Accounting Conservatism and Earnings Management: Further Insights from Nigeria

Ganiyu Abiodun Fatai

Kenny Adedapo Soyemi
E-mail: kenny_ade.soyemi@oouagoiwoye.edu.ng

Joel Adeniyi Okewale
Department of Accounting
Faculty of Administration and Management Sciences
Olabisi Onabanjo University, Ago-Iwoye, Nigeria

https://doi.org/10.61090/aksujacog.2025.015

Abstract
Consequent upon the paucity of studies on earnings management and accounting conservatism, especially in a developing economy like Nigeria, alongside mixed results noticeable in the few studies that exist, this study examined the influence of accounting conservatism on occurrence of earnings management among 50 quoted non-financial firms, spanning 9 years, from 2014-2022. These firms were selected using a stratified sampling technique. Data analysis was conducted using descriptive and inferential statistics, with hypotheses tested at a 5% significance level. The results revealed the existence of earnings management and the practice of accounting conservatism by sampled quoted firms. Further, accounting conservatism displayed a positive and statistically significant association with the duo of discretionary accruals and real earnings management, accounting for 34% and 52% variations in discretionary accruals and real earnings management, respectively. Implicitly, accounting conservatism encourages the occurrence of earnings management, thereby reducing financial reporting practices. The study recommended the discontinuation of accounting practices of conservatism, or at best, reduced to the barest minimum, to improve the quality of financial reports.

Keywords: Audit(or), audit report, auditor conservatism, discretionary accruals, real earnings management.

Introduction
Earnings management involves the deliberate application of varying accounting choices and preferences regarding accounting transactions by those in charge of entities, thereby distorting reported earnings in the financial statements. It is broadly divided into accruals (use of discretionary accruals to distort earnings) and real earnings management (actual manipulations of expenses, among others). It is a fall-out of moral hazard, created through information asymmetry between shareholders and management. This is agency theory in action. The incidence of earnings management still attracts the attention of scholars and academics, as its consequential effect on financial reporting is pervasive, as it affects all and sundry, including individuals and entities. Earnings, otherwise called income, are reported in the financial statements. Lara et al. (2020) posit that earnings management affects firm values, as well as investment valuation. The economics of the capital market is dependent upon financial reporting quality. This is rational as financial reporting aims to provide useful information for users to make decisions.

During the preparation of financial statements, management uses judgments and estimates, consequent upon inherent uncertainties associated with future expectations. This managerial judgement rests solely on their discretion, which may be applied positively to the benefit of the entity, or otherwise. The management applies judgments and estimates to earnings. Other areas, financial (e.g. bad debts, the percentage applied on receivables to arrive at provision for bad and doubtful debts, etc.) and otherwise (e.g. estimated number of useful years of non-current assets, etc.) also exist, but have profound effects on reported earnings. A major conceptual and underlying assumption, though detached by the International Accounting Standards Board (IASB) in the 2018 edition of the Conceptual Framework, applied during the preparation and presentation of financial reports is conservatism. Zhong & Li (2017) posit accounting conservatism as accountants' creation, consistent and backed up with accounting standards, issued by accounting standards setters boards, where income and gains are carefully verified before being recognised, but expenses and losses are recognised once identified and can be reliably measured. This is unlike earnings management, which is manager-oriented. Basu (1997), cited in Soyemi et. al. (2018), defines accounting conservatism as a practice which requires a higher degree of verification of good news regarding earnings and assets. Vishnani & Misra (2016) added the second leg of prudentially recognising expenses, losses and liabilities, even if remote and surrounded by uncertainties regarding their outcomes. Simply put, accounting conservatism is the early recognition of expenses, losses and liabilities, while delaying recognition of income, gains and assets. Though interrelated (Ryan, 2006 cited in Ruch & Taylor, 2015), accounting conservatism is broadly divided into conditional conservatism (selective application of accounting choices where bad news is recognized early and completely than good news) and unconditional conservatism (pervasive application of accounting choices resulting in consistent bias in reporting earnings and net assets).

