INTERNATIONAL ACCOUNTING STANDARD 37 (IAS 37) AND CREATIVE ACCOUNTING PRACTICES BY COMPANIES

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Abstract

The study appraised the effect of IAS 37 on the Creative Accounting practices of manufacturing firms in Nigeria. The use of IAS 37 Provisions, and Assets to smooth profits by companies led to this research study. The study was guided by the following objectives; evaluate the effect of Provisions on Profit Smoothing in manufacturing firms in Nigeria, ascertain how Contingent Assets affect Income Manipulation in manufacturing firms in Nigeria. The study was anchored on Agency theory. Ex post facto design was adopted for the study while the population comprised of the thirty-four quoted (34) manufacturing firms in Nigeria. Judgmental sampling technique was used in selecting five samples being Nigeria Brewery Plc, Guinness Nigeria Plc, Nestle Nigeria Plc, Cadbury Nigeria Plc and Unilever Nigeria Plc. Descriptive statistics, and panel least squares were adopted as the analytical techniques of the study. The study found out that IAS 37 Provisions have significant effect on Profit Smoothing in manufacturing firms in Nigeria, Contingent Assets significantly affect Income Manipulation in manufacturing firms in Nigeria The study recommended that for transparency in financial reporting which is key in Corporate Governance, companies need as much as possible avoid, minimize or eliminate the use of IAS 37 Provisions to distort the objectivity of financial statements.

Keywords: IAS 37, Creative Accounting practices, and Contingent Assets

Introduction

International Accounting Standard 37: Provisions, Contingent Liabilities and Contingent Assets (IAS 37), is an international financial reporting standard adopted by the International Accounting Standards Board (IASB). It sets out the accounting and disclosure requirements for Provisions, Contingent Liabilities and Contingent Assets, with several exceptions, establishing the important principle that a Provision is to be recognized only when the entity has a liability (Yoon and Miller, 2012). IAS 37 was originally issued by the International Accounting Standards Committee in 1998, superseding IAS 10: Contingencies and Events Occurring after the Balance Sheet Date, and was adopted by the IASB in 2001. It was seen as an "important development" in accounting as it regulated the use of Provisions, Contingent Liabilities and Contingent Assets, minimizing their abuse such as in the case of big baths.

IAS 37 establishes the definition of a Provision as a liability of uncertain timing or amount, and requires that all the following conditions be fulfilled before a Provision can be recognized (Voinea, 2013):

1.   The entity currently has a liability as a result of a past event;

2.   An outflow of resources is likely to be needed to settle the liability; and

3.   The amount of the obligation can be estimated reliably.

The standard also details measurement methods for Provisions, generally requiring that the entity recognizes a best estimate of the amounts needed to settle the obligation. Tassadaq and Malik (2015) state that Contingent Assets and Liabilities, IAS 37 generally defines Contingent Assets and Liabilities as assets and liabilities that arose from past events but whose existence will only be confirmed by the occurrence of future events that are not in the entity's control. It establishes that Contingent Assets and Liabilities are not to be recognized in the financial statements, but are to be disclosed where an inflow of economic benefits is probable (assets) or the chance of outflows of resources is not insignificant (liabilities).

Before the introduction of IAS 37, Companies use Provisions, Contingents Liabilities and Assets to smooth profits as there was little meaningful guidance on when a Provision must be made and therefore it led to potential accounting abuse. This lack of guidance caused problems where some companies could make and then subsequently release Provisions in order to smooth profits. It was particularly used by new management in companies whereby they would set aside large Provisions for restructuring in their first year thereby reducing profits and then release any unneeded Provisions in later years thereby increasing profits. Users of financial statements therefore find it difficult to determine the real underlying profits in companies due to the charging or releasing of Provisions. Hence, the study of IAS 37 and Creative Accounting practices by companies.

The broad objective of the study is to determine the effect of IAS 37 on the Creative Accounting practices of manufacturing firms in Nigeria. Specifically, the study will;

1.   Evaluate the effect of IAS 37 Provisions on Profit Smoothing in manufacturing firms in Nigeria.
2.   Ascertain how Contingent Assets affect Income Manipulation in manufacturing firms in Nigeria.

Review of Related Literature

Concept of Creative Accounting

Creative Accounting consists of accounting practices that follow required laws and regulations, but deviate from what those standards intend to accomplish (Gherai and Balaciu, 2011). The term Creative Accounting was first used in 1968 in the film, "The Produce", by Mel Brooks (Idris, Kehinde, Ajemunigbohun and Gabriel, 2012). According to them when no fraud is involved, Creative Accounting, in its strict sense, involves the transformation of financial accounts using accounting choices, estimates and other practices allowed by accounting regulations. It appeared in the Anglo-Saxon literature in the 1970s, most often in the papers about the bankruptcy of enterprises and those written by Watts and Zimmerman, (1978) which represent the foundation of the positive accounting theory (Ezeani, 2010).

Leyira and Okeoma (2014) state that Creative Accounting describes the process through which the accounting professionals use their knowledge in order to manipulate the figures included in the annual accounts.

