Journal of Emerging Trends in Economics and Management Sciences (JETEMS) 5(7):15-20

jetems.scholarlinkresearch.org

# ACCOUNTING ANALYSES OF CAPITAL STRUCTURE AND FIRMS' PERFORMANCE: STYLIZED FACTS FROM NIGERIA

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**Abstract**
This study undertakes accounting analyses of capital structure and firms' performance in Nigeria using a stratified random sampling to select 31 manufacturing firms with their audited financial statement and quoted on the floor of the Nigerian Stock Exchange (NSE). We follow a guideline of accounting analyses and our strategy of evaluation revolves various measures of capital structure and financial performance ratios; our results show five stylized facts thus; most manufacturing firms in Nigeria engaged in over-trading activities cum capital mismatching; about sixty percent are lowly geared; both the current and acid-test ratios tapper together; market capitalizations of shareholders' funds are maximized and agency costs are reduced; bankruptcy rate in Nigeria manufacturing firms are high.The findings of this study deemed to benefit the external investors and share/stakeholders in guiding their proper decision making; professional managers would be better informed to understand the factors empirically driving the level of performance; the present and future government also be guided on how to strengthen the firms by providing enabling environment and explore their financing options to achieve better performance for a sustainable development and academicians who will see new empirical evidence in the accounting literature emanating from an emerging economy like Nigeria.

**Keywords**: accounting, ratio analysis, capital structure, firms' performance, stylized facts.

## INTRODUCTION

Accounting analyses of financing decisions are one of the most critical areas for accountants and finance managers. It has direct impact on capital structure and financial performance of the companies Gupta, Srivastata and Sharma. (2007). For examining the accounting analyses of capital structure practices, capital structure ratios have been used. It is useful for the creditors to know the liquidity position of the firm. Ratio like proprietary ratio, fixed assets turnover ratio etc., are likely to manifest all the major dimensions of the capital structure practices of the company as against only the debt-equity ratio. Given the nature and purpose which it pursues, financial analysis develops the steps of collecting, shaping and treatment of a range of management information which may clarify the wanted diagnosis and prognosis. Information handled by the financial analysis is given traditionally, by general accounting, which led to the misnomer of "accounting analysis". However, recent evolution led to considerable expansion of information sources handled by the financial analysis, which is profoundly renewed Ungureanu, (2013,).

## CONCEPTUAL MEASUREMENT AND METHODOLOGICAL FRAMEWORK

Accounting analysis is premised on the attainment of accounting information for decision making. Financial accounting information can be defined as 'the product of corporate accounting and external reporting systems that measure and publicly disclose audited, quantitative data concerning the financial position and performance of publicly held firms' Bushman and Smith (2001). Thus, financial accounting is the fundamental source of independently certified information about the performance of executives. Indeed, financial accounting systems provide valuable information to corporate control mechanisms that help to alleviate the agency problem which results from the separation of managers and financiers as well as the shareholders.

An exploration of empirical literature reveals that the direct role of accounting information in debt contracts has not received much attention from accounting researchers, although it has developed significantly, particularly in private placements of debt and private lending agreements Sloan ( 2001) Performance pricing, which involves linking the interest rate that is charged on debt to accounting-based measures of financial health, is a frequent practice in financial contracting. However, there has been limited research on this explicit governance role of financial accounting information. Essentially, the following are steps undertaken for the accounting analysis of financial accounting information such as capital structure ratios and financial performance indicators as: *Identify key accounting policies; Assess accounting flexibility; Evaluate accounting strategy; Evaluate the quality of disclosure; Identify potential red flags and Undo accounting distortions.*

## ESTIMATIONS AND DISCUSSION OF FINDINGS

### *Identify Key Accounting Policies*

The Nigerian manufacturing sector is a well diversified sector with various operations in various areas of business and economic activities. They use several different accounting policies to combine or shorten their accounting information. The first one that they use is "Principal of Consolidation" which basically says that all intercompany balances and transactions have been eliminated. Some companies use what is called the "Use of Estimates" which could distort the numbers going on the financial statements. To derive the quantitative measures which consist of screening ratios which are used to assess the reliability of manufacturing financial disclosures; as stipulated by the Generally Accepted Accounting Principles (GAAP); the Standard of Accounting Statements (SAS) as spelt out by the Nigerian Standard Boards (NSB) and the International Financial Reporting Standards (IFRS). Qualitative measures must be taken into account to fully evaluate the past accounting performances and successes of the Nigerian manufacturing sector.

