FIRM SIZE ON CAPITALISATION POLICY AND FINANCIAL PERFORMANCE MEASURES OF COMPANIES IN NIGERIA

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Abstract
This study examined empirically the modeling relationship among firm size on capitalization policy and financial performance of companies in Nigeria. Time series data was extracted from annual financial statements of quoted oil and gas companies in Nigeria. The data collected was analyzed using partial coefficient of correlation and ordinary least square statistical analysis with the aid of SPSS version 20.0. The empirical results revealed that firm size exert positive relationship on capitalization policy and financial performance of oil and gas companies in Nigeria. Based on the computed empirical conclusion, the study recommends that comparability analysis poses some challenges following the divergent procedures in oil and gas accounting practice, the international accounting standard board (IASB) in trying to streamline the pending issues in IFRS, we should either suspend other capitalization methods for the one that is objective, unbiased and consistent with accounting prudence concept or initiate certain industry – specific measures for each method of accounting for oil and gas exploration activities that enhance investment decision making and uniformity in accounting language. Again, participation of independent oil and gas companies in Nigerian stock exchange market is ideal. This would enhance research works in oil and gas accounting as a discipline which has come to stay in the curriculum of Nigeria universities.

Keywords: Firm Size, Capitalization Policy, Financial Performance Measures AIS, Aggressive Investment Policy, Nigeria.

Introduction

Over the years, a significant number of research works both theoretical and empirical have examined the different accounting techniques in oil and gas exploration business. Prior to their description of ever evolving development of oil industry accounting practices, Wright & Gallun (1986) intimate the grand debate that seems even today to be influencing the field of oil and gas accounting and financial management. Given the complexity and uncertainties surrounding the activities of the industry, the accounting treatments have been heavily influenced by two schools of thought "Successful efforts" and "full cost" methods. Although, the unique nature of oil and gas exploratory business has equally made its accounting Practices unique and interesting. Despite this, there still exists problem of comparability analysis among rivals (competitors). The assessment of performance of individual entity in relation to industrial average remains problematic (Masud, 2013).

Investors in their speculations and rational behaviours would want to part with their resources where there are high or favourable key performance indicators (KPIs) (Batool & Salwa, 2014). Unfortunately, with the elective accounting procedures in oil and gas extraction, the extraction, the accounting ratios upon which investors base their judgment to make informed decisions are subject to the firm's rational behaviour. Analyzing Investee Company to understand its viability is very paramount to shareholders/investors. In capital market, there are varieties of investment, and shareholders/investors require some specialized knowledge to make educated investment decisions. Revenue generation to government in form of petroleum profit tax may be undermined as entities elect to the best of their interest the accounting method that is less vulnerable to tax liabilities or more concomitant to assets base of the firms (Malmquist, 1990; Masud, 2013).

The oil and gas sector is teeming with two major divergent accounting methods that can overwhelm investors new to the field. This is inconsistent with the harmonization objective of "International Accounting Standard Board". The International Financial Reporting Standard (IFRS 6), "Exploration for and Evaluation of mineral resources" is limited in certain scopes and does not provide guidance for treatment of development and production costs (Masud, 2013). IASB did not pronounce a uniform accounting method for oil and gas exploration neither did it relax any of the two applicable methods (Full Cost and Successful Effort).

Consequently, companies are still at liberty or allowed by IASB to continue using their local accounting policies regulated by their existing GAAP for the treatment of exploration costs (PWC, 2011). With the choice of electing between two accounting methods in upstream activities, the accounting language is, even in the era of IFRS, spoken in diversity within the industry across the globe and the hectic tasks of translation are yet to be eradicated. Thus, the difference in recognition and measurement of costs in oil and gas extraction, including its associated effects on certain financial ratios is a gap in harmonization of accounting standards which this study intends to fill. The rest of the paper is organized as follows after introduction in section one. Section two briefly reviews the relevant theoretical framework, conceptual

framework, empirical studies, identification of gap and hypotheses. Section three describes the methodology. Section four present the main results and discussion. Section five conclusion and recommendations.