Financial statements are the mirror of every company's business. They also represent a medium through which information on the financial position and business success of a company are communicated, primarily to external interest groups, which make different decisions based on such information. In order to be able to make the right decisions, the information contained in financial statements must be accurate and reliable. However, companies nowadays are increasingly resorting to "cooking" financial statements in order to present a more attractive business image and attract as many investors as possible (Healy and Wahlen, 1999). This is precisely why the concept of Creative Accounting has appeared. In other words, there is a distortion of financial information and presumptions of accuracy and reliability are brought into question.

Hall (2005) states that increasing competition and the economic environment are just some of the reasons why companies resort to various accounting manipulation techniques, with the aim of concealing possible losses and presenting the business in the best possible light. This does not necessarily mean that there is violation of accounting standards and legal regulations, but the so-called "loopholes" in laws are used to present a better image of the business. It should be noted that the practice of Creative Accounting is not illegal – which is why auditors often neglect it, but these are unethical procedures.

Idris, Kehinde, Ajemunigbohun and Gabriel (2012) note that Creative Accounting consists of accounting practices that follow required laws and regulations, but deviate from what those standards intend to accomplish. Creative Accounting capitalizes on loopholes in the accounting standards to falsely portray a better image of the company. Although Creative Accounting practices are legal, the loopholes they exploit are often reformed to prevent such behaviors.

Companies' management may adopt various methods to dress up financial statement to show improved performance in respect of profit or loss. For the statement of financial position, it may exist in three areas: the incorrect valuation of company's assets, accounting for all liabilities and over or under-statement of net worth. The effect of Creative Accounting may defeat the purpose of presentation of true and fair financial statement, as required by Companies and Allied Matters Act (CAMA) (Leyira and Okeoma, 2014).

A typical aim of Creative Accounting is to inflate profit figure. However, some companies also reduce reported profit in good years to smooth result. Assets and Liabilities may also be manipulated, either to remain within limits such as debt covenant, or to hide problems. Leyira and Okeoma (2014) assert that typical Creative Accounting tricks include off balance sheet financing, over-optimistic revenue recognition and the use of exaggerated non- recurring items. Every organization desires to achieve its goals, objectives or intended performance of continuous steady growth in profit, increase share prices by attracting more investors so as to get a larger share of their target market and increased productivity. Creative Accounting seems to be a readily available tool in the hands of many preparers of financial statements to dress up its financial statements to achieve effectiveness. Studies have revealed that company managers willfully manipulate reported profit to fit their own intentions or goals by selecting certain policies changing accounting estimates and manipulating accruals (Yoon and Miller, 2002).

Akenbor and Ibanichuka (2012) state that financial reporting is a crucial element necessary for corporate governance system to function effectively. Current accounting practices allow a degree of choice of policies and professional judgment in determining the method of measurement, criteria for recognition, and even the definition of the accounting entity. The exercise of this choice can involve a deliberate non-disclosure of information and manipulation of accounting figures, thereby making the business appear to be more profitable (or less profitable for tax purposes) and financially stronger than it is supposed to be. With this practice, users of accounting information are being misled and this constitutes a threat to corporate investment and growth (Akenbor and Ibanichuka, 2012). The corporate failures of most Nigeria banks today and the arrest of some banks Chief Executive Officers by the Economic and Financial Crimes Commission (EFCC) are as a result of fraudulent financial reporting, which has affected the stability of the financial system (Akenbor and Ibanichuka, 2012). Leyira and Okeoma (2014) opine that if organizations are to survive and achieve long-term viability, they must be effective. Friedlander and Pickle (1968) are of the view that an effective organization is one that is making profit in addition to other criteria. Imoisili (1978) included increase in market share as one of the evidence of organizational effectiveness. Shareholders require good returns on their investment and this cannot be achieved when a company is not profitable. Thus, a profitable firm is an effective organization. *Richard*, Devinney, Yip and Johnson (*2009*) are of the view that organizational effectiveness captures organizational performance plus the myriad internal performance outcomes normally associated with more efficient or effective operations and other external measures that relate to considerations that are broader than those simply associated with economic valuation. Deposit money banks are the most important savings mobilizing and financial resource allocation institutions. Consequently, their roles make them an important phenomenon and strong pillar in economic growth and development. Deposit money banks which are also known as commercial banks are financial institutions that provide services, such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investment products like savings accounts and certificates of activities deposit (Uzonwanne, 2015).

According to mainstream theory, they act as financial intermediaries to channel savers' money to firms and individuals who seek funding for their acts. Their importance as a catalyst to economic growth/development is widely recognized by both monetary and development economists. The financial system of Nigeria is dominated by the banking sector, especially the deposit money bank which provides the foundation for the development of financial system. Their credit component constitutes a major link between the monetary

sector and the real sector of the Nigerian economy. In performing these roles, deposit money banks must realize that they have the potentials, scopes and prospects of mobilizing financial resources and allocating them to productive investments and, in return, promote sustainable performance and ensures that businesses are flourishing and alive. They not only store our saved cash and lend us money when we need it, but act as the system of arteries that transport money around the economy, that is why they are often known as financial intermediaries. Hence their key function is to transfer money from those who want to lend to those who want to borrow.

