Earnings Management and Financial Statement Reporting Quality of Deposit Money Banks in Nigeria

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ABSTRACT

This study examined the effect of earnings management on the financial statement reporting quality of deposit money banks (DMBs) in Nigeria using panel data spanning 1994 to 2024. Specifically, it investigated the influence of earnings management on six dimensions of financial statement reporting quality: value relevance, timeliness, transparency, persistence and predictability, accrual quality, and accounting conservatism. An ex-post facto research design was adopted, and secondary data were obtained from the published audited annual reports of seventeen (17) purposively selected deposit money banks listed on the Nigerian Exchange Group. Earnings management was proxied using the Performance-Adjusted Modified Jones Model, and the Panel Least Squares (PLS) regression technique was employed for data analysis. The findings revealed that earnings management had a negative and statistically significant relationship with value relevance ($\beta = -0.107823$, $p < 0.05$), indicating that improved value relevance constrains earnings manipulation. Timeliness, transparency, and persistence and predictability exhibited statistically insignificant relationships with earnings management. However, accrual quality ($\beta = 0.000379$, $p < 0.05$) and accounting conservatism ($\beta = 0.0000585$, $p < 0.05$) showed positive and statistically significant relationships with earnings management. The study concludes that earnings management significantly influences selected dimensions of financial statement reporting quality among Nigerian deposit money banks, particularly value relevance, accrual quality, and accounting conservatism. It recommends that regulatory authorities strengthen monitoring and enforcement mechanisms, that banks improve corporate governance and internal control systems, and that external auditors intensify scrutiny of discretionary accruals to minimise earnings manipulation and enhance the credibility of financial reporting in the Nigerian banking sector.

Keywords: Earnings management, financial statement reporting quality, value relevance, accrual quality, accounting conservatism, deposit money banks, Nigeria

INTRODUCTION

Earnings management remains a critical issue in financial reporting, particularly within the banking sector, which is heavily regulated and closely monitored for transparency and accountability. Deposit Money Banks (DMBs) in Nigeria are expected to present accurate and reliable financial statements that reflect their true financial position. However, due to intense regulatory scrutiny, profit expectations, and the need to maintain investor confidence, managers may resort to earnings management strategies that distort the quality of reported earnings and financial statements (Ijeoma & Aronu, 2023). Such manipulations may affect users' decisions and could misrepresent a bank's financial health, with broader economic consequences.

A central tool of earnings management is the use of accruals - adjustments made to cash flows to better match income and expenses within a reporting period. Accruals may be discretionary, subject to managerial judgment, or non-discretionary, driven by accounting rules. Discretionary accruals are particularly important because they provide a window for managerial manipulation, potentially affecting the quality of reported assets (Ugwoke et al., 2022). Poor accrual quality can distort the representation of financial activities and result in inflated or understated asset disclosures (Nwaobia & Kwarbai, 2021), while poor accrual quality more broadly undermines the credibility of reported financial information and can mislead investors and regulators (Okolie, 2023).

Closely linked to accrual quality is earnings quality, which encompasses the persistence, predictability, and accuracy of reported earnings. High-quality earnings enhance the credibility of financial statements and support sound decision-making, whereas poor earnings quality - often a result of aggressive earnings management - undermines confidence in disclosed figures and can lead to market inefficiencies or regulatory penalties (Adegbite & Ayeni, 2022). Similarly, the manipulation of abnormal working capital, through strategic adjustment of receivables and payables, can distort the true financial condition of banks when not adequately disclosed (Adebayo & Olayinka, 2021).

Total accruals, which aggregate both discretionary and non-discretionary components, can also have a cumulative effect on the integrity of disclosed figures. Where total accruals are consistently used to manage earnings, the long-term reliability of financial reporting is compromised, weakening investors' ability to assess a bank's true financial health and potentially leading to poor investment decisions and diminished confidence in the financial system. In an environment such as Nigeria's, where corporate governance and regulatory enforcement have historically faced implementation challenges, these dynamics take on added significance for the deposit money banking subsector, which anchors the wider financial system and is a primary channel for savings mobilisation and credit intermediation.

Financial statement reporting serves as the primary source of information through which shareholders, regulators, depositors, and creditors evaluate the financial position, performance, and cash-generating capacity of a bank. Where earnings management distorts this information, the consequences extend beyond the individual bank to systemic risk within the financial sector, given the interconnected nature of deposit money banks and their role in payment settlement and credit allocation. It is against this backdrop that the present study interrogates the extent to which earnings management shapes the different qualitative dimensions of reported financial information in Nigerian deposit money banks.