Theoretical Background and Hypotheses

Economic or financial models assist administrators and economic experts to breakdown the process of making economic decision. Every model is based certain on theories or major elements that are inherent in complete decision situations. Ranging from big to small scale investment, these major elements always come to play. Investment decision making is based on individuals' or organizations' strive to attain maximum interests while minimizing costs. This reciprocating act among economic agents is referred to as "maximizing value". Any economic model and theory has an irreparable fault: they assume that all economic agents are rational in decision making i.e. they act logically and rationally, taking all circumstances of event into evaluation prior to making any informed decision. While this holds for most decision makers and entities, the certainty of economic decisions is a bit different. Emotional theory in the capital market where investors may not be purely and consistently rational in decisions is a good example. Its philosophy states that "everyone is influenced by his past experiences, expectations, emotional state and emotional memory when making decisions". Emphasis on certain projections such as recent news can influence people's rationale.

Costs and benefits are vital variables that all investors take into consideration. Investors always match benefits against costs in respect of any investment to be embarked upon. This is identical to the notion of "value maximization", with a clear distinction. Cost-benefit analysis assumes that for every decision, something must be lost. Every investment made has opportunity cost - the costs of not **using** the resources for some other investment ought to be put into consideration. The utmost goal in investment analysis involves making tradeoffs that allow an investor to benefit more than he/she loses.

Capitalized Exploration and Evaluation Costs (E&E assets)

An asset is defined as "a resource which is controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity in question"(IASB, 2013). The purchase value of any asset is measurable based on the actual expenditure incurred in procuring it. However, it is not every pre-exploration and exploration cost that may be probable to generate future economic benefits as stated by Prince water house Coopers in 2007. In this case "future economic benefits" refers to the capability of the asset to generate future cash benefits to the entity (Venter, 2003). "Even if an asset meets the definition of an element in the financial statements, the Conceptual framework stipulates that such an asset may be recognized only if it is probable that future benefits will flow to the entity from that asset and if the asset has a cost or value that may be measured reliably" (IASB, 2013). All anticipated economic benefits earnable from the asset are to be adequately certain before it can be said to be probable (Venter, 2003). Normally, all pre-exploration and exploration in progress costs are speculative in nature, and thus not traceable to any specific

mineral reserves (KPMG, 2005). "Although it may be possible to measure the cost of this expenditure reliably, the probability of future economic benefits may not be sufficiently certain at the stage at which the expenditure was incurred and thus, it is highly likely that the expenditure may be recognized as an expense" (Joline & Christo, 2014).

Aggressive Investment Policy (AlP)

Outside the traditional accounting ratios for- assessment of financial performance of an entity, literatures have also in recent time espoused the use of other non-traditional accounting variable like "Aggressive Investment Policy" (AlP). Nazir & Afza (2009) posit that "AlP is a ratio used to measure the degree of the aggressiveness of working capital investment policy of the business firm". The authors express that "AlP results in minimal level of investment in current assets versus fixed assets". Contrary to this, a conservative investment policy assumes a higher percentage of capital in liquid assets with the prevailing opportunity cost of less profitability. That is to say, AlP is the association amid current assets and total assets. When the value of current assets grows in the same rate with total assets of the company, the management is said to be more conservative in directing the current assets of the company (Nazir & Afza, 2009). It then follows that the lower the ratio the more aggressive the firm becomes in terms of making long term investment. For the degree of aggressiveness of working capital investment policy to be measured, this study adopts Weinraub & Visscher (1998) ratio for aggressive investment policy of firms, hence Aggressive Investment Policy = Total Current Assets divided by the Total Asset.

Firm's Size

It is theoretically believed that a firm's size contributes to its financial capability as bigger firms tend to have bigger market share. The firm's size means that ability a firm possesses and the variety and number of production capability or the quality and multiplicity of services a firm can offer concomitantly to its customers (Vinasithamby, 2015). In current world's trend, due to the phenomenon of economics of scale, firm's size plays vital role in competing with rivals. Vinasithamby (2015) maintains that the concept of firm's size is a factor in determining the firm's profitability and reveals a positive association between size and firm's profitability. Dogan (2013) also supportively opines that firm's size is an indicator of profitability as big firms have the opportunity to have more profit since they have a bigger market share.

Firm's size (SZ) is determined by the natural logarithm of its total assets, as the original large value of total assets could hamper the analysis (Nazir & Afza, 2009; Padachi, 2006; Alam, Ali, Rehman & Akram, 2011 as cited in Onwurnere, Ibe & Ugbam, 2012).