IAS 37 Provisions

Provisions can be distinguished from other liabilities (e.g. trade payables and accruals) due to the uncertainty concerning the timing or amount of the future expenditure required in the settlement (Balacia, 2008). In a general sense, all Provisions are contingent because they are uncertain in timing or amount. However, within IAS 37 the term 'Contingent' is used for Liabilities and Assets that are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Akenbor and Ibanichuka (2012) are of the view that IAS 37 requires a Provision be recognized when all of the following apply: an entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the reporting period: including any considerations for risks and uncertainties; including time value of money (if material); including future events when there is sufficient objective evidence that they will occur and excluding gains from the expected disposal of assets. Provisions are to be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. The Provision is reversed where it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Ahmed (2017) state that a Provision is used only for expenditures for which the Provision was originally recognized; i.e. only expenditures that relate to the original Provision are set against it. When some or all of the expenditure required to settle a Provision is expected to be reimbursed by another party, the reimbursement shall be recognized as a separate asset when, and only when, it is virtually certain that the reimbursement will be received if the entity settles the obligation. The maximum amount recognized as an asset is the amount of the provision.

Adetoso and Ajiga (2017) note that IAS 37 stipulates that:

1. A Provision must not be recognized for future operating losses;
2. If an entity has a contract that is onerous, the present obligation under the contract is recognized and measured as a Provision; and
3. A Provision for restructuring costs can only be recognized if specific present obligation requirements are satisfied (e.g. details formal plan and the entity has raised a valid expectation in those affected).

IAS 37 Contingent Assets

Contingent Asset is a possible asset that may arise because of a gain that is contingent on future events that are not under an entity's control (*Richard*, Devinney, Yip and Johnson, *2009*). According to the accounting standards, a business does not recognize a Contingent Asset even if the associated contingent gain is probable. Beshiru and Prince (2014) state that a Contingent Asset becomes a realized (and therefore recordable) as an asset when the realization of income associated with it is virtually certain. In this case, recognize the asset in the period when the change occurs. This treatment of a Contingent Asset is not consistent with the treatment of a Contingent Liability, which should be recorded when it is probable (thereby preserving the conservative nature of the financial statements).

Radu (2013) is of the view that the best example of both sides of a Contingent Asset and Contingent Liability is a lawsuit. Even if it is probable that the plaintiff will win the case and receive a monetary award, it cannot recognize the Contingent Asset until such time as the lawsuit has been settled. Conversely, the other party that is probably going to lose the lawsuit must record a provision for the Contingent Liability as soon as the loss becomes probable, and should not wait until the lawsuit has been settled to do so. Thus, recognition of the Contingent Liability comes before recognition of the Contingent Asset.

Empirical Review
Amat, Blake and Dowds (1999) studied the ethics of Creative Accounting. The study adopted survey sampling using tables and percentages for analysis and chi square for testing of hypotheses. The study found out that Creative Accounting offers a formidable challenge to the accounting profession. The problem is an international one, with accounting policy choice being a particular problem in the Anglo American tradition and transaction manipulation a particular problem in the continental European tradition. There is a wide variety of motivations for managers to engage in Creative Accounting. Sen and Inanga (2004) studied Creative Accounting in Bangladesh and global perspectives. The analysis of the study was based on published materials and Expert Opinion Survey. The study found out that the extent of window-dressing of company financial statements in some developing countries has greatly violated all known ethical standards. This study stresses the need for preventing, rather than stopping, the practice in corporate enterprises wherever it exists. The study recommended that forensic accounting be introduced and recognized internationally. National accounting bodies, law courts, and Governments need to adopt strict measures to stop the practice. Balaciu, Bogdan and Vladu (2009) studied a brief review of Creative Accounting literature and its consequences in practice. The study used sample survey and discovered that there is no unanimously accepted theory at the international or European level concerning what is, what Creative Accounting represents or which are its basic principles. Also, we retain the attention on some controversial aspects attachable to this subject such as the negative values versus the positive values of the Creative Accounting. Balaciu, Bogdan, Mester and Gherai (2012) studied empirical evidences of Romanian auditors' behavior regarding Creative Accounting practices. The study adopted descriptive statistics and found out that all of the Creative Accounting practices mentioned in survey had been encountered quite frequently by the auditors in the sample, the lowest incidence being the one that regarded the Creative Accounting practices affecting the financial assets. Idris, Kehinde, Ajemunigbohun and Gabriel (2012) studied the nature, techniques and prevention of Creative Accounting: empirical evidence from Nigeria. The survey method was adopted while the

