MODERATING EFFECT OF MANAGERIAL OWNERSHIP ON ACCOUNTING CONSERVATISM AND QUALITY OF EARNINGS OF LISTED INDUSTRIAL FIRMS IN NIGERIA

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Abstract
This study adopts a positivist view to the examined moderating effect of managerial ownership, accounting conservatism, and quality of earnings of listed industrial firms in Nigeria from 2009 to 2018. The study employed ex-post facto research design and panel multiple regression for the analysis. The population of the study comprised of 13 listed industrial firms in Nigeria as at 31st December 2018. Accounting conservatism was measured using Beaver and Ryan’s (2000) model while the quality of earnings as measured by the modified Jones model. Managerial ownership was measured by the proportion of managerial ownership in the firm. It was discovered that an increase in accounting conservatism of industrial firms will lead to a decrease in quality of earnings, but moderated accounting conservatism has no statistically significant effect on the quality of earnings of industrial firms in Nigeria. The study recommends that shareholders of industrial firms in Nigeria should encourage accounting conservatism because it will reduce earnings quality practice by the management thereby bringing out the true picture of the financial activities of the organization. This will encourage more investment in the firm by potential and existing shareholders.

Keywords: Accounting conservatism, Corporate governance, Financial reporting, Managerial ownership, Quality of earnings

JEL Codes: H83 M41 M41
1.0 Introduction

The importance of information disclosed in the financial reports is the foundation for investment decisions. Consequently, accounting information should be both reliable and relevant, which has always been the aim of standards regulators. Accounting methods and practices have been continuously developed through time to ensure the quality of disclosed information; specifically, the quality of the earnings figure. However, throughout the process of ensuring and enhancing earnings quality, some of the accounting practices unintentionally distort the quality of the information content. Accounting conservatism is incorporated in the various alternative accounting methods from which the firm can choose from. These methods are derived from the accounting standards, which are imposed exogenously; making reported earnings more prudent (i.e. lower). However, companies can still choose to apply less conservative methods to report higher earnings.

In recent years, the quality of reported earnings has become a key concern for analysts and investors as it influences resource allocation. However, the quality of reported earnings is influenced by standards used to measure and managers' discretion in the process of measuring. This has led to the need to understand the process of measurement of earnings and factors that induce bias in the process of measuring the reported earnings to avoid poor allocation of investment in financial markets. It is becoming important for analysts and investors to understand factors that influence the quality of reported earnings to avoid losses in trading and maximize their portfolio. Traditionally financial reporting is based on the conservatism principle which requires anticipating all possible losses and writes them off in an unfavorable period and underestimates gains in a favorable period (Penman & Zhang, 2002). This principle has been practiced in the past, and it has been influential over time (Watts, 2003). However, in recent years, standard setters for example IASB have developed a standard that is less conservative in an attempt to reduce conservatism in financial reporting.

Investors and creditors have different interests in the company. Investors are trying to take advantage of taking excessive dividends from creditor funds. This condition is made possible by companies with a very large ownership structure. The decision to pay excessive dividend increases. Meanwhile, creditors want the security of funds for future profits. To avoid the transfer of profits made by investors through excessive dividend withdrawal then the creditor wants a conservative financial reporting. The practice of each company's conservatism is usually different, due to the various choices of accounting methods. Conservatism is an accounting principle that tends to generate profit and asset values. Conservatism slows revenue recognition and accelerates cost recognition which arises from the application of the principle of conservatism. Conservatism critics argue that this principle causes the financial statements to be biased so it cannot be used as a tool to evaluate corporate risk (Chakrabarty & Moulton, 2012).
According to Kothari (2012), conservatism is the delays in recognition of future cash inflows and also, it reports the lowest accounting information of several possible values for assets and revenues, and the highest for liability and burden. Conservatism is a preference for accounting methods that yields the lowest value for assets and income on the one hand, and produces the highest value for debt and fees, on the other. Or in other words, the conservatism produces the lowest equity book value. Conservatism supporters argue that conservatism produces higher-quality profits because this principle prevents corporations from exaggerating earnings and helps users of financial statements by presenting non-overstate earnings and assets (Feltham & Ohlson, 1995). They prove that earnings and assets calculated by conservative accounting can improve the quality of earnings so that it can be used to assess the company. There are two differences in the information the manager has and the information on the profits of the entrepreneur. First is that managers have information about future earnings that investors do not have access to.