Empirical studies:

Carlos, Lin & Ran (2012) identified two driving forces that induce firms to choose a capitalization method: an information spillover effect and a stackelberg leadership effect. Information spillover effect occurs if company 'A" reports under successful efforts method,

its accounting report contains information about the outcome of its exploration activities, and its competitors may take advantage of the "spilled" information about A's successful exploration by imitating A's investment and grab a share of the profit from A's innovation.

On the other hand, "A" secures its stackelberg leadership in the competition when it discloses successful outcome (exploration), and this advantage may intimidate competitors. In the analysis of Carlos et al, (2012) it is shown that the small firm is more concerned about information spillover and tends to choose full cost method; on the other hand the large firm may prefer to use the successful efforts method to disclose its success in order to secure its Stackelberg leadership advantage. This is consistent with the findings of Sunder (1976), Deakin (1979), Dhaliwal (1980) Bryant (2003) which reveals that large oil and gas companies usually choose successful efforts, while small oil and gas companies prefer full-cost.

The proposition of Carlos et al also arguably shows the consequences of enforcing one accounting method that requires capitalizing expenditures of successful explorations. This agrees with the result of Collins & Dent (1979). However, choice of accounting treatment may downplay the trend of harmonization in accounting standards especially in the era of IFRS. Furthermore, accommodating a capitalization policy that is not informative may jeopardize full disclosure concept in accounting. Since the capitalization of exploratory success may contain information on whether a firm succeeded in its exploration investment, financial reports as argued by the opponents of this policy may reveal important information to competitors. This information can potentially be used by competitors to imitate the innovative firm's investments and, therefore, may substantially affect a firm's ability to compete in the future.

Consequently, the capitalization method prescribed by the accounting regime, and the choice of capitalization method firms take when given discretion, can potentially affect the firms' exploration investment decision as well as that of interested parties in a competitive environment. The difference in the choices taken by large and small oil and gas companies are usually explained by arguing that small firms cannot afford the earnings volatility induced by the successful effort method and it would be hard for small firms to obtain capital if they expense their unsuccessful exploration costs. However, this argument implies that the market cannot see through this earnings volatility. Put in other words, the market is not completely rational.

There have been also several US value relevance studies in extractive industries that have adopted the modified Ohlson (1995) model for testing their research hypotheses. These US valuation studies, according to Teng, Jacqueline & Michaela (2011), investigate whether extractive firms' disclosures under the current accounting standard for extractive industries are able to give information that are value relevant to investors. Berry and Wright (2001) find positive correlation between a mining firm's market value and resource explorations and mining field development disclosures. The investigators examine whether the reports of

mining companies under either the "Full costs" or "Successful Efforts" accounting methods discloses value-relevant information of the firms' efforts and capability to discover reserves. They hypothesize that mining firms using the full cost approach provide value-relevant information on proven developed reserves and undeveloped reserves to the market.

Similar to Berry & Wright's study, Byrant's (2003) study applies a valuation model which examines the association between oil and gas firms' market values and exploration and development costs. Byrant claims that the full cost method for accounting exploration and development expenditures provides more relevant information than the Successful Efforts Method.

Reviewing the empirical study conducted in Australia, Wu, Fargher & Wright (2010) investigate how exploration costs, cash flow of investment and R & D costs assist the investor to evaluate the value of the Australian mining firms with negative income. The value relevance of capitalized exploration expenditures and expensed exploration expenditures of loss firms is compared with the value relevance of those expenditures of profit firms in the Australian extractive industry. Wu et al find that capitalized and expensed exploration costs and R & D costs are positively and significantly associated with the market value of the resource based profitable firms. Comparing non resource-based firms with losses, Wu et al, (2010) argue that the exploration cost in the resource-based industries is the main factor influencing the market value of the loss firms in the industries.

