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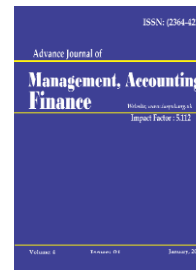

INTERNATIONAL FINANCIAL REPORTING STANDARDS AND EARNINGS SMOOTHING OF NIGERIAN DEPOSIT MONEY BANKS

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Keywords: *IFRS, earnings smoothing, Nigerian Deposit Money Banks, Nigeria*

Abstract: *This study appraised the effect of mandatory adoption of International Financial Reporting Standards (IFRS) on earnings smoothing of 12 Nigerian Deposit Money Banks (NDMBs) from 2018-2022. The study used sample t-test to measure earnings smoothing and the findings revealed an insignificant decrease in earnings smoothing by managers of DMBs in Nigeria after the mandatory adoption of IFRS. The study recommends among other things that the Financial Reporting council of Nigeria (FRCN) should moderate the excessive use of judgement by managers in managing earnings and also continuous usage of both Central Bank of Nigeria (CBN) prudential guidelines and IFRS in reporting.*

1.1 Introduction

Earnings smoothing is a practice aimed at reducing the variability of net profits over time. Accounting information quality is considered to have increased when there is decrease in earning smoothing behaviour by managers.

Banking is considered as an international business and expected to internationalise by developing and reviewing reporting systems that allow for comparability in the global markets which is one of the acclaimed benefits of adopting IFRS. Before the mandatory adoption of IFRS in Nigeria in 2012, Central Bank of Nigeria (CBN) prudential guideline was in place for licensed banks. This guideline classified non-performing credits into sub-standard, doubtful and lost credit facilities. This practice is a sharp contrast with the ISA 39 incurred loss approach which requires Deposit Money Banks (DMBs) to provide only for losses incurred as at the time of financial reports and as such, future expected losses or perceived losses based on future events may not be recognized.

Hence, Nigeria's change from local GAAP to IFRS presents a unique empirical setting to investigate the extent to which the change to IFRS affects the accounting information quality. The study compared the quality of accounting

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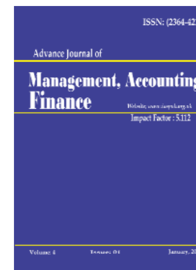

information under GAAP and IFRS in Nigeria by comparing the perverseness of earnings smoothing under GAAP and IFRS in Nigeria.
IFRS adoption is envisaged as a move that will improve accounting information quality and provide a better reflection of economic reality. The characteristics of accounting numbers are not only affected by underlying economic determinants and the exercise of managerial discretion or judgements but also by the nature of accounting standards in place. That is to say that the adoption of certain standards could alter the properties of earnings and earnings are important to a company since they are used as a summary measure of performance.
The proponents of IFRS argued that the introduction of IFRS is expected to reduce information asymmetry and provide high quality financial statements that will inform and guide investors in making informed investment decisions and provide banks with a fairer picture of transparent and comparable financial statements (Abata, 2015; Odia & Ogiedu, 2013). Since 2012 when Nigeria adopted IFRS, banks are still facing challenges that questions their survival and continuity as financial institutions. If financial statements prepared under IFRS are truly what they purport to be, the situation would have reduced drastically. However, bank failure have continued unabated, so is it quality financial statement that can resolve this quagmire? Or are manager's still manipulating financial statement? It is on the basis of these that the study seeks to find out if financial statement prepared in line with IFRS are more effective in reducing earnings smoothing or earnings manipulation.

2.1 Conceptual Clarification

This section discusses the concepts of IFRS and earnings smoothing.

2.1.1. International Financial Reporting Standards (IFRS)

IFRS are principle based standards issued by the International Accounting Standards Board (IASB), an independent organisation registered in the United States of America but based in London, United Kingdom. The body responsible for international standards before the IASB is International Accounting Standards Committee (IASC), a body established in 1973. Khanagha, Mohamad, Hassan, and Sori (2011) assert that accounting standards furnish counseling on how accounting information should be recorded, reported and interpreted. The primary benefit of an international set of accounting standards is strongly enhanced comparability for users of financial statements, and ideally improve capital allocation (Ames, 2013).
Before the IFRS adoption era, most countries had their own standards with local bodies responsible for developing and issuance of the local standards even if some of them align largely with the IAS. In this vein and in the Nigerian context, the Nigerian Accounting Standards Board (NASB) was responsible for developing and issuing standards known as Statements of Accounting Standards (SAS) and in the new dispensation, the body was renamed Financial Reporting Council (FRC) of Nigeria as the

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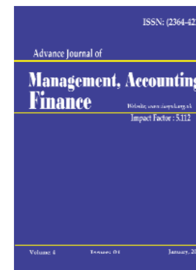

regulatory body overseeing the adoption and implementation of IFRS (Abata, 2015).

