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Do International Financial Reporting Standards Influence Malaysian and Nigerian Banks Earnings Management Goals?

Abstract

Though several motivations exists for earnings management and the compulsory adoption by European firms beginning from1 January, 2005 has attracted several studies on its adoption and European manufacturing/sales-based firms earnings management goals, this study is one of the limited studies that have investigated the impact of the recent Malaysia and Nigeria adoption of IFRS on earnings management goals of Malaysian and Nigerian banks. This study used the whole Malaysian and Nigerian banks and data were collected for a period of 6 (2008-2013) years. Logit regression analyses were performed to investigate both earnings management goals of reporting small positive profits and the speed by which losses are recognized. For Malaysian banks both results are in agreement with expectations. First findings suggest that under MFRS, banks tend to manage their profits figures less frequently in order to report small positive profit rather than negative amounts as opposed to the Malaysia GAAP. Also, results demonstrate that under MFRS banks tend to recognize large losses readily than under FRS. However, for Nigerian banks, results establish that under SAS banks tend to manage their profits figures less frequently in order to report small positive profit rather than negative amounts as opposed to the IFRS. Yet, under IFRS, banks tend to recognize large losses readily than under SAS. Except for Nigerian banks earnings management goals of reporting small positive profits result, overall, findings confirm the superiority of IFRS over Malaysia and Nigeria GAAPs in reducing earnings management. Given this results, this study recommends that IFRS should be globally adopted by banks.

Key words: IFRS, MFRS, FRS, SAS, GAAP, earnings management, earnings management goals

1.0 Introduction

Prior studies have established that earnings are managed in response to several goals (Rahman, Moniruzzaman, & Sharif, 2013). However, earnings management results from both distortion of the application of inherently faulty GAAP though not proportional (Rahman et al., 2013). Ball, Kothari, & Robin (2000) specifically established that flexibilities available in domestic GAAP create an ambiguity among the practitioners in the implementation of a specific standard, thus, leads to more earnings management practices. According to Goncharov & Zimmermann (2007), different amount of accounting choices and flexibilities embedded in different accounting standards influence the levels of earnings management. Thus, Arifin & Kusuma (2011) and Nelson (2003) posit that both tightening accounting standards and flexible accounting standards create opportunities for earnings management through transaction structure and judgements respectively. By implication, changes in accounting standards or IFRS adoption are expected to influence reporting practices and outcomes (Callao & Jarne, 2010). The motivation of this study relates to whether the

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Malaysia and Nigeria adoption of IFRS has real impact, such that managerial behaviour and goals would need to be altered. A crucial question is how the adoption of IFRS by Malaysian and Nigerian banks would affect earnings management goals of reporting small positive profits or the speed by which losses are recognized. The study is exploratory in nature and tests for empirical differences in earnings management goals of Malaysian and Nigerian banks in the light of IFRS adoption. KPMG (2010), Seyed & Zaini (2014) on one hand and Edogbanya & Kamardin (2014) and Oyedele (2011) on the other hand have respectively established that IFRS is substantially different from Malaysia FRS and Nigeria SAS. Thus, differences in IFRS and domestic GAAP provides empirical but fruitful setting to investigate the impact of IFRS adoption on earnings management goals of Malaysian and Nigerian banks. The remaining sections of this study are as follows: Section 2 presents the literature of the study. Section 3 shows the research issues. Section 4 describes the research methodology. Sections 5 and 6 respectively discuss Malaysian and Nigerian banks empirical findings, Section 7 offers Malaysian and Nigerian banks comparative findings and Section 8 presents the conclusions and recommendations of the study.

2.0 Review of Literature on Earnings Management Goals

Rahman et al. (2013) define earnings management as the accounting policies or the accruals control chosen by the management of enterprises to make the earnings reach the expected level under the pressure from the relevant stakeholders. Rahman et al. (2013) established that earnings are managed in response to some targets. Capital market motivations, management compensation contract motivations, lending contracts motivations, regulatory motivations and political cost motivations are different managerial incentives for earnings management in corporate firms, including, banks (Fong, 2006). Thus, motivations and opportunities for income manipulation vary with circumstances that reflect managers' motivations and incentives.

