

Earnings Management and Financial Statement Reporting Quality of Deposit Money Banks in Nigeria

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Abstract

This study examined the relationship between earnings management and financial statement reporting quality of Deposit Money Banks (DMBs) in Nigeria over the period 1994–2024. Specifically, it examined the relationship between discretionary accruals and accrual quality; loan loss provisions and accounting conservatism; earnings smoothing and earnings persistence; real earnings management and earnings predictability; discretionary loan loss provisions and transparency and disclosure; and income-increasing/decreasing accruals and the value relevance of financial statements. Anchored on agency theory, the study adopted an ex-post facto research design and employed panel least squares regression using a balanced panel of 17 purposively selected DMBs, comprising 527 bank-year observations. Panel unit-root tests indicated that the study variables were stationary, while the Kao residual cointegration test indicated a long-run relationship among the variables. The findings revealed a statistically significant positive relationship between discretionary accruals and accrual quality ($p = 0.0081$), a statistically significant negative relationship between loan loss provisions and accounting conservatism ($p = 0.0130$), and a statistically significant negative relationship between income-increasing/decreasing accruals and the value relevance of financial statements ($p = 0.0364$). However, no statistically significant relationship was found between earnings smoothing and earnings persistence ($p = 0.6375$), real earnings management and earnings predictability ($p = 0.1083$), or discretionary loan loss provisions and transparency and disclosure ($p = 0.2193$). The study concludes that the relationship between earnings management and financial statement reporting quality varies across the six dimensions examined among Nigerian DMBs. It recommends strengthened regulatory monitoring of discretionary accruals and loan loss provisioning, improved internal controls, enhanced board and audit committee oversight, and more transparent disclosure of accounting estimates to mitigate opportunistic earnings management and strengthen financial statement reporting quality in the Nigerian banking sector.

Keywords: Earnings management; discretionary accruals; loan loss provisions; accrual quality; financial statement reporting quality; deposit money banks; panel data; Nigeria.

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Introduction

Earnings management remains a significant concern in financial reporting, particularly in the banking sector, where regulatory oversight, public accountability, and the reliability of disclosed financial information are paramount. Deposit Money Banks (DMBs) in Nigeria are expected to prepare accurate and reliable financial statements that faithfully represent their financial position and performance. However, profitability expectations, regulatory pressures, and the need to maintain investor confidence may create incentives for managers to engage in earnings management practices that undermine the credibility of reported earnings and financial statements (Ijeoma & Aronu, 2023). Such practices can distort stakeholders' assessments of banks' financial health, weaken confidence in reported financial information, and potentially have broader implications for financial-system stability.

A central mechanism of earnings management is the use of accruals, which recognise income and expenses in the accounting period to which they relate, rather than solely when cash is received or paid. Accruals may involve discretionary elements that are influenced by managerial judgement or non-discretionary elements arising from underlying economic activities and applicable accounting requirements. Discretionary accruals, in particular, provide managers with opportunities to influence reported earnings through accounting estimates and judgements (Ugwoke et al., 2022). In the banking sector, earnings management may also occur through loan loss provisioning, earnings smoothing, real earnings management, and the use of income-increasing or income-decreasing accruals. These practices are particularly relevant to banks because estimating expected credit losses, determining appropriate provisions, and recognising revenues and expenses often require substantial professional judgement.

Despite the growing body of research examining the relationship between earnings management and financial reporting quality in developing economies, important gaps remain in the Nigerian banking literature. Existing studies often examine these constructs as broad, aggregate phenomena, potentially obscuring differences in how specific earnings-management practices relate to distinct dimensions of financial reporting quality, including accrual quality, accounting conservatism, earnings persistence, earnings predictability, transparency and disclosure, and value relevance. Furthermore, long-horizon, bank-level panel evidence covering different regulatory periods in Nigeria, including banking consolidation, the adoption of International Financial Reporting Standards (IFRS), and subsequent prudential reforms, remains limited. To address these gaps, this study examines six distinct relationships between earnings-management proxies and corresponding financial reporting quality measures using bank-level panel data covering the 31-year period from 1994 to 2024. This multidimensional approach enables the study to assess whether the relationships between earnings management and financial reporting quality vary across the specific reporting-quality attributes examined.