Odia and Ogiedu (2013) advocate that adoption of IFRS will lead to: greater transparency and understandability; lower cost of capital to companies and higher share prices (due to greater confidence of investors and transparent information); reduced national standard-setting costs; ease of regulation of securities markets; easier comparability of financial data across borders and assessing investment opportunities; increased credibility of domestic markets to foreign capital providers and potentials foreign merger partners, and to potential lenders of financial statements from companies in less-developed countries. It will also facilitate easier international mobility of professional staffs across national boundaries. For the multinational companies, it will help them to fulfill the disclosure requirement for stock exchanges around the world. Nigerian companies to avail themselves of this gain, as contended by proponents of IFRS, they have to adopt this set of accounting standards which will arguably help entrench best practices in financial reporting.

In keeping pace with developments and to ensure that Nigeria is not left out from the globalisation wave, on 28 July 2010, the Nigerian Federal Executive Council approved 1 January 2012 as the effective date for convergence of accounting standards in Nigeria with IFRS. The Council subsequently directed the Nigerian Accounting Standards Board (hereafter referred to as NASB) now Financial Reporting Council of Nigeria (hereafter referred to as FRCN), under the supervision of the Nigerian Federal Ministry of Commerce and Industry, to take further necessary actions to give effect to Councils' approval by replacing the Nigeria local GAAP with IFRS.

2.1.2 Earnings Smoothing

One of the primary objectives of earnings management (accounting practices that depart consciously from established accounting rules and principles in the computation of accounting profits) is earnings smoothing, a practice aimed at reducing the variability of net profits over time. During good years managers use some discretionary items in income statement in order to decrease the amount of profits. During bad times, those funds can be used to prop up the bottom line. (Pérez, Salas and Saurina, 2016). Earnings-smoothing refers to bank managers increasing provisioning levels in periods of economic well-being and lowering them during times of poor performance and this reduces the variability of banks' income streams over time.

As accounting standards cannot provide accurate regulation on all accounting choices available to firms, it has to leave room open for interpretation. This is where the smoothing of earnings can occur. Managers can exercise their judgment on various parts of the financial statement. They may, to the best of their knowledge, choose from the different options allowed in the accounting standards to provide the truest and fair view of the firm's financial position. However managers can choose not to base their decision on the economic reality but make decisions to smooth their income. This can have various reasons such as wanting to meet a

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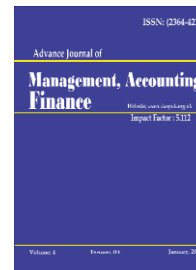


target in order to get a bonus, please investors with steady returns or the fear of failing to comply with a debt covenant (Healy & Wahlen, 1999). These decisions have consequences for the discretionary accrual part of firm's earnings. As a consequence the accounting quality deteriorates (Healy & Wahlen, 1999). IFRS adoption ordinarily is expected to lead to less earnings smoothing which in turn increase accounting information quality. Thus, the study hypothesize that

HO_2: There is no significant difference in earnings smoothing of DMBs in Nigeria before and after the mandatory adoption of IFRS.

2.2 Theoretical Framework

This section reviews the underlying theories. The focus here will be the Agency theory and Signaling theory.

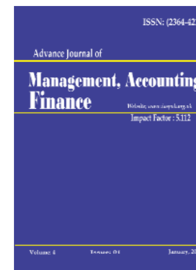
2.2.1 Agency Theory

Agency theory was developed by Jensen and Meckling (1976). Agency theory addresses the relationship between shareholders and managers of companies and how they maximise their own utility. Berley and Means (1932) argued that managers of firms seem to pursue their personal interests rather than the interests of shareholders. They saw how the interests of the directors and managers of a given firm differ from those of the owners of the firm, and used the concepts of agency and principal to explain the origins of these conflicts.

Jensen and Meckling (1976) view agency theory as a theory that provides a framework for organising relationships through the contracting mechanism in which one party, the principal, hires another party, the agent for the purpose of delegating to the latter. They suggest that the separation of ownership and control presumes fundamental tension between shareholders and corporate managers. It involves the costs of resolving conflicts between shareholders and managers. Shareholders interest is for management to run the company in a way that increases shareholders' value but the management of organisations on the other hand desire to run the firm in ways that maximise their personal power and wealth and that may not be in the interest of shareholders, and the managers have access to information that the shareholders do not and use this to conduct actions in their own favor (Jensen, 1986). This is known as agency conflict. The agency problem results from information asymmetries, potential wealth transfer from bondholders to stockholders through the acceptance of high risk projects by managers.