2.1 Capital Market Motivations

Earnings as reported in financial reports have been a strong signal of direct resource allocation in the capital market. This is because, a firm's stock is valued by the present value of its future earnings and investors, including analysts employ earnings information to determine the viability of a particular stock. Obviously, firms with poor earnings prospects will be associated with low share prices compared to firms with better prospects. This is an affirmation that a firm's ability to generate profit in the future is a crucial determinant of its worth in terms of share prices in the capital market (Rahman et al., 2013). Thus, the use of

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accounting information contained in financial reports majorly by investors has led many extant researchers to establish an association between accounting information and capital market reactions and performances.

A number of studies have been undertaken to demonstrate different specific views of earnings management motivations in relation to capital markets. Essentially, some academics have hypothesized that managers engage in earnings management in order to influence the firm's short term stock price and to encourage investment in their firm through offerings of stocks (Fong, 2006). Teoh, Welch, & Wong (1998), Kabir (2002), Rangan (1998), Teoh, Welch, & Wong (1998b), Erickson & Wang (1999), Shivakumar (2000) among others investigated the association between earnings management and security offerings in the form of either seasoned equity offerings or initial public offerings. These studies commonly conjectured that firms are more likely to report positive unexpected accruals prior to public offers. This is because income-increasing accruals typically increase income before initial public offers, seasoned equity offers and stock-financed acquisitions.

Another vital capital market related motivation for earnings management is to present a firm's earnings or income as meeting the expectations of financial analysts or management (Fong, 2006). A number of extant studies have demonstrated the existence of unusual large number of cases where analysts forecasts are met either accurately or exceeded including the existence of unusual low rate of near misses. For instance, Kasznik (1999) examined whether managers with the fear of legal actions by investors including loss of reputation manage reported earnings to meeting their forecasts. Kasznik (1999) demonstrated that managers use unexpected accruals to manage earnings upward, particularly, when earnings fall short of management forecast in order to meet the forecast.

2.2 Management Compensation Contract Motivations

The management compensation contract theory also known as the bonus plan hypothesis suggests that managers are generally motivated to manipulate earnings in order to improve their compensation because management bonuses are often tied to the firm's performance in terms of earnings (Fong, 2006). Accordingly, Mande, File, & Kwak (2000) affirmed that managers may have motivation to manage earnings to maximize their bonuses or to maintain target income levels. This is because earnings-based bonus schemes are a popular means of rewarding corporate executives (Healy, 1985). Watts (1977) and Watts & Zimmerman (1978) also demonstrated that bonus schemes create an incentive for managers to select accounting procedures and accruals to increase the present value of their awards. Healy (1985) studied the effect of bonus schemes on accounting decisions and found that accrual policies of

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managers are associated to income-reporting incentives of their bonus contracts including evidences that changes in accounting procedures by managers are associated with adoption or modification of their bonus plan.

Balsam (1998) investigated the manner in which earnings constituents including discretionary accruals affect CEO cash compensation and provide evidence that discretionary accruals are associated with CEO cash compensation. Dechow & Sloan (1991) studied executive incentives and the horizon problem. They investigated the hypothesis that CEOs in their final years of office manage discretionary investment expenditures to improve short-term earnings performance. Having examined the behaviour of R & D expenditures for a sample of firms in industries that have significant on-going R & D activities, their results proved that CEOs spend less on R & D during their final years in office in order to increase earnings and ultimately, their payout upon leaving the company.

2.3 Lending Contracts Motivations

The lending contracts theory is also known as the debt covenant hypothesis. This theory is premised on the facts that creditors in order to ensure the repayment of a firm's borrowings, do often exercise their rights to impose restrictions on the payment of dividends, share buy backs and the issuance of additional debt in the context of reported accounting figures and ratios (Fong, 2006). Consistent with this hypothesis, Rahman et al. (2013) affirmed that firms that have a lot of debt burden ordinarily have incentives to manage earnings so that they do not breach or violate their debt covenants. Defond & Jiambalvo (1994) in their study entitled "debt covenant effects and the manipulation of accruals" submitted that firms that violates debt covenant use accruals to increase income the year prior to the violation and concluded that firms use earnings management to defer violation of debt covenants for as long as possible.