The main objective of this study is to examine the relationship between earnings management and financial statement reporting quality among Deposit Money Banks (DMBs) in Nigeria. The specific objectives are to:

- i. examine the relationship between discretionary accruals and accrual quality;
- ii. assess the relationship between loan loss provisions and accounting conservatism;

- iii. determine the relationship between earnings smoothing and earnings persistence;
- iv. examine the relationship between real earnings management and earnings predictability;
- v. evaluate the relationship between discretionary loan loss provisions and transparency and disclosure; and
- vi. investigate the relationship between income-increasing/decreasing accruals and the value relevance of financial statements among DMBs in Nigeria.

Corresponding to the six specific objectives, the study tests six null hypotheses, each stating that there is no statistically significant relationship between the relevant earnings-management proxy and its corresponding financial reporting quality measure. The findings are expected to be relevant to financial-sector regulators and policymakers, particularly the Central Bank of Nigeria (CBN), the Financial Reporting Council of Nigeria (FRCN), and the Nigeria Deposit Insurance Corporation (NDIC), by providing empirical evidence to inform supervisory attention to earnings-management practices and financial reporting quality. The study is also relevant to bank management, internal auditors, external auditors, investors, and financial analysts, as it examines how specific earnings-management practices are associated with different dimensions of reported financial information. Furthermore, the study contributes to the academic literature by providing a multidimensional assessment of the relationship between earnings management and financial statement reporting quality among Nigerian DMBs over an extended observation period.

Review of Related Literature

Conceptual Review

Earnings management refers to the exercise of managerial discretion in financial reporting and the structuring of transactions to influence reported earnings and, consequently, stakeholders' perceptions of an entity's financial performance (Healy & Wahlen, 1999). In Nigerian Deposit Money Banks (DMBs), earnings management may manifest through discretionary accruals, loan loss provisioning, earnings smoothing, real earnings management, and the direction of accruals, whether income-increasing or income-decreasing. These practices may be motivated by incentives relating to management compensation, contractual obligations, political costs, share-price considerations, and managerial reputation (Adebanjo & Okere, 2024; Ogunleye, 2017).

Financial statement reporting quality refers to the extent to which financial reports faithfully represent an entity's underlying economic condition and provide relevant, reliable, and transparent information for decision-making. In empirical research, reporting quality is assessed using various attributes, including accrual quality, accounting conservatism, earnings persistence, earnings predictability, transparency and disclosure, and value relevance (Dechow, Ge, & Schrand, 2010; Ohlson, 1995; Basu, 1997). Examining these attributes individually provides a more differentiated assessment of reporting quality than relying exclusively on a single aggregate measure.

Theoretical Review

This study is anchored on agency theory (Jensen & Meckling, 1976), with free cash flow theory (Jensen, 1986) and the life-cycle hypothesis (Modigliani & Brumberg, 1954) providing supplementary theoretical perspectives. Agency theory explains how the separation of ownership and control can create conflicts of interest between managers (agents) and shareholders (principals). Because managers typically possess more detailed information about the financial position and operating performance of the bank, information asymmetry may create opportunities for discretionary reporting decisions that serve managerial interests rather than those of shareholders. Governance mechanisms, including independent boards, audit committees, and regulatory oversight, are intended to constrain opportunistic behaviour and strengthen the credibility of financial reporting.

Free cash flow theory complements this perspective by explaining how managerial discretion over available resources may encourage decisions that do not necessarily maximise shareholder value. In the context of earnings management, such discretion may influence financial reporting choices as well as investment and resource-allocation decisions. The life-cycle hypothesis provides a supplementary perspective by recognising that corporate financial policies and reporting-related decisions may vary with an entity's stage of development.

Agency theory is adopted as the anchor theory because it directly addresses the principal-agent conflict and information asymmetry underlying managerial discretion in financial reporting. It therefore provides the most direct theoretical basis for examining the relationships between earnings-management practices and financial statement reporting quality among Nigerian DMBs. The supporting theories broaden the analysis by highlighting the potential influence of managerial control over resources and differences in organisational development on financial and reporting-related decisions.

Empirical Review and Gap

Existing Nigerian and international studies have examined various relationships between earnings management and financial reporting quality, although the reported findings differ across measurement approaches and institutional settings. Research on discretionary accruals and accrual quality demonstrates that managerial discretion in accounting estimates can influence the reliability of reported accruals (Dechow & Dichev, 2002; McNichols, 2002). Studies examining loan loss provisioning and accounting conservatism also report differing results across institutional environments. For example, Leventis et al. (2013) examine the relationship between bank accounting practices and financial stability, including the role of conservatism in bank reporting. These findings underscore the importance of considering the regulatory and institutional context when interpreting the relationship between provisioning practices and reporting quality.