Information asymmetry is unfair distribution of information between the agent and the principal, in which the business process of the agency cannot be enjoyed immediately by the principal. Once this happens, the agent may perform dysfunctional behaviour. One of the dysfunctional behaviour of the agent is to manage data of the financial statement in such a manner that it will comply with the principal's wish despite the data do not prove the true condition of the organisation. One of data manipulation acts in the financial statement is earnings smoothing.

According to Palea (2013) investors are considered those who are most in need of information from financial reports, given that



they cannot usually request information directly from the firm. Moreover, as investors provide risk capital to firms, the financial statements which meet their needs also meet most of the needs of other users.

Soderstrom and Sun (2007) argue that financial reporting reduces information asymmetry by disclosing relevant information that is the true reflection of the company's finances, and Zhang (2011) suggests that adopting International Financial Reporting Standards (IFRS) leads to the reduction in information asymmetry between management and shareholders because there is considerable variation in accounting quality and economic efficiency across countries, international accounting systems provide an interesting setting to examine the economic consequences of financial reporting.

2.2.2. Signaling Theory

Signaling theory was formulated by Michael Spence in 1973. The theory is relevant in describing behavior when two parties (individuals or organisations) have access to different information. Naturally, one party (the sender) must choose the method and how to communicate (or signal) the information, and the other party (the receiver) must choose how to interpret the signal. Signaling theory is basically concerned with reducing information asymmetry between these two parties (Connelly et.al 2011). Spence (1973) proposed that the two parties can tackle problem of asymmetric information by having one party send a signal that would reveal some piece of relevant information to the other party who would then interpret the signal to meet his or her needs.

Information published as an announcement will give a signal to investors in making investment decisions. At the time the information was announced and all market participants have received such information, market participants will either interpret or analyse such information as good signal (good news) or as bad signal (bad news). If the announcement of such information act as a good signal for investors, then there is a change in the volume of stock trading (Prihatnia et.al. 2016).

Based on signaling theory, a company can improve its value through its reporting of accounting information due to the use of fair value that can be more reflective of the economic condition of the company. Managers of organisations understand that reported earnings number gives a signal to stakeholders as to whether the organization is faring well or not (Agbo, 2017) and as a result of this, they are compelled to beat the analysts benchmark or satisfy a particular group in order to prove that they are doing well, thereby giving a false impression to potential investors about their firms. Uwuigbe, Emeni, Uwuigbe, O. and Maryjane (2016) allege that IFRS been principle-based gives managers the opportunity to use accounting standards and their discretion to manipulate accounting numbers, thus, sending wrong signals to the shareholders, i.e with IFRS, managers now smooth income and also manage to earn towards small positive earnings.

2.3 Empirical Review

Earnings Smoothing

Various studies on earnings smoothing were reviewed across the globe. Some of the studies

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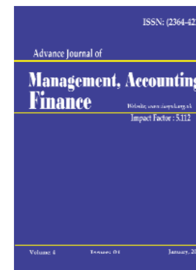

showed evidence of less earnings smoothing following IFRS adoption which is an indication of increase in accounting information quality while other studies showed evidence of increase in earnings smoothing after IFRS adoption. The studies reviewed are shown below in ascending order.

Fonseca and Gonzalez (2005) examined the determinants of income smoothing by managing loan loss provisions in banks around the world. Using a panel database of 4,546 bank-year observations from 41 countries using regression analysis, they find that bank income smoothing varies across countries depending on institutions, regulation, supervision, financial structure and financial development. Results suggest that income smoothing decreases in line with investor protection, the extent of accounting disclosure, restrictions on bank activities and official and private supervision, while it increases with market-orientation and development of the financial system.

Tendeloo and Vanstraelen (2005) addressed earnings management under German GAAP versus IFRS from 1999 to 2001 using 636 firm – year observations. Earnings manipulation was measured using discretionary accruals and the cross-sectional Jones model (Jones, 1991) was used to estimate discretionary accruals. The findings suggested that IFRS-adoptions do not present different earnings management behaviour compared to companies reporting under German GAAP. The study also found that companies that have adopted IFRS engaged more in earnings smoothing but the increase in earnings smoothing with the adoption of IFRS is significantly reduced when the company has a Big 4 auditor.

Barth, Landsman and Lang (2008) analysed IFRS and accounting quality of IAS firms as compared with US-GAAP firms from 1995-2002. Earnings smoothing as one of the measures of accounting information quality was measured by variability of the change in net income to the variability to changes in cash flow. The result of regression analysis revealed that firms applying IAS are associated with less earnings smoothing as compared to firms applying US GAAPs.