Using the maximum likelihood log it regression analysis, the findings of Malmquist (1990) suggest that the choice between full costs and successful efforts accounting in the oil and gas industry in USA is governed by the need to efficiently monitor the contracts among the economic agents of the firm. These previous studies explain how different accounting methods of capitalization affect not just firms' exploration investment decision but that of the stakeholders across the globe, and characteristics of firm in choosing between these capitalization methods when given the discretion in economy characterized by competition and multiple investment portfolios, such as Nigeria. Despite the abundance of empirical studies in this area, there are less than analytical studies for policy dialogue in the treatment of exploration and evaluation costs in Nigeria, a gap which this study intends to fill. It is believed that KPIs are vital variables that serve the information needs of investors/stakeholders for decision making, thus any variables that send significant influence on them should not be treated discretionarily. This empirical work is carried out within the theoretical domain of cost capitalization and financial performances of oil and gas companies. Thus, the conceptual framework is depicted in the figure below;

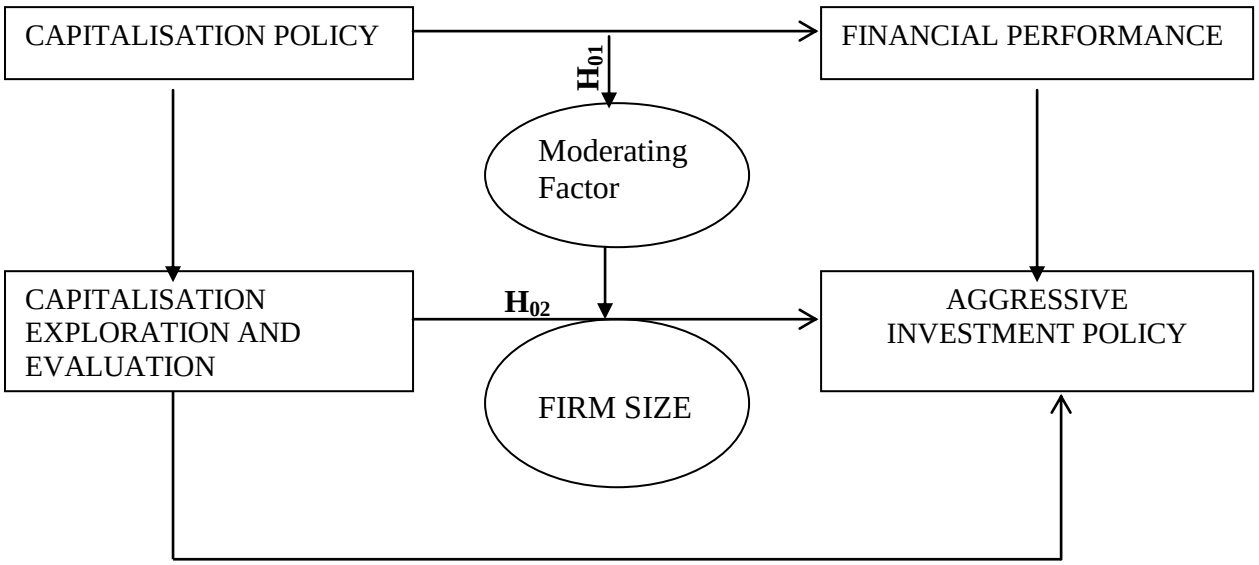

Figure 1: Operating framework of moderating influence of firm size on capitalization policy and financial performance of oil and gas companies in Nigeria.

Hypotheses

H_{01}: Firm size does not exert any moderating influence on capitalization policy and financial performance of oil and gas companies in Nigeria.

H_{02}: Capitalized exploration and Evaluation costs have no significant on Aggressive Investment Policy of oil and gas companies in Nigeria.

Methodology

We used an inductive, multiple – comparative research design (Bakare, 2011; Barney & Hesterly, 2008; Batool & Salwa, 2014). Multiple cases permit a replication logic in which cases are treated as experiments, with each serving to confirm or disconfirm influences drawn from the other (Alam, Ali, & Akram, 2011; Braney & Hesterly, 2014).

This process typically yields more robust, generalisable theory than single causes (Deegan, 2009; Davies; Nangil & Egbai, 2014; Nwaiwu, 2017). Our design embeds two units of analysis, firm size, and aggressive investment policy. The empirical research setting is the confluence of computing capitalization policy and finical performance in the mid 20s. At this time, many innovations, such as restructuring of "Financial Reporting Council" and distributed computing. Our focus is the evolution of moderating influence of firm size on capitalization policy and financial performance of 21 oil and gas companies in Nigeria. Date for statistical analysis was collected from the financial statements of the study firms. These

were obtained as existing documents found both on time and otherwise. The data collected were analyzed using partial correlation and Pearson product moment of coefficient of correlation with the aid of SPSS Version 20.0.