Despite the growing body of literature on earnings management in the Nigerian banking sector, most existing studies examine isolated proxies of reporting quality - typically value relevance or earnings quality alone - or rely on relatively short observation windows of five to ten years, limiting the ability to draw robust, generalisable conclusions that hold across different regulatory and macroeconomic regimes. There remains a paucity of studies that simultaneously assess the effect of earnings management across multiple dimensions of financial statement reporting quality - value relevance, timeliness, transparency, persistence and predictability, accrual quality, and accounting conservatism - using a sufficiently long panel that spans multiple regulatory transitions, including the shift from Nigerian Statement of Accounting Standards (SAS) to International Financial Reporting Standards (IFRS), several banking sector recapitalisation exercises, and multiple macroeconomic cycles. This study addresses that gap by examining the effect of earnings management on all six dimensions concurrently, using a thirty-one-year panel (1994-2024) of seventeen Nigerian deposit money banks, thereby offering a more comprehensive and temporally robust empirical account than has previously been available in the Nigerian context.

Objectives of the Study

The broad objective of this study was to examine the effect of earnings management on the financial statement reporting quality of deposit money banks in Nigeria. The specific objectives were to:

i. Examine the effect of earnings management on the value relevance of financial statement reporting quality of deposit money banks in Nigeria.

ii. Ascertain the effect of earnings management on the timeliness of financial statement reporting quality of deposit money banks in Nigeria.

iii. Evaluate the effect of earnings management on the transparency and disclosure of financial statement reporting quality of deposit money banks in Nigeria.

iv. Evaluate the effect of earnings management on earnings persistence and predictability of financial statement reporting quality of deposit money banks in Nigeria.

v. Ascertain the effect of earnings management on the accrual quality of financial statement reporting quality of deposit money banks in Nigeria.

vi. Examine the effect of earnings management on the accounting conservatism of financial statement reporting quality of deposit money banks in Nigeria.

Research Hypotheses

In line with the objectives above, the study tested the following null hypotheses, stated in respect of each dimension of financial statement reporting quality: earnings management has no significant effect on (i) value relevance, (ii) timeliness, (iii) transparency and disclosure, (iv) earnings persistence and predictability, (v) accrual quality, and (vi) accounting conservatism of financial statement reporting quality of deposit money banks in Nigeria.

Significance and Scope of the Study

The findings are of value to regulators such as the Central Bank of Nigeria (CBN), the Financial Reporting Council (FRC), and the Nigerian Deposit Insurance Corporation (NDIC) in designing stricter accounting and disclosure policies; to bank management and internal auditors in identifying red flags in financial reporting practices; to investors and analysts in interpreting disclosed financial data; and to the academic community as a basis for further research on earnings management in developing economies. The study is restricted to seventeen deposit money banks listed on the Nigerian Exchange Group and covers the thirty-one-year period from 1994 to 2024, using discretionary accruals, non-discretionary accruals, total accruals, accrual quality, earnings quality, and abnormal working capital as the constituent elements of earnings management examined in relation to reporting quality.

LITERATURE REVIEW

Conceptual Review

Earnings management refers to the deliberate use of managerial judgment in financial reporting and in structuring transactions to alter financial results, typically to achieve specific reporting objectives such as smoothing income, meeting analyst forecasts, or satisfying regulatory thresholds. It is most commonly proxied in the literature by discretionary accruals - estimated using models such as the Jones (1991) model and its performance-adjusted variant developed by Kothari, Leone and Wasley (2005) - which isolate the portion of total accruals attributable to managerial discretion rather than normal business operations.

Financial statement reporting quality (FSRQ) denotes the degree to which financial statements faithfully represent a firm's true economic performance and position. In this study, FSRQ is disaggregated into six dimensions. **Value relevance** captures the extent to which accounting information is associated with market value or share price and is proxied by the price-to-book ratio. **Timeliness** reflects the availability of financial information to users before it loses decision usefulness and is proxied by return on assets. **Transparency** captures the openness and completeness of financial disclosure and is proxied by the non-performing loan ratio. **Persistence and predictability** reflect the sustainability of earnings over time and their usefulness for forecasting, proxied by net profit margin. **Accrual quality** measures how accurately accruals map into current, past and future cash flows, proxied using cash flow from operating activities across periods. **Accounting conservatism** reflects the asymmetric recognition of gains and losses and is proxied using the ratio of market value to book value.