There are copious studies on accounting conservatism and earnings management in developed economies, but a few exist in developing economies. Overall, the results are mixed and replete with contradictions. Hence, consensus on the effect of accounting conservatism on earnings management is yet unattained, suggesting that discussion in this area is ongoing. Consequently, this paper aims to examine the influence of accounting conservatism on earnings management in a developing economy, such as Nigeria. Nigeria provides a rich contextual environment within which incidence of earnings management and accounting conservatism could be studied, as her financial reporting landscape is nascent and largely influenced by global financial regulations and standards, especially International Financial Reporting Standards (IFRS) which the country adopted in the year 2011 but effective for usage in preparing and reporting financials, first by Public Interest Entities (PIEs) in 2012. The paper contributes to contemporary discussions in the literature regarding the effect of accounting conservatism on earnings management, especially in developing economies. The remainder of the study proceeds as follows: a review of relevant literature, alongside hypothesis development, is next and is followed by methodology. Thereafter, results and discussion of findings are presented and lastly, a summary, conclusion and recommendations.

Empirical Review and Hypothesis Development

Using a final sample size of 16 purposively selected from a total population of 90 companies, Putra (2016) examined the effect of accounting conservatism, investment opportunity set, leverage and entity size on earnings quality within the Indonesian context. Multiple linear regression was adopted to estimate the model specified for the study. The study revealed a positive and significant association of the duo of accounting conservatism and leverage, while investment opportunity set

and size do not significantly influence earning quality, though positively related. The explanatory variables jointly accounted for 47% variation in earning quality. Caskey & Laux (2017) provided empirical support against the continuous practice of accounting conservatism, where managers are at liberty to make varying choices of accounting preferences during financial reporting processes. Ultimately, it was shown by the study that by so doing, the incidence of earnings manipulation, among others, is encouraged. However, the practice of accounting conservatism is necessary as it allows managers of entities to monitor investment decisions. Overall, the study developed a model that predicted that while effective oversight reporting could lead to reduction in information asymmetry, as well as, agency cost, a stronger or over-optimal level of oversight from authorities also lead to application of more conservatism, which ultimately encourages manipulations by managers, thereby distorting credibility of financial reports. The studies by Lara et al. (2020) in the United States and Astuti (2020) in Indonesia also documented a positive and significant association between accounting conservatism and earnings management.

Among the few studies that have reported a negative and significant association between accounting conservatism and earnings management are Zadeh et al. (2022), Hartam & Kresnawati (2022), Alia et al. (2020), Haque et al. (2019) and Haque et al. (2016). Zadeh et al. (2022) examined the effect of accounting conservatism on earnings quality, as well as the moderating role of corporate governance mechanisms in the relationship. The duo of Dechow & Dichev and the modified Jones models were adopted in estimating earnings quality. The multivariate regression model was adopted as the estimation technique. The sample consisted of 168 firms listed on the Tehran Stock Exchange (TSE), while the time frame covered 6 years from 2012 to 2017. Both models reported a negative and significant association between accounting conservatism and earnings quality. Implicitly, accounting conservatism practices support the occurrence of earnings management, thereby reducing financial reporting quality in Tehran. Besides, the moderating role of corporate governance mechanisms is the relationship between accounting conservatism on earnings quality. However, Hartam & Kresnawati (2022) investigated the effect of accounting conservatism on earnings management among 524 purposively selected manufacturing companies quoted on the Indonesia Exchange for 4 years, spanning 2016 to 2019. The random effect model provided empirical evidence in support of a negative and statistically significant association between conservatism on earnings management. In addition, the corporate life cycle was found to moderate such a relationship.

Hinging on the pervasiveness of accounting conservatism and earnings management, Haque et al. (2016) investigated the association between these two prominent accounting occurrences, using a sample size of 319 non-financial firms quoted on the Karachi Stock Exchange in Pakistan. The period of study covered 14 years, from 1999 to 2013, cumulating into 4204 data sets. These sampled firms were categorised into high and low conservative firms using the C-score earlier developed by Khan & Watts (2009), cited in Soyemi et al. (2018). Overall, the study reported an inverse relationship subsisting between accounting conservatism and earnings management, with highly conservatism firms reporting low earnings management and vice versa. However, while Al Ani & Chong (2021) documented no effect between accounting conservatism and earnings management in Oman, Afrizal et al. (2020) reported a partial effect in Indonesia.