Christensen, Lee and Walker (2008) examined effect of IFRS adoption for two groups of firms: a) those that perceive net benefits of IFRS and b) those that have no incentives to adopt and were forced to comply by comparing their changes in accounting quality through measures of earnings management and timely loss recognition in Germany. They used regression analysis to test the hypotheses and the findings revealed that earnings management decreased after voluntary IFRS adoption.

The study of Paglietti (2009) examined earnings smoothing of Italian firms from 2002-2004 (pre-adoption) and under IFRS from 2005-2007 (post IFRS) period of 92 listed non-financial firms using regression analysis. The variability of net income decreased in the post adoption period indicating an increase in earnings smoothing. The implication is decrease in accounting information quality after the adoption of IFRS in Italy. The finding is consistent with that of Baars (2009).

.Iatrisdis (2010) focused on IFRS on accounting quality of 241 non-financial UK firms from 2004-

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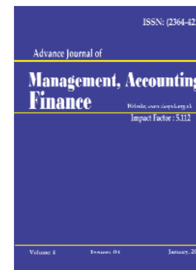

2005. The study evaluated whether IFRS adoption fosters or discourages the use of earnings smoothing in the UK by examining volatility of the change in net profit to change in operating cash flows and the result of the regression revealed less earnings smoothing after the adoption of IFRS. This study used only two years study period 2004-2005. This result may be different with more recent data and increase in the number of years.

Jeno (2011) traced the benefits of international accounting standards and their contribution to harmonisation in business practice in Hungary. The sample comprises 65 IFRS adopting and 260 local (Hungarian) accounting rules user firms from 2006-2007 using qualitative comparative approach. In the scientific research methodology the author assigned that the statement of financial position indexes deteriorated especially regarding solvency and prosperity after the adoption of IFRS. The study used logistic regression model in analysis and find out that earnings smoothing reduced after the post-adoption period.

Bhattacharjee and Rudra (2012) explored the effect of IFRS adoption on earnings management in India using a sample of 67 private sector companies. The results indicated that firms that adopted IFRS smooth their earnings compared to non-adopting firms. This could prompt the regulators to think about the effectiveness of IFRS in reducing opportunities earnings management in an emerging economy.

Lin, Ricardi and Wang (2012) examined the effect of the switch from US GAAP to the IFRS on using a sample of German high Tech firms. The sample size comprises of 582 firms-year observation representing 63 firms from 2000-2010. The study used earnings smoothing as one of the metrics to measure accounting information quality. The findings relating to earnings smoothing show that the sampled firms exhibits a significantly higher variability of change in net income in the pre-adoption period and also the ratio of the variance of net income to the variance of cash flow in the pre-adoption period is also significantly higher than that in the post-adoption period. These results suggest less earnings smoothing in the pre-adoption period leading to the conclusion that there is higher accounting information quality before IFRS adoption than in the post period. They used similar measures of earnings smoothing as used in our current study, however the current study used more recent data of a financial sector in developing country as compared to the data of German High tech firms in a developed economy with different regulatory requirements.

Tanko (2012) assessed the effect of compliance with the regulation and provisions of IFRS on the performance of five selected banks quoted on the Nigerian Stock Exchange from 2007-2010. Earnings smoothing was measured by variability of changes in earnings, and variability of changes in earnings relative to variability of changes in cash flow. The result revealed decrease in earnings smoothing which implies an increase in accounting information quality in the post IFRS adoption period in Nigeria. A sample size of 5 DMBs is considered a small sampled considering the fact that the current study used 12 DMBs.

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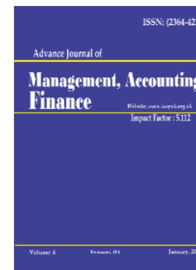

Dimitropoulos, Asteriou, Kousenidis, and Leventis (2013) examined the impact of IFRS adoption on the quality of accounting information within the Greek accounting setting. Using a sample of 101 firms listed in the Athens Stock Exchange (ASE) for a period of eight years (2001–2008). Using regression analysis, the result revealed less earnings smoothing in Greece after the adoption of IFRS.

Uyar (2013) evaluated the impact of change of accounting standards on accounting information quality, earnings smoothing as one of the metrics to measure accounting information quality. A sample of 208 firms listed on Istanbul Stock Exchange making a total of 1248 firm-year observations was used from 2010-2007. Earnings smoothing was measured by the variance of change in net income and by a residuals from the regression of change in operating cash flows scaled by total assets. The result of OLS regression showed that there was decrease in earnings smoothing after IFRS adoption and this in turns resulted in improvement of accounting information quality following the implementation of IFRS.