These proxies are consistent with mainstream accounting research, which treats financial statement reporting quality as multidimensional rather than a single construct. A bank's reports may, for instance, be highly conservative yet poorly timed, or highly value-relevant yet opaque on specific risk exposures such as non-performing loans. Disaggregating reporting quality in this manner therefore allows a more granular assessment of precisely where earnings management exerts its greatest influence, rather than treating financial reporting quality as a single undifferentiated outcome, which is the approach adopted by much of the earlier Nigerian literature.

Theoretical Framework

This study is anchored on **Agency Theory**, propounded by Jensen and Meckling (1976), who conceptualise the firm as a nexus of contracts between principals (shareholders) and agents (managers) to whom decision-making authority is delegated. Agency costs arise where the interests of the two parties diverge, and where monitoring is imperfect or costly. Because managers of deposit money banks possess more detailed, timelier knowledge of the bank's true financial position than external stakeholders, this information asymmetry creates room for opportunistic earnings management that is difficult for outsiders - including minority shareholders, depositors, and even some regulators - to detect in real time. Agency theory identifies two principal sources of conflict relevant to this study: divergent risk preferences between principals and agents, and misalignment of goals compounded by the principal's inability to fully verify the agent's actions given cost and expertise constraints (Investopedia, 2020).

Agency theory further highlights the role of governance mechanisms - independent boards, audit committees, external audit quality, and regulatory oversight by bodies such as the Central Bank of Nigeria - in constraining managerial opportunism and aligning managerial behaviour with shareholder interests. Where such governance mechanisms are weak, agency costs rise, and managers gain greater latitude to exercise discretion over accruals and other judgment-laden elements of financial reporting. This makes agency theory a suitable lens for examining how earnings management, as a manifestation of unresolved agency conflict, affects the reliability of financial statements produced by Nigerian deposit money banks across the six reporting-quality dimensions examined in this study.

The study is complemented by **Free Cash Flow Theory** (Jensen, 1986), which posits that managers with access to cash flows in excess of profitable investment opportunities are prone to using that discretion - and by extension, accounting discretion - in ways that serve managerial rather than shareholder interests, such as pursuing empire-building investments or excessive perquisite consumption. Applied to the banking context, this theory suggests that banks with substantial internally generated resources and limited external monitoring may possess both the capacity and the incentive to manage earnings, reinforcing the link between managerial incentives, accrual manipulation, and the observed quality of reported financial information across the sampled banks.

Empirical Review and Gap in Literature

A substantial body of empirical work has examined earnings management in the Nigerian banking sector, though findings remain mixed. On value relevance, Adebanjo and Okere (2024) and Adebanjo and Wisdom (2024) examined financial reporting quality and disclosure in relation to stock price among listed Nigerian deposit money banks and found that earnings management weakens the extent to which accounting information is reflected in market prices, a position also supported by Ogbulu and Oba (2018), who linked discretionary accruals directly to reduced informativeness of reported earnings. These findings are broadly consistent with the theoretical expectation that manipulated earnings figures convey less reliable signals to the capital market, thereby weakening the statistical association between accounting numbers and share price.

On timeliness, Ogungbade, Adekoya and Olugbodi (2021) examined audit quality and financial reporting quality among listed Nigerian deposit money banks and reported that weaker audit oversight - often associated with more aggressive earnings management - correlates with delayed financial disclosure. Abiola (2021) and Adebayo and Musa (2022) similarly associated higher discretionary accruals with slower reporting cycles, on the premise that manipulated figures require additional internal reconciliation before release. These findings imply an inverse theoretical link between earnings management and timeliness, though, as this study's evidence later shows, this relationship does not always hold once regulatory reporting deadlines are factored in.

On transparency, Adeniran and Alabi (2020) investigated the role of regulatory frameworks in controlling discretionary accruals and found that earnings management significantly undermines financial transparency through selective disclosure practices, a conclusion echoed by Ogbulu and Oba (2018) and by Ijaiya and Olufemi (2020), who linked earnings management, earnings quality, and reporting transparency in a combined framework. These studies collectively suggest that discretionary accrual manipulation and the withholding or obscuring of material information - such as the true extent of non-performing loans - tend to move together.

On earnings persistence and predictability, Smith and Brown (2020) examined earnings management, bank performance, and earnings quality, and found that higher earnings management reduces the persistence of reported earnings, thereby weakening their usefulness for forecasting future performance. Thomas and Stevens (2022) and Umoren, Ikpantan and Ededeh (2019) reported comparable findings, linking earnings management directly to reduced predictability of bank earnings, on the reasoning that manipulated components of earnings are, by construction, transitory rather than persistent.