2.4 Regulatory Motivations

Specific and highly regulated industries such as banking, insurance and utility firms are stringently monitored in order to ensure compliance with laid down regulations touching majorly accounting numbers and ratios (Fong, 2006). Particularly, regulated firms, such as banks and insurance firms are often required to have adequate capital or assets to meeting their liabilities. Such regulatory requirements often provide managers the incentives or motivations to manipulate earnings. Results of extant studies have suggested that banks that are closer to meeting minimum capital requirements engage in earnings management practices such as overstatement of loan loss provisions, understatement of loan write-offs, recognition of irregular realised gains on investment portfolios to mention but a few, in order

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to avoid violating regulatory requirement. More specifically, Collins, Shackelford, & Wahlen (1995) investigated the impact of individual banks' changing levels of capital, earnings and taxes on decisions to engage in seven capital raising options such as security gains and losses, loan loss provisions, loan charge-offs, capital notes, common stock, preferred stock and dividends. Their findings evidenced high frequency of earnings management by banks as half of the study sample banks employed minimum of five out of the aforementioned approaches of managing regulatory capital.

2.5 Political Cost Motivations

Political cost motivations otherwise known as political cost hypothesis was first proposed by Watts & Zimmerman (1978). This theory is similar to the anti-trust and other regulatory motivations propounded by (Healy & Wahlen, 1999). According to Fong (2006), the political cost theory states that political pressure to reduce prices or face penalties resulting from investigation of firms suspected to violate anti-trust rules or found taking advantage of the general public may likely create a robust opportunity for managers to manage earnings. In other words, where firms make use of financial reports in compliance with government regulations including tax laws, such situation is an ample possible source of earnings management (Rahman et al., 2013). More precisely, where accounting figures are the criteria for subjecting firms to tax, there may be possible tax avoidance incentives through earnings management. Jones (1991) also present evidence that firm in industries demanding for import tariffs and restrictions were identified to defer income-increasing accruals. In general, firms manage their earnings so as to seem less profitable in order to lower their political risk or lower political "heat" (Fong, 2006).

Overall, motivations of earnings management include increasing the proceeds of initial public offerings, meeting investors' earnings expectations, communicating blocked inside information to investors, avoidance of consequences of violation of debt covenants, maximization of bonuses, reducing political visibility and influencing government policy (Fong, 2006). Whatever, motivations induce either upward or downward earnings management. Thus, depending on the direction, managers could be motivated to report small positive profit or alter the timing of recognizing large losses. Burgstahler & Dichev (1997) and Degeorge, Patel, & Zeckhauser (1999) evidenced that firms seldom report small losses; however, firms do regularly but abnormally report small positive profits. They also established that firms' small declines in reported earnings are unusually rare while firms' small increases in reported earnings are unusually common. Consistent with prior studies, this study investigates earnings management goals of reporting small positive profits and the

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speed by which losses are recognized for Malaysian and Nigerian banks in the context of different accounting eras.

3.0 Research Issues

The compulsory adoption of IFRS by European listed firms beginning from 1 January, 2005 has attracted several studies to investigate the impact of IFRS implementation on accounting quality of European/developed countries manufacturing/sales-based listed firms. Commonly and in specifics, prior studies have investigated the impact of IFRS adoption on accounting quality from the perspectives of earnings management, timely loss recognition and value relevance of European/developed countries manufacturing/sales-based listed firms (Chen, Tang, Jiang, & Lin, 2010; Chua, Cheong, & Gould, 2012; Nabil, 2012; Paglietti, 2009). However, there are limited studies that provide answers to the question of the impact of IFRS adoption on accounting quality of banks despite empirical evidences that banks are core in economic development of any nation (Aziz, 2015; Sharma & Sharma, 2009) and IFRS adoption is expected to impact most on banks financial reporting compared to other corporate firms (Agostino, Drago, & Silipo, 2011; IASB, 2014). More precisely, Lionel & Reda (2011) and Agostino et al. (2011) are the few studies that investigated value relevance as an aspect of accounting quality of European and US banks in the context of IFRS adoption. Although, they were not conducted within the setting of changes in accounting standards or IFRS adoption, few studies have also evaluated banks' discretionary loan loss provisions and loan loss provisions in managing earnings. Kanagaretnam, Lobo, & Mathieu (2003) investigated DLLP as alternative underlying motives of bank to smooth reported income, whereas, Anandarajan, Hasan, & Mccarthy (2006) examines the extent to which Australian banks use loan loss provisions (LLPs) for capital, earnings management and signalling. Thus, with paucity of findings from studies on changes in accounting standards/IFRS adoption and banks accounting quality, particularly, earnings management, this study present fresh and distinct evidence on the understanding of IFRS adoption on earnings management goals of Malaysian and Nigerian banks. More specifically, this study investigates Malaysian and Nigerian banks earnings management goals of reporting small positive profits and the speed by which losses are recognized. This study is one of the few studies that evaluate the impact of IFRS adoption on earnings management goals focusing on Malaysian and Nigerian banks.

