goods manufacturing firms in Nigeria.

H02. Artificial income smoothing does not significantly affect the return on equity of listed industrial goods manufacturing firms in Nigeria.

H03. Discretionary accruals do no significantly affect the return on equity of listed industrial goods manufacturing firms in Nigeria.

2.0 Review of Related Literature

2.1 Conceptual Review

2.1.1 Earnings management

Earnings management refer to the deliberate manipulation of financial reporting by management within the framework of accounting principles or standards, with the intention of presenting a distorted but seemingly legitimate view of a company's financial performance or position (Kamau & Murori, 2024). According to Khaleel and Ibrahem (2024), these practices are not necessarily illegal, as they often fall within the flexibility allowed by accounting standards, but they are ethically questionable and can significantly undermine the transparency and reliability of financial information. Earnings management involves exploiting loopholes, ambiguities, and estimation choices in accounting regulations to achieve desired financial results, often aimed at misleading stakeholders such as investors, regulators, or creditors (Abdullah, 2025). In essence, earnings management is a means by which firms attempt to manipulate perceptions of profitability, liquidity, or solvency by shifting earnings, altering asset valuations, or misstating liabilities (Safari, Arabzadeh & Farzinfar, 2024). The motive is typically to meet earnings forecasts, maintain stock prices, comply with debt covenants, or mask poor operational performance. While these practices may help companies meet short-term objectives, they often compromise long-term financial integrity and can lead to significant consequences when true financial realities eventually emerge. Importantly, earnings management exploits the subjective nature of certain accounting decisions—such as depreciation methods, asset impairments, or accrual estimations—to manipulate outcomes while technically remaining compliant with standards (Khaleel & Ibrahem, 2024).

Earnings management is a growing concern among regulators and stakeholders because it blurs the line between legitimate accounting discretion and unethical financial engineering. It poses a threat to financial market integrity and undermines investor confidence by distorting the true economic value of firms (Kamau & Murori, 2024). The application of earnings management practices becomes particularly pronounced in highly regulated environments or industries experiencing financial stress, where firms are under pressure to maintain favorable appearances. Although external auditors serve as a check against aggressive accounting, some creative practices remain difficult to detect without forensic investigation. Thus, earnings management practices represent a strategic manipulation of accounting information to serve managerial objectives, rather than faithfully representing economic reality (Abdullah, 2025). While such practices might not always violate the letter of the law, they often contradict the spirit of transparent financial reporting. Consequently, they raise ethical concerns and pose significant risks to financial performance assessment, stakeholder trust, and corporate sustainability.

2.1.2 Income Smoothing

Income smoothing is an accounting strategy employed by management to reduce fluctuations in reported earnings across different accounting periods, with the aim of presenting a more stable and predictable financial performance to external stakeholders (Umoh, 2025). This practice is based on the belief that stakeholders—particularly investors and analysts—prefer companies that report consistent earnings over time rather than volatile or erratic financial results (Ajinwo & Nwaba, 2024). Income smoothing is not necessarily illegal, as it can be achieved within the boundaries of acceptable accounting choices. However, it becomes problematic when it is used to mask actual economic performance or manipulate stakeholder perceptions. The central idea behind income smoothing, according to Al-Daoud, Darwazah, Al-Khoury, Ismail, Qteish, and Al-Hawary (2023), is to shift revenues and expenses from one

period to another to reduce the variability in earnings. Companies may delay recognizing income in periods of high profitability or accelerate expense recognition in profitable years to even out future earnings. Alternatively, firms may postpone the recognition of expenses or accelerate revenue recognition in underperforming years to boost earnings figures (Odugbemi & Adegboyegun, 2023). This simulated redistribution of income and expenses does not reflect actual business operations or financial conditions but serves the purpose of creating a façade of financial stability and managerial competence.

Income smoothing often exploits the subjectivity inherent in accounting estimations and judgments (Umoh, 2025). Techniques commonly used for income smoothing include changes in depreciation methods, bad debt provisions, warranty liabilities, and deferred revenue recognition. While such techniques may comply with accounting standards, their use for the sole purpose of manipulating earnings consistency constitutes a form of earnings management. The practice can mislead stakeholders into making uninformed investment or lending decisions, especially when the smoothed earnings figures fail to reflect the underlying business risks or opportunities. The implications of income smoothing are far-reaching. While it may temporarily boost investor confidence and stabilize stock prices, it can undermine the credibility of financial statements if discovered. Moreover, it can conceal performance issues that need managerial attention, thereby impairing long-term decision-making and resource allocation (Umoh, 2025). Regulators and analysts often scrutinize patterns of income smoothing to assess the quality of earnings and the integrity of financial disclosures. Firms that habitually engage in income smoothing may ultimately face reputational damage and regulatory consequences if the practice is deemed deceptive. In essence, income smoothing is a deliberate effort to manipulate the perception of financial stability by adjusting the timing of revenue and expense recognition (Imo, 2022). Although often subtle and legal, it raises concerns about financial statement reliability and the ethical conduct of corporate reporting practices.

2.1.2.1 Real Income Smoothing

Real income smoothing refers to the deliberate managerial actions taken through real operational or economic activities to reduce fluctuations in reported earnings over time, thereby presenting a more stable financial performance to stakeholders (Huang, Zhang, Deis & Moffitt, 2009). Unlike manipulations rooted in accounting estimates or reporting techniques, real income smoothing is grounded in substantive business decisions that directly affect the firm's operations and cash flows (Ibrahim, Abdelfattah & Hussainey, 2020). Managers adopt real income smoothing practices to adjust the actual timing or magnitude of business transactions such as production, sales, investment, or research and development, with the aim of influencing the income stream in a way that appears consistent and predictable across accounting periods. The essence of real income smoothing lies in its economic nature, where managerial decisions are intentionally structured to achieve a desired financial reporting outcome (Firmansyah & Herawaty, 2019). These decisions are not inherently fraudulent or deceptive but are often motivated by the desire to manage investor perceptions, fulfill earnings expectations, or meet internal performance targets. By influencing the actual business environment, managers can stabilize earnings patterns without violating accounting standards or regulatory frameworks. For example, management may accelerate or delay discretionary expenditures, adjust pricing strategies, or shift production schedules to modulate revenue and expense recognition, thereby producing smoother reported earnings.