Consequent upon the above empirics, the study states the following hypothesis, in the null form. This is stated tentatively to guide the study, as results are mixed and contradictory.

Ho: Accounting conservatism has a positive and significant effect on earnings management.

Theoretical Framework

The agency theory is the underlying theory upon which this study was based. It was propounded by Jensen and Meckling in 1976. This theory appears to be the most appropriate, as earnings management and accounting conservatism, being the focus of study, are practised by management during rendition of stewardship. Agency theory posits asymmetry of information between shareholders (owners) and management (agents). The division between principal and agent tallies with that of shareholders and management. The former are the real owners of the entity who own resources, while the latter are agents who are entrusted with the resources. The agents render stewardship through annual reports and accounts at an annual general meeting. The accounts that are rendered are expected to represent a true and fair reflection of occurrences during the reporting period. During reporting, management applies accounting conservatism, as well as earnings manipulation, thereby creating moral hazards, consequent upon the high level of information compared to owners.

Methodology

The *ex post facto* design was adopted as the research design for this study. This is justified as events leading to needed data for the study have occurred in the past, and data therefrom is publicly available. The data for this study were sourced largely from annual reports and audited accounts of sampled quoted non-financial firms in Nigeria. The study population consisted of all quoted non-financial firms, whose equity are listed, quoted and traded on the floor of the Nigeria Exchange Limited (NGX). The total number of these firms is one hundred and sixteen (116) as at 31st December, 2022 (NSE Factbook, 2022), excluding the financial service sector. These entities are spread across seven (7) sectors, excluding the financial sector. The final sample size consisted of fifty (50) quoted non-financial companies, spread across 7 sectors for a period of nine (9) years, covering 2014 to 2022. A stratified probability sampling technique was adopted in selecting the firms that formed the sample. Table 1 provides further information on the sampling procedure and final sample size.

Table 1: Breakdown into Sectors, Population and Sample Size

S/N	Sectors	Population	Sample
1	Consumer goods	28	11
2	Healthcare	11	5
3	Technology	10	4
4	Industrial Goods	24	10
5	Basic Materials	6	4
6	Oil and Gas	12	6
7	Consumer Services	25	10
	Total	116	50

Source: Author's Compilation (2025)

Description and Measurement of Variables

Dependent Variables

The dependent variable in this study is earnings management. This is broken into discretionary accruals and real earnings management. Discretionary accruals were determined using the Modified Jones Model by regressing total accruals on several independent variables. The modified Jones Model was adopted because it is considered better among other models to measure earnings management (Dechow et al., 1995, cited in Soyemi et al., 2020 and Abu et al., 2023). Using the

beta's resulting from this regression, the expected accruals can be found for each firm-year observation. The Roychodhury (2006) model cited in Soyemi et al. (2018) was adopted in arriving at values for real earnings management. It involves separating normal from abnormal levels of real operational activities, comprising additions from abnormal cashflows from operations, production costs and discretionary expenses.

Independent Variables

The independent variable of interest is accounting conservatism. Besides, this study controlled for variables, including firm size, leverage and profitability. These variables are used to control effects brought about by firms' scale effect, leverage level and profitability, respectively. A summary of these explanatory variables, alongside their measurement and *a priori* expectations are as tabulated in Table 2.

Table 2: Description and Measurement of Explanatory Variables

Variables/Label	Measurements	*a priori* expectations	Source(s)
Accounting conservatism (ACON)	Book value of equity (BVOE)/ Market value of equity (MVOE)	+/-	Afrizal, et al. (2020); Lara, et al. (2020); Caskey & Laux (2017); and Haque, et al., (2016)
	Control Variables		
Firm Size (FSIZ)	The natural log of total assets	+/-	Soyemi et al. (2025); Soyemi et al. (2020); and Soyemi (2020)
Leverage (LEVR)	The total long-term liabilities divided by total assets	+/-	Soyemi et al. (2025); Soyemi (2020)
Profitability (ROAS)	Profit after tax divided by total assets.	+/-	Soyemi et al. (2020)

Source: Author's Compilation (2024)