Model specification of the study

Applying the econometric analysis of firm size on capitalization policy and financial performance of oil and gas adopting model derived from Collins & Dent (1979), Deakin (1979) Bandgopadhyay (1994), Wright (2001) Myrant (2003), Carlos; Lin & Ran (2012), Davies, Nangil & Egbani (2014). We obtain our functional express of model as follows:

$Y_{óit} = \int(X_1)$

$FS_{óit} = \int(X_1, X_2))$

$AIP_{óit} = \int(CE \& EA_{óit})$ - - - - - (i)

$AIP_{óit} = \beta_o+\beta_1 CE \& E_{óit}$ - - - - - (ii)

$FS_{óit} = \beta_o+\beta_1 CE \& E_{óit} +\beta_2 FP_{óit}$ - - - - (iii)

The above equation II reflects the effect of CEP & EA on AIP of oil and gas companies. But based on the mathematical model expression above, we substitute it to econometric model to arrived at 'as'.

$AIP_{óit} = \beta_o+\beta_1 CE \& \mu_{óit}$ - - - - - (IV)

$FS_{óit} = \beta_o+\beta_1 CP_{óit}+\beta_2 FP+\mu_{óit}$ - - - - - (V)

Where

$FS_{óit}$ = Firm size$_{ó}$ for the period of time.

$AIP_{óit}$ = Aggressive Investment Policy$_{ó}$ for the period of time.

$CE\&EA_{óit}$ = Capitalized Exploration & Evolution costs$_{ó}$ for the period of time

$FP_{óit}$ = Financial performance$_{ó}$ for the period of time

$CP_{óit}$ = Capitalisation policy$_{ó}$ for the period of time

$\beta_{óit}$ = Constant$_{ó}$ for the period of time

$_{óit}$ = For the period of time

$\beta_1, \beta_{2\ óit}$ = regressive analysis$_{ó}$ for the period of time

$\mu_{óit}$ = error term for the period of time.

Empirical Results and Discussion

This section of the study is centered on statistical test of hypotheses, presentation of data in figures, tables or as written extracts. It shall necessitate the analyzing of these data in order to test suggested hypotheses raised in the study.

Table 1: Computed model proxies

1. SEVEN ENERGY	2009	2010	2011	2012	2013	2014
E & E ASSETS	-	-	7.05	7.09	6.85	7.87
AIP	-	-	0.14	0.15	0.16	0.16
FS	-	-	8.8	8.94	9.14	9.38
2. EQUATOR EXPLORATION	2009	2010	2011	2012	2013	2014
E&E ASSETS	7.77	7.03	7.62	7.31	7.31	6.74
AIP	(0.01)	(0.01)	(0.03)	(0.05)	(0.00)	(0.04)
FS	7.79	7.71	7.61	7.32	7.32	6.70
3. ALLIED ENERGY	2009	2010	2011	2012	2013	2014
E&E ASSETS	6.42	6.48	6.60	6.64	-	-
AIP	0.25	0.32	0.56	0.50	-	-
FS	7.08	7.20	7.30	7.28		
4. AFR ENERGY	2009	2010	2011	2012	2013	2014
E&E ASSETS	8.27	8.65	8.85	8.94	9.03	8.34
AIP	0.38	0.15	0.17	0.11	0.19	0.26
FS	9.04	9.16	9.47	9.60	9.62	9.42
5. SEPLAT PETROLEUM	2009	2010	2011	2012	2013	2014
E&E ASSETS	-	-	8.48	8.58	8.76	8.93
AIP	-	-	0.47	0.53	0.47	0.59
FS	-	-	8.83	8.95	9.12	9.38”

Table 1 above shows the various figures and ratios for capitalized exploration and evaluation (E&E Asset), Aggressive investment policy (AIP) and firm size of the individual firms from 2009 – 2014 as extracted from their annual reports. For seven energy, the highest E&E Assets of 7.87 measured by natural logarithm recorded in 2014 followed by 7.09 in 2012, 7.05 in 2011 and 6.85 in 2013. The ratio for AIP increased from 0.14 in 2011 to 0.15 in 2012, followed by 6.66% increase to 0.16 in 2013 – 2014. The size of the firm grew from 8.8 in 2011-8.94 in 2012. This was followed by a decrease to 9.14 in 2013, and an increase to 9.38 in 2014.