study was analyzed using the Chi-square statistic in the Predictive Analytic Software (version 19). It was revealed that the practice of Creative Accounting is always a deliberate attempt to gain undue advantage by management and also to deceive the stakeholders of the firm, by presenting a good view of the financial position of the firm. Akenbor and Ibanichuka (2012) studied Creative Accounting practices in Nigerian banks. The study adopted survey method of research design while the data generated for this study were analysed through mean scores while the stated hypotheses were statistically tested with Z-test. The study found out that the major reason for Creative Accounting practices in Nigerian banks is to boost the market value of shares. Ndebugri and Senzu (2017) carried out a study on Analyzing the Critical Effect of Creative Accounting Practice in the Corporate Sector of Ghana. The researchers used sample survey and found out that the practice of Creative Accounting is an attempt to gain advantage in a form to the managers and companies. Also, it shows that the current GAAP create a gap that can permit and encourage the practice of Creative Accounting. Adetoso and Ajiga (2017) studied Creative Accounting practices among Nigeria listed commercial banks: curtailing effect of IFRS adoption using quantitative approach through Statistical Package for Social Science (SPSS)- Version 21 software, Akenbor and Ibanichuka (2012) studied Creative Accounting practices in Nigerian banks using mean scores and Z-test, Leyira and Okeoma (2014) studied the impact of Creative Accounting on organizational effectiveness: A study of manufacturing firms in Nigeria using correlation statistics, Idris, Kehinde, Ajemunigbohun and Gabriel (2012) studied the nature, techniques and prevention of Creative Accounting: empirical evidence from Nigeria using Chi-square statistic, Amat, Blake and Dowds (1999) studied the ethics of Creative Accounting using tables and percentages for analysis and chi square for testing of hypotheses. The above highlighted empirical reviews failed to adopt advanced analytical techniques to establish how their independent variables affect the dependent variable. This study on IAS 37 and Creative Accounting practices is set to combine diverse statistical techniques such as descriptive statistics to ascertain the properties of the selected variables, unit root test to checkmate the stationary properties of the variables, correlation to determine the relationship existing between the selected independent variables and dependent variables, Auto Regressive Distributed Lag Model to find out the goodness of fit of the independent variables and the overall significance of the regression model, Hausman's Test to determine whether to use either fixed or random panel regression model for testing the formulated hypotheses. The combination of these analytical techniques will improve the result of the study thereby aiding in filling the gaps left by the authors whose works were reviewed empirically.

Methodology

Research Design

The researcher adopted *ex-post facto* research design. The choice of the *ex-post facto* design is because the research relied on already recorded events, and researchers do not have control over the relevant dependent and independent variables they are studying with a view to manipulating them (Onwumere, 2009).

Population of the Study

The population of study comprised all the quoted manufacturing firms in Nigeria. There are a total of thirty-four quoted (34) manufacturing firms in Nigeria

Sample Size Determination

The sample size consisted of five (5) selected manufacturing firms in Nigeria (Ten (10) years financial statements – Five (5) years each for Pre and post adoption of IFRS). They include; Nigeria Brewery plc, Guinness Nigeria Plc, Nestle Nigeria Plc, Cadbury Nigeria Plc and Unilever Nigeria Plc. These firms were sampled with the aid of judgmental sampling. Judgmental sampling is a non-probability sampling technique where the researcher selects units to be sampled based on their knowledge and professional judgment. The companies were selected as the researcher had studied the companies and ascertained they are most appropriate for the study as their quoted financial statements contained the variables being studied in this research, and also the goodwill they have achieved and maintained over the years over their competitors.

The study made use of secondary data covering a period of 10 years i.e. 2007 – 2016 and was obtained from the financial statements of selected manufacturing firms in Nigeria.

Model Specification

The model is shown as follows;

$$Y = \beta_O + \beta_1 X_1 + \beta_2 X_2 - - - - - - \beta_n X_n + \mu_t \text{-----------} \quad (3.1)$$

Where;

Y = dependent variable

$X_1, X_2, ---Xn$ = Explanatory or independent variable

$\beta_1, \beta_2, ... \beta_n$ = the slope of coefficient of the parameter estimate

μ = Error or disturbance term

$_t$ = time

For hypothesis one

$$PS_{it} = \beta_0 + \beta_1 PV_{it} + \mu \text{-------------------------------------} \quad (3.2)$$

Where

PS = Profit Smoothing

PV = Provisions (representing IAS 37 Provisions)

β_O = Constant

β_1 = Coefficient of provisions in the regression equation

μ = Error or disturbance associated with the model

$_{It}$ = Panel Data

For hypothesis two

$$IM_{it} = \beta_0 + \beta_1 CA_{it} + \mu \text{-----------------------------------} \quad (3.3)$$

Where

IM = Income Manipulation

CA = Contingent Assets (representing IAS 37 Contingent Assets)

β_O = Constant

β_1 = Coefficient of Contingent Assets in the regression equation

μ = Error or disturbance associated with the model

$_{It}$ = Panel Data

Description of Variables

Dependent Variable:
Profit Smoothing:
Profit Smoothing is the shifting of revenue and expenses among different reporting periods in order to present the false impression that a business has steady earnings.

Income Manipulation:
Income Manipulation in this context is the recognition of Contingent Assets whose criteria are not met as an income thereby, falsifying the figures in books of accounts with the objective of reporting net income more or less than what actually it is.

Independent Variable:

Provisions
IAS 37 establishes the definition of a Provision as a liability of uncertain timing or amount, and requires all conditions to be fulfilled before a Provision can be recognized.

Contingent Assets:
A Contingent Asset is a possible asset that may arise because of a gain that is contingent on future events that are not under an entity's control.

Analytical Procedure
Panel data covering a period of 10 years will be estimated using diverse techniques, such as descriptive statistics, unit root test and multiple regression and Chow test to ascertain pre and post analysis.

Decision Rule
Reject the null hypothesis if the t − statistics is greater than 2.5 and the P-value is less than 5%, otherwise accept the null hypothesis.

Data Presentation and Analysis

Data Presentation
Data for the study, sourced from the annual report of the selected companies were presented, tested and analyzed. The data collected were organized and used for testing the hypotheses. From the analysis and results generated, deductions and logical conclusions were obtained.