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4.0 Methodology

4.1 Population of the Study

The population of this study consist of all Malaysian (8) and Nigerian banks (20).

4.2 Data Source, Period and Instrument of Analyses

Panel data from banks audited financial statements for periods 2008-2013 were used for this study. Eviews special regression and forecasting capabilities were employed to perform panel data analyses.

4.3 Model

Consistent with studies such as George (2010), Erick (2011), Paglietti (2009a) this study investigated pre and post MFRS/IFRS adoption earnings management goals of influencing accounting numbers in order to report small positive profits rather than losses and the speed by which losses are recognised by managers.

The metric for earnings management towards reporting small positive income in this study was measured as the coefficient on the dummy variable indicative of small positive profits (SPP_{it}) as expressed in the logit model given below:

$$RR_{it} = a_0 + a_1 Profitability_{it} + a_2 Growth_{it} + a_3 Leverage_{it} + a_4 Liquidity_{it} + a_5 Size_{it} + a_6 Investment_{it} + a_7 SPP_{it} + e_{it} \quad \ldots (1)$$

RR_{it} is a dummy variable representing the regulatory regime. $RR_{it} = 1$ for observations in the post adoption period and $RR_{it} = 0$ otherwise.

$Profitability_{it}$, $Growth_{it}$, $Leverage_{it}$, $Liquidity_{it}$, $Size_{it}$, $Investment_{it}$ were proxies used to control for banks profitability, growth, leverage, liquidity, size and investment respectively.

SPP_{it} is a dummy variable indicating a measure of small positive profits. $SPP_{it} = 1$ if net income scaled by total assets is between 0 and 0.01 and $SPP_{it} = 0$ otherwise.

e_{it} is the error term

A positive coefficient on SPP_{it} indicated a higher likelihood of banks managing their profits figures more frequently in order to report small positive profits rather than negative amounts in the post-adoption period than in the pre-adoption period (the opposite held true for a negative coefficient).

Similarly, timely recognition of large losses was measured by estimating the logit model below:

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$RR_{it} = a_0 + a_1Profitability_{it} + a_2Growth_{it} + a_3Leverage_{it} + a_4Liquidity_{it} + a_5Size_{it} + a_6Investment_{it} + a_7LNL_{it} + e_{it}$ ….. (2)

RR_{it} is a dummy variable representing the regulatory regime. $RR_{it} = 1$ for observations in the post adoption period and $RR_{it} = 0$ otherwise.

$Profitability_{it}$, $Growth_{it}$, $Leverage_{it}$, $Liquidity_{it}$, $Size_{it}$, $Investment_{it}$ were proxies used to control for banks profitability, growth, leverage, liquidity, size and investment respectively.

LNL_{it} is a dummy variable indicating a measure of timely loss recognition. $LNL_{it} = 1$ if net income scaled by total assets is less than -0.20 and $LNL_{it} = 0$ otherwise.

e_{it} is the error term.

Overall, a positive coefficient on LNL_{it} indicated a higher likelihood of banks to recognise large losses more readily in the post-adoption period than in the pre-adoption period (the opposite held true for a negative coefficient).

5.0 Earnings Management Goals Analyses- Malaysian Banks

This study investigate Malaysian banks earnings management goals such as to influence accounting figures in order to report small positive profits rather than losses and the speed by which losses are recognised.

5.1 Earnings Management Goals Descriptive Statistics

Albeit, the deciding factor is the coefficient on SPP for test of influencing accounting figures in order to report small positive profits rather than losses and LNL for test of speed by which losses are recognised, it is imperative to include at this juncture, a cursory look of the descriptive statistics of control variables used. Table 1 shows the descriptive statistics of control variables.