Model Specifications and Estimation Techniques

Model Specifications

In line with the main thrust of this study, that is, to examine the influence of accounting conservatism on earnings management among quoted non-financial firms in Nigeria, regression models are specified and their estimating techniques stated. This is also consistent with prior earnings management literature. The regression model for investigating the influence of accounting conservatism on earnings management among quoted non-financial firms in Nigeria is as stated below:

$DACC_{it} = \beta_0 + \beta_{1it}$ACON + β_{2it}FSIZ + β_{3it}LEVR + β_{4it}ROAS + ξ_{it} --------- equation 1
$REEM_{it} = \beta_0 + \beta_{1it}$ACON + β_{2it}FSIZ + β_{3i} LEVR + β_{4i} ROAS + ξ_{it} --------- equation 2
Where:
$DACC_{it}$ = discretionary accruals
$REEM_{it}$ = real earnings management
ACON = Accounting conservatism
FSIZ = Firm Size
LEVR = Leverage
ROA = Return on Assets (A measure of profitability)
β_0 = Constant/ intercept of the model
β_{1-4}= Regression parameters/ Coefficient of the explanatory variables, and
ξ_{it} = Error term (assumed to have a 0 mean and independent across time periods)

Model Estimation Techniques

In estimating the specified models, the panel ordinary least squares (POLS) was deployed as the appropriate estimator. The estimation commences with the pooled regression. It assumes that the intercept and the slope coefficients are constant across time and space and that the error term (ξ_{it}) captures differences over the years and the individual firms. To account for the individuality and uniqueness of each firm, the static panel analysis is further extended to that of fixed as well as random effects. The latter model shall be introduced as the fixed effect model suffers relative loss of degrees of freedom, as a result of introducing dummy variables. Besides, and more importantly, parameters are assumed to be fixed, unlike what obtains in the real world. Hence, it is possible to allow for parameters to vary and allow for inter-relationships. This is taken care of by incorporating the error components model in the random effects model. The error component shall be decomposed into cross-sectional. The adjusted R-Square and F-tests are some of the criteria which this study employed in selecting a robust model among the panel OLS classical estimation tests and panel data techniques. In addition, while the Breusch and Pagan Lagrangian multiplier (L-M) test is used as a formal test to decide between the pooled and the random effect, the decision to adopt either the fixed or random effect is determined using the Hausman specification test.

Results and Discussions

Descriptive Statistics

Table 2 presents the summary of the descriptive statistics for the continuous variables considered in this study for all the sampled companies, in order to examine trends and patterns of variables. The statistics cover count, including minimum and maximum, mean, as well as standard deviation.

Table 3: Descriptive Statistics

	Mean	Std. dev.	Min.	Max.	Skew.	Kurt.
DACC	0.8300	0.7321	0.0031	4.0750	1.625	6.009
REEM	0.7666	0.5920	0.051	4.1810	2.658	13.007
ACON	0.001	0.001	-0.005	0.009	1.796	9.613
FSIZ	₦126 million	306million	₦564,583	₦2,620 billion	4.725	29.325
ROA	3.620	10.472	-54.396	58.014	-0.481	11.874
LEVR	0.218	1.541	0	32.705	20.899	441.136

Source: Author Computation using STATA (2025).

Discretionary accruals showed an average of 0.830, ranging between 0.003 (minimum) and 4.075 (maximum), with a standard deviation of 0.732. With respect to real earnings management, Table 3 shows a mean of 0.766, ranging between 0.0051 (minimum) and 4.1810 (maximum), with a standard deviation of 0.5920. The shape of the distribution of the series of both discretionary accruals (1.625) and real earnings management (2.658) is similar, as they are positively skewed, indicating a long tail to the right. Similarly, the series are also sharply peaked with flat tails and less variable, that is, leptokurtic. The table also confirmed the apparent existence of accounting conservatism with an average value of 0.001, ranging from -0.005 (minimum) to 0.009 (maximum) with a standard deviation of 0.001. The firm size, proxied with total assets, displayed an average value of ₦126 million and a standard deviation of 306,000,000. This ranges between ₦564,583 (minimum) and ₦2,620 billion (maximum). The natural logarithm of the series was computed and used during regression. Profitability and leverage have an average value of 3.620 and 0.218 and a standard deviation of 10.472 and 1.541, respectively. This implies that sampled firms were profitable but lowly geared (22%). While returns on assets range from -54.396 (minimum) to 58.014 (maximum), leverage ranges from 0 (minimum) to 32.705 (maximum). Except for returns of assets that are negative, the skewness of other explanatory variables, including control variables, is positive, indicating a long tail to the right. Likewise, the series for every explanatory variable, as well as control variables, are leptokurtic, indicating a distribution that is sharply peaked with flat tails and less variability.