2.1.2.2 Artificial Income Smoothing

Artificial income smoothing refers to the strategic use of accounting methods and discretionary financial reporting techniques to reduce apparent fluctuations in reported earnings, without altering the firm's underlying economic or operational activities (Huang, Zhang, Deis & Moffitt, 2009). Unlike real income smoothing, which involves modifying actual business transactions, artificial income smoothing is concerned with how income is measured, classified, and reported in the financial statements (Ibrahim, Abdelfattah & Hussainey, 2020). This concept centers on manipulating the accounting process by adjusting accruals, changing depreciation policies, or deferring revenue and expense recognition, all aimed at presenting a steady stream of profits across different reporting periods. The meaning of artificial income smoothing is deeply rooted in the flexibility inherent in accounting standards, which allow managers certain discretionary powers over the application of estimates and judgments (Firmansyah & Herawaty, 2019). Through these flexibilities, managers can subtly shift income and expenses between periods to minimize visible earnings volatility. Such practices are often motivated by the desire to meet earnings benchmarks, sustain investor confidence, secure managerial bonuses, or signal financial health to external stakeholders. The essence of artificial income smoothing lies in its accounting-driven nature, whereby reported earnings are shaped not by real changes in business performance but by variations in how financial transactions are interpreted and recorded.

2.1.3 Discretionary Accruals

Discretionary accruals refer to the portion of accounting accruals that are subject to management judgment and estimation, rather than being dictated by routine or automatic accounting procedures (Ikeokwu, Leyira & Umobong, 2024). These accruals arise when managers exercise discretion in applying accounting policies, particularly in estimating certain financial items such as provisions, reserves, or depreciation. Unlike non-discretionary accruals, which are determined by standard accounting rules and reflect the normal operations of a business, discretionary accruals are influenced by managerial decisions and are therefore open to manipulation (Ikeokwu, Micha & Umobong, 2024). The concept of discretionary accruals is closely tied to the idea that financial reporting is not purely objective but contains areas where subjective interpretation plays a role (Hlawiczka, Blazek, Santoro & Zanellato, 2021). This discretion allows managers some latitude in how earnings are reported, especially when it comes to timing and recognition of revenues and expenses. While such discretion is often necessary to capture economic reality accurately, it can also be misused to serve managerial interests, such as meeting earnings targets, smoothing income, or influencing market perceptions.

Discretionary accruals are central to studies of earnings management and financial reporting quality, as they provide a mechanism through which managers can alter reported earnings without making actual changes to the underlying economic transactions (Hlawiczka, Blazek, Santoro & Zanellato, 2021). For instance, management might accelerate expense recognition in a strong financial year to reduce taxable income or delay it in a weaker year to improve profitability metrics. Though these choices might comply with accounting standards, their discretionary nature makes them a potential tool for earnings management. Because discretionary accruals do not stem from genuine changes in the business environment or actual cash flows, they often raise concerns among investors, regulators, and auditors about the credibility of reported financial statements (Ikeokwu, Leyira & Umobong, 2024). Excessive use of discretionary accruals may indicate that a company's earnings are being artificially manipulated and may not be a true reflection of economic performance. This can

undermine the decision-making processes of stakeholders who rely on financial reports to assess the firm's financial health and future prospects.

2.1.4 Financial Performance

Financial performance refers to the overall measure of how effectively a business utilizes its resources to generate income, manage costs, and create value for its stakeholders over a given period (Nworie, Onyeka & Anaike, 2023). It is an indicator of the financial health and operational efficiency of a firm, providing a quantitative basis for assessing how well a business achieves its economic objectives. Financial performance encompasses various dimensions, including profitability, liquidity, solvency, and operational efficiency, each reflecting different aspects of an entity's financial condition and viability (Ezuwore & Agbo, 2020). In essence, financial performance represents the end result of managerial decisions and strategies implemented within a business (Barak & Sharma, 2024). It is typically evaluated through key financial metrics derived from the income statement, balance sheet, and cash flow statement, which collectively provide hints on how resources are being allocated, how revenues are earned, and how expenses are managed. A high level of financial performance implies that the firm is achieving its financial goals, sustaining profitability, and efficiently utilizing its assets to maximize returns for owners and shareholders (Khushboo, Manish, Rashmi, Praveen & Anjali, 2025).

Financial performance is a critical benchmark for both internal and external stakeholders. Internally, it serves as a tool for management to measure success (Ajinwo & Nwaba, 2024), set targets, and make strategic decisions. Externally, investors, creditors, regulatory bodies, and other interested parties rely on financial performance data to make informed decisions regarding investment, lending, and compliance (Muojekwu, Ochuka & Nworie, 2025). The quality of financial performance can significantly influence market perceptions, stock prices, and access to capital, thereby affecting a company's competitive position and long-term sustainability (Obi & Nworie, 2024). Thus, financial performance is a multidimensional concept that captures how well a business executes its operations and strategic goals in financial terms (Ezuwore & Agbo, 2020). It serves as a crucial indicator of business success and a foundation for evaluating managerial effectiveness (Barak & Sharma, 2024). High financial performance is essential for business growth, investor confidence, and the long-term economic value of an enterprise in a dynamic and competitive environment.

