Comparative Extensiveness of Malaysian and Nigerian Banks Earnings Management under Different Accounting Standards

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Abstract

Malaysia and Nigeria simultaneously adopted IFRS with 1 January 2012 as the effective date. Different accounting standards are associated with different magnitude and extensiveness of earnings management. This paper evaluates the extensiveness of Malaysian and Nigerian banks earnings management in relation to different accounting standards. Precisely, this study is set to provide answers to the question “do Malaysian banks engage more in earnings management under both GAAP and IFRS reporting regimes than Nigerian banks? The population of this study consist of listed Malaysian and Nigeria banks. The data period is further divided into pre-adoption period (2008-2010) and post-adoption period (2011-2013). In order to provide answers to the research question, for Malaysian and Nigerian banks respective pre and post adoption periods, this study specifically investigated aggregated discretionary accruals, discretionary loan loss provisions, earnings smoothing, loan quality and earnings management goals as measures of overall earnings management. E-views was used to analyse collected data. Regardless of reporting standards, findings established that Nigerian banks extensiveness in earnings management is far reaching compared to Malaysian banks. By implication, though IFRS reduces earnings management of Malaysian and Nigerian banks, IFRS adoption alone is not adequate in minimizing or eliminating earnings management of corporate firms. Since integrity of financial reporting depends largely on parties in the reporting ecosystem, this study recommends that Nigerian banks borrow a leaf from Malaysian banks by embracing the best corporate governance practices.

Keywords: Earnings management, accounting standards, IFRS, GAAPs, aggregate discretionary accruals, discretionary loan loss provisions, loan quality, earnings smoothing.