Table 1: **Table showing the pooled data of Nigeria Brewery plc, Guinness Nigeria Plc, Nestle Nigeria Plc, Cadbury Nigeria Plc and Unilever Nigeria Plc**

YEAR	COMPANY	PS	PV	CA	IM
2007	NB PLC	51691060	22017398	38241819	1655023
2008	NB PLC	80860880	33374063	44217469	1655023
2009	NB PLC	99541189	30565935	69018654	5090863
2010	NB PLC	103736359	39624211	69069118	12516033
2011	NB PLC	117927934	40624211	66071011	14288312
2012	NB PLC	141671195	46087535	83614617	12492742
2013	NB PLC	191863726	42089123	78138749	23036762
2014	NB PLC	290573480	57212923	93218236	24370540

2015	NB PLC	279794899	62248599	88503824	30171590
2016	NB PLC	292015886	66291215	99509663	33482106
2007	GUINNESS	89218547	7445927	37643630	44962735
2008	GUINNESS	119620518	11104221	44134119	1177402
2009	GUINNESS	145928727	29326928	67488036	2861024
2010	GUINNESS	189422248	34658110	90160569	6174129
2011	GUINNESS	198636459	38098644	88252860	7124812
2012	GUINNESS	233951908	37513632	92682555	6799200
2013	GUINNESS	270439885	40185309	101956731	9137716
2014	GUINNESS	261236649	51374123	99570920	9592381
2015	GUINNESS	289800392	49302589	105373016	10329160
2016	GUINNESS	295909333	55725488	117346602	9961240
2007	NESTLE PLC	168262589	13100002	49359341	10088861
2008	NESTLE PLC	182385333	17128365	57120003	74655667
2009	NESTLE PLC	170147228	26225248	62107682	73868787
2010	NESTLE PLC	198200839	21287123	76789377	78396876
2011	NESTLE PLC	219204325	30326524	80150360	95454652
2012	NESTLE PLC	238235879	35305479	80252704	1.06E+08
2013	NESTLE PLC	241305631	37531441	89156197	1.21E+08
2014	NESTLE PLC	253354286	41577452	103370938	1.32E+08
2015	NESTLE PLC	260350133	40677101	99128629	1.22E+08
2016	NESTLE PLC	269530410	44252177	122268629	1.37E+08
2007	CADBURY PLC	90548282	6053472	18942856	1.46E+08
2008	CADBURY PLC	104412640	7972000	25700593	1.04E+08
2009	CADBURY PLC	106987883	78610000	27910091	1.07E+08
2010	CADBURY PLC	114390432	11072679	30332118	1.31E+08
2011	CADBURY PLC	215447123	32161412	38434033	2.15E+08
2012	CADBURY PLC	253633629	39811415	38042714	2.54E+08
2013	CADBURY PLC	252759633	43172624	43080349	2.53E+08
2014	CADBURY PLC	349676784	28811286	42520253	3.50E+08
2015	CADBURY PLC	356707123	28417005	38049518	3.57E+08
2016	CADBURY PLC	367639915	28392951	28396777	3.68E+08
2007	UNILEVER	71809654	10691060	8904718	3.83E+08
2008	UNILEVER	73191460	11860880	9695057	931921
2009	UNILEVER	73868737	13541189	11277070	931921
2010	UNILEVER	78396876	13736359	11540168	1616503
2011	UNILEVER	92175032	17927934	32249928	4794946
2012	UNILEVER	102534172	14671195	36497624	9908167
2013	UNILEVER	121060621	11863726	43754114	10661413
2014	UNILEVER	132328273	9573480	45736255	17388632
2015	UNILEVER	122246632	7794899	50172484	18493907
2016	UNILEVER	136992444	2015886	72491309	20649295

Source: Financial Statement of the selected companies

NB:

PS: Profit Smoothing
PV: IAS 37 Provisions
CA: Contingent Assets
IM: Income Manipulation

Table 1 showed the data comprising of Profit Smoothing, Provisions, Contingent Assets, Income Manipulation, Contingent Liabilities and Net assets.

Table 2: showing the logs of the pooled data of Nigeria Brewery plc, Guinness Nigeria Plc, Nestle Nigeria Plc, Cadbury Nigeria Plc and Unilever Nigeria Plc.