Similarly, research on earnings smoothing, earnings persistence, real earnings management, and earnings predictability indicates that these constructs capture distinct aspects of financial reporting and earnings quality (Roychowdhury, 2006; Francis et al., 2004). The relationship between earnings management and reporting quality may therefore vary depending on the particular proxy employed, the characteristics of the firms examined, and the prevailing regulatory environment. Furthermore, discretionary loan loss provisioning may affect the information

available to external users about banks' credit risk and reported performance, although the direction and magnitude of this relationship require empirical assessment within the relevant institutional setting.

Despite these contributions, the Nigerian banking literature requires further investigation into the relationships between individual earnings-management practices and specific financial reporting quality attributes. In particular, examining these relationships separately can reveal patterns that may be obscured when earnings management and reporting quality are treated as aggregate constructs. Evidence covering an extended period and multiple regulatory developments is also valuable for understanding how these relationships manifest across different phases of the Nigerian banking sector.

Accordingly, this study examines six paired relationships between earnings-management proxies and financial reporting quality measures using panel data for 17 Nigerian Deposit Money Banks over the period 1994–2024. The analysis applies panel regression techniques alongside relevant diagnostic tests to assess the statistical relationships between the selected variables. By examining these dimensions separately within a common empirical framework, the study provides a differentiated assessment of earnings management and financial statement reporting quality in the Nigerian banking sector.

Methodology

Research Design, Population and Sample

This study adopts an ex-post facto research design because it examines historical financial and market data that have already been generated and are not subject to manipulation by the researcher. A panel-data approach is employed to analyse observations across banks and over time, thereby facilitating the examination of cross-sectional and temporal variation in the selected earnings-management and financial reporting quality measures.

The study population comprises Deposit Money Banks operating in Nigeria that meet the study's eligibility criteria. The sample consists of 17 banks: Access Bank, Fidelity Bank, First City Monument Bank (FCMB), First Bank of Nigeria, Guaranty Trust Bank, United Bank for Africa, Zenith Bank, Union Bank of Nigeria, Citibank Nigeria, Ecobank Nigeria, Keystone Bank, Polaris Bank, Stanbic IBTC Bank, Standard Chartered Bank Nigeria, Sterling Bank, Unity Bank, and Wema Bank.

A purposive sampling approach was adopted, with the availability and completeness of the required financial data serving as the principal selection criteria. The study uses data obtained from the published annual reports and financial statements of the sampled banks. Where complete and comparable annual observations are available for all sampled banks throughout the 1994–2024 period, the resulting dataset comprises a balanced panel of 17 cross-sectional units observed over 31 annual periods, yielding 527 bank-year observations. The final sample composition and observation count are determined by verification of the underlying bank-level records.

Variable Measurement and Model Specification

Earnings management is operationalised using six proxies: discretionary accruals (DA), loan loss provisions (LLP), earnings smoothing (ES), real earnings management (REM), discretionary loan loss provisions (DLLP), and income-increasing/decreasing accruals (IIDA). Financial statement reporting quality is assessed using six corresponding measures: accrual quality (AQ), accounting conservatism (AC), earnings persistence (EP), earnings predictability (EPD), transparency and disclosure (TD), and value relevance (VR). Total assets are included as a control variable to account for differences in bank size. Table 1 presents the proposed measurement definitions and the methodological sources underpinning the construction of the study variables.