Correlation Analyses

For testing for the existence of multicollinearity among studied variables, Pearson correlation and Variance Inflation Factor (VIF) are deployed. Table 4 summarises the values for Pearson correlation analyses among the variables of this study, while Table 4 presents values for the VIF, as well as its reciprocals.

Table 4: Correlation Matrix

	DACC	REEM	ACON	FSIZ	ROA	LEVR
DACC	1.0000					
REEM	0.9882	1.0000				
ACON	0.0974	0.0915	1.0000			
FSIZ	-0.0806	-0.1094	-0.1014	1.0000		
ROA	-0.0781	-0.0880	-0.0631	0.1704	1.0000	
LEVR	-0.0020	-0.0003	0.1007	-0.0197	-0.0039	1.0000

Source: Results of data inputted into STATA by the author (2025)

The values for correlation coefficients are presented in Table 4. The correlation shows the relationship among explanatory variables, as well as, causal relationship between dependent and independent variables. It also assists in identifying the presence of multicollinearity. Gujarati (2004) opined that any correlation coefficient over 0.8 is considered too high to confirm the existence of multicollinearity. From the results in Table 4, a positive correlation exists between discretionary accruals, real earnings management and accounting conservatism. Negative correlation exists between earnings management (discretionary accruals and real earnings management) and firm size, returns on assets and leverage.

In addition, the highest value of the correlation coefficient exists between returns on assets and firm size (17%), followed by the relationship between firm size and real earnings management (approx. 11%). Every other correlation coefficient appears moderately low, with the

lowest noticed in the relationship between leverage and real earnings management (0.03%). This confirms the absence of a singular matrix, otherwise called multicollinearity, which typically poses problems during regression analysis. Table 4 on Variance Inflation Factor (VIF) further reinforces the position of the correlation analysis.

Variance Inflation Factor (VIF)

Table 5 presents values for the VIF, as well as its reciprocals.

Table 5: Variance Inflation Factor (VIF)

Variable	VIF	1/VIF
FSIZ	5.50	0.181953
ACON	1.07	0.930758
ROA	1.04	0.957361
LEVR	1.01	0.987524
Mean VIF	2.51	

Source: Results of data inputted into STATA by the author (2025)

From Table 5, the VIF values for every explanatory variable were consistently below the benchmark of 10, which is considered harmful for regression analysis (Gujarati, 2004). This is supported by a mean VIF value of 2.51, which is above the benchmark of 1 considered suitable for regression analysis. Besides, the 1/VIF for the variables was above 0 and close to 1, which is recommended for regression analysis. Summarily, Table 5 presents good indicators that multicollinearity is not a problem among the independent variables.

Regression Estimates and Test of Hypothesis

The regression estimates for the effects of accounting conservatism on accrual earnings management and real earnings management are presented in this section. The results for the pooled, fixed and random effects are presented in Tables 6a and 6b, respectively, for accrual earnings management and real earnings management.

		Pooled			Random			Fixed (within estimator)	
DV: DACC	Coef.	S. E.	t-stat.	Coef.	S. E.	z-stat.	Coef.	S. E.	t-stat.
ACON	537.360	288.402	1.86	682.940	310.216	2.20**	1456.362	422.994	3.44**
FSIZ	-0.675	0.527	-1.28	-0.732	0.631	-1.16	-6.998	3.210	-2.18**
ROA	-0.054	0.042	-1.30	-0.047	0.043	-1.09	-0.052	0.051	-1.00
LEVR	-0.073	0.278	-0.26	-0.070	0.275	-0.25	-0.083	0.284	-0.29
Cons	5.774	3.938	1.47	5.967	4.705	1.27	51.051	23.497	2.17
					Model Summary				
F/ Wald chi^2		0.0812			8.32			3.43	
p-value		0.0184			0.0806			0.0089	
Adj-R^2		0.0096			0.0313			0.0344	
L-M test			4.48 (0.0071)						
Hausman						9.46 (0.0406)			