Table 1: Descriptive Statistics of Control Variables in Earnings Management Goals Tests

	PROFITABILITY	GROWTH	LEVERAGE	LIQUIDITY	SIZE	INVESTMENT
Mean	0.014836	0.083688	0.035938	0.128229	25.55173	0.174025
Median	0.015200	0.085750	0.028150	0.119100	25.63000	0.163500
Maximum	0.018600	0.622000	0.200000	0.648000	27.05000	0.337000
Minimum	0.005390	-0.122300	0.008900	-0.076100	24.04000	0.098000
Std. Dev.	0.002533	0.121633	0.030407	0.104639	0.839516	0.046935

It is worthy to mention that this analysis combined both FRS and MFRS data. The distinguishing factor to partitioning data into FRS and MFRS reporting era is therefore, the value attached to reporting regime (RR). All data set with RR = 1 related to MFRS reporting era while data set with RR = 0 were FRS reporting data. Thus, the descriptive statistics for

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each of the control variable in this case reflected combined information of all the banks in Malaysia irrespective of the reporting era.

Particularly, from Table 1, PROFITABILITY has a mean of 0.014836 and a median of 0.015200. The maximum and minimum observed values of PROFITABILITY for Malaysian banks are 0.018600 and 0.005390 respectively. GROWTH also has a mean and median respective score of 0.083688 and 0.085750 with 0.622000 and -0.122300 as maximum and minimum observed scores. In the case of LEVERAGE, the mean and median scores are 0.035938 and 0.028150 respectively. LEVERAGE exhibit 0.200000 and 0.008900 as maximum and minimum observable scores for Malaysian banks. LIQUIDITY recorded mean and median scores are 0.128229 and 0.119100 with maximum and minimum observed respective scores of 0.648000 and -0.076100. SIZE is identified with a mean score of 25.55173, median score of 25.63000, maximum and minimum respective scores of 27.05000 and 24.04000. Finally, INVESTMENT exhibit respective mean and median scores of 0.174025 and 0.163500 and maximum and minimum values of 0.337000 and 0.098000

5.2 Earnings Management Goal of Reporting Small Positive Profits

First to determine the reporting regime that is associated with higher likelihood of banks managers managing profits figures more frequently in order to report small positive profits based on the coefficient of SPP, logit regression estimation output as per Table 2 applies.

Table 2: Malaysian Banks SPP Logit Regression Estimation Output

Variable	Coefficient	Std. Error	z-Statistic	Prob.
PROFITABILITY	126.0760	228.0015	0.552961	0.5803
GROWTH	8.802168	5.118394	1.719713	0.0855
LEVERAGE	15.70997	14.54275	1.080261	0.2800
LIQUIDITY	7.553613	7.106255	1.062953	0.2878
SIZE	0.096380	0.535008	0.180147	0.8570
INVESTMENT	15.20007	11.03214	1.377798	0.1683
SPP	-1.984434	1.611233	-1.231625	0.2181
LR statistic	21.83768	**Prob(LR statistic)**	0.002709	
McFadden R-squared	0.328178			

Fundamentally, SPP exhibited a negative coefficient of -1.984434 which is indicative that under MFRS banks tend to manage their profits figures less frequently in order to report small positive profit rather than negative amounts as opposed to the Malaysia previous FRS. In order to validate the above outcomes and consistent with Burgstahler & Dichev (1997) assertion that unusually low frequencies of small negative earnings and unusually high frequencies of small positive earnings is suggestive that reported earnings are managed to avoid losses, this study also calculate the FRS and MFRS respective frequency of small

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positive earnings as a measure of earnings management. There were twenty four observations each for the FRS reporting age and MFRS reporting era. Out of the twenty four observations for the FRS reporting age, there were ten cases of managers reporting small positive profits while the corresponding figure for the MFRS reporting age was two. This result is consistent with the prediction of this study and prior results evidencing significant higher pervasiveness in earnings management pattern of income minimization for the FRS reporting age compared to the MFRS reporting era. These results are similar to George (2010), Lin, Riccardi, & Wang (2012), Chebaane & Othman (2013) and Paglietti (2009a) findings.