On accrual quality, Allee and Yohn (2021) examined the effects of earnings management on investor perception and market liquidity and argued theoretically that earnings management should reduce accrual quality by introducing bias into the accrual-generating process. Healy and Wahlen (2021), in a seminal review of the earnings management literature, and Dechow, Ge and Schrand (2020), in a review of earnings quality proxies, likewise suggest that accrual-based earnings management and accrual quality should move in opposite directions. Finally, on accounting conservatism, Adebanjo and Okere (2024), Ojianwuna (2024), and Nwachukwu and Okoye (2021) associated earnings management with reduced accounting conservatism and reduced comparability of financial statements across firms and over time, on the basis that opportunistic reporting is inconsistent with the asymmetric, cautious recognition of gains and losses that conservatism requires.

Notwithstanding this rich body of evidence, most prior Nigerian studies examine a single proxy of reporting quality in isolation, use relatively short panels of five to ten years, or rely on a single-equation model that does not distinguish between the several distinct dimensions of reporting quality identified above. Few, if any, studies have simultaneously modelled the effect of earnings management on value relevance, timeliness, transparency, persistence and predictability, accrual quality, and accounting conservatism within a single, unified empirical framework using a long panel spanning more than three decades and multiple accounting regimes, including the transition from Nigerian SAS to IFRS and successive banking-sector recapitalisation exercises. This constitutes the specific empirical gap that the present study addresses, and its resolution is the primary contribution of this research to the earnings-management literature in emerging-market banking contexts.

METHODOLOGY

The study adopted an **ex-post facto research design**, appropriate because the events under investigation - the accounting choices and reported figures of sampled banks - had already occurred and were extracted from existing, secondary data sources. Data were obtained from the published, audited annual reports and accounts of sampled deposit money banks, which are statutorily required to be independently audited prior to publication, thereby enhancing the reliability of the underlying data.

The population of the study comprised all forty-three (43) financial service firms classified under the Financial Services sector of the Nigerian Exchange Group, from which seventeen (17) deposit money banks were purposively selected on the basis of data availability across the full 1994-2024 window: Access Bank Plc, Fidelity Bank Plc, First City Monument Bank (FCMB) Limited, First Bank of Nigeria Limited, Guaranty Trust Bank (GTBank) Limited, United Bank for Africa (UBA) Plc, Zenith Bank Plc, Union Bank of Nigeria Plc, Citibank Nigeria Limited, Ecobank Nigeria, Keystone Bank Limited, Polaris Bank Limited, Stanbic IBTC Bank Plc, Standard Chartered Bank Nigeria Limited, Sterling Bank Plc, Unity Bank Plc, and Wema Bank Plc. The resulting balanced panel comprised 527 bank-year observations (17 cross-sections × 31 years).

Model Specification

Earnings management was measured using the **Performance-Adjusted Modified Jones Model** developed by Kothari, Leone and Wasley (2005), which estimates discretionary accruals after controlling for firm performance, thereby reducing the tendency of the standard Jones (1991) model to misclassify performance-driven accruals as discretionary. Non-discretionary accruals were first estimated from the Modified Jones Model, after which discretionary accruals were computed as the difference between total accruals and the estimated non-discretionary component; earnings management (EM) was proxied by the resulting discretionary accrual value.

Because financial statement reporting quality comprises six distinct dimensions, six separate panel regression models were estimated, each following the general specification:

$$Yit = \beta 0 + \beta 1EMit + \mu i + \varepsilon it$$

where Yit represents, in turn, each dimension of reporting quality (VR, TIM, TRA, PP, ACQ, ACC) for bank i at time t; EMit is earnings management; β0 is the intercept; β1 is the coefficient of earnings management; μi captures bank-specific effects; and εit is the error term.

Measurement of Variables

Dimension	Proxy	Formula
Value relevance (VR)	Price-to-book ratio	Market price per share / Book value per share
Timeliness (TIM)	Return on assets	Net profit after tax / Total assets
Transparency (TRA)	Non-performing loan ratio	Non-performing loans / Total loans
Persistence & predictability (PP)	Net profit margin	Net profit after tax / Total revenue
Accrual quality (ACQ)	Operating cash flow variability	Cash flow from operating activities (multi-year)
Accounting conservatism (ACC)	Market-to-book value	Market value / Book value

Total assets was included as the study's control variable, computed as the sum of current and non-current assets, to account for scale effects across banks of differing size.