***Key Accounting Policies***

In order to measure the key success factors and risks pertained to the Nigerian manufacturing sector, it is necessary to evaluate the policies and estimates the firm uses. Critical accounting policies are those that are most important to the portrayal of the Company's financial condition and the results of operations and require management's most difficult, subjective and complex judgments. The Company's most critical accounting policies are: *Revenue Recognition; Income Taxes; Net Accounts Receivable; Net Inventories; Cash and Cash Equivalents; Net Property and Equipment; Cost of Goods Sold; Shipping and Handling Costs; Net Goodwill and other Intangibles; Accrued Expenses; Derivatives; Stock Options, etc.* Revenue Recognition is an important factor, along with Inventory accounts. Most firms are more focused on Inventory management as they are a retail company, whereas; goodwill and intangibles are not large factors in their financial statements.

***Degree of Potential Accounting Flexibility***

There are ways for manufacturing firms to be Flexible in the Accounting Methods. But, by using the FIFO method to account for Inventory, it is hard to manipulate. Net Property and Equipment is made to be flexible because they use straight line depreciation, as opposed to the Double Declining method. Net Goodwill and intangibles is an area that is very flexible. There is no way to account for this asset, and they are not amortized, but only tested for impairment maybe annually

**Evaluation of Accounting Strategy**

Table 1: Analyses of Capital Structure and Profitability of Firms in Nigeria

| | Capital Structure Ratios | | | | Financial Performance Ratios | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **FIRMS** | **Debt / Equity** | **Solidity** | **Acc / Rat 1** | **Acc / Rat 2** | **ROCE** | **NPM** | **ROA** | **ATO** | **Curr / Rat** | **Acid / Rat** |
| | 0.173 | 3.537 | 1.492 | 1.165 | 32.15 | 4.16 | 12.4 | 4.74 | 1.17 | 0.83 |
| | 0.166 | 3.735 | 1.018 | 1.076 | 15.72 | 1.68 | 11.5 | 6.45 | 1.08 | 0.99 |
| | 0.126 | 2.414 | 1.216 | 1.140 | 54.55 | 8.51 | 7.7 | 4.44 | 1.14 | 0.94 |
| | 0.147 | 2.234 | 1.578 | 1.884 | 33.91 | 6.24 | 7.7 | 3.85 | 1.88 | 0.99 |
| PZ- FOOD & BEVERAGE | 0.055 | 1.459 | 2.396 | 1.725 | 14.22 | 4.85 | 7.6 | 2.29 | 1.72 | 1.57 |
| | 0.200 | 5.470 | 1.236 | 2.280 | 20.60 | 7.15 | 11.5 | 1.90 | 2.28 | 0.80 |
| | 0.216 | 5.281 | 1.432 | 1.990 | 25.51 | 7.55 | 3.9 | 2.12 | 1.99 | 0.86 |
| | 0.248 | 4.860 | 1.583 | 1.796 | 24.33 | 8.46 | 2.9 | 1.92 | 1.80 | 1.07 |
| | 0.266 | 4.772 | 1.321 | 1.960 | 24.11 | 7.92 | 2.6 | 1.98 | 1.96 | 1.29 |
| | 0.257 | 3.429 | 1.118 | 1.160 | 19.94 | 13.14 | 0 | 1.25 | 1.16 | 0.82 |
| | 0.165 | 2.933 | 1.011 | 2.516 | 21.27 | 13.11 | 3.56 | 1.24 | 2.52 | 2.31 |
| BETA GLASS PRODUCTS | 0.205 | 2.547 | 0.563 | 2.246 | 18.67 | 13.18 | 3.54 | 1.14 | 2.25 | 2.11 |
| | 0 | 11.732 | 1.211 | 2.519 | 116.41 | 17.67 | 18.3 | 4.51 | 0.89 | 0.37 |
| | 0.077 | 8.120 | 0.768 | 0.889 | 88.90 | 17.00 | 7.9 | 3.53 | 0.90 | 0.42 |
| | 0.128 | 7.537 | 1.171 | 0.898 | 89.45 | 16.32 | 11.6 | 3.70 | 0.90 | 0.42 |
| NIG. BREWERY (BEERS) | 0.128 | 7.537 | 1.104 | 0.898 | 89.45 | 16.32 | -2.1 | 3.70 | 1.12 | 0.64 |
| | 1.039 | 10.683 | 0.054 | 1.119 | -20.14 | 1.48 | -1.5 | -10.71 | 1.50 | 1.23 |
| | 1.441 | 12.290 | 0.083 | 1.504 | 259.89 | 22.13 | -4.5 | 9.72 | 2.00 | 1.77 |
| NCR-TEXTILE | 0.381 | 4.651 | 0.873 | 2.000 | 91.43 | 35.34 | 1.99 | 1.76 | 0.87 | 0.65 |
| | 0 | 2.335 | 0.878 | 1.753 | 89.53 | 2.48 | 1.90 | 24.41 | 0.88 | 0.69 |
| | 0 | 2.431 | 0.781 | 2.225 | 88.26 | 2.22 | 2.38 | 25.57 | 0.87 | 0.73 |
| | 0.795 | 1.901 | 0.672 | 0.873 | 64.77 | 3.39 | 6.9 | 17.99 | 5.92 | 4.83 |
| TOTAL- GASSES & CHEMICAL | 0.732 | 1.693 | 1.225 | 0.878 | 58.43 | 2.19 | 9.9 | 17.35 | 0.64 | 0.34 |
| | 0.982 | 91.900 | 0.782 | 0.872 | -791.39 | -4.61 | 19.1 | 104.17 | 0.46 | 0.30 |
| | 0.892 | 26.509 | 1.211 | 5.922 | -60.74 | 0.39 | 17.3 | -11.38 | 1.77 | 1.40 |
| INTERLINK BASIC METAL | 0.534 | 177.574 | 0.753 | 0.637 | -2.98 | -10.80 | 26.1 | 0.39 | 2.01 | 2.05 |
| | 4.386 | 1206.618 | 0.992 | 0.456 | -60.55 | -27.83 | 20 | 2.18 | 1.58 | 1.37 |
| NIG. WIRE- ELECTRICAL | 0 | 33.468 | 1.021 | 1.216 | -526.50 | -34.18 | 17.1 | 15.36 | 2.40 | 1.70 |
| | 0.059 | 33.631 | 1.771 | 1.578 | 9.09 | 2.43 | 2.71 | 1.04 | 1.52 | 2.57 |
| BAGS & LEATHERS | 0.045 | 31.819 | 2.007 | 2.396 | 4.29 | 2.63 | 2.94 | 1.11 | 1.33 | 2.07 |