Conservatism is part of an efficient contact mechanism between the company and various parties (Watts, 2003). Based on the contractual explanation, accounting conservatism can be used to avoid moral hazard caused by parties with asymmetric information and limited responsibility. For example, a conservatism can withstand the manager's opportunistic behavior in reporting accounting measures used in the contract. Conservatism is the result of asymmetric requirements for identifying earning and losses in the company's financial statements. This action will make accountants more likely to identify and reflect economic losses to their earning (Basu, 1997). Based on past research, conservatism creates limitations on accruals-based earning management. Guy and Verchia (2006) argue that conservatism reduces the opportunities for successful earnings management based on accruals through identifying losses in real-time and delaying the identification of economic earning. Watts (2003) argued that one of the key roles of conservatism is to restrict the financial statements of managers opportunistically and to neutralize and eliminate the bias applied to financial statements by profitable and selfish individuals.

The existing literature on the effect of accounting conservatism on earnings quality is carried out mostly in the developed nations were their economic activities differ from that of Nigeria hence, their conclusion cannot be applied to the Nigerian case most especially in the industrial sector where this study was conducted. Such studies are Shafiei and Javaheri (2016) who investigate the relationship between Accounting Conservatism with Earnings Quality and Stock Price in Corporations of Accepted in Tehran Stock Exchange from 2011-2015; Mashoka and Abu-hommous (2018) evaluate the effect of accounting conservatism on earnings quality from the period 2001 to 2012; Asri (2017) assessed effect of accounting conservatism on earnings quality of Indonesia firms during the period 2010-20015; Lyimo and Tanzania (2014) examined conditional
conservatism in Indian capital markets and the extent to which conditional conservatism affect earnings quality and stock prices from 2006 to 2012.

Also, their studies do not consider the ownership structure influence on the practice of accounting conservatism which this study consider as paramount because the nature of managerial ownership in the organizations affect the behavior of their reporting system and the way the management will align their interest to that of the other shareholders of the organization. Though the study of Bayk and Ramezanahmadi (2016) investigate the impact of corporate governance mechanisms on the relationship between conservatism and earnings management in the Tehran Stock Exchange from 1987 to 1993; Utomo, Pamungkas, and Machmuddah (2018) determined the moderating effects of managerial ownership, independent commissioners and audit committees on the relationship between accounting conservatism and quality of earnings of LQ 45 companies that are on the Indonesia Stock Exchange (IDX) during 2014-2016 but these studies were carried out in developed nations which left no evidence of such in the Nigeria context. Therefore, this study determined the moderating effect of managerial ownership on the relationship between accounting conservatism and the quality of earnings in industrial firms in Nigeria from 2009 to 2018.

Thus, what is the effect of the moderating effect of managerial ownership on the relationship between accounting conservatism and quality of earnings of listed industrial goods sector in Nigeria also the general objective is to examine the moderating effect of managerial ownership on the relationship between accounting conservatism and quality of earnings of listed industrial goods sector in Nigeria the research hypothesis is in line with research question and objective

This study expects to contribute to the growing knowledge of the moderating effect of managerial ownership on the relationship between accounting conservatism and the quality of earnings. The remainder of this study is structured as follows: Section 2 provides the literature review, empirical review, and hypotheses development. Section 3 outlines the methodology implemented, while Section 4 describes the results of this study. Section 5 discusses the conclusions and recommendations of the study.

2.0 Literature Review

2.1 Conceptual Framework

Accounting Conservatism

According to Givoly and Hayn (2000), conservatism is the selection of an accounting approach under uncertainty condition which would finally lead to lower assets and revenues and has the least positive influence on the owners’ equity. Gim and Zhank (2000) noted that conservatism includes isolating the whole impending losses and non-recognition of the promising earnings. Basu
(1997) defined conservatism as a procedure whereby an advanced degree of dependability is applied in recognizing and recording the earnings and hopeful news (incremental value), while a lower degree of dependability is used in recognizing losses and detrimental news. Penman and Zhang (2000) perceived that accounting conservatism is comprised of selecting an appraised method of accounting which depicts the book value of the assets at a lower level. This is a dominant type of financial reporting which have been focused on in recent years because of the famed failures of firms such as Enron and WorldCom (Mohammed et al., 2013).