Method of Data Analysis

Panel Least Squares (PLS) regression was employed to test all six hypotheses, with earnings management specified as the dependent variable and each reporting-quality dimension entered separately as the explanatory variable of interest, consistent with the six-model specification set out in Section 3.1. Panel data techniques were preferred over pure time-series or cross-sectional approaches because they combine the cross-sectional and time dimensions of the data, increase the degrees of freedom, strengthen the power of statistical tests, and permit control for unobserved, time-invariant heterogeneity across banks - such as differences in entrepreneurial capacity, ownership structure, or managerial attitude toward transparency - that would otherwise confound a purely cross-sectional or time-series analysis. Prior to estimation, all series were subjected to unit root testing to confirm stationarity and to rule out the possibility of spurious regression given the length of the panel (31 years). Model adequacy was assessed using the coefficient of determination (R^2) and adjusted R^2, while the overall statistical significance of each model was evaluated using the F-statistic and its associated probability value. The Durbin-Watson statistic was inspected in each model to check for first-order serial correlation in the residuals. Hypotheses were evaluated at the 5 percent level of significance: where the probability value associated with the coefficient of a reporting-quality dimension was less than 0.05, the null hypothesis of no significant effect was rejected in favour of the alternative; where the probability value exceeded 0.05, the null hypothesis was retained.

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Diagnostic Considerations

Given the length of the panel (31 years) and the possibility of non-stationary series, unit root tests were conducted on all variables prior to estimation to guard against spurious regression, and the variables employed in the reported models were confirmed to be stationary at levels or after first differencing, as appropriate. Multicollinearity was not a material concern in this study because each of the six models is a bivariate specification linking earnings management to a single reporting-quality dimension at a time, consistent with the study's objective of isolating the distinct effect of each dimension rather than estimating a single multivariate model in which the dimensions might be correlated with one another. The Durbin-Watson statistic was examined in each model as a check for first-order serial correlation, and, where present, was found to be mild and insufficient to invalidate the reported coefficients.

RESULTS AND DISCUSSION

Table 1 summarises the panel least squares regression results for the effect of earnings management on each of the six dimensions of financial statement reporting quality. All models were estimated on a balanced panel of 527 observations (17 banks × 31 years, 1994-2024).

Table 1: Summary of Panel Regression Results (Dependent Variable: Earnings Management)

Dimension	Coefficient (β)	Std. Error	t-Statistic	Prob.	R^2	F-stat (Prob.)	Decision
Value relevance (VR)	-0.107823	0.043242	-2.493486	0.0130	0.0117	6.2175 (0.0130)	Reject Ho
Timeliness (TIM)	0.004349	0.033813	0.128606	0.8977	0.0000	0.0165 (0.8977)	Accept Ho
Transparency (TRA)	-0.023259	0.016650	-1.396934	0.1630	0.0037	1.9514 (0.1630)	Accept Ho
Persistence & predictability (PP)	-0.019699	0.034502	-0.570960	0.5683	0.0006	0.3260 (0.5683)	Accept Ho
Accrual quality (ACQ)	0.000379	0.0000853	4.443285	0.0000	0.0362	19.743 (0.0000)	Reject Ho
Accounting conservatism (ACC)	0.0000585	0.0000220	2.660050	0.0081	0.0133	7.0759 (0.0081)	Reject Ho

Source: Author's computation from EViews output (2026), based on annual reports of sampled banks, 1994-2024.

Earnings Management and Value Relevance

Table 2: Panel Regression - Earnings Management and Value Relevance

Statistic	Value	Statistic	Value
VR coefficient	-0.107823	R-squared	0.011704
Std. error	0.043242	Adjusted R-squared	0.009822

t-statistic	-2.493486	S.E. of regression	0.738423
Prob.	0.0130	F-statistic	6.217471
Constant (C)	0.291902	Prob(F-statistic)	0.012956
Prob. (C)	0.0000	Durbin-Watson stat.	1.376591

Table 2 shows that value relevance carries a negative and statistically significant coefficient (β = -0.107823, t = -2.493486, p = 0.0130), so the null hypothesis is rejected. A one-unit increase in value relevance is associated with an approximate 0.108-unit decrease in earnings management, holding other factors constant, indicating that when the financial statements of banks become more value-relevant - that is, more closely associated with market price - managers face fewer opportunities or incentives to manipulate reported earnings. The model's F-statistic of 6.217471 (p = 0.012956) confirms that the overall specification is statistically significant, while the Durbin-Watson statistic of 1.376591 indicates only mild positive autocorrelation that does not materially compromise the estimates. The R^2 of 0.0117 indicates that value relevance alone explains a modest share of the variation in earnings management, which is unsurprising given that earnings management is influenced by numerous factors beyond any single explanatory variable.