Variable	Acronym	Proxy / Measurement Basis
Discretionary Accruals	DA	Modified Jones Model: $DA = TAcc - NDA$, where $TAcc$ represents total accruals and NDA represents non-discretionary accruals (Dechow, Sloan, & Sweeney, 1995). Performance adjustment may be applied following Kothari, Leone, and Wasley (2005).
Loan Loss Provisions	LLP	Loan loss provision expense divided by total loans.
Earnings Smoothing	ES	Ratio of the standard deviation of net income to the standard deviation of operating income: $ES = \sigma(NI)/\sigma(OI)$, with the measurement period specified (Francis et al., 2004).
Real Earnings Management	REM	Composite measure based on abnormal operating cash flows, abnormal production costs, and abnormal discretionary expenses, calculated according to the procedures and sign conventions of Roychowdhury (2006).
Discretionary Loan Loss Provisions	DLLP	Actual loan loss provisions minus estimated non-discretionary loan loss provisions.
Income-Increasing/Decreasing Accruals	IIDA	Signed discretionary accruals: positive values indicate income-increasing accruals, while negative values indicate income-decreasing accruals.
Accrual Quality	AQ	Standard deviation of residuals from the Dechow–Dichev (2002) accrual model. Higher residual variability generally indicates lower accrual quality.
Accounting Conservatism	AC	Based on the asymmetric timeliness model of Basu (1997), which examines the differential timeliness of accounting recognition of economic gains and losses.
Earnings Persistence	EP	Estimated coefficient from the regression of subsequent earnings on current earnings: $Earnings_{t+1} = \alpha + \beta Earnings_t + \varepsilon_t$.
Earnings Predictability	EPD	Predictive ability of current earnings for subsequent earnings, measured using a specified forecasting-error or predictive-accuracy statistic.
Transparency and Disclosure	TD	Disclosure index calculated as the number of applicable items disclosed divided by the total number of applicable disclosure items, multiplied by 100.
Value Relevance	VR	Based on the Ohlson (1995) price model, which relates share price to book value per share and earnings per share.
Total Assets (Control Variable)	Assets	Total assets reported in the bank's financial statements, representing the bank-size control variable.

Author's compilation based on the cited studies.

Six panel regression models were specified and estimated, with one model corresponding to each research hypothesis. The general model specification is expressed as:

$$Y_{it} = \alpha_0 + \beta_1 EM_{it} + \beta_2 Assets_{it} + \mu_i + \varepsilon_{it}$$

where Y_{it} represents the relevant financial reporting quality measure for bank i in year t ; EM_{it} denotes the corresponding earnings-management proxy; $Assets_{it}$ represents total assets as the control variable; α_0 is the intercept; β_1 and β_2 are the regression coefficients; μ_i represents the bank-specific effect, where applicable; and ε_{it} is the idiosyncratic error term. Each model examines the association between a specific earnings-management proxy and its corresponding financial reporting quality measure, controlling for bank size. The estimated coefficients are interpreted in accordance with the operational definitions and measurement directions of the variables.

Estimation Technique

The empirical analysis commenced with panel unit-root tests to examine the stationarity properties of the study variables. The Levin–Lin–Chu (LLC), Im–Pesaran–Shin (IPS), Augmented Dickey–Fuller (ADF)-Fisher, and Phillips–Perron (PP)-Fisher tests were applied to the twelve series. These tests were used to assess whether the variables exhibited unit-root behaviour and to determine their suitability for subsequent panel-data analysis. A Kao residual cointegration test was also conducted to examine whether a long-run equilibrium relationship existed among the variables included in the cointegration specification.

Following the diagnostic tests, six panel regression models were estimated using the Panel Least Squares procedure. Each model corresponded to one research hypothesis and examined the relationship between the relevant earnings-management proxy and its paired financial reporting quality measure, controlling for bank size. Statistical significance was evaluated at the 5% level. The null hypothesis was rejected where the probability value of the relevant regression coefficient was below 0.05; otherwise, the null hypothesis was not rejected.

Model performance was assessed using the coefficient of determination (R^2), adjusted coefficient of determination, F-statistic, and its associated probability value. The Durbin–Watson statistic was examined as an indicator of potential residual serial correlation. The analysis relied on secondary data obtained from published annual reports and financial statements, while the measurement procedures drew on established accounting and financial-reporting models. As the study involved publicly available financial data and did not involve human participants, informed consent was not applicable.

Results and Discussion

Descriptive Statistics

Tables 2 and 3 present the descriptive statistics for the earnings-management variables and financial statement reporting quality variables, respectively, across 527 bank-year observations covering the period 1994–2024. The tables report the means, medians, standard deviations, minimum values, and maximum values, providing an overview of the central tendencies, dispersion, and ranges of the variables.

Table 2 shows that discretionary accruals (DA) had a mean of 0.275 and a median of 0.263, indicating relatively similar average and median values. In contrast, loan loss provisions (LLP), earnings smoothing (ES), real earnings management (REM), and discretionary loan loss provisions (DLLP) exhibited noticeable differences between their

means and medians. These differences suggest potential asymmetry in their distributions. Income-increasing/decreasing accruals (IIDA) recorded a mean of 375.12 and a standard deviation of 372.84, indicating substantial dispersion in the observed values.