2.1.5 Return on Equity

Return on Equity (ROE) is a financial performance ratio that measures the ability of a company to generate profit from its shareholders' equity (Oyewobi & Omorogbe, 2024). It is an indicator of how efficiently a firm utilizes the funds invested by its owners to create earnings. Expressed as a percentage, ROE reflects the proportion of net income returned as profit for every unit of equity held by shareholders (Okeke & Nworie, 2025), thereby serving as a benchmark for evaluating the profitability and value creation capacity of a company from the perspective of its investors (Umoh, 2025). At its fundamental level, ROE encapsulates the relationship between a company's profitability and the equity capital provided by shareholders (Imo, 2022). It indicates how well a company is using its equity base to generate earnings growth. A high ROE suggests that the firm is effectively turning investment capital into profits, which is generally a sign of strong financial performance and sound managerial efficiency. Conversely, a low ROE may indicate underperformance, poor asset utilization, or operational inefficiencies (Oyewobi & Omorogbe, 2024). ROE is particularly important in assessing the attractiveness of a firm to current and potential investors, as it provides a clear picture of the returns they are receiving relative to their equity stake. It is a key determinant

of shareholder value and is often used by investors to compare profitability across firms or sectors (Umoh, 2025). Moreover, ROE can help identify trends over time, revealing whether a company is improving its financial performance or facing challenges in maintaining profitability. In essence, return on equity is a vital indicator of financial efficiency and investment value, highlighting the degree to which a firm is able to convert shareholders' equity into net earnings (Imo, 2022). It serves as a critical measure of financial performance, investor satisfaction, and long-term value creation in corporate finance.

2.2 Theoretical Framework

2.2.1 Agency Theory

The theoretical underpinning for this study is anchored on Agency Theory, which was first propounded by Jensen and Meckling in 1976 (Ikeokwu, Micha & Umobong, 2024). The theory emerged from the field of economics and finance, focusing on the relationship between principals (owners or shareholders) and agents (managers) in a firm. Agency theory was developed to address the issues that arise when the interests of the agent differ from those of the principal (Ezuwore & Agbo, 2020). It was originally conceived to explain how contractual relationships could be designed to minimize the conflicts that stem from goal divergence and asymmetric information between owners and managers in business organizations (Aggreh, Nworie & Abiahu, 2022).

Agency Theory is of the view that agents do not always act in the best interest of principals, especially when their goals and incentives are not aligned (Ikeokwu, Micha & Umobong, 2024). The theory assumes that managers, being rational and self-interested actors, may engage in opportunistic behavior to maximize their personal utility rather than the firm's overall value. One of the central assertions of the theory is the problem of information asymmetry, whereby agents possess more information about the firm's activities than the principals, making it difficult for the latter to monitor and evaluate managerial performance effectively (Ezuwore & Agbo, 2020). To mitigate such agency problems, mechanisms such as financial reporting, auditing, performance-based compensation, and corporate governance systems are recommended by the theory.

The relevance of agency theory to this study lies in its ability to explain why earnings management practices such as real income smoothing, artificial income smoothing, and discretionary accruals may be adopted by managers of listed industrial goods manufacturing firms. These practices often arise as a consequence of agency conflict, where managers manipulate financial reports to meet performance targets, enhance their personal rewards, or influence stakeholders' perceptions. Since the return on equity is a major performance indicator monitored by shareholders, managers may exploit accounting flexibility to artificially boost this metric. Thus, agency theory provides a robust theoretical lens to understand how and why such manipulations occur in the financial reporting environment, and how they ultimately impact the financial performance of firms. It helps to contextualize the study's focus on examining the effect of earnings management practices on the return on equity, thereby offering a foundational basis for interpreting the behavioral motivations behind accounting choices.

2.2.2 Positive Accounting Theory

Positive Accounting Theory (PAT) was developed by Ross L. Watts and Jerold L. Zimmerman in their seminal work titled "Towards a Positive Theory of the Determination of Accounting Standards" published in 1978 (Zimmerman, 2024). This theory emerged as a response to normative accounting approaches, which focused on prescribing what accounting

practices ought to be (Osho & Ayorinde, 2018). Instead, PAT aimed to explain and predict actual accounting practices based on empirical observations. It marked a shift towards understanding the motivations behind management's accounting choices within the real-world context of economic and contractual relationships.

Positive Accounting Theory's assumptions are rooted in the idea that managers choose accounting policies that best serve their own interests, particularly in the presence of contracts, regulations, and compensation structures (Zimmerman, 2024). The theory identifies three primary hypotheses: the Bonus Plan Hypothesis (managers manipulate earnings to increase bonuses), the Debt Covenant Hypothesis (firms use accounting choices to avoid violating loan covenants), and the Political Cost Hypothesis (large firms manage earnings to avoid attracting political attention or regulatory scrutiny). PAT suggests that accounting choices are not neutral but are influenced by incentives and economic consequences (Nasution, Putri, Muda & Ginting, 2020).

In the context of this study—the effect of earnings management on the financial performance of listed industrial goods manufacturing firms in Nigeria—Positive Accounting Theory provides a solid foundation. It helps explain why managers of these firms may engage in earnings management practices to influence reported financial performance. For instance, in order to meet profit targets, secure loans, or enhance market valuation, managers may manipulate earnings through discretionary accruals or other accounting techniques. PAT thus offers a theoretical lens to understand how such behavior can impact the perceived and actual financial performance of firms (Osho & Ayorinde, 2018), especially in a regulatory environment like Nigeria's where enforcement may vary across sectors.

2.3 Synthesis of Empirical Review

A critical synthesis of related empirical studies reveals a complex and often contradictory relationship between earnings management (creative accounting) and financial performance across sectors and countries. In Nigeria's manufacturing sector, several studies indicate that discretionary accruals and income smoothing practices negatively influence firm performance. For instance, Ikeokwu, Leyira, and Umobong (2024) and Ikeokwu, Micha, and Umobong (2024) found that discretionary accruals reduce both return on assets (ROA) and firm value, while Ozondu et al. (2025) noted that income smoothing does not significantly affect investor value unless moderated by profitability. In contrast, Ajinwo and Nwaba (2024) observed that both income smoothing and aggressive earnings management significantly influence financial performance in Rivers State manufacturing firms. These mixed findings suggest that while some forms of earnings management may not directly harm performance, their effect depends on firm profitability, industry conditions, and governance quality. Moreover, Imo (2022) and Iredele, Adeyeye, and Owoyomi (2022) confirmed that income smoothing and asset revaluation can enhance short-term profitability, implying that some firms manipulate earnings to attract investors and maintain competitive advantage.