This finding aligns with Adebanjo and Okere (2024), Adebanjo and Wisdom (2024), and Ogbulu and Oba (2018), who similarly found that earnings management weakens the value relevance of accounting information, and supports the broader theoretical position that high-quality, value-relevant reporting constrains managerial opportunism by making manipulation more visible to investors and analysts. From a policy perspective, the result implies that improving the value relevance of financial statements - for instance, through fuller fair-value disclosures and more informative segment reporting - can serve as an effective, market-based mechanism for curbing earnings manipulation in Nigerian banks, complementing formal regulatory enforcement.

Earnings Management and Timeliness

Table 3: Panel Regression - Earnings Management and Timeliness

Statistic	**Value**	**Statistic**	**Value**
TIM coefficient	0.004349	R-squared	0.000032
Std. error	0.033813	Adjusted R-squared	-0.001873
t-statistic	0.128606	S.E. of regression	0.742771
Prob.	0.8977	F-statistic	0.016539
Constant (C)	0.274045	Prob(F-statistic)	0.897719
Prob. (C)	0.0000	Durbin-Watson stat.	1.401941

Timeliness recorded a small, positive, and statistically insignificant coefficient (β = 0.004349, t = 0.128606, p = 0.8977), so the null hypothesis is retained. A one-unit increase in timeliness is associated with only a 0.004-unit increase in earnings management, an economically negligible effect. The R^2 of 0.000032 and adjusted R^2 of -0.001873 confirm that timeliness explains virtually none of the variation in earnings management, and the insignificant F-statistic (0.016539, p = 0.897719) indicates that the model as a whole lacks explanatory power for this dimension.

This result contradicts studies such as Ogungbade et al. (2021), Abiola (2021), and Adebayo and Musa (2022), which link earnings management to reporting delays. The insignificant result observed here is plausibly explained by the stringent statutory reporting deadlines imposed by the Central Bank of Nigeria and other regulators, which compel Nigerian banks to release audited financial statements within prescribed periods essentially irrespective of underlying earnings management activity. Because timeliness in this context is driven primarily by regulatory compliance rather than managerial discretion, it functions as a comparatively weak indicator of manipulation, and greater analytical weight should be placed on dimensions - such as value relevance, accrual quality, and accounting conservatism - that more directly capture managerial discretion over reported figures.

Earnings Management and Transparency

Table 4: Panel Regression - Earnings Management and Transparency

Statistic	Value	Statistic	Value
TRA coefficient	-0.023259	R-squared	0.003703
Std. error	0.016650	Adjusted R-squared	0.001806
t-statistic	-1.396934	S.E. of regression	0.741406
Prob.	0.1630	F-statistic	1.951425
Constant (C)	0.289980	Prob(F-statistic)	0.163024
Prob. (C)	0.0000	Durbin-Watson stat.	1.416059

Transparency exhibited a negative but statistically insignificant coefficient (β = -0.023259, t = -1.396934, p = 0.1630); the null hypothesis is accepted. A one-unit increase in transparency is associated with an approximate 0.023-unit reduction in earnings management, but because the probability value exceeds 0.05, this reduction cannot be considered statistically meaningful. The R^2 of 0.0037 and insignificant F-statistic (1.951425, p = 0.163024) reinforce the conclusion that transparency, as proxied by the non-performing loan ratio, has limited independent explanatory power over earnings management in this sample.

Although the direction of the coefficient is consistent with theoretical expectation, the result diverges from Adeniran and Alabi (2020), Ogbulu and Oba (2018), and Ijaiya and Olufemi (2020), who reported a significant negative relationship between earnings management and transparency. This divergence may reflect the heavily regulated disclosure environment of Nigerian banking, in which prudential guidelines and supervisory requirements imposed by the CBN and NDIC standardise the reporting of asset-quality indicators such as non-performing loans across banks, thereby limiting the extent to which earnings management can independently drive variation in this particular transparency proxy. This suggests that disclosure-based transparency in the Nigerian banking sector is shaped more by regulatory compliance than by discretionary managerial behaviour.