From Table 2, coefficients on control variables: PROFITABILITY (126.0760), GROWTH (8.802168), LEVERAGE (15.70997), LIQUIDITY (7.553613), SIZE (0.096380) and INVESTMENT (15.20007) are all positive, suggesting that these variables increased more frequently for Malaysian banks in the MFRS adoption period than in the FRS adoption period. McFadden R^2 of 32.8%, LR statistic of 21.83768 and Prob(LR statistic) of 0.002709 demonstrated that overall, the model was statistically significant.

5.3 Earnings Management Goal of Speedy Recognition of Losses

Second this study determined the speed by which losses were recognized by Malaysian banks for both FRS and MFRS reporting regimes. This test is founded on the assumption that timely recognition of large losses provides evidence of lower earnings management and conclusion is based on the coefficient on LNL (George, 2010). Logit regression output is given in Table 3.

Table 3: Malaysian Banks LNL Logit Regression Estimation Output

Variable	Coefficient	Std. Error	z-Statistic	Prob.
PROFITABILITY	325.1733	190.4972	1.706971	0.0878
GROWTH	9.679696	5.129199	1.887175	0.0591
LEVERAGE	13.99226	13.64939	1.025120	0.3053
LIQUIDITY	6.165563	5.744760	1.073250	0.2832
SIZE	0.384072	0.530033	0.724619	0.4687
INVESTMENT	22.00203	11.37676	1.933945	0.0531
LNL	1.374708	1.629547	0.843614	0.3989
LR statistic	20.78491	**Prob(LR statistic)**	0.004102	
McFadden R-squared	0.312357			

According to Table 3, LNL exhibit a coefficient of 1.374708. The positive coefficient of 1.374708 on LNL is suggestive that under MFRS banks tend to recognize large losses readily than under FRS. This result is consistent with the prediction of this study and findings of George (2010) and Zhou, Xiong, & Ganguli (2009). From Table 3, coefficients on control variables: PROFITABILITY (325.1733), GROWTH (9.679696), LEVERAGE (13.99226),

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LIQUIDITY (6.165563), SIZE (0.384072) and INVESTMENT (22.00203) are all positive, suggesting that these variables increase more frequently for Malaysian banks in the MFRS adoption period than in the FRS adoption period. McFadden R^2 of 31.2%, LR statistic of 20.78491 and Prob(LR statistic) of 0.004102 established that overall, the model is statistically significant.

6.0 Earnings Management Goals Analyses- Nigerian Banks

This study also investigated earnings management goals such as to influence accounting figures in order to report small positive profits rather than losses and the speed by which losses are recognised for Nigerian banks.

6.1 Earnings Management Goals Descriptive Statistics

Dummy variable (RR) representing reporting regime was the dependent variable in logit model for both tests. Dummy variable (SPP) representing small positive profits and (LNL) representing timely loss recognition were respective independent variables. Other variables such as PROFITABILITY, GROWTH, LEVERAGE, LIQUIDITY SIZE and INVESTMENT were control variables. Descriptive statistics of control variables for the Nigerian banks are presented in Table 4.

Table 4: Descriptive Statistics of Control Variables in Earnings Management Goals Tests

	PROFITABILITY	GROWTH	LEVERAGE	LIQUIDITY	SIZE	INVESTMENT
Mean	0.007682	0.269709	0.117532	0.293372	27.29205	0.174326
Median	0.015850	0.190600	0.087850	0.181500	27.28500	0.154000
Maximum	0.070900	1.722900	0.662000	4.610000	28.98000	0.466000
Minimum	-0.241000	-0.751000	0.002770	-0.589000	24.60000	0.004990
Std. Dev.	0.041135	0.419722	0.104115	0.554052	0.882990	0.104056

It is pertinent to equally mention that this analysis used both SAS and IFRS combined data. The distinguishing factor to splitting data into SAS and IFRS reporting era was based on the value attached to reporting regime (RR). All data set with RR = 1 were IFRS reporting era data, whereas, data set with RR = 0 were SAS reporting period data. Thus, the descriptive statistics for each of the control variable reflected combined information of all Nigerian banks regardless of the reporting age.