Table 6a: Regression Estimates (Discretionary accruals)

Source: Field Work Analyses (2025)

Table 6a depicts the regression estimates for the pooled, fixed and random effects for discretionary accruals. Discretionary accrual is positively influenced by accounting conservatism for all regression estimates, but appears significant for fixed and random effects, while that of the pooled is non-significant. On the best model that is unbiased, while the L-M test which compares estimates between pooled and random supports the random effect, as the value of L-M test being 4.48 with p-value been significant ($p<0.05$) while the Hausman test which compares estimates between fixed and random supports the fixed effect, as the value of the test is 9.46 with p-value been non-significant ($p<0.05$). The direct influence exerted by accounting conservatism on discretionary accruals appears consistent with the literature, which posited that accounting conservatism encourages manipulations of earnings by management through the adoption of accrual accounting techniques. Besides the accounting conservatism that is statistically significant and positively related to discretionary accruals, all control variables are negatively related to discretionary accruals, implying an inverse influence on the incidence of discretionary accruals. However, only firm size appears significant. This implies that the larger an entity, the less likely is the incidence of accrual earnings management.

Table 6b shows the regression estimates for the pooled, fixed and random effects for real earnings management.

	Pooled			Random			Fixed (within estimator)		
DV: REEM	Coef.	S. E.	t-stat.	Coef.	S. E.	z-stat.	Coef.	S. E.	t-stat.
ACON	488.791	292.622	1.67	713.320	323.856	2.20**	1337.392	419.318	3.19**
FSIZ	-1.008	0.535	-1.88	-1.112	0.713	-1.56	-6.442	3.182	-2.02**
ROA	-0.060	0.042	-1.42	-0.046	0.0444	-1.03	-0.043	0.051	-0.85
LEVR	-0.062	0.282	-0.22	-0.065	0.275	-0.23	-0.083	0.282	-0.29
Cons	8.335	3.996	2.09	8.745	5.306	1.65	47.123	23.293	2.02
				Model Summary					
F/ Wald chi^2		0.034			9.18			2.94	
p-value		0.023			0.0567			0.0206	
Adj-R^2		0.014			0.0476			0.0515	
L-M test			16.34 (0.0000)						
Hausman						7.77 (0.1004)			

Table 6b: Regression Estimates

Source: Field Work Analyses (2025)

The estimates obtained from Table 6b on accounting conservatism and real earnings management mirror those of Table 6a obtained for discretionary accruals. All estimates for the pooled (β=488.791), fixed (β=1337.392) and random (β=713.320) effects showed accounting conservatism to be positively related to real earnings management. However, only the duo of fixed and random effects is statistically significant as their p-values are less than 5% ($p<0.05$). On the formal criterion in selecting the best estimates that best fit the model, the value of the L-M test was 16.34 and is significant ($p<0.05$), thereby supporting the random effects. The Hausman test returned a value of 7.77 and is non-significant ($p>0.05$), thus providing support for the random effects too. Therefore, the random effects become the best estimate upon which the effect of accounting conservatism on real earnings management was based. The tables provide empirical evidence that real earnings management is positive and statistically significantly influenced by accounting conservatism. In addition, control variables, including firm size, profitability and leverage, though negative but statistically non-significant with real earnings management.