Umobong and Akani (2015) investigated the difference in the quality of accounting information for pre and post IFRS adoption by manufacturing firms in Nigeria over a five year period (2009-2003) for 11 listed cement and breweries manufacturing companies. The regression analysis using discretionary accruals as a measure of earnings manipulation revealed that earnings smoothing has not declined after the adoption of IFRS in Nigeria indicating an insignificant increase in earnings smoothing in post IFRS era.

Iorchir (2015) evaluated mandatory adoption of International Financial Reporting Standards (IFRS) in Africa on earnings' quality of 680 firms for the period of 2000 to 2012 using regression analysis, the study found that relative to Domestic Accounting Standards, IFRS based earnings are: more persistent and closely associated with future period cash flows; less managed towards small profits and less smoothed.

Aderin and Otakefe (2015) evaluated the impact of the adoption of IFRS on the quality of financial reporting quality of 23 firms in Nigeria from 2010 to 2013. The study measured earning management using discretionary accruals in the regression analysis and the result showed that IFRS implementation in Nigeria has led to significant decline in the execution of earnings smoothing practices by companies, thereby enhancing the quality of financial reporting. The study used data of different sectors of the non-financial listed companies in Nigeria while the current focused on the banking sector which is well regulated as compared to the non-financial sector.

Indrawati (2015) evaluated the impact of the implementation of IFRS on accounting information of 62 financial firms listed on Indonesia Stock exchange from 2008-2012. Multiple regression was used in the analysis. Two

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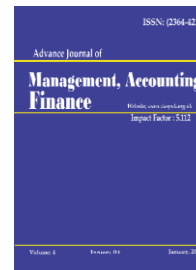

measures of earnings smoothing were used. The first metric is based on the variability of the change in net income and the second metric is the ratio of variability of change in net income to the variability of the change in operating cash flow. The result showed an insignificant increase in earnings smoothing in the period after implementation of IFRS which indicates a decrease in accounting information quality using the two metrics.

Adzis, Anuar and Hishamuddin (2015) examined the evidence of income smoothing, capital management, signaling, and pro-cyclical behavior through loan loss provisions of Malaysian commercial banks for period 2002-2012. Using a sample of 15 commercial banks, the results of the regression indicated that Malaysian commercial banks do smooth income through loan loss provisions and there is no conclusive evidence to support that Malaysian commercial banks manage capital through loan loss provisions.

Yahaya, Kutigi and Mohammed (2015) examined IFRS and earnings management behaviour of listed Deposit Money Banks (DMBs) in Nigeria using a sample of 15 DMBs from 2004 to 2013 study period. The study finds that the application of stricter impairment rules reduces discretion in the main operating accrual in banks account, the loan loss provision meaning, the DMBs exhibit significantly less earnings smoothing after IFRS adoption.

Hassan (2015) investigated firm attributes from the perspective of structure, monitoring, performance elements and the quality of earnings of 14 listed MDBs in Nigeria from 2008-2013. Regression analysis was used as a techniques analysing the data and the result revealed that firms attributes had a significant influence on earnings quality of listed deposit money banks in Nigeria after IFRS adoption. This means IFRS adoption have significant influence on earnings quality in Nigeria.

Nnadi and Nwobu (2016) appraised the effect of IFRS adoption and banking reforms on earnings management using a sample of 15 listed commercial banks in Nigeria from 2009-2013 using regression analysis. The result suggested that earnings management decreased post adoption for banks that adopted IFRS earlier on, but increased for late adopters. Findings also suggest earnings management decreased post CBN reform.

Onyekwelu (2016) investigated the effect of International Financial Reporting Standards on the Financial Reporting and accounting quality in Nigeria using primary data extracted from 220 questionnaires administered to different firms. Chi-square was used in testing hypotheses and the results showed that IFRS adoption positively affect the reliability of financial reporting and significant effect on the financial reporting quality of Nigerian firms.

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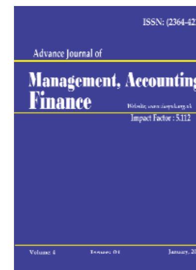

Ozili and Outa (2018) examined the extent of bank earnings smoothing during mandatory International Financial Reporting Standards adoption in Nigeria to determine whether mandatory IFRS adoption increased or decreased income smoothing among Nigerian banks. They used panel regression in their analysis of 23 banks (12 listed and 11 non- listed banks) from 2012-2014 to estimate the association between loan loss provisioning and banks' earnings and the result revealed that the mandatory adoption of IFRS is associated with lower earnings smoothing among Nigerian banks.