Source: Author's Computation with Data Sourced from SEC (2013)

The debt-equity ratio – which is the extent at which the mix of debt to equity source of financing – is expected to be as low as possible. As portrayed above, the debt-equity ratio of 18 firms ranges between 0.1 to 0.5 while 4 firms have nil debt to equity ratio. 6 firms have debt to equity ratio ranging between 0.5 to 1.0 while 3 firms have higher debt-equity ratios of above 1.0. The implication of these different ratios is that about 30 percent of Nigerian manufacturing firms (9 out of the selected 31 firms) are highly geared since the debt is largely in excess of equity, thus, larger proportion of the fixed assets financing of these firms are done wholesomely with the debt capital; about 60 percent of the manufacturing firms (18 out of the selected 31 firms) are lowly geared since less than 50 percent of debt capital is used to finance the fixed assets of these firms while 10 percent (4 out of 13 selected firms) of the manufacturing firms are not geared at all. This indicates that the highly geared firms would enjoy more tax shield effects but susceptible to gearing while the lowly geared firms would be less susceptible to gearing but could suffer ownership control.

On the other hand, the Accounting ratio 1 – which is the ratio of fixed assets to long term laibilities – is to measure the extent at which fixed assets are financed by long term loans; is expected not to be less than 1. This ratio gives another dimension to looking at the capital structure of manufacturing firms in Nigeria and it is highly instructive. It shows that only about 37 percent (11 out of the 31 selected firms) of the manufacturing firms in Nigeria have a ratio of less than 1 while the remaining have their fixed assets largely financed with long term loans. Complementing this ratio is the Accounting ratio 2 – which is the ratio telling what extent the current liabilities are used to fund the current assets. Accounting ratio 2 should be greater than 2 and definitely not less than 1. There is no hard and fast (i.e rigid) threshold here as ratio tending towards 2 is considerably better. About 50 percent (15 out of the 31 selected firms) of manufacturing firms in Nigeria falls into the category of 2 and above while another set of 50 percent have this ratio absymally low. The implication is that average number of manufacturing firms in Nigeria fail to finance their current assets with current liabilities; suggesting that over-trading or capital mismatch is relatively prevalent in Nigerian manufacturing firms; whis could facilitate the gearing position of these firms.