For Equator & Exploration, the E&E Assets witnessed a continual fluctuation all through the 6 years period from 7.77 in 2009 to 6.74 in 2014. There was loss per share for the 6 consecutive periods. The firm was more aggressive with AIP ratio of approximately 0.00 in the years 2010, 2011, 2012 and 2013 compared to 0.03 and 0.08 in 2009 and 2012 respectively. The firm size decreased slightly and consistently from 7.79 in 2009 to 6.79 in 2014 except for 2012-2013 when it remains constant at 7.32. For Allied Energy, the E & E Asset increased slightly and consistently over four years period from 6.42 in 2009 to 6.64 in 2012. The AIP was better at 0.25 in 2009 compared to the rest of the years, while firm size grew from 7.08 in 2009 to 7.20 and 7.30 in 2010 and 2011 respectively, 2012 witnessed a slight drop in the firm size by 0.27%.

For Afen Energy, the E & E Assets rose consistently from 2009 through 2013, the dropped by 7.6(% in 2014. Also, the AIP was optimal at 0.11 in 2012 compared to other years. The size grew considerably from 9.04 in 2009 to 9.62 in 2013 and later fell to 9.42 in 2014. For splat petroleum, the E & E Assets increased steadily from 8.48 in 2011 to 8.93 in 2014. The AIP of the firm was more aggressive in 2011 and 2013 compared to the rest of the periods.

S/N	Type of variable	Model	Interpretation
1.	E & E Assets	log of exploration and evaluation costs	Measures the amount of exploration and evaluation costs capitalized.
2.	Aggressive Investment Policy	CA/TA	Current assets divided by Total Assets. It measures the aggressiveness of the firm over making long term investment.
3.	Firm Size	Natural log of the Assets	Measures firm propensity to grow.

Descriptive Statistics

The use of descriptive statistics analysis was to find out the central tendency and variations of the data. Table 2 below shows the minimum, maximum and mean value of observations with standard deviations. The number of observation is as a result of the missing date for the year 2009 and 2010 for seven energy and seplot petroleum respectively, 2013 and 2014 for Allied energy and 2014 for Equator Exploration. It shows that the firms made some exploration successes during the periods under review. The optimum value means that the maximum exploration costs capitalized by the firms stood at $1.071, 000,00 approximately. The mean value of 7.7338 indicates that on the average the firms capitalized about $54,000,000 worth of E & E Assets.

AIP also shows a least value of 0.00, indicating the highest degree of investments over fixed assets, optimum value of 0.59, suggesting also the maximum level of investment over current assets, average value of 0.2363 and standard deviation of 0.19471; while firm size shows a least value of 6.79, optimum value of 9.62, average value of 8.4271 and standard deviation of 0.97920 respectively.

Table 3. Descriptive Statistics

Statement	N	Minimum	Maximum	Mean	Std deviation
Capitalized exploration & evaluation costs	24	6.42	9.03	7.7338	.90771
Aggressive investment policy	24	0.60	0.59	0.2363	0.19471
Firm size	24	6.79	9.62	8.4271	0.97920
valid N (**lust** wise)	22				

Regressive Analysis

Regression analysis is used to obtain statistically established relationship between variables. Using a simple regression analysis table 4 below is a summary of the model estimate extracted from SPSS output.

Table 4 summary of model estimate

Variables	R^2	B	Std Error	'F' statistics	't' statistics	Sig
Aggressive	0.034	0.400	0.045	0.782	0.884	0.386

From the result, the E & E Assets have a positive coefficient value of 0.040. It can be explained or predicted that the capitalized exploration and evaluation costs have positive but also weak effect on AIP of the firm. The R^2 of 0.034 shows that changes in the predictor variable (E & E Asset) explain just about 3.4% changes in the criterion variable. EPS. Again, the 't' value of 0.386 with p-value of 0.386 goes to confirm that the result is not significant at 0.05 levels. Thus, the null hypothesis (H_{01}) which states that capitalized exploration and evaluation costs have no significant effect on AIP of the firms is not rejected.