Watts (2003), Roychvrdary and Watts (2005), and LaFond and Watts (2006) distinguished between two main realms of conservatism that have been reflective in literature: downward bias of book value of the equity to its market value and the tendency to quick recognition of the costs and deferrals in recognizing revenue. The degree of accounting conservatism suggests more-timely incorporation of economic damages into accounting earnings than of economic increases (Ball, Robin & Wu, 2000). Like financial reporting quality, accounting conservatism has become an inducement to managers to sponsor better-accomplishing projects that increase future performance since these economic or financial projects are more profitable (Martínez-Ferrero, 2014).

Accounting conservatism aims to produce an understated earnings figure through anticipating any possible future losses and by maintaining a low book value of net assets. Ahmed and Duellmand (2011) showed that conservative firms relish better future profitability arising from investment in more efficient projects. Bushman and Smith (2001) reported that firms with higher financial reporting quality are certain to encourage profitable investment decisions and thus could view increases in their corporate performance. According to Martínez-Ferrero (2014), conservative accounting echoes bad news for the company speedily than good news. This is because this tactic inclines to decrease risks of lawsuits.

Accounting conservatism could be divided into unconditional accounting conservatism and conditional accounting conservatism (Beaver & Ryan, 2005). Unconditional accounting conservatism is referred to as ex-ante or news-independent. In this case, the book value of net assets is understated due to predetermined aspects (adopted accounting methods and policies) of the accounting process. This is why unconditional conservatism is also called balance-sheets conservatism. Conditional accounting conservatism is ex-post or news-dependent or also referred to as earnings conservatism. Conditional accounting conservatism refers to the application of accounting methods and policies that recognize bad news in earnings on a timelier basis that good news. Pae (2007) explained the difference with two examples: “Unconditional accounting conservatism includes the immediate expensing of advertising and research and development expenditures, and the historical cost accounting for positive net present value projects. Conditional accounting conservatism includes
the application of the lower of cost or market rule for inventory, the impairment test of long-lived assets, and the asymmetric treatment of contingent losses versus contingent gains.

Under the Net Assets Measure of Accounting conservatism, the market value of assets and liabilities comprises the net disparities in the assets of each period. However, all these disparities are not chronicled in the accounts and are not replicated on financial reports. According to the conservatism concepts, increasing assets’ value (earnings) which is not adequately provable will not be documented; while their decreasing value with alike provability will be reduced. The Feltham and Ohlson (1995) model is used to evaluate the assets at a level lesser than the real assets. This model comprised those considerations with low splendor of operating assets based on the supposition that the accounting devaluation is bigger than the economic depreciation. Beaver and Rayan (2000) used the ratio of book value to the market value. Taking other elements constant, using conservative accounting leads to reporting lesser net assets and a lesser ratio of book value to market value (Watts, 2003). They use a market-to-book value ratio to measure conservatism. This proxy has been proven to be used as a conservatism measurement by fellow researcher Watts (2003). The proxy for conservatism is:

\[ \text{CONACC}_{i,t} = \frac{\text{Number of share}_{i,t} \times \text{Share price}_{i,t}}{\text{Total equity}_{i,t}} \]

Where,
\[ \text{CONACC}_{i,t} = \text{the level of conservatism} \]
\[ \text{Number of share}_{i,t} = \text{company’s outstanding shares at the end of the period} \]
\[ \text{Share price}_{i,t} = \text{company’s shares price at the end of the period} \]
\[ \text{Total equity}_{i,t} = \text{company’s total equity} \]

This measurement is following conservatism as an accounting principle that will result in a lower company’s book value compared to its market value. The company’s book value is represented by its total equity, while its market value represents its shares market price. The value of CONACC\(_{i,t}\) of more than one means the company implements the conservatism principle because the company record book value lower than its market value.