Table 3 indicates considerable variation in the financial statement reporting quality measures. Accrual quality (AQ) recorded a mean of 766.05, a median of 468.60, and a standard deviation of 1,462.996, while its maximum value of 16,441.60 suggests the presence of potentially extreme observations. Earnings persistence (EP), earnings predictability (EPD), transparency and disclosure (TD), and value relevance (VR) also displayed differences between their means and medians, suggesting that their distributions may be asymmetric. These patterns warrant further examination of the variables' distributions and the possible influence of extreme observations.

Table 2: Descriptive statistics of earnings-management variables

Statistic	DA	LLP	ES	REM	DLLP	IIDA
Mean	0.275	0.157	0.222	0.644	0.168	375.12
Median	0.263	0.026	0.020	0.005	0.004	319.00
Std. Dev.	0.742	0.745	0.958	1.942	0.938	372.84
Min.	-4.375	0.000	0.000	0.000	0.000	0.000
Max.	4.516	7.830	9.888	9.900	9.850	3996.90
Observations	527	527	527	527	527	527

Source: Researcher's computation using E-view 14.0 Statistical Output, 2026

Table 3: Descriptive statistics of financial statement reporting quality variables

Statistic	AQ	AC	EP	EPD	TD	VR
Mean	766.05	0.138	0.078	0.111	0.322	0.084
Median	468.60	0.131	0.013	0.010	0.003	0.002
Std. Dev.	1462.996	0.371	0.372	0.479	0.971	0.469
Min.	0.000	-2.188	0.000	0.000	0.0001	0.0001
Max.	16441.60	2.258	3.915	4.944	4.950	4.925
Observations	527	527	527	527	527	527

Source: Researcher's computation using E-view 14.0 Statistical Output, 2026

Note: DA = discretionary accruals; LLP = loan loss provisions; ES = earnings smoothing; REM = real earnings management; DLLP = discretionary loan loss provisions; IIDA = income-increasing/decreasing accruals; AQ = accrual quality; AC = accounting conservatism; EP = earnings persistence; EPD = earnings predictability; TD = transparency and disclosure; VR = value relevance.

Panel Diagnostics

Panel unit-root tests (Levin–Lin–Chu, Im–Pesaran–Shin, ADF-Fisher and PP-Fisher) rejected the null hypothesis of a unit root for all twelve series ($p < 0.05$ in the large majority of tests; the Levin–Lin–Chu statistic alone was marginal

for ES and EPD, at $p = 0.066$ and $p = 0.069$ respectively, but the remaining three tests for each series were significant at 1%), confirming that the variables were stationary in levels and suitable for panel estimation without differencing. The Kao residual cointegration test (ADF t-statistic = -7.428, $p = 0.000$) further supported a long-run equilibrium relationship among the twelve series, reducing the likelihood of spurious regression.

Test of Hypotheses

Table 4 summarizes the panel least squares results for the six hypotheses.

Hypothesis	Coefficient	t-stat.	p-value	Decision (5%)	Conclusion
H1: DA $\leftrightarrow$ Accrual Quality (AQ)	5.85E-05	2.660	0.0081	Reject H_{01}	Significant positive effect
H2: LLP $\leftrightarrow$ Accounting Conservatism (AC)	-0.2171	-2.494	0.0130	Reject H_{02}	Significant negative effect
H3: ES $\leftrightarrow$ Earnings Persistence (EP)	-0.0529	-0.472	0.6375	Do not reject H_{03}	No significant effect
H4: REM $\leftrightarrow$ Earnings Predictability (EPD)	-0.2839	-1.608	0.1083	Do not reject H_{04}	No significant effect
H5: DLLP $\leftrightarrow$ Transparency & Disclosure (TD)	-0.0518	-1.230	0.2193	Do not reject H_{05}	No significant effect
H6: IIDA $\leftrightarrow$ Value Relevance (VR)	-72.446	-2.098	0.0364	Reject H_{06}	Significant negative effect

Source: Researcher's computation using E-view 14.0 Statistical Output, 2026

The results presented in Table 4 provide evidence on the relationship between the selected earnings management practices and different dimensions of financial reporting quality among Nigerian Deposit Money Banks (DMBs) over the period studied. The findings show that the effects are mixed, as some forms of earnings management significantly influence specific dimensions of reporting quality, while others do not.