3.1 Methodology

This study which is a quantitative research adopts ex-post facto research design. The choice is anchored on its strength as one of the most appropriate research design when it is not always possible for the researcher to select, control and manipulate the independent variables. The population of this study comprises all the twenty one (21) Deposit Money Banks licensed to operate in Nigeria by Central Bank of Nigeria (CBN) as at 2022. The sample of the study is restricted to twelve (12) banks which are licensed to operate in Nigeria and are listed on Nigerian Stock Exchange from 1st January, 2008 to 31st December, 2022. Purposive sampling method was used to select the 12 banks based on data availability and this brings the sample to 180 firm-year observations. The data on the quality of earnings smoothing were extracted from the audited financial statements of the sampled banks for the period under investigation and analysis using Stata version 14.2

Earnings smoothing is measured as the variability of the change in net income scaled by total assets and the second metric of earnings smoothing is measured as a variability of earnings or net income in relations to variability of cash flows in line with Barth, Landsman and Lang (2008); Christensen, Lee & Walker (2008) and Iorchir (2015). A smaller variance of the change in net income shows evidence of income smoothing. As the change in net income is at least partially attributable to factors other than those of the financial reporting system, we follow prior research to analyze the change in net income on variables to controls for such factors (Lin, Ricardi & Wang, 2012).

$$\Delta NIit = \alpha o + B_1 LEVit + B_2 DISSUEit + B_3 EISSUEit + B_4 BSIZEit + B_5 GROWTHit + B_6 CFOit + B_7 TURNit + B_8 AUDit + eit$$

ΔNIit is change in net income scaled by year-end total assets

LEVit is total liability divided by end of year book value of equity

DISSUEit is percentage change in total liability

EISSUEit is percentage change in common stock

BSIZEit is the natural logarithm of market value of equity

GROWTHit is percentage change in revenue

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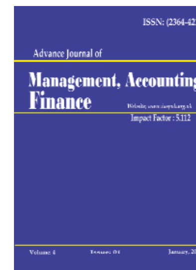

CFOit annual net cash flows from operating activities divided by total assets
AUDit is an indicator variable assigned 1 for firm audited by a Big-4 audit firm otherwise zero
TURNit is revenue divided by total assets.
We denote our first metric as *ΔNI**, the variance of the residuals estimated from the above regression.
The above model is estimated separately for Pre-IFRS, and post-IFRS samples using Two-sample t-test with equal variance and a ratio less than 1 indicates the presence of earnings smoothing with accruals. The apriori expectation is that the variability of changes in net income relative to variability of changes in cash flow in the post-adoption period will be less than that of the pre-adoption period.
For the second metrics, a lower (higher) variability of net income relative to cash flow from operating activities is seen or interpreted to mean a higher (lower) earnings smoothing and low (high) quality of accounting information. Owing to the intensive scrutiny banks face from several regulatory bodies, bank managers are less likely to manipulate their cash flows in order to smooth their earnings. Accruals then become the likely item that can be used to manipulate earnings. Usually, firms with unstable cash flows will typically have unstable income (Outa, 2011). Therefore, when companies use accruals in managing earnings, the variation in net income should be lower than that of operating cash flows. The change in cash flows can also be affected by factors other than those of the financial reporting system, we control for these factors and estimate the following regression;

$$\Delta CFOPit = \alpha o + B_1 LEVit + B_2 DISSUEit + B_3 BSIZEit + B_4\ GROWTHit + B_5 CFOit + B_6 TURNit + B_7 AUDit + eit$$

Earnings Smoothing = ***VAR (ΔNI)/VAR (ΔCFOP)***
ΔCFOPit is net cash flow from operating activities divided by end of year total assets
The above models are estimated separately for Pre- IFRS, and post-IFRS samples using Two-sample t-test with equal variance and a ratio less than 1 indicates the presence of earnings smoothing with accruals. The apriori expectation is that the variability of changes in net income relative to variability of changes in cash flow in the post-adoption period will be less than that of the pre-adoption period.