Comparative studies in the financial sector highlight a similar inconsistency in outcomes. For example, Umoh (2025) and Isoso and Okee (2022) found that income smoothing and inventory manipulation positively affect shareholder wealth, while Umoh and Nwobodo (2024) reported no significant effect of creative accounting variables like ROE and inventory manipulation on earnings per share (EPS). Oyewobi and Omorogbe (2024), examining Nigerian banks, noted that non-performing loans and capital adequacy ratios significantly influence ROE, suggesting that internal risk management interacts with creative accounting to determine performance outcomes. Meanwhile, Adeyeye (2020) and Okoye and Obioma

(2020) found that asset structure and equity capital had an insignificant relationship with profitability but emphasized corporate governance as a vital control mechanism. These findings collectively imply that while creative accounting may yield temporary financial benefits, weak governance and regulatory gaps exacerbate its long-term negative effects on performance.

Studies from other developing contexts, such as Rahman et al. (2023) in Bangladesh and Al-Daoud et al. (2023) in Jordan, provide valuable comparative insights. Both studies showed that income smoothing and earnings management significantly affect financial performance, though Rahman et al. (2023) added that such practices enhance reporting quality but harm decision-making effectiveness. Similarly, Mensah et al. (2024) found in Ghana that creative accounting reduces profitability despite positive influences from firm size and sales growth, reinforcing the argument that managerial manipulation undermines sustainable financial outcomes. Abdurrahmani and Doğan (2021), examining Kosovo firms, also reported a negative impact of creative accounting on corporate performance, emphasizing the moderating role of ethical management and regulated audit practices. These international findings align with Ezuwore and Agbo (2020) and Odo and Ugwu (2020) in Nigeria, who concluded that creative accounting distorts transparency and misleads investors, resulting in reduced operational performance and poor decision-making.

A sectoral comparison also reveals that the manufacturing and industrial sectors are not immune to the ethical and operational risks associated with earnings management. Odugbemi and Adegboyegun (2023) found a positive effect of income smoothing on shareholder wealth in non-financial firms, while Al-Daoud et al. (2023) and Edem (2024) reported mixed results regarding fair value reserves and profitability in industrial firms. Olajide, Temitope, and Helen (2023) and Oluwaseun et al. (2023) extended the discussion by showing that accrual quality and tax evasion—forms of earnings manipulation—affect solvency and sustainability, particularly in SMEs. The results from Nwobodo (2021) and Ukpe, Thomas, and Lawrence (2021) also underscore that creative accounting practices, including fraudulent reporting and tax avoidance, significantly influence bank growth and shareholder wealth. Together, these studies highlight that while creative accounting may provide short-term liquidity or cosmetic performance boosts, it poses long-term threats to solvency, stakeholder trust, and firm sustainability.

Synthesizing these empirical findings, it becomes evident that the effect of earnings management on financial performance in Nigeria's industrial goods manufacturing sector depends on contextual factors such as firm size, profitability, and governance mechanisms. While some studies (e.g., Imo, 2022; Ajinwo & Nwaba, 2024) suggest a positive link between income smoothing and profitability, others (e.g., Ikeokwu, Leyira & Umobong, 2024; Ikeokwu, Micha & Umobong, 2024) demonstrate significant negative outcomes when earnings management becomes excessive or opportunistic. The moderating role of profitability, as shown by Ozondu et al. (2025), and the mitigating influence of ethical management (Abdurrahmani & Doğan, 2021) indicate that the ultimate effect of creative accounting is not uniform. Rather, it depends on whether such practices are used to strategically manage volatility or to deceive stakeholders.

Thus, the reviewed studies collectively suggest that earnings management exerts a dual effect—beneficial in the short term but detrimental to long-term performance, transparency, and investor confidence. Evidence from Odo and Ugwu (2020), Ezuwore and Agbo (2020), and Mensah et al. (2024) demonstrates that manipulative reporting undermines credibility and

market stability, while findings from Odugbemi and Adegboyegun (2023) and Umoh (2025) show potential positive outcomes under robust managerial and governance structures. Consequently, for listed industrial goods manufacturing firms in Nigeria, regulatory enforcement, transparent reporting, and corporate ethics remain essential in balancing managerial discretion and sustainable financial performance.

2.4 Gap in Literature

Although several scholars including Ozondu et al. (2025), Umoh (2025), Ikeokwu, Leyira, and Umobong (2024), Ikeokwu, Micha, and Umobong (2024), Oyewobi and Omorogbe (2024), Ajinwo and Nwaba (2024), Al-Daoud, Darwazah, Al-Khoury, Ismail, Qteish, and Al-Hawary (2023), Olajide, Temitope, and Helen (2023), Oluwaseun, Akingbade, Aribaba, and Ahmodu (2023), Odugbemi and Adegboyegun (2023), Imo (2022), Isoso and Okee (2022), Ukpe, Thomas, and Lawrence (2021), Adeyeye (2020), and Okoye and Obioma (2020) have made valuable contributions to the growing body of literature on earnings management and financial performance, a notable gap remains unaddressed in the context of listed industrial goods manufacturing firms in Nigeria. While these studies have broadly examined earnings management through proxies such as income smoothing and discretionary accruals across diverse sectors—ranging from banking, consumer goods, and SMEs to general corporate entities—very few have explored the role of artificial income smoothing as an earnings management practice, particularly in the industrial goods sector. Only Edem (2024), who focused on the banking sector, and Iredele, Adeyeye, and Owoyomi (2022), who examined consumer goods firms, have incorporated artificial income smoothing in their analysis, leaving a critical knowledge gap within industrial goods manufacturing firms. Furthermore, existing studies predominantly cover periods up to 2022 or 2023, with no study yet extending to the 2024 accounting year-end. This temporal gap highlights the contemporary relevance of this study in offering updated empirical hints into how real income smoothing, artificial income smoothing, and discretionary accruals influence return on equity in Nigeria's listed industrial goods manufacturing sector.