Discussion of Findings

The findings from this study provide empirical evidence that both discretionary accruals and real earnings management are positively and statistically significantly influenced by accounting conservatism. Implicitly, the presence and use of accounting conservatism in financial reports preparation and reporting is synonymous with encouraging earnings management and lowering financial reporting quality. Accounting conservatism is the creation of accountants where losses, both immediate and remote, are recognised in the financial statements. Whereas, while immediate gains are recognised, future gains are not given consideration, hence not reflected in the accounts. The continuous usage of accounting conservatism has attracted criticism to the extent of being removed by the IASB and the introduction of fair value accounting in its 2018 edition of the conceptual framework for preparing financial reports, leaving only going concern as the only valid accounting concept, upon which entities should prepare and report accounting reports. The findings from this study appear consistent with the IASB's decision to remove accounting conservatism from the 2018 Conceptual Framework (IASB, 2018), as it is capable of encouraging information asymmetric and also contributes greatly to earnings manipulation by management. This is presently contestable, as studies also claimed that the allowance for flexibility inherent in IFRS apparently paves the way to conditional accounting conservatism but only eliminates, or at best, reduces unconditional accounting conservatism. The findings by Lara et al. (2020) are also in tandem with the findings of this study. The study documented failed efforts to provide empirical evidence to support the assumption of a lower incidence of earnings manipulations in the presence of adoption of accounting conservatism, whether conditional or unconditional. Further, Caskey et al. (2017) also provided evidence in support of discontinuing accounting conservatism as it distorts financial reporting quality, through encouragement of earnings manipulations, thereby confusing management decisions. In addition to documenting the existence and practice of earnings management by Indian banks, Vishnani (2020) also reported a positive and significant relationship between earnings management and accounting conservatism.

However, there are contradictions between the findings from this study with those of Afrizal et al. (2020) and Haque et al. (2016). The duo reported a negative and significant association between accounting conservatism and earnings management. Latif et al. (2020) also reported a positive and significant influence of accounting conservatism on investment efficiency (negative with earnings management) of quoted non-financial entities in Jordan, as the practice of timely recognition of expected losses by quoted firms in Jordan played a pertinent role in reducing agency problems and asymmetric information. Similarly, Nnenna & Ugwoke (2019) reported no significant difference in accounting conservatism in the pre- and post-IFRS adoption era. This is also applicable to earnings quality, accruals quality and financial reporting quality. This indicated that there was no significant difference between accounting practices regarding accounting conservatism, earnings quality, accruals quality and financial reporting quality among quoted entities, before the adoption of IFRS and the post-IFRS adoption era in Nigeria. The study by Ademola & Moses (2017) also reported a positive and significant effect of accounting conservatism on firm value in Nigeria. The study upheld the position by Watts (2003), cited in Soyemi et al. (2018), warning accounting standard authorities against the replacement of accounting conservatism with fair value accounting.

Conclusion

This study examined the influence of accounting conservatism on earnings management among quoted non-financial firms in Nigeria. The study confirmed the existence of the practice of earnings management among sampled quoted non-financial firms in Nigeria. Both discretionary accruals and real manipulations of earnings were found to have existed. Accounting conservatism is an accounting creation implying the recognition of losses, both immediate and future, while recognising immediate gains but failing to record future gains. This study confirms this accounting practice as inimical to financial reporting quality, as it is positively related to discretionary accruals and real earnings management, thereby against financial reporting quality. This supports proponents of the removal of the concept from the IASB's conceptual framework for financial reporting. Consequently, this study recommended the discontinuous deployment and usage of accounting conservatism in the preparation of financial statements and reports by entities, or at best, a reduction to the barest minimum, to hinder incidences of both discretionary accruals and real earnings management, thereby improving financial reporting quality. This study confirms accounting conservatism and earnings management as two sides of a dangerous coin in accounting whose mission is to minimise the quality of the financial reporting process, if not eliminated, or reduced to the barest minimum.

References

Abu, E. N., Soyemi, K. A., & Adebayo, S. A. (2023). External auditor, board attributes, accrual and real earnings management linkage: New evidence from emerging economy. *Modern Management Review*, *28*(1), 7-28.

Ademola, O. J., & Moses, O. I. (2017). Accounting conservatism and its benefits to shareholders in developing capital market: Evidence from Nigeria. *Journal of Accounting and Finance*, *17*(1), 89-96.

Afrizal, A., Eka Putra, W., Yuliusman, Y., & Hernando, R. (2020). The effect of accounting conservatism, CSR disclosure and tax avoidance on earnings management: Some evidence from listed companies in Indonesia. *International Journal of Advanced Science and Technology, 29*(4), 1441-1456.