H1: DA and Accrual Quality (AQ). The coefficient of 5.85E-05 is positive, with a t-statistic of 2.660 and a p-value of 0.0081, which is below the 5% significance level. This indicates a statistically significant positive relationship between discretionary accruals (DA) and accrual quality (AQ). Therefore, the null hypothesis is rejected. The positive coefficient indicates that discretionary accruals are positively associated with the measured accrual-quality indicator, holding the control variable constant. The substantive interpretation of this relationship depends on the operationalisation and direction of the accrual-quality measure. This finding indicates that discretionary accruals have a significant effect on the accrual-quality dimension of financial reporting among the sampled DMBs.

H2: LLP and Accounting Conservatism (AC). The coefficient of -0.2171 is negative and statistically significant, as shown by the t-statistic of -2.494 and p-value of 0.0130. Since the p-value is less than 0.05, the null hypothesis is rejected. The result indicates that loan loss provisions (LLP) have a significant negative relationship with accounting conservatism. Thus, higher levels of LLP are associated with lower levels of the measured accounting conservatism, suggesting that the use of loan loss provisions has a statistically significant effect on the conservatism of financial reporting by the sampled banks.

H3: ES and Earnings Persistence (EP). The coefficient of -0.0529 indicates a negative relationship between earnings smoothing (ES) and earnings persistence (EP). However, the t-statistic of -0.472 and p-value of 0.6375 show that this relationship is not statistically significant at the 5% level. Consequently, the null hypothesis is not rejected. Although the estimated coefficient suggests an inverse association, the evidence is insufficient to conclude that earnings smoothing has a systematic effect on earnings persistence among the sampled DMBs.

H4: REM and Earnings Predictability (EPD). The coefficient of -0.2839 indicates a negative relationship between real earnings management (REM) and earnings predictability. However, the p-value of 0.1083 is greater than 0.05, and the t-statistic of -1.608 does not provide sufficient evidence of statistical significance at the 5% level. Therefore, the null hypothesis is not rejected. This implies that, despite the negative estimated association, the study does not establish a statistically significant effect of real earnings management on earnings predictability among the sampled banks.

H5: DLLP and Transparency and Disclosure (TD). The coefficient of -0.0518 suggests a negative relationship between discretionary loan loss provisions (DLLP) and transparency and disclosure. Nevertheless, the t-statistic of -1.230 and p-value of 0.2193 indicate that the relationship is not statistically significant at the 5% level. Hence, the null hypothesis is not rejected. The finding suggests that variations in discretionary loan loss provisions are not sufficiently associated with changes in the measured level of transparency and disclosure within the sampled DMBs.

H6: IIDA and Value Relevance (VR). The coefficient of -72.446 indicates a negative relationship between income-increasing discretionary accruals (IIDA) and value relevance (VR). The relationship is statistically significant because the t-statistic is -2.098 and the p-value is 0.0364, which is below 0.05. Consequently, the null hypothesis is rejected. The result indicates that increases in income-increasing discretionary accruals are associated with lower value relevance of financial reporting. This suggests that the use of income-increasing discretionary accruals may reduce the extent to which reported accounting information reflects information relevant to users' valuation of the banks.

Therefore, the results demonstrate that earnings management does not have a uniform effect across all dimensions of financial reporting quality. Significant relationships are observed for accrual quality, accounting conservatism, and value relevance, while no statistically significant relationships are established for earnings persistence, earnings predictability, and transparency and disclosure. Importantly, the direction of the significant relationships is not uniform: DA has a positive association with AQ, whereas LLP and IIDA have negative associations with AC and VR, respectively. These findings therefore suggest that the relationship between earnings management and financial reporting quality is dimension-specific rather than universally negative or positive among Nigerian DMBs during the period examined.

Discussion of Findings

Discretionary accruals and accrual quality. The regression result showed a significant positive relationship between accrual quality and discretionary accruals (coefficient = 5.85E-05, $p = 0.0081$; model $F = 7.074$, $p = 0.008$), leading to rejection of H_{01} . Although the explanatory power was low ($R^2 = 0.013$), the coefficient's significance indicates that

discretionary accrual behaviour remains relevant to the quality of accrual information reported by Nigerian DMBs. This is consistent with prior evidence that managerial discretion in loan-loss provisioning and other accounting estimates affects earnings quality among Nigerian banks (Ijeoma & Aronu, 2023; Ugwoke et al., 2022).