**Earning Quality**

The standpoint of stewardship (or accountability) emphasizes financial information transparency, faithfulness, and objectivity. Rezaee (2002) proposed that financial information should be fully and fairly disclosed and should not mislead or confuse financial statement users. In summary, the role of financial reporting under the view of stewardship (or accountability) is to monitor management by mitigating information asymmetry between managers and stakeholders. Earnings quality based on the stewardship (or accountability) can be measured by conservatism and accruals quality. Determinant criteria of financial
reporting quality are defined as a degree of aggressiveness or conservatism of accounting principles (The SEC Recommendation No.8). Conservatism captures financial statement transparency since conservatism constrains managerial opportunistic behavior and offsets managerial biases with its financial information asymmetry (Watts 2003a). Accruals quality is a good proxy of earnings quality (Schipper & Vincent, 2003) since accruals quality represents the faithfulness of financial reporting. Faithfulness in financial reporting is defined as that “to be reliable, information must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent.” (The IASB Framework, paragraph 33). Consequently, conservatism and accruals quality can be proxy to measure of earnings quality under the concept of stewardship (or accountability).

Below is a regression model to find abnormal accrual, known as the Modified Jones model:

\[
TA_{i,t} = \alpha_1 + \beta_1 (\Delta REV_{i,t} - \Delta AR_{i,t}) + \beta_2 PPE_{i,t} + e_{it}
\]

Where

- \( TA_{i,t} \) = total accruals in period \( t \)
- \( \Delta REV_{i,t} \) = The change in revenue
- \( \Delta AR_{i,t} \) = the change in account receivable
- \( A_{i,t-1} \) = total assets in period \( t-1 \)
- \( PPE_{i,t} \) = the sum of property, plant, and equipment

Total accruals in period \( t \) or can be found by the equation below

\[
TA_{i,t} = NI_{i,t} - CFO_{it}
\]

Where

- \( TA_{i,t} \) = total accruals in period \( t \)
- \( NI_{i,t} \) = net income in period \( t \)
- \( CFO_{it} \) = cash flow from operational activity in period \( t \)

Total accruals consist of two components, namely discretionary and non-discretionary accrual. The abnormal accrual is represented by discretionary accrual. Discretionary accrual in the regression model is the \( e_{it} \).

\[
DA_{it} = |e_{it}|
\]

Where:

- \( DA_{it} \) = Discretionary accruals in period \( t \)

The expected value of error \( e_{it} \) is negative, hence the absolute is needed to make it positive. The higher the result of \( DA_{it} \) means the higher earnings management practices or the lower its earnings quality. On the contrary, the lower the result means a decrease in earnings management or higher earnings quality.

**Managerial Ownership**

Jensen and Meckling (1976) stated that managerial ownership will reduce agency problems because more and more shares are owned by the management, the
stronger their motivation to work in improving the value of the company's stock

In the context of conservatism, managerial ownership has two different arguments. Managerial ownership can act as a monitoring function in the financial reporting process, and it can also be driving factors for the expropriation of minority shareholders. If managerial ownership performs its monitoring function properly, then it will require information from financial reporting that has a high quality so that they are will demand the use of a higher conservatism principle. However, if their ownership encourages expropriation of the company, then they will be more inclined to use more liberal accounting principles (more aggressive).

According to Lafond and Roychowdhury (2007), by increasing all managerial ownership, the agency problems that arise will be even greater so the demand for conservative reports will increase. Consistent with this hypothesis, they found a negative relationship between ownership managerial with conservatism as measured by the size of asymmetric timeliness from the recognition of profit and loss.

2.2 Theoretical Framework

Signal Theory: The theory was developed by Michael Spence based on observed knowledge gaps between organizations and shareholders. Managers provide information through financial statements using applied conservatism accounting policy. This results in higher-quality profits as the principle prevents corporations from exaggerating earnings. The principle also ensures that financial statements are not overstated.

The signal theory explained that signals are performed by managers to reduce information asymmetry. In practice, management implements conservative accounting policies by calculating high depreciation value that will result in relatively permanent low profits which means that it has no temporary effect on declining profits that will reverse in the future. Voluntary changes and differences in accounting techniques do affect investors, companies, and managers (Lev & Ohlson, 1983). Companies operating in complex environments have a degree of difference in information asymmetry limited by the flexibility of acquiring reporting technology (Bartov, Givoly & Hayn, 2002).