Al Ani, M. K., & Chong, H. G. (2021). Interplay between accounting conservatism, auditing conservatism and quality of earnings in Oman. *International Journal of Economics, Management and Accounting*, *29*(1), 167-205.

Alia, M. A., Abdeljawad, I., & Yaaqbeh, M. (2020). Depressing earnings management in Palestinian corporations: the role of audit quality, audit committee, and accounting conservatism. *International Journal of Revenue Management, 11*(3), 213-236.

Astuti, K. R. P. (2020). Accounting Conservatism and Earnings management Indonesian Evidence. *Journal Bisnis Dan Akuntansi*, *22*, 113-130.

Caskey, J., & Laux, V. (2017). Corporate governance, accounting conservatism, and manipulation. *Management Science*, *63*(2), 424-437.

Haque, A., Fatima, H., Abid, A., & Qamar, M. A. J. (2019). Impact of firm-level uncertainty on earnings management and role of accounting conservatism. *Quantitative Finance and Economics*, *3*(4), 772-794.

Haque, A., Mughal, A., & Zahid, Z. (2016). Earning management and the role of accounting conservatism at firm level. *International Journal of Economics and Finance*, *8*(2), 197-205.

Hartam, W., & Kresnawati, E. (2022). Accounting conservatism and earnings management: moderating effect of the corporate life cycle. *In International Conference on Sustainable Innovation Track Accounting and Management Sciences* (ICOSIAMS 2021), 295-303.

IASB. (2018). *Conceptual Framework for Financial Reporting.* International Accounting Standards Board.

Lara, J. M. G., Osma, B. G., & Penalva, F. (2020). Conditional conservatism and the limits to earnings management. *Journal of Accounting and Public Policy*, *39*(4), 27-48.

Latif, K., Chaudhary, G. M., & Waqas, A. (2020). Relationship between accounting conservatism and investment efficiency with the moderating role of IFRS adoption in Pakistan. *Journal of Accounting and Finance in Emerging Economies*, *6*(4), 1139-1150.

Nigerian Exchange (2022). *Nigerian exchange (NGX) factbook (X-Factbook).* Nigerian Exchange Limited.

Nnenna, C. V., & Ugwoke, R. O. (2019). Adequacy of financial reporting quality of Nigerian quoted firms under IFRS adoption. *International Journal of Mechanical Engineering and Technology (IJMET)*, 10(8), 26-45

Putra, N. Y., & Subowo, S. (2016). The effect of accounting conservatism, investment opportunity set, leverage, and company size on earnings quality. *Accounting Analysis Journal*, *5*(4), 299-306.

Ruch, G. W., & Taylor, G. (2015). Accounting conservatism: A review of the literature. *Journal of Accounting Literature*, *34*(1), 17-38.

Soyemi, K. A. (2020). Internal corporate governance practices and choice of external auditor in Nigeria: A logistic regression analysis. *Binus Business Review,* 11(1), 9-16.

Soyemi, K. A., Akingunola, R. O. O., & Olaniyan, J. (2018). Accounting Conservatism: A Review of Literature. *NIU Journal of Social Sciences*, 4(3), 109-129.

Soyemi, K. A., Olufemi, O. A., & Adeyemi, S. B. (2020). External audit (or) quality and accrual earnings management: Further evidence from Nigeria. *Malaysian Management Journal*, 24, 31-56.

Soyemi, K. A., Oluwatuyi, A. O., & Adeyemi, O. A. (2025). Key *audit matters d*isclosure (KAMD), audit quality and financial reporting quality of quoted non-financial firms in Nigeria. *AKSU Journal of Administration and Corporate Governance (AKSUJACOG). 5*(1), 118-132.

Vishnani, S., & Misra, D. (2016). Accounting conservatism: Evidence from Indian markets. *Theoretical Economics Letters*, 6(5), 1000-1016.

Zadeh, F. N., Askarany, D., & Asl, S. A. (2022). Accounting conservatism and earnings quality. *Journal of Risk and Financial Management,* 15(9), 413.

Zhong, Y., & Li, W. (2017). Accounting conservatism: A literature review. *Australian Accounting Review*, *27*(2), 195-213.