Correlation Analysis

Correlation analysis identifies the direction and strength of relationship between all variables under study. Table 5 below shows the summary of the bivariate correlation coefficient of the variables as extracted from appendix 1 & 2.

Table 5: Correlation Coefficient for year 2009-2014.

Variable	AIP	FS
Pearson (Rho)	.185	.793**
Sig (2-tailed)	.386	.000
N	22	22

Performing a correlational analysis, it can be seen from table 5 above aggressive investment policy shows a positive correlation of 0.185. A significant positive relationship of 0.793 exists on capitalized exploration and evaluation costs and the firm's size. Table 6 below is a partial correlation result extracted from SPSS output, showing how the control variable (firm size) moderate the relationship capitalization policy measured by capitalized exploration and evaluation costs and financial performance measured by EPS and AIP of the study firms.

Table 6 partial correlation of variables

Firms Size	EPS	AIP
correlation	.104	.126
Sig(2-tailed)	.653	.587
Df	19	19

From table 6 above, it can be seen from the correlation table that controlling for the firm's size. AIP which are all greater than 0.05 (p-value > 0.05) indicate that the moderations by firm's size and the coefficient was found positive but also insignificant. The result revealed that capitalization of E & E costs is positively correlated with short term investing and therefore supports the argument of proponents of successful effort method which hold that successful efforts firm are more aggressive in investment. The second hypothesis aimed at testing if the variation in firm's size is significantly responsible for correlation results among variables tested.

Moderating effect of firm size on capitalized exploration and evaluation costs as factors affecting financial performance of oil and gas companies in Nigeria have been investigated. Based on the empirical results, we hence conclude that firm size does not moderate the effect on capitalization policy and financial performance of oil and gas companies in Nigeria. Again, it is also concluded that E & E assets have no significant effect on aggressive investment policy of the companies in Nigeria. Conducting a partial correlation of the variables by the moderating factor, it can be interpreted that the firm's size does not significantly moderate the relationship between capitalization policy and financial performance of the oil and gas firms. This suggests that the findings of the study are not as a result of variations in total assets measured as firm's size.

Summary of Findings, Concluding Remark and Recommendations

This research work investigated the moderating effect among firm size on capitalized policy and financial performance of oil and gas companies in Nigeria. The problems for which the study intends to proffer solutions were clearly stated, ranging from the problem of comparability analysis to investment decision making. Following the objectives of the research work, two hypotheses were formulated for statistical test. All the results support the two stated hypotheses (Nwaiwu, 2016; Ibanichuka; Nwaiwu & Aneke (2016). The capital intensive nature of oil and gas exploration business demands a measure to test for the effect of E & E assets on conservation or aggressiveness of the oil firms in making long term investment. Thus, the hypothesis was tested to examine this, are not significant at 0.05 level. Therefore the null hypothesis which states that firm size does not significantly moderate the relationship between capitalization policy and financial performance of the firms is not rejected at 0.05 level of significant.

Analyzing the findings for the sound effect of independent variable on dependent variables, the study reveals that exploratory success as capitalized by the independent oil and gas firm does not significantly impact on the AIP of the firms. This means that the recognition of E & E assets based on successful exploratory efforts does not bias the traditional profitability ration AIP. Put differently, capitalized exploration and evaluation costs under successful effects method are not the major determinants of AIP of oil and gas companies in Nigeria. This is because oil and gas extractive business is characterized by other uncertainties and risks as maintained by Wright & Gallum (2008). The study also reveals that capitalization of exploration and evaluation costs based on successful efforts only have caused earning

volatility measured in terms of financial performance. This is consistent with the earlier finding of Byrant (2003) which argues that firms choose full cost method of accounting following the high level of earning volatility associated with successful efforts method of accounting for oil and gas exploration business.

Based on the findings, conclusion, the study recommends that comparability analysis poses some challenges following the divergent procedures in oil and gas accounting practice, the international accounting standard board (IASB) in trying to streamline the pending issues in IFRS, we should either suspend other capitalization methods for the one that is objective, unbiased and consistent with accounting prudence concept or initiate certain industry – specific measures for each method of accounting for oil and gas exploration activities that enhance investment decision making and uniformity in accounting language. Again, participation of independent oil and gas companies in Nigerian stock exchange market is ideal. This would enhance research works in oil and gas accounting as a discipline which has come to stay in the curriculum of Nigeria universities.

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