3.0 Methodology

This study adopted an ex-post facto research design to examine the effect of earnings management on the financial performance of listed industrial goods manufacturing firms in Nigeria. An ex-post facto design is appropriate because it investigates variables that have already occurred and cannot be manipulated by the researcher (Ikwuo et al., 2025; Elom et al., 2025). The population of this study comprised all industrial goods manufacturing firms listed on the NGX as at December 2024. A total of 12 firms make up this population, as shown in Table 3.1.

Table 3.1 Population of the Study

1. Austin Laz & Company Plc.
2. Berger Paints Plc.
3. Beta Glass Plc.
4. BUA Cement Plc.
5. Cap Plc.
6. Cutix Plc.
7. Dangote Cement Plc.
8. Greif Nigeria Plc.
9. Lafarge Africa
10. Meyer Plc.

11. Premier Paints Plc.
12. Tripple Gee And Company Plc.

Source: Nigerian Exchange Group (2024)

A purposive sampling technique was employed to select 9 firms from the population. Purposive sampling ensures the deliberate inclusion of firms that were listed as at 2015 and have consistently published complete annual reports up to 2024. This sampling approach guarantees data availability and reliability across the study period. The selected firms are presented in Table 3.2.

Table 3.2 Sample of the Study

1. Tripple Gee And Company Plc.
2. Meyer Plc.
3. Lafarge Africa
4. Dangote Cement Plc.
5. Cutix Plc.
6. Cap Plc.
7. Beta Glass Plc.
8. Berger Paints Plc.
9. Austin Laz & Company Plc.

Source: Author's Compilation (2025)

The study obtained secondary data obtained from the annual audited financial statements of the selected firms covering the period 2015–2024. These reports, publicly available on the NGX database and firm websites, provide credible information on net income, cash flows from operations, property, plant, and equipment, and shareholder equity. Secondary data is particularly appropriate because it reduces biases associated with primary data collection and ensures uniformity in measurement across firms and years.

The study focuses on three independent variables—real income smoothing, artificial income smoothing, and discretionary accruals—representing dimensions of earnings management, with return on equity (ROE) as the dependent variable.

Real income smoothing is measured through abnormal cash flow from operations (AbnCFO), which reflects deviations in cash flow from the expected relationship with net income. The formula, adapted from Ruiz (2023), is stated as:

Real income smoothing $\frac{Operating\ \ cashflow}{Net\ Profit}$

A significantly high or low ratio suggests manipulation of operational activities to reduce earnings volatility.

Artificial income smoothing is computed by comparing the variability of net income with that of operating cash flows, following Shu and Thomas (2015) and Rasoulkhani and Blue (2024). The formula is:

Artificial income smoothing = $\frac{Standard\ \ deviation\ \ (Net\ Profit)}{Standard\ \ deviation\ \ (Operating\ \ cashflow)}$

If AIS<1, it indicates net income is smoother than operating cash flows, suggesting accounting-based smoothing.

Discretionary accruals are estimated using the Beneish and Vargus (2002) model, which distinguishes normal from abnormal accruals. The steps include:

i. Total Accruals (TA):

$Ta_t = (\text{Net Income})_t - (\text{Operating cashflow})_t$
ii. Normal Accruals: Estimated using regression:

$Tat = \alpha + \beta 1 \Delta REVt + \beta 2 PPEt + \epsilon t$
Where:

$\Delta REVt$ = Change in revenue

PPEt = Property, plant, and equipment

iii. Discretionary Accruals (DA):

$DA_t = TA_t - NormalAccrual_t$
This measure (scaled to asset) captures the extent of managerial discretion in reporting earnings.

ROE is used as the proxy for financial performance, reflecting the return generated on shareholders' investments. It is computed as:

ROE = Net Income/ Equity
ROE is preferred because it reflects profitability in relation to equity financing, aligning with investor perspectives.

Table 3.3 Summary of Variable Measurement

Variable	Formula/Measurement	Source
Real Income Smoothing (RIS)	$\frac{Operating\ cashflow}{Net\ Profit}$	Ruiz (2023)
Artificial Income Smoothing (AIS)	$\frac{Standard\ deviation\ (Net\ Profit)}{Standard\ deviation\ (Operating\ cashflow)}$	Shu & Thomas (2015); Rasoulkhani & Blue (2024)
Discretionary Accruals (DA)	Total accruals−Normal Accruals	Beneish & Vargus (2002)
Return on Equity (ROE)	Net Income/Equity	Researcher's Compilation (2025)

Source: Author's Compilation (2025)

The study formulated a regression model to test the effect of earnings management on financial performance. The model is specified as:

$ROEit = \beta 0 + \beta 1 RISit + \beta 2 AISit + \beta 3 DAit + \epsilon it$_____eqi
Where:

ROEit = Return on equity of firm i in year t

RISit = Real income smoothing for firm i in year t

AISit = Artificial income smoothing for firm i in year t

DAit = Discretionary accruals for firm i in year t

β0 = Intercept

β1,β2,β3 = Coefficients of predictors

єit = Error term

Data analysis involves both descriptive and inferential statistics. Descriptive analysis (mean, median, standard deviation, skewness, kurtosis) provides an overview of variable distributions. Inferentially, panel regression techniques are employed to test the hypotheses. The analysis was executed using EViews software, ensuring robustness and reliability. Hypotheses was tested at the 5% level of significance. The decision rule is as follows:

- If p-value < 0.05, reject the null hypothesis, indicating a significant effect of the earnings management variable on ROE.
- If p-value ≥ 0.05, fail to reject the null hypothesis, suggesting no significant effect.