4.1 Results and Analysis

This section discusses the results of the study using descriptive statistics and t-test

4.2 Descriptive Statistics

Table 1 below presents the descriptive statistics for the study;

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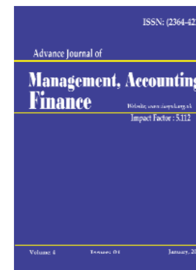

Table 1
Result of Descriptive Statistics

	Pre-IFRS Adoption (N=48)		*Post-IFRS Adoption (N=132)*	
	Mean	**SD**	**Mean**	**SD**
Income Smoothing				
ΔNI	0.0023	0.0361	0.0043	0.0231
ΔOCF	0.0839	0.2652	-0.0034	0.1954
ACC	0.2201	0.2408	0.1426	0.2149
Variability of ΔNI*	-0.0022	0.0356	0.0026	0.0212
Variability of ΔNI* over ΔOCF*	-0.2075	2.6215	0.0030	1.9163
Control Variables				
Lev	6.7679	5.7242	8.7982	20.5178
Growth	0.2647	0.3328	0.1414	0.1865
Eissue	0.2428	0.3117	0.0082	0.1566
Dissue	0.3095	0.2977	0.1266	0.1294
TURN	0.1255	0.0334	0.1299	0.0531
Size	25.2995	1.2097	25.4197	1.3044
CF	0.1058	0.3167	0.0696	0.2531
AUD	0.9167	0.2778	0.9167	0.2780

Source: Researcher's Compilation, 2023.

The descriptive statistics above suggest that firms report higher variability in net income in the post-IFRS adoption period than in the pre-IFRS adoption period (i.e., 0.0043 versus 0.0023). Similar result is obtained using the variability of *ΔNI** over *ΔCFO** (i.e., 0.0030 versus -0.2075). Taken together, the results of the descriptive statistics shows that firms exhibit less earnings smoothing following the mandatory adoption of IFRS.

4.3 Result of IFRS adoption and Earnings Smoothing

Sample t-test was used to test the effect of mandatory IFRS adoption on earnings smoothing and the outcome is presented in table 2 below:

Table 2
Result of Sample t-test for Earnings Smoothing

	Pooled Sample (n=180)		**Pre-IFRS Adoption (n=48)**		**Post-IFRS Adoption (n=132)**				
	Mean	**SD**	**Mean**	**SD**	**Mean**	**SD**	**Difference**	***T Test***	***z test***
Variability of ΔNI*	0.0032	0.0306	0.0023	0.0361	0.0043	0.0231	-0.0021	-0.443	-1.4970
Variability of ΔNI* over ΔOCF*	-0.1092	2.3154	-0.2075	2.6215	0.0030	1.9163	-0.2105	-0.6074	0.3960

P=0.1345; 0.693

Source: Researcher's Compilation, 2023.

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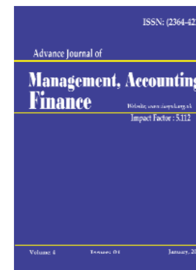

Table 2 report the results of the income smoothing measures employed in this study both for the pre-IFRS adoption and post-IFRS adoption periods. Results indicate consistent with the prediction that, the variability of change in net income increases in the post-IFRS adoption period (00.0023 versus 0.0043). The results reveals that after applying IFRS by listed DMBs in Nigeria, there is evidence of lower earnings smoothing; however, the decrease in variability of net income (ΔNI^*) is not statistically significant (t = -0.4483, p= 0.1345 based on parametric t-test and z=-1.4970, p=0.6923 based on non-parametric Wilcoxon/Mann-Whitney test, The same results can be derived from this study of the analysis of the variability of ΔNI^* over ΔOCF^*. Specifically, Table 2 reveals that the ratio of net income variability to cash flow variability is higher in the post-adoption period (0.0030) than in the pre-adoption period (-0.2075). The increase is also not statistically significant (t = -0.6074, p= 0.1345 based on parametric t-test and z = 0.3960, p=0.6923 based on non-parametric Wilcoxon/Mann-Whitney test). Overall, these findings suggest that firms engaged in more earnings smoothing before the mandatory adoption of IFRS, though the difference is not large enough to be statistically significant. Taken together the two metrics of earnings smoothing, the results of analysis show that listed DMBs in Nigeria exhibit insignificant decrease in income smoothing following the mandatory adoption of IFRS. The results are consistent with Gebhardt and Novotny-Farkas (2011) using a sample of banks from 12 European banks and Chua (2012).

In testing the hypothesis earlier stated, the study used the p-value of variables of the variability of change in net income (ΔNI^*) and NI over cash flow (ΔOCF^*)0.1345 and 0.6923 which are greater than 0.05 and this led to the acceptance of the null hypothesis that there is no significant difference in earnings smoothing behaviour of DMBs in Nigeria before and after the mandatory adoption of IFRS.

Discussion of Findings

The result of the descriptive statistics also shows that DMBs exhibit less earnings smoothing behaviour following the mandatory adoption of IFRS. This is in line with the studies of Uyar (2013), Vladu (2013), Nouri and Abaoub (2014) but at variance with the studies of Houge, Monem, Tareq and Zijl (2015), Weerathunga (2015), Indrawati (2015), Chebaane and Othman (2013).