According to Table 4, PROFITABILITY has a mean of 0.007682 and a median of 0.015850. The maximum and minimum observed values of PROFITABILITY for Nigerian banks are 0.070900 and -0.241000 respectively. GROWTH has a mean and median score of 0.269709 and 0.190600 with 1.722900 and -0.751000 as maximum and minimum observed scores. In the case of LEVERAGE, mean and median scores are 0.117532 and 0.087850

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respectively. LEVERAGE exhibit 0.662000 and 0.002770 as maximum and minimum observed scores. LIQUIDITY recorded mean and median scores are 0.293372 and 0.181500. LIQUIDITY maximum and minimum observed scores are 4.610000 and -0.589000 respectively. SIZE is identified with a mean score of 27.29205, median score of 27.28500, maximum and minimum respective scores of 28.98000 and 24.60000. Finally, INVESTMENT exhibit respective mean and median scores of 0.174326 and 0.154000 and maximum and minimum values of 0.466000 and 0.004990.

6.2 Earnings Management Goal of Reporting Small Positive Profits

Starting with the investigation of earnings management goal of influencing accounting numbers to report small positive profits rather than losses in the context of SAS and IFRS for the Nigerian banks, the logit regression estimation output as per Table 5 applies. Conclusions were dependent on the coefficient on SPP.

Table 5: Nigerian Banks SPP Logit Regression Estimation Output

Variable	**Coefficient**	**Std. Error**	**z-Statistic**	**Prob.**
PROFITABILITY	-0.403499	8.266430	-0.048812	0.9611
GROWTH	0.081337	0.741997	0.109619	0.9127
LEVERAGE	-10.05992	3.740873	-2.689191	0.0072
LIQUIDITY	0.013162	0.784435	0.016780	0.9866
SIZE	1.317242	0.358451	3.674817	0.0002
INVESTMENT	18.37107	3.678551	4.994106	0.0000
SPP	0.041137	0.522738	0.078696	0.9373
LR statistic	59.12756	**Prob(LR statistic)**	0.000000	
McFadden R-squared	0.355429			

From Table 5, SPP exhibit a positive coefficient of 0.041137 which was indicative that under SAS banks tend to manage their profits figures less frequently in order to report small positive profit rather than negative amounts as opposed to the IFRS. In view of assertions that frequency of small positive earnings is used as a measure of earnings management (Burgstahler & Dichev, 1997), this study also estimated both SAS and IFRS frequency of small positive earnings as a measure of earnings management. There were sixty cases each for the SAS reporting age and IFRS reporting era. Out of the sixty observations for the SAS reporting period, there were fifteen cases of managers reporting small positive profits while the corresponding figure for the IFRS reporting age was sixteen. This result is inconsistent with the prediction of this study, however, insignificant but consistent with prior empirical result (Chebaane & Othman, 2013; Paananen & Lin, 2009; Ames, 2013 and Zhou et al., 2009).

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As for control variables – PROFITABILITY and LEVERAGE, this study established negative coefficients of -0.403499 and -10.05992 respectively. This means that PROFITABILITY and LEVERAGE of Nigerian banks decreased after IFRS adoption. Nonetheless, GROWTH, LIQUIDITY, SIZE and INVESTMENT showed positive coefficients of 0.081337, 0.013162, 1.317242 and 18.37107 respectively. This was indicative that GROWTH, LIQUIDITY, SIZE and INVESTMENT increased more frequently in the IFRS adoption period compared to the SAS reporting regime for Nigerian banks. McFadden R^2 of 35.5%, LR statistic of 59.12756 and Prob(LR statistic) of 0.000000 established that overall, the model was statistically significant.

6.3 Earnings Management Goal of Speedy Recognition of Losses

This study also determined the speed by which losses were recognized by Nigerian banks for both SAS and IFRS reporting regimes. Consistent with George (2010), this test is founded on the assumption that timely recognition of large losses provides evidence of lower earnings management. The logit regression estimation output as per Table 6, therefore, relates. The decision rule is equally dependent on the coefficient of LNL.