4.0 Data Analysis

4.1 Descriptive Analysis of Data

Table 4.1 Descriptive Analysis

	ROE	RIS	AIS	DA
Mean	0.166906	23.39898	0.940973	0.546298
Median	0.131151	0.973512	0.805697	0.371581
Maximum	1.144347	2044.330	14.95342	1.951167
Minimum	-0.883717	-144.5121	-34.00866	-0.167642
Std. Dev.	0.245575	216.2041	4.611347	0.579124
Skewness	0.134734	9.221734	-4.237946	0.678476
Kurtosis	8.701959	86.74298	39.41686	2.244970
Jarque-Bera	122.1936	27573.93	5242.606	9.042719
Probability	0.000000	0.000000	0.000000	0.010874
Sum	15.02151	2105.908	84.68754	49.16684
Sum Sq. Dev.	5.367330	4160237.	1892.542	29.84928
Observations	90	90	90	90

Source: Eviews Output 2025

The descriptive statistics of **Return on Equity (ROE)** in Table 4.1 reveal that listed industrial goods manufacturing firms in Nigeria generated an average ROE of 16.7% during the study period, suggesting that, on average, firms were able to earn positive returns on shareholders' equity. However, the minimum value of -0.88 shows that some firms recorded significant losses relative to equity, while the maximum ROE of 1.14 indicates that others achieved exceptional profitability. The standard deviation of 0.25 suggests moderate variability in ROE across firms and time. The skewness value of 0.13 indicates a fairly symmetric distribution of returns, though the high kurtosis of 8.70 points to the presence of

extreme outliers. This is further supported by the Jarque-Bera probability of 0.000, which confirms that ROE is not normally distributed. Overall, the statistics suggest that while the average firm generated healthy equity returns, performance varied widely across the sector.

For **Real Income Smoothing (RIS)**, the average ratio of operating cash flow to net profit stood at 23.40, as shown in Table 4.1, implying that, on average, firms reported significantly higher operating cash flow relative to accounting profits. However, the extreme maximum value of 2044.33 and the minimum of -144.51 suggest wide fluctuations, possibly reflecting differences in firms' operating efficiency, timing of cash collections, or the extent of real activities manipulation. The high standard deviation of 216.20 confirms the high variability in RIS across firms. A skewness of 9.22 and kurtosis of 86.74 reveal a distribution that is heavily skewed and sharply peaked due to outliers, indicating that some firms engaged in unusually aggressive or unusual real income smoothing practices. The Jarque-Bera probability of 0.000 validates the non-normality of the data, reinforcing that RIS practices among firms are inconsistent and extreme in nature.

The descriptive results for **Artificial Income Smoothing (AIS)** in Table 4.1 indicate that the average ratio of the standard deviation of net profit to that of operating cash flow was 0.94, suggesting that, on average, firms' reported earnings fluctuated less than cash flows, consistent with income smoothing behavior. The maximum value of 14.95 highlights instances where reported profits were substantially more stable relative to volatile cash flows, while the minimum of -34.01 reveals cases of extreme instability in earnings relative to cash flows. The large standard deviation of 4.61 confirms that AIS varied considerably across firms. The negative skewness of -4.23 indicates a distribution skewed to the left, meaning more firms had extreme negative AIS values. The kurtosis of 39.42 further suggests the presence of sharp peaks and heavy tails in the distribution, pointing to extreme smoothing behavior by some firms. With a Jarque-Bera probability of 0.000, the AIS data significantly deviates from normality, underlining that artificial smoothing practices are highly irregular across the sample.

In the case of **Discretionary Accruals (DA)**, Table 4.1 shows a mean value of 0.55, indicating that, on average, a moderate level of accruals unrelated to normal operations was present in firms' financial statements. The maximum discretionary accrual of 1.95 suggests instances of high earnings management through accruals, while the minimum of -0.17 reflects cases where firms reduced reported earnings through negative accruals. The standard deviation of 0.58 indicates that the level of discretionary accruals varied moderately across firms. A skewness of 0.68 suggests a positive skew, meaning more firms exhibited higher-than-average accrual manipulation. The kurtosis value of 2.24, being close to the normal benchmark of 3, suggests that the DA distribution is moderately peaked, with fewer extreme outliers compared to RIS and AIS. The Jarque-Bera probability of 0.0109, however, indicates that the distribution is not perfectly normal, though the deviation from normality is less severe compared to other variables.

4.2 Test of Hypotheses

Table 4.2 presents the regression analysis of the effect of earnings management practices proxied by real income smoothing (RIS), artificial income smoothing (AIS), and discretionary accruals (DA), on the return on equity (ROE) of listed industrial goods manufacturing firms in Nigeria between 2015 and 2024. The model was estimated using panel EGLS.

Table 4.2 Regression Analysis

Dependent Variable: ROE
Method: Panel EGLS (Cross-section weights)
Date: 08/19/25 Time: 23:28
Sample: 2015 2024
Periods included: 10
Cross-sections included: 9
Total panel (balanced) observations: 90
Linear estimation after one-step weighting matrix
White cross-section standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RIS	−0.000040	7.58E-06	-5.295594	0.0000
AIS	0.002714	0.001838	1.476741	0.1434
DA	-0.107676	0.011989	-8.980877	0.0000
C	0.182910	0.010121	18.07170	0.0000

Weighted Statistics

R-squared	0.248771	Mean dependent var	0.255900
Adjusted R-squared	0.222566	S.D. dependent var	0.257649
S.E. of regression	0.221233	Sum squared resid	4.209180
F-statistic	9.493038	Durbin-Watson stat	0.647545
Prob(F-statistic)	0.000018		

Source: Eviews Output 2025

The results in Table 4.2 indicate that the adjusted R-squared is 0.223, meaning that about 22.3% of the variations in ROE are explained by RIS, AIS, and DA. While this explanatory power is modest, it is acceptable given the complexity of financial performance, which is influenced by numerous factors beyond accounting practices. The F-statistic has a probability of 0.000018, which is less than the 5% significance level, indicating that the model as a whole is statistically valid. This confirms that, jointly, the explanatory variables significantly affect ROE and the regression model is appropriate for inference.