Financial statement analysts identified the aspects of the relevant financial statements for the decision on achievement (Penman & Zhang, 2006). Accounting conservatism reflects a permanent policy of accounting (Penman & Zhang, 2002). Empirically, their research indicated that qualified earnings are obtained if management applies conservative accounting consistently without any change in accounting methods or changes in estimates. Investors are expected to receive this signal and rate the company higher.
2.3. Empirical Review

Utomo, Pamungkas, and Machmuddah (2018) examined the effect of accounting conservatism on quality of earnings and also determined the moderating effects of managerial ownership, independent commissioners, and audit committees on the relationship between accounting conservatism and quality of earnings of LQ 45 companies that are on the Indonesia Stock Exchange (IDX) during 2014-2016 using correlational research design while multiple linear regression analysis was used to test the hypothesis. The results show that accounting conservatism has a positive effect on the quality of earnings. Managerial ownership as a moderating variable has a significant effect on accounting conservatism relationship to quality of earnings. Independent commissioners and audit committees as moderating variables do not have a significant influence on the relationship of accounting conservatism to quality of earnings.

Shafiei and Javaheri (2016) investigate the relationship between Accounting Conservatism with Earnings Quality and Stock Price in Corporations of Accepted in Tehran Stock Exchange from 2011-2015. The study used multivariate linear regression and 96 companies constitute the sample size of the study. Findings show that there is a significant relationship between conditional conservatism and unconditional conservatism and earnings quality. Also, there is a significant relationship between conditional and unconditional conservatism and stock price. In other words, increasing the amount of conservatism in events (unconditional) with earnings quality is less (the negative relationship between unconditional conservatism and earnings quality and stock price) and also to increase the conservatism of the events (conditional) by increasing the quality of earnings (the positive relationship between conservatism and earnings quality and stock price) is associated.

Mashoka and Abu-hommous (2018) evaluated the effect of accounting conservatism on earnings quality using Basu Model (1997) with modification to test the relationship between conservatism and earnings quality. The model is applied to a sample of the listed firm in the Amman Stock Exchange (ASE) from the period 2001 to 2012. Results showed that high change in investment levels, a high percentage of institutional investors, and market classification increases the level of conservatism and consequently decreases the quality of earnings.

Bayk and Ramezanahmadi (2016) investigated the impact of corporate governance mechanisms on the relationship between conservatism and earnings management in the Tehran Stock Exchange. Test hypotheses were carried out using multiple regression analysis and estimated generalized least squares method (EGLS), with panel data for the period of 1987 to 1993, based on data gathered from 150 participants. The results showed that conservatism through real-time detection of losses and delay in recognizing economic benefits, reduce management opportunities based on the accrual-based earnings. Furthermore,
corporate governance variables according to their supervisory role were found to increase conservatism and reduce the firm's earnings manipulation.

Mashoka and Abu-hommous (2017) examined the effect of accounting conservatism on earnings quality. The paper applied the Basu Model (1997) with modification to test the relationship between conservatism and earnings quality. The model was applied to a sample of the listed firm in the Amman Stock Exchange (ASE) from the period 2001 to 2012. Results showed that high change in investment levels, a high percentage of institutional investors, and market classification increases the level of conservatism and consequently decreases the quality of earnings. These results indicate that earnings quality changes from one period to another and varies between firms according to changes in conservatism levels.

Asri (2017) assessed the effect of accounting conservatism on earnings quality. Data were obtained from the Population are companies listed in Indonesia Stock Exchange during the period 2010-20015. The result of this study indicates that the Instrumental Variables Conservatism (VIK) has a significant positive effect on Earning Quality. This means that management positively signals the application of accounting conservatism within the company and has an impact on improving the quality of earnings. Thus, the next investor is expected to provide more valuations by providing a high premium for the company's stock price

Lyimo and Tanzania (2014) examined conditional conservatism in Indian capital markets and the extent to which conditional conservatism affects earnings quality and stock prices. The study used secondary data for companies listed in Bombay stock exchange from 2006 to 2012 while pooled panel data regression with standard error robust was employed. The study found that conservatism does not affect the quality of reported earnings, however, it influences stock prices.