Earnings Management and Persistence and Predictability

Table 5: Panel Regression - Earnings Management and Persistence and Predictability

Statistic	Value	Statistic	Value
PP coefficient	-0.019699	R-squared	0.000621
Std. error	0.034502	Adjusted R-squared	-0.001283

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t-statistic	-0.570960	S.E. of regression	0.742553
Prob.	0.5683	F-statistic	0.325996
Constant (C)	0.278322	Prob(F-statistic)	0.568271
Prob. (C)	0.0000	Durbin-Watson stat.	1.395551

The coefficient for persistence and predictability was negative but statistically insignificant ($\beta = -0.019699$, $t = -0.570960$, $p = 0.5683$), so the null hypothesis is accepted. The negative sign is consistent with theoretical expectation - implying that a one-unit increase in persistence and predictability is associated with an approximate 0.020-unit decrease in earnings management - but the effect falls well short of conventional significance thresholds. The R^2 of 0.000621 and the insignificant F-statistic (0.325996, $p = 0.568271$) confirm that persistence and predictability, as proxied by net profit margin, contribute very little to explaining variation in earnings management across the sampled banks.

This finding is inconsistent with Smith and Brown (2020), Thomas and Stevens (2022), and Umoren, Ikpantan and Ededeh (2019), who reported significant relationships between earnings management and earnings persistence. The insignificant result obtained here suggests that earnings persistence and predictability among Nigerian deposit money banks are driven more by macroeconomic conditions - such as interest rate cycles, inflation, and exchange rate volatility - and by underlying operational performance than by earnings management per se. This cautions regulators and investors against relying on persistence and predictability alone as a manipulation-detection tool, and points instead toward the value of combining multiple reporting-quality indicators, as undertaken in this study, when assessing the credibility of bank financial statements.

Earnings Management and Accrual Quality

Table 6: Panel Regression - Earnings Management and Accrual Quality

Statistic	**Value**	**Statistic**	**Value**
ACQ coefficient	0.000379	R-squared	0.036242
Std. error	0.0000853	Adjusted R-squared	0.034407
t-statistic	4.443285	S.E. of regression	0.729199
Prob.	0.0000	F-statistic	19.742780
Constant (C)	0.132873	Prob(F-statistic)	0.000011
Prob. (C)	0.0033	Durbin-Watson stat.	1.319548

Accrual quality showed a positive and statistically significant coefficient ($\beta = 0.000379$, $t = 4.443285$, $p = 0.0000$), leading to rejection of the null hypothesis. The model records the highest explanatory power among the six estimated ($R^2 = 0.0362$, adjusted $R^2 = 0.0344$) and a highly significant F-statistic (19.742780, $p = 0.000011$), indicating that accrual quality is the strongest single predictor of earnings management among the dimensions examined in this study.

This positive association appears, at first glance, to run counter to the theoretical expectation of Allee and Yohn (2021), Healy and Wahlen (2021), and Dechow, Ge and Schrand (2020), who suggest that earnings management should reduce, rather than raise, accrual quality. A plausible explanation is that Nigerian banks may engage in sophisticated forms of earnings management that remain technically compliant with accounting standards and

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reporting conventions, generating an appearance of accrual reliability even where discretionary elements are present in the estimation of loan-loss provisions, fair-value adjustments, or other judgment-intensive accrual items. Because the Dechow-Dichev-style accrual-quality measure used in this and comparable studies captures how well accruals map into realised cash flows, a bank could report accruals that appear well-behaved in a purely statistical sense while nonetheless embedding discretionary elements that are not detected by this particular metric. This finding underscores the need for closer scrutiny of accounting estimates by auditors, audit committees, and prudential regulators, rather than reliance on accrual-quality statistics in isolation.

Earnings Management and Accounting Conservatism

Table 7: Panel Regression - Earnings Management and Accounting Conservatism

Statistic	Value	Statistic	Value
ACC coefficient	0.0000585	R-squared	0.013299
Std. error	0.0000220	Adjusted R-squared	0.011419
t-statistic	2.660050	S.E. of regression	0.737827
Prob.	0.0081	F-statistic	7.075868
Constant (C)	0.230201	Prob(F-statistic)	0.008052
Prob. (C)	0.0000	Durbin-Watson stat.	1.378811

Accounting conservatism was positively and significantly associated with earnings management ($\beta = 0.0000585$, $t = 2.660050$, $p = 0.0081$), and the null hypothesis is rejected. The model's F-statistic of 7.075868 ($p = 0.008052$) confirms overall significance, while the R^2 of 0.0133 indicates a modest but meaningful share of explained variation, higher than that recorded for timeliness, transparency, and persistence and predictability.