The constant has a coefficient of 0.1829 with a probability value of 0.0000, indicating that it is statistically significant at the 5% level. This suggests that, when real income smoothing, artificial income smoothing, and discretionary accruals are all zero, the average ROE of firms would still be 18.3%. In practical terms, this baseline profitability reflects the underlying ability of listed industrial goods firms to generate returns for shareholders independent of earnings management practices.

4.2.1 Test of Hypothesis I

H01. Real income smoothing has no significant effect on the return on equity of listed industrial goods manufacturing firms in Nigeria.

The coefficient of RIS is −0.000040 with a probability value of 0.0000. This implies that for every unit increase in RIS, ROE decreases by 0.004%, holding other factors constant. Though the marginal effect is small, the statistical significance at the 5% level suggests that the effect is systematic rather than random. The negative sign indicates that higher levels of real income

smoothing reduce firms' return on equity, possibly because operational manipulations aimed at smoothing earnings—such as overproduction or delaying expenses—introduce inefficiencies that erode profitability. Therefore, the alternate hypothesis was accepted. The study concludes that real income smoothing has a significant negative effect on the ROE of listed industrial goods manufacturing firms in Nigeria.

4.2.2 Test of Hypothesis II

H02. Artificial income smoothing does not significantly affect the return on equity of listed industrial goods manufacturing firms in Nigeria.

The coefficient of AIS is 0.002714 with a probability value of 0.1434. This means that a unit increase in AIS leads to an increase in ROE by 0.27%, ceteris paribus. The positive marginal effect suggests that firms with more smoothed reported earnings relative to cash flows tend to show slightly higher returns to equity holders. However, since the p-value is greater than 0.05, this effect is not statistically significant at the 5% level. This indicates that artificial income smoothing, achieved through accrual-based accounting adjustments, does not exert a systematic or reliable effect on ROE in the sampled firms. Thus, the null hypothesis (H02), which states that artificial income smoothing does not significantly affect ROE, was accepted. The conclusion is that artificial income smoothing has no significant effect on the ROE of listed industrial goods manufacturing firms in Nigeria.

4.2.3 Test of Hypothesis III

H03. Discretionary accruals do no significantly affect the return on equity of listed industrial goods manufacturing firms in Nigeria.

The coefficient of discretionary accruals is −0.1077 with a probability value of 0.0000. This indicates that a one-unit increase in DA reduces ROE by 10.8%, ceteris paribus. The marginal effect is economically large, showing that accrual-based earnings management substantially reduces profitability. The negative and statistically significant effect suggests that firms that rely heavily on discretionary accruals to manipulate earnings ultimately harm shareholder returns, possibly because such adjustments distort earnings quality and misallocate resources. Consequently, the alternate hypothesis, which states that discretionary accruals have no significant effect on ROE, is rejected. The study therefore finds that discretionary accruals have a significant negative effect on the ROE of listed industrial goods manufacturing firms in Nigeria.

4.3 Discussion of Findings

The first finding shows that real income smoothing has a negative and significant effect on the return on equity of listed industrial goods firms in Nigeria ($\beta = -0.000040$, $p = 0.0000$). This suggests that when managers engage in manipulating real activities—such as accelerating sales, delaying maintenance, or altering production volumes to smooth reported earnings—these actions erode firm efficiency and reduce shareholder value in the long run. The outcome aligns with Mensah, Ruby, Osei, Bashiru, and Agyemang (2024), who reported that earnings management practices such as real activity manipulation negatively impacted profitability in Ghanaian commercial banks, underscoring the performance-damaging consequences of such practices. Similarly, Abdurrahmani and Doğan (2021) in Kosovo established that earnings management practices undermined corporate performance, reinforcing the idea that real earnings management produces short-term optics at the cost of sustainable growth. However, some contrasting evidence emerges from Umoh (2025), who

found that income smoothing in Nigerian financial services positively influenced shareholder wealth, implying that in sectors with higher financial flexibility, such smoothing may be less harmful. Likewise, Imo (2022) discovered that income smoothing in Nigerian food and beverage companies positively and significantly influenced return on assets and equity, indicating that the effect may be industry-sensitive. Nonetheless, in the case of industrial goods manufacturing firms in Nigeria, the significant negative effect may reflect the high capital intensity of the sector, where operational distortions from income smoothing can directly harm returns on equity.

The second finding indicates that artificial income smoothing, measured through the variability ratio of net income to cash flows, has a positive but statistically non-significant effect on return on equity ($\beta = 0.002714$, $p = 0.1434$). This implies that while accrual-based manipulations can sometimes create the appearance of financial stability and may modestly boost reported profitability, such effects are not strong enough to significantly influence shareholder returns in the industrial goods sector. The non-significance is consistent with Edem (2024), who showed that certain accrual manipulations like goodwill and depreciation adjustments had positive but insignificant effects on profit after tax in Nigerian banks, suggesting that artificial smoothing often lacks the power to materially alter performance outcomes. Similarly, Ozondu et al. (2025) found that income smoothing did not significantly affect investor value across manufacturing firms, a result that closely mirrors the present finding. Conversely, Odugbemi and Adegboyegun (2023) observed that income smoothing significantly enhanced shareholders' wealth in non-financial service firms, while Isoso and Okee (2022) reported positive and significant effects of smoothing on shareholder wealth in Nigerian banks, suggesting that in some industries accrual-based manipulation carries more weight. The insignificant result here may therefore reflect the stricter oversight and more tangible nature of manufacturing operations, where accrual adjustments cannot easily conceal underlying performance.