The trends for current and acid-test ratios indicate that both the current ratio (proxied as Curr/Rat) and acid test – proxied as Acid/Ratio – (otherwise known as Quick ratios) move in tandem with one another. They portray the same behavior. While the current ratio is expected to be at least 2; the acid test ratio is expected to be at least 1. On the whole, the acid test ratio ratios of most of these firms exceed the threshold of 1 while the current ratios do not fair too well. Few of the firms have their current ratios hovering around the threshold of 2 (22.5 percent of the selected firms) while 16.1 percent of these firms comfortably pass the threshold. Most of these firms fell far behind the threshold of 2 for the current ratio with whopping 61.3 percent (19 out of the selected 31 firms) of these firms in this category.

The Return On Capital Employed (ROCE) is another measure of profitability to reinforce this position of profit maximization. This ratio measure the extent at which the wealth put into the business by the shareholders have being employed in the creation of further wealth. Few firms (about) enjoys an astronomically high returns such as above 100 percents while some have abysmally low returns and some even negative. As expected and as earlier discussed above, the return on capital employed (proxied ROCE) is the highest of the profitability ratio. This suggests that the management of firms in the Nigerian manufacturing sector have reasonably succeeded in judicious utilization of the resources kept at their disposal by the shareholders as well as the owners of the businesses; thus, maximizing the wealth of shareholders. This implies that the agency cost is relatively reduced since it appears the objective of the shareholders is secured in the hands of the board of directors who are in charge of the day to day activities of the businesses.

Solidity is a measure of the extent by which the assets are funded by the equity (owners' capital). Hence, it is a measure of the vulnerability of the creditor's claim. The solidity ratio should preferably be about 30%. As depicted above, most Nigerian firms are not solid. As such, the creditor's claim could not be guaranteed. Only four firms out of the 31 sampled firms show exemption to this. The implication to this is that bankruptcy rate could be astronomically high in the Nigerian manufacturing firms since creditors legally gain possessions of collaterals in lieu of loan repayment at the point of default. This could possibly explain the reason why most firms in the Nigerian manufacturing sector favour more equity to debt in their capital structure or finance mix.

## RELIABILITY TEST OF ACCOUNTING ANALYSES

### *Quality of Disclosure*

Anchoring on the theory of Positive Accounting Theory; the following are relevant accounting standards – local and international – as observed by these firms that seek to guarantee the quality of financial disclosure of these firms and thus lend credence to the conclusion reached in our estimates. Nonetheless, some accounting standards are irrelevant for this study and this is predicated on individual specific reasons as thus: ***SAS 20 - On Abridged Financial Statements:*** This is a standard applicable to only abridged financial statements, not the full annual, audited and unqualified reports. This study measures the level of compliance in an unqualified annual reports since a thin line of difference exists between the true copy and its abridged form and also going by the fact that qualified published accounts should not be abridged. More disturbing, many professionals and academics argued on the content of abridged financial statements which must include the accounting policies, the profit and loss account, balance sheets, statement of cash flows, notes in relation to exceptional and extra-ordinary items, five-year financial summary and other necessary information, and as such SAS 20 is irrelevant in this study. Also, this study considers standards that apply to all listed companies but standards that apply to specific industries are not considered. These are SAS 5 - On Construction Contracts; SAS 10 - Accounting for Banks and Non-Bank Financial Institutions (Part 1); SAS 11 - On Leases; SAS 15 - Accounting for banks and non-Bank Financial Institutions (Part 2); SAS 16 - Accounting for Insurance Business;

Table 2: Reasons for Inclusion or Exclusion of SASs

| Standards | Reasons for inclusion and exclusion | Remarks |
|---|---|---|
| SAS 1, SAS 2, SAS 3, SAS 4, SAS 7,SAS 8, SAS 9, SAS 13, SAS 18, SAS 19, SAS 21, SAS 22 and SAS 23 | Relevant to financial and manufacturing companies | Included |
| SAS 20 | Irrelevant to audited and unqualified annual reports | Excluded |
| SAS 5, SAS 10, SAS 11, SAS 15, SAS 17 | Industry-specific | Excluded |
| SAS 6 | Required on certain occasions | Excluded |
| SAS 12 | Replaced by another standard, SAS 19 | Excluded |
| SAS 24, SAS 25, SAS 26, SAS 27, SAS 28, SAS 29, SAS 30 | Outside the period of the study | Excluded |