Alarlooq, Aslani, and Azadi (2014) evaluated the effect of accounting conservatism on earnings management in Tehran Stock Exchange from 2006-2011 and the data were collected through questionnaires methods while Multiple Regression was used for the analysis. Findings show that conditional accounting conservatism hurts real earnings management and statistically is non-significant and unconditional accounting conservatism has a positive impact on real earnings management and statistically is significant. Also, Company size, Book-to Market Value was found to have a positive impact on real earnings management and the Rate of return on assets hurts real earnings management at accepted companies in Tehran Stock Exchange.

Mohammad and Mohammad (2017) investigated the role of conservatism and earning management in earning quality. The Givoly and Hayn (2000) index were used as conservative measurement criteria, and the modified Jones model (1995) was used as a measure of earning's management measurement, and the Dechow and Dichev (2002) index were used as a measure of the quality of earning
(earnings sustainability) of the company. The statistical population of the study is 123 companies listed on the Tehran Stock Exchange between 2009 and 2014. For testing the research hypothesis, a multivariate regression analysis was used. The results of the research indicate a significant negative (inverse) relation between accounting conservatism and earning’s management on the quality of earnings.

3.0 Methodology

The study adopted the ex-post facto research design. The Panel multiple regression model was used to determine the moderating effect of managerial ownership on the relationship between accounting conservatism and the quality of earnings of listed industrial firms in Nigeria. The population of the study comprised of 13 listed industrial firms in Nigeria as at 31st December 2018. The data was collected through the second method and the summary of the data was carried out by descriptive statistics while the variance inflation factor was used to test the multicollinearity between the independent variables. The residual heteroskedasticity test was conducted using Breusch-Pagan-Godfrey. The correlation technique was used to ascertain the correlation matrix was conducted to ascertain the relationship between the variables of the study. The moderated relationship between the variables is represented in the model:

\[
QE_{it} = \beta_0 + \beta_1 CONACC_{it} + \beta_2 CONACC*MGO_{it} + \beta_3 FS_{it} + ei
\]

Where:

\(QE_{it}\) = Quality of earnings

\(CONACC_{it}\) = Conservatism Accounting

\(CONACC*MGO_{it}\) = Moderated accounting conservatism

\(FS_{it}\) = Firm size

Description and Measurement of Variables

Accounting conservatism

This study adopts the model of Beaver and Ryan (2000) to measure accounting conservatism. They used the market-to-book value ratio to measure conservatism. This proxy has been proven and used as a conservatism measurement by Watts (2003). The proxy for conservatism is

\[
CONACC_{i,t} = \frac{\text{Number of share}_{i,t} \times \text{Share price}_{i,t}}{\text{Total equity}_{i,t}}
\]

Where:

\(CONACC_{i,t}\) = the level of conservatism

Number of share \(_{i,t}\) = company’s outstanding shares at the end of the period
Share price \(_{i,t}\) = company’s shares price at the end of the period
Total equity \(_{i,t}\) = company’s total equity
This measurement is following conservatism as an accounting principle that will result in a lower company’s book value compared to its market value. The company’s book value is represented by its total equity, while its market value is represented by its shares market price. The value of \( \text{CONACC}_{i,t} \) of more than one means the company implements the conservatism principle because the company record book value lower than its market value.

**Earning Quality**

Below is regression model to find abnormal accrual, widely known as Modified Jones model:

\[
\begin{align*}
TA_{i,t} &= \alpha + \beta_1 (\Delta \text{REV}_{i,t} - \Delta \text{AR}_{i,t}) + \beta_2 \text{PPE}_{i,t} + e_{it} \\
A_{i,t-1} &= A_{i,t-1} \\
\end{align*}
\]

Where

- \( TA_{i,t} \) = total accruals in period \( t \)
- \( \Delta \text{REV}_{i,t} \) = The change in revenue
- \( \Delta \text{AR}_{i,t} \) = the change in account receivable
- \( A_{i,t-1} \) = total assets in period \( t-1 \)
- \( \text{PPE}_{i,t} \) = the sum of property, plant, and equipment

Total accruals in period \( t \) or can be found by the equation below

\[
TA_{i,t} = NI_{it} - CFO_{it}
\]