The third finding establishes that discretionary accruals exert a negative and significant effect on return on equity ($\beta = -0.107676$, $p = 0.0000$). This reveals that managerial discretion in estimating accounting accruals—such as provisions for bad debts, depreciation, or inventory valuation—significantly undermines profitability and diminishes shareholder returns in listed industrial goods firms. This outcome strongly aligns with Ikeokwu, Leyira, and Umobong (2024), who reported that discretionary accruals had a negative impact on return on assets in Nigerian manufacturing firms, thereby confirming the destructive role of accrual-based earnings management in the same sector. Similarly, Ikeokwu, Micha, and Umobong (2024) demonstrated that discretionary accruals negatively affected firm value in manufacturing companies, reinforcing the consistency of this outcome across profitability and valuation measures. Mensah et al. (2024) also found that earnings management diminished profitability in Ghanaian banks, consistent with the argument that discretionary accruals distort resource allocation. Furthermore, Al-Daoud et al. (2023) showed that earnings management significantly influenced financial performance in Jordanian industrial firms, although they noted both positive and negative dimensions depending on the context. Together, these studies provide strong empirical backing that discretionary accruals create substantial distortions, which significantly reduce return on equity in Nigerian industrial goods manufacturing firms.

5.0 Conclusion and Recommendations

5.1 Conclusion

The implications of the findings from this study suggest that earnings management practices play a subtle yet critical role in shaping the financial performance of listed industrial goods manufacturing firms in Nigeria, particularly in terms of return on equity (ROE). The evidence that real income smoothing and discretionary accruals both exert significant negative effects on ROE highlights the detrimental consequences of managerial attempts to manipulate reported performance either through operational adjustments or through accrual-based discretion. Such practices, while often employed to present a stable or favorable financial outlook, ultimately distort the relationship between actual economic performance and reported earnings, eroding shareholder value and diminishing the reliability of profitability measures. This implies that when firms engage in excessive income smoothing through real activities, resources are often misallocated, leading to inefficiencies that depress profitability in the long run. Similarly, the use of discretionary accruals reflects opportunistic managerial behavior that may inflate or depress reported earnings temporarily, but over time undermines earnings quality and reduces returns available to equity holders.

On the other hand, the finding that artificial income smoothing has a positive but non-significant effect on ROE suggests that the accrual-based component of earnings management does not consistently enhance or harm shareholder returns, possibly because its influence is more subtle and may be moderated by firm-specific factors such as governance structures, reporting standards, and managerial incentives. The insignificance of this effect implies that while firms may use accrual adjustments to present smoother earnings, the overall economic impact on shareholders is not systematically beneficial or detrimental within the sector. Taken together, these findings imply that earnings management, particularly in its more aggressive forms, compromises the transparency and credibility of financial reporting and introduces risks to shareholders by weakening the link between reported profits and the firm's underlying financial health. The negative effects observed for real income smoothing and discretionary accruals indicate that these practices are more damaging than beneficial. Therefore, the findings imply that while earnings management may serve short-term managerial objectives of impression management, its long-term implications are adverse to shareholder wealth maximization and the integrity of financial reporting within Nigeria's industrial goods manufacturing sector.

5.2 Recommendations

1. Management of listed industrial goods firms should minimize the use of operational manipulations such as overproduction, delaying maintenance, or cutting essential expenses merely to stabilize earnings, as these actions reduce long-term profitability and harm shareholder value.

2. Audit committees of listed firms should strengthen oversight of accrual-based adjustments to ensure they reflect genuine economic activity rather than opportunistic reporting, thereby safeguarding financial statement credibility while allowing flexibility for legitimate accrual estimations.

3. Regulators such as the Financial Reporting Council of Nigeria (FRCN) should enforce stricter compliance with International Financial Reporting Standards (IFRS) and introduce tighter monitoring mechanisms to limit excessive managerial discretion in accruals, thereby protecting investors from misleading earnings reports.

5.3 Contribution to Knowledge

This study contributes to the literature by addressing the limited attention given to earnings management practices in listed industrial goods manufacturing firms in Nigeria, a sector often overlooked in favor of banking, consumer goods, and other corporate entities. Previous studies have examined income smoothing and discretionary accruals across various industries, but the role of artificial income smoothing has received little focus, with only Edem (2024) in the banking sector and Iredele, Adeyeye, and Owoyomi (2022) in consumer goods incorporating it into their analysis. By examining real income smoothing, artificial income smoothing, and discretionary accruals within the industrial goods sector, this study fills a sectoral gap and provides evidence that is directly relevant to firms whose capital-intensive operations are particularly vulnerable to the effects of earnings management. In addition, the study extends the scope of existing research by covering the 2024 accounting year-end, thereby addressing the temporal limitation of earlier works that focused on periods ending in 2022 or 2023. This makes the findings both timely and significant, as they offer a more current understanding of how earnings management practices influence return on equity in Nigeria's industrial goods manufacturing firms.

5.4 Limitations of the Study and Suggestions for Further Studies

A major limitation of this study is that it focused only on listed industrial goods manufacturing firms in Nigeria, which makes it difficult to generalize the findings to other sectors or privately owned firms. The study also relied solely on secondary data from audited financial statements, which, although reliable, may not capture informal practices of earnings management that do not appear in published accounts. In addition, the use of three proxies for earnings management, namely real income smoothing, artificial income smoothing, and discretionary accruals, may not fully explain all forms of earnings management that could influence financial performance. For further studies, researchers may expand the scope to include other sectors such as consumer goods, financial services, or small and medium-sized enterprises, in order to compare patterns of earnings management across industries. Future work could also adopt primary data through surveys and interviews to complement financial data and provide deeper understanding of managerial motives behind earnings management practices.

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