***Source:*** *Institute of Chartered Accountant of Nigeria Standard Requirement's CD ROM (2013)*

In a similar tirade, some standards are required for certain occasions such as the: ***SAS 6 - On Extraordinary items and Prior Year Adjustments:*** This is a standard that applies to certain occasions when there are extraordinary items or prior year adjustments. Since the non-disclosure of these items cannot be determined, it is therefore eliminated from the study; while due to global developments and the need to broaden SAS 12 - Accounting for Deferred Taxes was revised and replaced by SAS 19, Accounting for Taxes. Since SAS 12 has been repealed, it is not considered in the study. More so, some are required on certain situations. Any standard that applies just on certain occasions such as IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and IFRS 5 Non-Current Assets are excluded from the study. This is due to the fact that non-disclosure of these items cannot be determined by the researcher

Table 3: Reasons for Inclusion or Exclusion of IASs/IFRSs

| Standards | Reasons for inclusion and exclusion | Remarks |
|---|---|---|
| IAS 1, IAS 2, IAS 10, IAS 12, IAS 14, IAS 16, IAS 18, IAS 20, IAS 21, IAS 23, IAS 24, IAS 27, IAS 28, IAS 31, IAS 32, IAS 36, IAS 37, IAS 38, IAS 40, IFRS 2, IFRS 3 | Relevant to financial and manufacturing companies in Nigeria | Included |
| IAS 7, IAS 9 | Accord substantially with the requirements of equivalent Nigerian standards | Excluded |
| IAS 8, IFRS 5 | Required on certain occasions | Excluded |
| IAS 11, IAS 17, IAS 41, IFRS 4, IFRS 6 | Industry-specific | Excluded |
| IAS 19, IAS 26, IAS 29, IAS 34, IAS 39 | Standards excluded due to specific reasons | Excluded |

***Source:*** *Field Study as at 2013.*

The following Standards are excluded due to specific reasons: IAS 19, Employment Benefits and IAS 26, Accounting and Reporting by Retirement Benefit Plan are not considered because Nigerian companies are now being guided by the Pension Reform Act , 2004; IAS 29 Hyperinflationary Economies are for situations when a company is operating in a hyperinflationary economy; IAS 39 Financial Instrument Recognition and Measurement has a disclosure counterpart, IAS 32, Financial Instrument Presentation which has been incorporated; IFRS 1 First Time Adoption of International Reporting Standards is required for companies adopting IFRS for the first time. Since IFRS is only voluntary in Nigeria, this is also excluded from the study.

From the foregoing discussions, it appears that local and international financial standards exist in isolation but a thread of uniformity runs through these standards irrespective of the clime of popularity while some international financial standards exist that do not have a corresponding local counterparts; and vice versa. These facts are summarized in the tables below

Table 4: Parity of SASs with IASs (As at 31st December, 2010)

| S/N | SAS Provisions | Accounting Standards | IAS Provisions | Remarks |
|---|---|---|---|---|
| 1. | SAS 1 & SAS 2 | Presentation of Financial Statements | IAS 1 | Included |
| 2. | SAS 4 | Inventories | IAS 2 | Included |
| 3. | SAS 18 | Statement of Cash Flows | IAS 7 | Included |
| 4. | SAS 19 | Income Taxes | IAS 12 | Included |
| 5. | SAS 3 | Property, Plant and Equipment | IAS 16 | Included |
| 6. | SAS 8 | Employee's Benefits | IAS 19 | Included |
| 7. | SAS 7 | The Effects of Changes in Foreign Exchange Rates | IAS 21 | Included |
| 8. | SAS 8 | Accounting & Reporting by Retirement Benefit Plans | IAS 26 | Included |
| 9. | SAS 21 | Earnings Per Share | IAS 33 | Included |
| 10. | SAS 9** | Impairment of Assets | IAS 36 | Included |
| 11. | SAS 23 | Provisions, Contingent Liabilities and Contingent Assets. | IAS 37 | Included |
| 12. | SAS 5 | Construction Contracts | IAS 11 | Excluded |
| 13. | SAS 11 | Leases | IAS 17 | Excluded |
| 14. | SAS 27 | Consolidated and Separate Financial Statements | IAS 27 | Excluded |
| 15. | SAS 28 | Investment in Associates | IAS 28 | Excluded |
| 16. | SAS 29 | Interests in Joint Ventures | IAS 31 | Excluded |
| 17. | SAS 10 & SAS 15** | Financial Instruments: Presentation | IAS 32 | Excluded |
| 18. | SAS 30 | Interim Financial Reporting | IAS 34 | Excluded |
| 19. | SAS 10 & SAS 15** | Financial Instrument: Recognition & Measurement | IAS 39 | Excluded |
| 20. | SAS 13 | Investment Property | IAS 40 | Excluded |
| 21. | SAS 4 | Stocks | IAS 41 | Excluded |