Loan loss provisions and accounting conservatism. A significant negative relationship was found between accounting conservatism and loan loss provisions (coefficient = -0.2171, $p = 0.0130$; model $F = 6.218$, $p = 0.013$), leading to rejection of H_{02} . This suggests that more conservative accounting practice is associated with lower loan loss provisioning in the sampled banks — a finding broadly consistent with banking-conservatism literature linking prudent provisioning to reduced crash risk (Leventis et al., 2013), though the negative direction diverges from some non-Nigerian evidence, likely reflecting differences in institutional and regulatory context.

Earnings smoothing and earnings persistence. No statistically significant relationship was found (coefficient = -0.0529, $p = 0.6375$; model $F = 0.222$, $p = 0.637$), so H_{03} was not rejected. The negative coefficient hints at an inverse association, but with R^2 of only 0.0004 the model explains virtually none of the variation, suggesting that smoothing behaviour, as measured, does not systematically translate into more or less persistent earnings among the sampled banks — consistent with evidence that persistence and smoothing capture distinct dimensions of earnings quality.

Real earnings management and earnings predictability. The relationship was likewise statistically insignificant (coefficient = -0.2839, $p = 0.1083$; model $F = 2.587$, $p = 0.108$), so H_{04} was not rejected. This indicates that real activities manipulation alone does not sufficiently explain the predictive power of current earnings for future earnings in this sample, echoing evidence that firm-level governance and ownership characteristics, rather than real earnings management in isolation, may better explain earnings-predictability outcomes.

Discretionary loan loss provisions and transparency and disclosure. No significant relationship was found (coefficient = -0.0518, $p = 0.2193$; model $F = 1.513$, $p = 0.219$), so H_{05} was not rejected. While the negative sign is directionally consistent with the view that greater discretionary provisioning could be associated with lower transparency, the result was not statistically significant for this sample and period, in contrast with some cross-country evidence that earnings-smoothing-motivated provisioning weakens transparency — a divergence attributable to differences in institutional setting and model specification.

Income-increasing/decreasing accruals and value relevance. A significant negative relationship was found (coefficient = -72.446, $p = 0.0364$; model $F = 4.400$, $p = 0.036$), leading to rejection of H_{06} . This indicates that greater directional (income-increasing or income-decreasing) accrual activity is associated with lower value relevance of financial statement information, consistent with the broader proposition that aggressive accrual manipulation reduces the extent to which accounting numbers faithfully represent underlying economic performance and, correspondingly, their usefulness for investor valuation decisions.

Conclusion, Recommendations and Contribution

Conclusion

This study concludes that the relationship between earnings management and financial statement reporting quality among Nigerian Deposit Money Banks (DMBs) is multidimensional and varies across specific attributes of reporting quality. The empirical evidence indicates that discretionary accruals (DA), loan loss provisions (LLP), and income-increasing discretionary accruals (IIDA) are significantly associated with accrual quality (AQ), accounting conservatism (AC), and value relevance (VR), respectively. Specifically, DA exhibits a positive and statistically significant relationship with AQ, while LLP and IIDA exhibit statistically significant negative relationships with AC and VR, respectively. These findings indicate that managerial discretion in particular accounting choices is associated with observable differences in selected dimensions of financial reporting quality.

In contrast, the study finds no statistically significant relationship between earnings smoothing (ES) and earnings persistence (EP), real earnings management (REM) and earnings predictability (EPD), or discretionary loan loss provisions (DLLP) and transparency and disclosure (TD) at the 5% significance level. These results do not necessarily imply the absence of any relationship, but rather indicate that the study does not provide sufficient statistical evidence to establish systematic effects of these earnings-management measures on the corresponding reporting-quality attributes within the sampled Nigerian DMBs during the period examined.

Taken together, the findings suggest that earnings management should not be viewed as having a uniform effect on financial statement reporting quality. Rather, its association with reporting quality depends on the particular earnings-management practice and the specific dimension of reporting quality considered. The results therefore reinforce the importance of evaluating financial reporting quality using multiple dimensions rather than relying on a single aggregate measure. From a regulatory and corporate-governance perspective, the findings underscore the relevance of continued monitoring of discretionary accounting choices, particularly those involving accruals and loan loss provisioning, while recognising that other dimensions of reporting quality may also reflect broader institutional, regulatory, governance, and firm-specific factors. Overall, the study contributes empirical evidence that helps clarify the differentiated relationship between earnings management practices and financial statement reporting quality in the Nigerian banking sector.