YR	COMPANY	PS	PV	CA	IM
2007	NB PLC	17.7608	16.90734	17.45944	4.204693
2008	NB PLC	18.20824	17.32329	17.60463	4. 262680
2009	NB PLC	18.41608	17.2354	18.04989	4. 455742
2010	NB PLC	18.45736	17.49495	18.05062	4.234107
2011	NB PLC	18.58558	17.51987	18.00624	4.382027
2012	NB PLC	18.76902	17.64605	18.24173	4.418841
2013	NB PLC	19.0723	17.5553	18.174	4.406719
2014	NB PLC	19.48737	17.86229	18.35045	4.477337
2015	NB PLC	19.44957	17.94665	18.29856	4.477337
2016	NB PLC	19.49232	18.00957	18.41577	4.532599
2007	GUINNESS	18.3066	15.82318	17.44367	4.317488
2008	GUINNESS	18.59983	16.22284	17.60274	4.360931
2009	GUINNESS	18.79863	17.19402	18.02746	4.368308
2010	GUINNESS	19.05949	17.36104	18.3171	4.382027
2011	GUINNESS	19.10699	17.45569	18.29572	4.465793
2012	GUINNESS	19.27063	17.44021	18.34469	4.454347
2013	GUINNESS	19.41556	17.50901	18.44006	4.455742
2014	GUINNESS	19.38094	17.75465	18.41638	4.59512
2015	GUINNESS	19.4847	17.71349	18.47302	4.772547
2016	GUINNESS	19.50556	17.83595	18.58064	4.775082
2007	NESTLE PLC	18.94104	16.38812	17.71464	4.076011
2008	NESTLE PLC	19.02163	16.65625	17.86066	4.094345
2009	NESTLE PLC	18.95217	17.08223	17.94438	4.151197
2010	NESTLE PLC	19.10479	16.87361	18.15658	4.234107
2011	NESTLE PLC	19.20551	17.22753	18.19941	4.234107
2012	NESTLE PLC	19.28877	17.37955	18.20069	4.234107
2013	NESTLE PLC	19.30157	17.44069	18.3059	4.314818
2014	NESTLE PLC	19.3503	17.54307	18.45383	4.317488
2015	NESTLE PLC	19.37754	17.52118	18.41193	4.48108
2016	NESTLE PLC	19.41219	17.60542	18.62173	4.47745
2007	CADBURY PLC	18.32139	15.61614	16.75694	4.26268
2008	CADBURY PLC	18.46386	15.89145	17.06202	4.304065

2009	CADBURY PLC	18.48823	18.18001	17.1445	4.342506
2010	CADBURY PLC	18.55513	16.21999	17.22772	4.369448
2011	CADBURY PLC	19.18823	17.28628	17.46445	4.387263
2012	CADBURY PLC	19.3514	17.49966	17.45422	4.382027
2013	CADBURY PLC	19.34795	17.58072	17.57858	4.430817
2014	CADBURY PLC	19.67252	17.17628	17.56549	4.454347
2015	CADBURY PLC	19.69243	17.1625	17.4544	4.369448
2016	CADBURY PLC	19.72261	17.16165	17.16179	4.49981
2007	UNILEVER	18.08953	16.18492	16.00209	4.204693
2008	UNILEVER	18.10859	16.28876	16.08713	4.273884
2009	UNILEVER	18.1178	16.42125	16.23828	4.234107
2010	UNILEVER	18.17729	16.43556	16.26134	4.310799
2011	UNILEVER	18.3392	16.70187	17.28903	4.330733
2012	UNILEVER	18.44571	16.5014	17.41276	4.356709
2013	UNILEVER	18.6118	16.289	17.5941	4.392101
2014	UNILEVER	18.7008	16.07451	17.6384	4.406719
2015	UNILEVER	18.62155	15.86898	17.73098	4.356709
2016	UNILEVER	18.73544	14.51657	18.09898	4.488636

Source: Eviews 9.0

Table 2 shows the logs of Profit Smoothing, IAS 37 Provisions, Contingent Assets, Income Manipulation, Contingent Liabilities and Net Assets. These variables were trans-logged to improve the regression result of the study.

Data Analysis
Data analysis depicts how the data collected for each of the companies are analyzed with diverse analytical tools.

Descriptive Analysis

Table 3: Description of the Characteristics of the Variables under Study for the pooled data of Nigeria Brewery plc, Guinness Nigeria Plc, Nestle Nigeria Plc, Cadbury Nigeria Plc and Unilever Nigeria Plc

	Skewness	Kurtosis	Jarque-Bera Stat.	Prob.
L(PS)	-0.332303	1.590401	4.148979	0.125621
L(PV)	-0.259068	2.538895	0.821849	0.663037
L(CA)	-0.326533	2.004003	2.423281	0.297708
L(IM)	-0.622695	2.273218	3.118810	0.210261
L(NA)	-1.283610	3.364091	4.716882	0.061927

Source: Author's Computation from Eviews 9.0

Table 3 contains the description of the variables using normality test which comprises of Skewness, Kurtosis and Jarque – Bera Statistics. The table showed that all the variables were negatively skewed relative to normal and logs of Profit Smoothing, Provisions, Contingent Assets and Income Manipulation are platykurtic as their kurtosis values are less than three (3) while the logs of Contingent Liabilities and Net Assets are leptokurtic as their kurtosis values are greater than three (3).

The table also showed that all the variables are not normally distributed as the probability values of their Jarque-Bera statistics are greater than 0.05 but this does not discredit the use of these variables as they will further be subjected to other advanced statistical techniques.

4.2.2   Unit Root Test

This test tries to examine the property of the variables. It is used to check for the presence of a unit root i.e. whether the variables are stationary. This test is carried out using the Augmented Dickey Fuller (ADF) test. The ADF is carried out using E-views software package and the results from the test are tabulated below:

Table 4: Pooled Unit Root Test for International Breweries Plc, Champion Breweries Plc, Guinness Nigeria Plc and Nigeria Breweries Plc