***Source:*** *ICAN Standard Requirements CD ROM (2010). Note: ** Only partially related*

Table 5: Parity of SASs with IFRSs

| S/N | SAS Provisions | Accounting Standards | IFRS Provisions | Remarks |
|---|---|---|---|---|
| 1. | SAS 14 | Exploration for & Evaluation of Mineral Resources | IFRS 6 | Included |
| 2. | SAS 16 | Insurance Contracts | IFRS 4 | Excluded |
| 3. | SAS 26 | Business Combinations | IFRS 3 | Excluded |
| 4. | SAS 10 and 15** | Financial Instruments: Disclosures | IFRS 7 | Excluded |
| 5. | SAS 24 | Operating Segments | IFRS 8 | Excluded |

***Source:*** *ICAN Standard Requirements CD ROM (2010).*
*Note: ** Only partially related*

Table 6: IAS with no equivalent SAS

| S/N | IAS Provisions | Accounting Standards | Remarks |
|---|---|---|---|
| 1. | IAS 8 | Accounting Policies, changes in Statements & Errors. | Partially included |
| 1. | IAS 10 | Events after the Reporting Period | Excluded |
| 2. | IAS 18 | Revenue | Excluded |
| 3. | IAS 20 | Accounting for Government Grants & Disclosure of Government Assistance | Excluded |
| 4. | IAS 23 | Borrowing Costs | Excluded |
| 5. | IAS 24 | Related Party Disclosures | Excluded |
| 6. | IAS 29 | Financial Reporting in Hyperinflationary Economies | Excluded |
| | IAS 32 | Financial Instruments: Presentation | Partially included |
| | IAS 36 | Impairment of Assets | Partially included |
| 7. | IAS 38 | Intangible Assets | Excluded |
| 8. | IAS 39 | Financial Instrument: Recognition & Measurement | Partially included |
| 9. | IAS 41 | Agriculture | Excluded |

***Source:*** *ICAN Standard Requirements CD ROM (2010).*
*Note: ** Only partially relate*

**Table 7: SAS with no equivalent IAS or IFRS**

| S/N | SAS Provisions | Accounting Standards | Remarks |
|---|---|---|---|
| 1. | SAS 14 | Petroleum Industry: Upstream Activities | Excluded |
| 1. | SAS 17 | Petroleum Industry: Downstream Activities | Excluded |
| 2. | SAS 25 | Telecommunication Activities | Excluded |

***Source:*** *ICAN Standard Requirements CD ROM (2010).*

The parity of SASs and IFRSs and SASs and IFRSs respectively are as described in tables above (see Tables 2-5above). It shows the various Nigerian standards with corresponding IAS on the one hand and the Standard of Accounting Statements (SAS) –as published by the Nigerian Accounting Standards Board (NASB) – with the IFRS equivalents on the other hand. Also disclosed were various Nigerian Accounting Standards with no IFRS and IAS equivalents (see table 6-7).