Where:

- \( TA_{i,t} \) = total accruals in period \( t \)
- \( NI_{it} \) = net income in period \( t \)
- \( CFO_{it} \) = cash flow from operational activity in period \( t \)

Total accruals consist of two components, namely discretionary and non-discretionary accrual. The abnormal accrual is represented by discretionarY accrual. Discretionary accrual in the regression model is the \( e_{it} \).

\[
DA_{i,t} | e_{it} |
\]

Where,

- \( DA_{i,t} \) = Discretionary accruals in period \( t \)

The expected value of error \( e_{it} \) is negative, hence the absolute is needed to make it positive. The high the result of \( DA_{i,t} \) means the higher earnings management practices or the lower, its earnings quality. On the contrary, the lower the result means the decrease in earnings management or higher earnings quality.

**Firm size**

Log of total asset of industrial firms in Nigeria

**Managerial ownership**

The percentage of shares held by manager divided by total shares of the firms in Nigeria
4.0 Data presentation and analysis

The descriptive statistics of data used for the study are shown in Table 1.

Table 1: Descriptive statistics

<table>
<thead>
<tr>
<th></th>
<th>QE</th>
<th>CONACC</th>
<th>CONACC_MGO</th>
<th>FS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>-0.087025</td>
<td>0.106975</td>
<td>0.003992</td>
<td>8.951979</td>
</tr>
<tr>
<td>Median</td>
<td>-0.069350</td>
<td>0.107775</td>
<td>0.000770</td>
<td>9.011467</td>
</tr>
<tr>
<td>Maximum</td>
<td>0.083700</td>
<td>0.540639</td>
<td>0.080591</td>
<td>9.719044</td>
</tr>
<tr>
<td>Minimum</td>
<td>-0.249000</td>
<td>-0.149998</td>
<td>-0.005459</td>
<td>8.028059</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.070127</td>
<td>0.118615</td>
<td>0.012992</td>
<td>0.382525</td>
</tr>
<tr>
<td>Skewness</td>
<td>-0.512007</td>
<td>0.702352</td>
<td>4.314373</td>
<td>-0.404170</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>2.495274</td>
<td>5.040939</td>
<td>21.43583</td>
<td>2.845053</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>7.059823</td>
<td>33.25088</td>
<td>2244.315</td>
<td>3.669378</td>
</tr>
<tr>
<td>Probability</td>
<td>0.029308</td>
<td>0.000000</td>
<td>0.000000</td>
<td>0.159663</td>
</tr>
<tr>
<td>Observations</td>
<td>130</td>
<td>130</td>
<td>130</td>
<td>130</td>
</tr>
</tbody>
</table>

Source: (Authors’ computation, 2019)

Table 1 shows that sampled firms on the average have a negative quality of earnings which means that the quality of earnings is low while the maximum and minimum quality of earnings is 0.083700 and -0.249000 respectively. The correlation between variables is shown in Table 2.

Table 2: Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>QE</th>
<th>CONACC</th>
<th>CONACC_MGO</th>
<th>FS</th>
</tr>
</thead>
<tbody>
<tr>
<td>QE</td>
<td>1.000000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CONACC</td>
<td>-0.215277</td>
<td>1.000000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CONACC_MGO</td>
<td>-0.019566</td>
<td>0.178260</td>
<td>1.000000</td>
<td></td>
</tr>
<tr>
<td>FS</td>
<td>-0.072881</td>
<td>0.085216</td>
<td>-0.090236</td>
<td>1.000000</td>
</tr>
</tbody>
</table>

Source: (Authors’ computation, 2019)

The correlation result shows that accounting conservatism, moderated accounting conservatism, and firm size have a negative relationship with the quality of earnings of industrial firms in Nigeria within the period of this study.
Table 3: Heteroskedasticity Test