!	L(LC)		ADF – FISHER		PP – FISHER	
	Test Stat.	Order of integration	Test Stat.	Order of integration	Test Stat.	Order of integration
L(PS)	-3.79 (0.0001<0.05)	I(I)	18.57 (0.049 < 0.05)	I(I)	53.50 (0.0000 < 0.05)	I(I)
L(PV)	-3.56 (0.0002 < 0.05)	I(I)	-	-	19.24 (0.0038 < 0.05)	I(I)
L(CA)	-2.86 (0.0021 < 0.05)	I(I)	15.80 (0.0149 < 0.05)	I(I)	36.45 (0.0000 < 0.05)	I (I)
L(IM)	-2.67 (0.0038 < 0.05)	I(I)	13.05 (0.0423 <0.05)	I(I)	15.01 (0.0202 <0.05)	I(I)
L(CL)	-41.09 (0.0063 < 0.05)	I(I)	27.99 (0.0416 < 0.05)	I(I)	11.26 (0.0227 < 0.05)	I(I)
L(NA)	-5.92 (0.0018<0.05)	I(1)	22.27 (0.0227 < 0.05)	I(1)	9.82 (0.0181 < 0.05)	I(1)

Source: Author's Compilation from Eviews 9

L(LC) = Levin, Lin and Chu Test
L(PS) = Im, Pesaran and Shin W – Stat
ADF FISHER = Augmented Dickey Fuller Fisher Chi – Square Test
PP FISHER = Philip Peron Fisher Chi – Square Test

Table 4.2.2 showed that all the variables are integrated of order one or are stationary at first difference.

Regression Analysis

Regression Analysis for IAS 37 Provisions

Table 5: Regression Analysis for Provisions

Dependent Variable: L(PS)
Method: Least Squares
Date: 12/27/19   Time: 04:08
Sample: 2007 2016
Included observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-11.18321	16.74383	-0.667900	0.5338
L(PV)	0.910896	1.757077	0.518416	0.6263

R-squared	0.779424	Mean dependent var	11.93920
Adjusted R-squared	0.602964	S.D. dependent var	1.594495
S.E. of regression	1.004704	Akaike info criterion	3.154116
Sum squared resid	5.047151	Schwarz criterion	3.305408
Log likelihood	-10.77058	Hannan-Quinn criter.	2.988148
F-statistic	4.416990	Durbin-Watson stat	2.357109
Prob(F-statistic)	0.047376		

Table 5 above shows that the R^2 is 0.779424 which is about 78%. The R^2 is used to explain the goodness of fit. Therefore, since it is about 78%, it implies that about 78% change in the dependent variable being Profit Smoothing is explained by the independent variable and the higher the R^2 the better fit the independent variables. Since the F – statistics is 4.416990 which is greater than 2.5 and the probability value is 0.047376 is <0.05. This shows that the model is significant and has a high goodness of fit. The Durbin – Watson stat is approximately equal to two (2) indicating the absence of autocorrelation.

Regression Analysis for Contingent Assets

Table 6   Regression Analysis for Contingent Assets

Dependent Variable: L(IM)
Method: Least Squares
Date: 12/27/19   Time: 04:08
Sample: 2007 2016
Included observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.22883	32.62903	0.313489	0.7666
L(CA)	-1.090182	2.085807	-0.522667	0.0235

R-squared	0.899210	Mean dependent var	17.89790
Adjusted R-squared	0.818578	S.D. dependent var	0.781531
S.E. of regression	0.332883	Akaike info criterion	0.944801
Sum squared resid	0.554055	Schwarz criterion	1.096094
Log likelihood	0.275993	Hannan-Quinn criter.	0.778834
F-statistic	11.15202	Durbin-Watson stat	1.826921
Prob(F-statistic)	0.010475		

Table 6 above shows that the R^2 is 0.899210 which is about 90%. The R^2 is used to explain the goodness of fit. Therefore, since it is about 90%, it implies that about 90% change in the dependent variable being Income Manipulation is explained by the independent variables and the higher the R^2 the better fit the independent variables. Since the F – statistics is 11.15202 which is greater than 2.5 and the probability value is 0.010475 is <0.05. This shows that the model is significant and has a high goodness of fit. The Durbin – Watson stat is approximately equal to two (2) indicating the absence of autocorrelation.

Test of Hypotheses

The test of hypotheses was carried out as follows:

Step 1: Re-statement of the hypotheses in the null and alternate forms

Step 2: Statement of decision criteria

Step 3: Presentation of test result

Step 4: Decision

Test of Hypothesis one

Step 1:   Restatement of the hypothesis.

IAS 37 Provisions do not have significant effect on Profit Smoothing in manufacturing firms in Nigeria.

Step 2:   Statement of Decision Criteria

Reject H_O if the t-statistics is >2.5 and the probability of the t-statistics is <0.05.

Step 3:   Presentation of test result

Table 7: Test of Hypothesis One

Dependent Variable: L(PS)
Method: Least Squares
Date: 12/27/19 Time: 07:50
Sample (adjusted): 2007 2016
Included observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-10.86157	1.793959	-6.054526	0.0000
L(PV)	0.673054	0.459769	3.463897	0.0052
R-squared	0.952576	Mean dependent var		16.03989
Adjusted R-squared	0.945280	S.D. dependent var		2.344373
S.E. of regression	0.548403	Akaike info criterion		1.783077
Sum squared resid	7.819388	Schwarz criterion		2.014365
Log likelihood	-22.63769	Hannan-Quinn criter.		1.858471
F-statistic	130.5614	Durbin-Watson stat		0.612524
Prob(F-statistic)	0.000000			

Source: Author's Computation from E-View 9.0

Step: Decision

Given the decision criteria to reject H_O if the t-statistics is >2.5 and the probability of the t-statistics is < 0.05. Table above shows the t-statistics of LPV as 3.463897>2.5 with a probability of the t-statistics of 0.0052 < 0.05. We reject the null hypothesis (H0) and

conclude that Provisions have significant effect on Profit Smoothing in manufacturing firms in Nigeria.