The discussions of these financial standards do not exist on the face of it but for the relevance of Standards to financial and manufacturing companies in Nigeria is our area of peculiar interest. Both international and local accounting literature provides evidence that accounting quality has economic consequences, such as costs of capital Leuz and Verrecchia (2000); efficiency of capital allocation Bushman, Piotroski, and Smith (2006). The accounting system is a complementary component of the country's overall institutional system and is also determined by businesses' incentives for financial reporting. Meeks and Swamm provide the first investigation of the legal system's effect on a country's financial system Meeks and Swann. (2008). Therefore, controlling for these institutional and firm-level factors becomes an important task in the empirical research design too. One study Meeks and Swann. (2008) looked at accounting amounts for businesses that adopted international standards to a matched sample of companies that did not and found that the former evidenced less earnings management, more timely loss recognition, and more value relevance of accounting amount than did the latter. They found that international standards adopters had a higher frequency of large negative net income and generally exhibited higher accounting quality in the post-adoption period than they did in the pre-adoption period. The results suggested an improvement in accounting quality associated with using international standards and available local standards. The Companies and Allied Matters Act required that every public limited liability company should have an audit committee. Effective audit committee provides assurance to the shareholders that the auditors, who act on their behalf, are in position to, and do safeguard their interests ICAN - CD ROM (2010). Consequent upon our analyses, we found that the firms have strong internal control system where the conditions are often instituted to aid the audited financial reports of firms by the external auditors.

***Identify Potential Red Flags***

In the financial records of the Nigerian manufacturing firms; there is a section categorized "Changes in and Disagreements with Accountants on Accounting and Financial Disclosure". The explanation in this section by the company was "Not applicable". So therefore there were no changes. When we looked at the company's financial statements there were not any unusual large changes in the numbers from the period under study – 1999-2012. Considering the fact that all these firms are well established company and they pride their selves with their critical accounting principles. There have not been any recent changes or cause for concern or Red Flags. There have been increases in accounts payable that is due to the payoff of short and long term debt. The other increases are all minimal increases and follow the growth of the company.

***Undo Accounting Distortions***

After reviewing all pertinent financial data of these firms, we have concluded that the financial reports display transparency in the quality of disclosure. The company does a very good job as the extensive explanation of the increases and decreases that offset each other. There was no indication of misleading activity within the financial reports. The statement of cash flows was concurrent with the disclosures in the footnotes. The Critical accounting policies were apparent in the financial statements of the firms, and there was no distortion to enhance the true performance of the company. All methods of accounting were clearly explained in the footnotes to the financial statements. Considering no accounting distortions were revealed, there is no need for any adjustments or corrections to the financial statements.

**Stylized Facts**

Going by the evaluation of accounting strategies adopted by Nigerian firms as detailed above, the following stylized facts results; "*Most manufacturing firms in Nigeria engaged in over-trading activities and embarked on capital mismatching; About sixty percent of Nigerian manufacturing firms are lowly geared; Both the current and acid-test ratios of Nigerian firms' tapper together; Market capitalizations of shareholders' funds are maximized in Nigerian firms and agency costs are reduced; Bankruptcy rate in Nigeria manufacturing firms are high"*.

## CONCLUSION

If the goal of company sustainability is to establish local economies that are economically viable, environmentally sound and socially responsible then it require full participation from all stakeholders to determine needs and to identify and implement innovative and appropriate solutions. The quality of our estimates was undertaken under three headings of quality of disclosure, identification of potential red flags and undoing accounting distortions. From the findings, virtually all the firms observed the Generally Accepted Accounting Principles (GAAP) and also prepared their financial reports in accordance to the local and international accounting standards and the statement of accounting policies almost converge across the selected 31 firms in the Nigerian manufacturing sector. Our results show mix findings across the manufacturing sector as most of the firms show differing trends. As such, it could be opined that there exists stiff and healthy competition but not without some firms identified as leaders and some followers. The variables of accounting analyses cut across various accounting ratios of corporate performance and capital structure mix.

The present and future government as well as policy makers need to strengthen the firms by providing enabling environment for them as the role of government in the Nigeria economy is still very huge and the effect of government policy on firms' performance and financing choices cannot be overlooked. The government would be able to re examine the challenges that are impeding the listed firms to explore fully their financing options to achieve better performance for a sustainable development. The findings of our study will guide the government in the formulation and implementation of relevant policies that can ease these constraints especially the poor institutional quality and unfavourable macroeconomic environment.

## BRIEF BIOGRAPHY OF AUTHOR

***Babalola Yisau Abiodun*** (B.Sc. [Ed], MBA, M.Ed and M.Sc) was born about 44 years ago in the ancient and historical city of Oyo; the political headquarters of the Yoruba. A seasoned Accounting Lecturer in one of the highly esteem institution of learning in Nigeria called *Federal College of Education (special),* Oyo-town and Oyo state, Nigeria. A research student of Accounting analysis and Auditing at East Ukrainian National University Lugansk, Ukraine and he is complimented with diverse reputable publication to his credit both locally and internationally

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