<table>
<thead>
<tr>
<th>Heteroskedasticity Test: Breusch-Pagan-Godfrey</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Null hypothesis: Homoskedasticity</td>
<td></td>
</tr>
<tr>
<td>F-statistic</td>
<td>0.689319</td>
</tr>
<tr>
<td>Prob. F(3,126)</td>
<td>0.5602</td>
</tr>
<tr>
<td>Obs*R-squared</td>
<td>2.099155</td>
</tr>
<tr>
<td>Prob. Chi-Square(3)</td>
<td>0.5521</td>
</tr>
<tr>
<td>Scaled explained SS</td>
<td>1.688607</td>
</tr>
<tr>
<td>Prob. Chi-Square(3)</td>
<td>0.6395</td>
</tr>
</tbody>
</table>

Source: (Authors’ computation, 2019)

Table 4: Regression Result

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>t-statistics</th>
<th>P-Value</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONACC</td>
<td>-0.125950</td>
<td>-2.565074</td>
<td>0.0115</td>
<td>1.043976</td>
</tr>
<tr>
<td>CONACC*MGO</td>
<td>-0.460273</td>
<td>-0.772082</td>
<td>0.4415</td>
<td>1.044902</td>
</tr>
<tr>
<td>FS</td>
<td>0.001235</td>
<td>0.084410</td>
<td>0.9329</td>
<td>1.019099</td>
</tr>
<tr>
<td>C</td>
<td>-0.082766</td>
<td>-0.628957</td>
<td>0.5305</td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.060592</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-statistics</td>
<td>2.708989</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-significance</td>
<td>0.047982</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hausman P-value</td>
<td>0.5844</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: (Authors’ computation, 2019)

The multicollinearity between the independent variables is checked with the aid of the variance inflation factor. From the result, it was discovered that the independent variables have no multicollinearity problem because their VIF value is below 10. However, the coefficient of determination explained variation on the quality of earnings to the extent of 6% while the remaining variation is explained by other variables not included in this study.

4.1 Discussion of findings

From the study, it can be said that industrial firms have a low-earnings quality practice while conservatism has a maximum and minimum value of 0.540639 and -0.149998. The average mean of the conservatism of industrial firms is 0.106975 and it was discovered that the firm has high accounting conservatism which reduces the earnings quality of the firm.

Furthermore, moderated accounting conservatism has a mean of 0.003992 while the median is 0.000770 while the maximum and minimum moderated accounting conservatism is 0.080591 and -0.005459 accordingly. The maximum and minimum firm size is 9.719044 and 8.028059 while the sector means and the median is 8.951979 and 9.011467.
It was discovered that accounting conservatism has a negative significant effect on the quality of earnings of industrial firms in Nigeria with a p-value of less than 5% level of confidence. Thus, any increase in accounting conservatism of industrial firms will decrease the quality of earnings to the extent of -0.125950. Findings of the study are consistent with the result of Shafiei and Javaheri (2016), Bayk and Ramezanahmadi (2016), Mashoka and Abu-hommous (2017), Alarlooq, Aslani, and Azadi (2014), Mohammad and Mohammad (2017) but at variance with the findings of Utomo, Pamungkas, and Machmuddah (2018), Mashoka and Abu-hommous (2018), Asri (2017).

Research result shows that moderated accounting conservatism has a negative but insignificant effect on the quality of earnings of industrial firms in Nigeria with a p-value greater than a 5% level of confidence. The study is consistent with the findings of Bayk and Ramezanahmadi (2016), Lyimo, and Tanzania (2014) but at variance with the findings of Utomo, Pamungkas, and Machmuddah (2018).

The further result shows that firm size has a negative insignificant effect on the quality of earnings with a p-value greater than a 5% level of confidence. The model is fitted with f-significance less than a 5% level of confidence.

5.0 Conclusion

The study examined the moderating effect of managerial ownership on the relationship between accounting conservatism and the quality of earnings of industrial firms in Nigeria from 2009 to 2018. The study however discovered that increase in accounting conservatism of industrial will leads to a decrease in the quality of earnings because the accounting conservatism tends to produce an understated earnings figure through anticipating any possible future losses and by maintaining a low book value of net assets but moderated accounting conservatism has no statistically significant effect on the quality of earnings of industrial firms in Nigeria.

5.1 Recommendations

This study recommends that shareholders of industrial firms in Nigeria should encourage accounting conservatism because it will reduce earnings quality practice in the firm thereby bringing out the true picture of the financial activities of the organization. This will encourage investment decisions by potential and existing shareholders.

References