Test of Hypothesis Two

Step 1:   Restatement of the hypothesis.
Contingent Assets do not significantly affect Income Manipulation in manufacturing firms in Nigeria.

Step 2:   Statement of Decision Criteria
Reject H_O if the t-statistics is >2.5 and the probability of the t-statistics is <0.05.

Step 3:   Presentation of test result

Table 8: Test of Hypothesis Two
Dependent Variable: L(IM)
Method: Least Squares
Date: 12/27/19   Time: 07:50
Sample (adjusted): 2007 2016
Included observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-10.86157	1.793959	-6.054526	0.0000
L(CA)	0.011666	0.393500	4.029646	0.0066
R-squared	0.952576	Mean dependent var		16.03989
Adjusted R-squared	0.945280	S.D. dependent var		2.344373
S.E. of regression	0.548403	Akaike info criterion		1.783077
Sum squared resid	7.819388	Schwarz criterion		2.014365
Log likelihood	-22.63769	Hannan-Quinn criter.		1.858471
F-statistic	130.5614	Durbin-Watson stat		0.612524
Prob(F-statistic)	0.000000			

Source: Author's Computation from E-View 9.0

Decision
Given the decision criteria to reject H_O if the t-statistics is >2.5 and the probability of the t-statistics is < 0.05. Table above shows the t-statistics of LCA as 4.029646 >2.5 with a probability of the t-statistics of 0.0066< 0.05. We reject the null hypothesis (H0) and conclude that Contingent Assets significantly affect Income Manipulation in manufacturing firms in Nigeria.

Discussion of Result
The following results were generated from the analysis of study;
IAS 37 Provisions have significant effect on Profit Smoothing in manufacturing firms in Nigeria based on the premise that the t-statistics of LPV which was 3.463897 was greater than 2.5 while the probability of the t-statistics of 0.0052 was less than 0.05.

Contingent Assets significantly affect Income Manipulation in manufacturing firms in Nigeria due to the fact that the t-statistics of LCA which was 4.029646 was greater than 2.5 while the probability value being 0.0066 was less than 0.05.

Summary of Findings, Conclusion and Recommendations

Summary of Findings
The following findings were made for this study:
1. IAS 37 Provisions have significant effect on Profit Smoothing in manufacturing firms in Nigeria.
2. Contingent Assets significantly affect Income Manipulation in manufacturing firms in Nigeria.

Conclusion
The objectives of the study were to: evaluate the effect of IAS 37 provisions on profit smoothing in manufacturing firms in Nigeria, ascertain how Contingent Assets affect Income Manipulation in manufacturing firms in Nigeria and determine the extent to which Contingent Liabilities affect the Net Assets of manufacturing firms in Nigeria. These objectives guided the study which led to the formulation of research questions and hypotheses that were analyzed and tested in the chapter four of the study. The study was reviewed by focusing on concepts, theories and empirical literatures which concluded by tabulating a summary of the empirical literatures and establishing a gap in literature. The study adopted ex post facto design and focused on the manufacturing sector while using descriptive statistics, unit root test, heteroskeidasticity test and multiple regression as analytical tools to arrive at the findings that IAS 37 Provisions have significant effect on Profit Smoothing in manufacturing firms in Nigeria, Contingent Assets significantly affect Income Manipulation in manufacturing firms in Nigeria.

Recommendations
The following recommendations are made for the study:
1. For transparency in financial reporting which is key in Corporate Governance, companies need as much as possible avoid, minimize or eliminate the use of IAS 37 Provisions to distort the objectivity of financial statements.
2. To produce reliable and relevant financial reports, accounting for Contingent Assets and Liabilities should follow the objective and consistent sets of accounting standards in their recognitions and measurement in the financial statements.

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The Quoted Manufacturing Firms in Nigeria
1. Cadbury Nigeria Plc
2. Champion Brewery Plc
3. Dangote Flour Mill Plc
4. Dangote Sugar Refinery Plc
5. DNTyre and Rubber Plc
6. Flour Mills Nigeria Plc
7. Golden Guinea Brewery Plc
8. Honeywell Flour Mill Plc
9. Guinness Nigeria Plc
10. International Breweries
11. Multi-Trex Integrated Foods Plc
12. Nestle Nigeria Plc
13. Nigeria Breweries Plc
14. Nigeria Enamel Ware Plc
15. PZ Cussons Nigeria Plc
16. Unilever Nigeria Plc
17. Union Dicon Salt Plc
18. Premier Brewery Plc
19. Northern Nigeria Flour Mills Plc
20. MCNICHOLS Plc
21. Austin Laz & Company Plc
22. Berger Paints Plc
23. Beta Glass Plc.
24. Cap Plc
25. Cement Company of Northern Nigeria Plc
26. Chellarams Plc
27. Dangote Cement Plc
28. First Aluminum Nigeria Plc
29. Greif Nigeria Plc
30. Lafarge Africa Plc
31. Meyer Plc.
32. Paints And Coatings Manufactures Plc
33. Portland Paints & Products Nigeria Plc
34. Premier Paints Plc.

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