Table 6: Nigerian Banks LNL Logit Regression Estimation Output

Variable	Coefficient	Std. Error	z-Statistic	Prob.
PROFITABILITY	4.479232	11.97460	0.374061	0.7084
GROWTH	0.081996	0.736078	0.111396	0.9113
LEVERAGE	-10.59939	3.844885	-2.756751	0.0058
LIQUIDITY	-0.000546	0.776450	-0.000704	0.9994
SIZE	1.353151	0.362658	3.731204	0.0002
INVESTMENT	18.57700	3.761125	4.939213	0.0000
LNL	0.624992	0.935311	0.668218	0.5040
LR statistic	59.58061	**Prob(LR statistic)**	0.000000	
McFadden R-squared	0.358153			

From Table 6, LNL exhibit a positive coefficient of 0.624992. The positive coefficient of 0.624992 on LNL is suggestive that under IFRS banks tend to recognize large losses readily than under SAS. This result is consistent with the prediction of this study and in agreement with George (2010) and Zhou et al. (2009) findings. According to Table 6, LEVERAGE and LIQUIDITY exhibited negative coefficients of -10.59939 and -0.000546 respectively. This means that LEVERAGE and LIQUIDITY of Nigerian banks decreased after IFRS adoption. However, PROFITABILITY, GROWTH, SIZE and INVESTMENT display positive coefficients of 4.479232, 0.081996, 1.353151 and 18.57700 respectively. This is indicative that PROFITABILITY, GROWTH, SIZE and INVESTMENT increase more frequently in the post- adoption period for Nigerian banks. McFadden R^2 of 35.8%, LR statistic of

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59.58061 and Prob(LR statistic) of 0.000000 established that overall, the model was statistically significant.

7.0 Malaysian and Nigerian Banks Comparative Findings

For both Malaysian and Nigerian banks, earnings management goals of reporting small positive profits and the speed by which losses are recognized were investigated. Table 7 present comparatively earnings management goals findings for Malaysian and Nigerian banks. Regarding earnings management goals of reporting small positive profits, results in Table 7 established that under MFRS, Malaysian banks tend to manage their profits figures less frequently in order to report small positive profit rather than negative amounts as opposed to the Malaysia GAAP. However, for Nigerian banks, results established that under SAS banks tend to manage their profits figures less frequently in order to report small positive profit rather than negative amounts as opposed to the IFRS.

Also, with positive coefficients on Malaysian and Nigerian banks LNL results in Table 7 demonstrate that under MFRS/IFRS Malaysian and Nigerian banks tend to recognize large losses readily than under the previous Malaysia and Nigeria respective domestic GAAPS - FRS and SAS. Comparatively and in specifics, however, Malaysian banks readily recognized more of large losses under MFRS compared to Nigerian banks under IFRS. This conclusion is reflected in the higher positive coefficient on LNL for Malaysian banks compared to coefficient on LNL for Nigerian banks.

Table 7 Earnings Management Goals - Malaysian and Nigerian Banks Comparative Findings

	Malaysian Banks	**Nigerian Banks**	**Effects**
Earnings Management Goals - SPP	-1.984434	0.041137	Contradictory
Earnings Management Goals - LNL	1.374708	0.624992	Similar

8.0 Conclusions and Recommendations

Prior studies have documented several motivations for the management of earnings. Accordingly, empirical results of earnings management goals for manufacturing/sales-based firms of European/developed nations have been evaluated. This study present fresh empirical findings on earnings management goals of reporting small positive profits and the speed by which losses are recognized for Malaysian and Nigerian banks in the setting of changes in accounting standards. For Malaysian banks, findings established that under MFRS banks tend

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to manage their profits figures less frequently in order to report small positive profit rather than negative amounts as opposed to the Malaysia previous FRS. Also, results suggest that under MFRS banks tend to recognize large losses readily than under FRS. For Nigerian banks, outcomes demonstrated that under SAS banks tend to manage their profits figures less frequently in order to report small positive profit rather than negative amounts as opposed to the IFRS. However, results established that under IFRS banks tend to recognize large losses readily than under SAS. Conclusively, except for Nigerian banks tests of reporting small positive profits, empirical statistical results established that the adoption of IFRS by Malaysian and Nigerian banks is associated with a reduction in earnings management towards small positive profits and timely recognition of large losses. With findings confirming the superiority of IFRS over GAAP, this study recommends that banks globally should adopt IFRS. Essentially, giving scarcity of studies in this setting, this study recommends that further studies be conducted using banks in other countries, particularly, developed countries.

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