Recommendations

Based on the empirical findings of the study, which indicate that the relationship between earnings management and financial statement reporting quality varies across specific reporting-quality dimensions, the following recommendations are made to strengthen the quality, credibility, and transparency of financial reporting among Nigerian Deposit Money Banks (DMBs):

- i. Regulatory authorities, particularly the Central Bank of Nigeria (CBN), should strengthen monitoring and supervisory review of discretionary accruals and loan loss provisioning practices. This is particularly relevant given the statistically significant relationships identified between these accounting practices and selected

dimensions of financial reporting quality, including accrual quality, accounting conservatism, and value relevance.

- ii. Deposit Money Banks should adopt robust, consistent, and well-documented procedures for estimating loan loss provisions. Such estimates should be based primarily on objective and supportable assessments of credit risk, with appropriate governance controls to minimise the potential use of provisioning decisions for earnings or capital management purposes.
- iii. Banks should strengthen the independence of their boards and enhance the financial reporting and accounting expertise of audit committee members. Greater expertise and independence would enable these governance bodies to provide more rigorous scrutiny of management estimates, accruals, provisions, impairment assessments, and other significant accounting judgements.
- iv. Deposit Money Banks should reinforce internal control systems governing financial reporting, particularly controls relating to accounting estimates, accrual recognition, loan loss provisions, and impairment assessments. Effective review, approval, documentation, and monitoring mechanisms should be maintained to reduce the risk of inappropriate manipulation or unsupported accounting judgements.
- v. Banks should provide clearer and more comprehensive disclosures regarding the assumptions, estimation techniques, and judgements underlying significant accounting estimates, particularly provisions, accruals, and impairment assessments. Enhanced disclosure would enable investors, regulators, auditors, and other users of financial statements to better understand and evaluate the basis and reliability of reported financial information.
- vi. Continuous professional development and ethics-focused training should be provided to accountants, financial managers, internal auditors, and external auditors within the banking sector. Such training should emphasise relevant financial reporting standards, appropriate application of accounting estimates, professional judgement, ethical responsibilities, and the identification and management of earnings-management risks.

Contribution to Knowledge and Limitations

The study contributes to the literature by disaggregating both earnings management and financial statement reporting quality into six specific, measurable, paired dimensions rather than treating either as a single, broad construct, and by providing bank-level panel evidence spanning a relatively long 31-year window (1994–2024) across 17 Nigerian DMBs. The finding that earnings-management effects are not uniform across reporting-quality dimensions is itself a contribution, indicating that earnings management should not be treated as a homogeneous phenomenon in policy or research design.

The study is nonetheless subject to limitations common to secondary-data, single-country, single-sector research: it relies on established but simplified proxy models (e.g., the Modified Jones Model, the Dechow–Dichev model) that are themselves the subject of ongoing methodological debate; it does not incorporate corporate-governance moderators (board independence, audit-committee expertise, ownership structure) that the literature suggests may condition these relationships; and each of the six models is bivariate (with a size control), so caution is warranted

before generalising the results beyond the Nigerian DMB context or attributing the observed associations to causal mechanisms.

Suggestions for Further Research

Future research should extend this analysis to other sectors of the Nigerian economy (insurance, manufacturing, telecommunications, oil and gas) to test the generalisability of these relationships; incorporate additional and more sophisticated earnings-management proxies (abnormal cash flows, abnormal production costs, abnormal discretionary expenses); examine the moderating or mediating role of corporate-governance variables; investigate the effect of specific regulatory reforms (e.g., IFRS adoption, recapitalisation exercises) using pre/post designs; and incorporate qualitative evidence from bank managers, auditors, and regulators to better understand the motivations underlying these accounting choices.

Declarations

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Conflict of Interest

The author declares that there is no conflict of interest associated with this research.

Data Availability

The data used in this study were obtained from the published audited annual reports and financial statements of the sampled Deposit Money Banks in Nigeria. These data are publicly available from the respective banks' published financial reports. The dataset and/or materials used in the analysis are also available from the corresponding author upon reasonable request, subject to applicable conditions.

Ethical Approval

Not applicable. The study used only publicly available secondary financial data and did not involve human participants, human subjects, or the collection of personal data.

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