From the result of the earnings smoothing, there is an indication of increase in the variability of change in net income after the mandatory adoption of IFRS when compared with the pre-IFRS adoption era. The implication is that, the study shows evidence of lesser earnings smoothing by DMBs after the adoption of IFRS in Nigeria even though not significant statistically. The result is in line with studies of Tendeloo and Vanstraelen (2005); Chua (2012) and Indrawati (2015) but the result is at variance with the studies of Houge, Monem, Tareq and Zijl (2015); Weerathunga (2015); Klann and Beuren (2015) who found significant increase in earnings smoothing after adoption of IFRS which indicates lower accounting information quality. On the other hand, others studies such as

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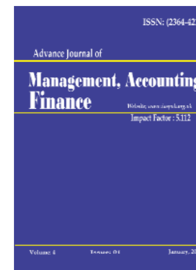


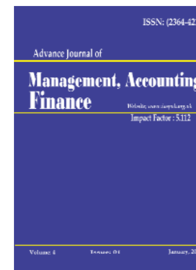
Iatridis (2010); Gebhardt and Novonyny-Farkas (2011); Jeno (2011); Lin, Ricardi and Wang (2012); Tanko (2012); Dimitropoulos, Asteriou, Kousenidis and Leventis (2013); Uyar (2013); Vladu (2013) found a significant decrease in earnings smoothing after the adoption of IFRS which by implication means increase in accounting information. The findings of our studies indicate a decrease in earnings smoothing after IFRS adoption but not significant enough to be interpreted as increase in accounting information quality.

In summary, the result of this study is at variance with the expectation and theoretical argument of Ewert and Wagenhofer (2015) that tighter rules might lead to a decrease in accounting discretion. In line with signaling theory, countries adopt IFRS to attract investment and send positive signals to investors since IFRS is believed generally to be of higher quality standards.

In summary, the result of this study is at variance with the expectation and theoretical argument of Ewert and Wagenhofer (2015) that tighter rules might lead to a decrease in accounting discretion. In line with signaling theory, countries adopt IFRS to attract investment and send positive signals to investors since IFRS is believed generally to be of higher quality standards. The result of this study is at variance with this believe and expectation since we found accounting information quality to have reduced following the mandatory adoption of IFRS by DMBs in Nigeria. In Nigeria like other African countries, several institutional factors can influence firms' reporting incentives in relation to the demand for external capital. The banking sector contributes largely to the Nigerian economy as such, the banking industry are associated with growth opportunities and higher competition for external capital than their counterparts in other sectors. As such, if IFRS enables firms to improve financial reporting to entice external investors, this effect would be expected to be higher in the banking industry. These expected benefits are based on the premise that mandating firms in reporting in line with IFRS increases transparency and improves the quality of financial reporting. However, there is evidence that accounting standards play only a limited role in determining observed quality of accounting information (Umobong and Akani, 2015). The application of accounting standards involves considerable judgment and the use of private information, and as a result, IFRS (like any other set of accounting standards) provide managers with substantial discretion and how far this discretion is applied by manager depend on firm specific characteristics such as operating characteristics and reporting incentives, legal institutions in place and to some, political reasons.

Conclusion

The study evaluates the effect of mandatory adoption of IFRS by DMBs in Nigeria for the period of 2008-2022. Secondary data were collected from 12 DMBs annual reports and accounts and regression analysis was adopted as techniques of data analysis. The result revealed that earnings smoothing behaviour of DMBs in Nigeria reduced insignificantly after the mandatory adoption of IFRS. The findings of the study have implication that adoption of high



quality standards (IFRS) are necessary in reducing earnings smoothing behaviour but not significant enough and therefore recommends that proper implementation and enforcements are also required and recommended. The Financial Reporting Council of Nigeria should moderate the excessive use of judgement by managers in managing earnings.
The study contributes to knowledge by focusing on Nigeria which is a developing country unlike previous studies that focused on developed and emerging economies with different political and economic environment.

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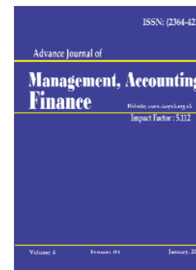

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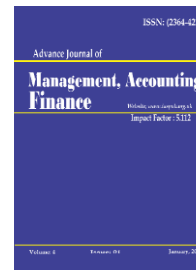

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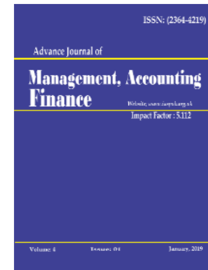

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