This result departs from Adebanjo and Okere (2024), Ojianwuna (2024), and Nwachukwu and Okoye (2021), who associated earnings management with reduced conservatism. The positive relationship observed here implies that uniform, industry-wide adoption of IFRS and standardised prudential reporting conventions may produce an outward appearance of conservatism across Nigerian banks even as individual banks continue to exercise discretion in specific accounting estimates, such as loan-loss provisioning or asset impairment. In other words, conservatism at the level of broad accounting policy does not preclude discretion at the level of individual estimates within that policy. This indicates that conservatism requirements alone are not sufficient to eliminate earnings manipulation, and should be complemented by more granular, estimate-level monitoring mechanisms on the part of auditors and regulators.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study examined the effect of earnings management on six dimensions of financial statement reporting quality among seventeen Nigerian deposit money banks over a thirty-one-year period. The evidence shows that earnings management significantly affects value relevance, accrual quality, and accounting conservatism, but has no statistically significant effect on timeliness, transparency, or persistence and predictability. The significant negative relationship with value relevance suggests that more value-relevant reporting constrains managerial manipulation, while the significant positive relationships with accrual quality and accounting conservatism suggest that Nigerian banks may pursue sophisticated forms of earnings management that remain nominally compliant with accounting standards and reporting conventions. Overall, earnings management remains an important determinant of financial statement reporting quality in the Nigerian banking sector, underscoring the continuing need for stronger corporate governance, regulatory oversight, and disclosure practices.

Recommendations

i. Bank management should improve the value relevance of financial reports by ensuring that financial statements faithfully represent the economic realities of operations, thereby reducing opportunities for earnings manipulation.

ii. The Central Bank of Nigeria and the Financial Reporting Council of Nigeria should strengthen monitoring and enforcement mechanisms to detect and discourage earnings management practices.

iii. Banks should strengthen internal control systems and corporate governance structures - particularly the independence of audit committees and boards - to enhance financial reporting quality.

iv. External auditors should intensify scrutiny of accounting estimates and discretionary accruals that may be used to manipulate reported earnings.

v. Regulatory authorities should establish stricter disclosure requirements and impose appropriate sanctions on banks found engaging in earnings management practices.

vi. Investors should not rely solely on accounting conservatism or accrual quality indicators, but should evaluate multiple dimensions of reporting quality before making investment decisions.

Limitations of the Study

As with any empirical study of this nature, the findings should be interpreted in light of certain limitations. First, the sample is restricted to seventeen deposit money banks for which a complete data series was available across the full 1994-2024 window; banks with incomplete records, including some that have since been merged, acquired, or delisted, were necessarily excluded, which may introduce a degree of survivorship bias. Second, each reporting-quality dimension was estimated in a separate bivariate model rather than a single multivariate specification, a choice made deliberately to isolate the distinct effect of each dimension, but one that does not capture potential interaction effects among the dimensions themselves. Third, earnings management was proxied solely by accrual-based discretionary accruals using the Performance-Adjusted Modified Jones Model; the study does not capture real earnings management activities such as the timing of discretionary expenditure or sales manipulation, which may operate through different channels than those captured here. These limitations do not undermine the core findings but do suggest useful directions for future research.

Contribution to Knowledge and Suggestions for Further Research

This study contributes to the literature by simultaneously modelling the effect of earnings management on six distinct dimensions of financial statement reporting quality within a single framework, using a balanced thirty-one-year panel of Nigerian deposit money banks - a considerably longer window than most prior Nigerian studies. It provides regulators, auditors, and investors with dimension-specific evidence on where earnings management exerts the greatest influence on reporting quality, distinguishing between dimensions such as value relevance, accrual quality, and accounting conservatism, where the effect is significant, and dimensions such as timeliness, transparency, and persistence and predictability, where it is not. This distinction is itself a useful contribution, as it cautions against treating financial statement reporting quality as a single, undifferentiated outcome when designing regulatory or governance interventions targeted at earnings management.

Future studies could extend this framework to other sectors of the Nigerian economy, such as manufacturing, insurance, and telecommunications firms, to assess whether the dimension-specific pattern of results observed here is peculiar to the heavily regulated banking sector or holds more broadly. Researchers may also incorporate real earnings management measures - such as abnormal levels of discretionary expenditure, production costs, or sales manipulation - alongside the accrual-based proxy used in this study, employ alternative estimators such as the Generalized Method of Moments, Dynamic Panel Regression, or Fully Modified Ordinary Least Squares to validate the findings, and examine the moderating role of corporate governance variables such as board independence, audit committee effectiveness, and institutional ownership in the relationship between earnings management and financial statement reporting quality. Comparative studies between Nigerian banks and banks in other African countries may further help establish whether the patterns identified here generalise across emerging banking markets with broadly similar regulatory architectures.

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