

Effect of Firm Attributes on Financial Reporting Quality: Evidence from Listed Consumer Goods Companies in Nigeria

Adegboye, Kehinde Adewale, M.Sc. (in View), B.Sc.,

Department of Accounting,
Federal University Wukari, Taraba State, Nigeria

Maryam Isyaku Muhammad, PhD, M.Sc., B.Sc., CNA, Bilyaminu Yusuf Hanga, PhD, M.Sc., B.Sc., CNA, CFA

Department of Accountancy,
Modibbo Adama University of Technology,
Adamawa State, Nigeria

Department of Accountancy,
Modibbo Adama University of Technology,
Yola-Adamawa State-Nigeria

ABSTRACT

This study investigated the effect of firm attributes on financial reporting quality of listed consumer goods companies in Nigeria from 2008 -2017. Financial reporting quality is likely to be influenced by their structure, monitoring and performance characteristics. Firm size, board composition, profitability and firm growth were selected as proxies for firm's attributes. Financial reporting quality was measured by the modified model of Jones (1991). Panel multiple regressions were employed to test the formulated hypotheses and provide answers to the research questions. The result reveals profitability, board composition and firm growth to be statistically significant with financial reporting quality while firm size is statistically insignificant. Three variables, board composition, profitability and firm growth increases the quality financial information of the listed consumer goods companies in Nigeria, meanwhile, firm size has proven to reduce the quality of their financial reports.

Keywords: Dividend, Profitability, Liquidity, financial reporting quality.

INTRODUCTION:

There has been frequent criticism against accounting profession as a result of global financial crisis (Schilit) 2010, financial scandals and corporate failures in the world and with the discovery of Central Bank of Nigeria about few years back in the Nigerian banking sector financial reporting quality has become very important to many investors (Olowokure, Tanko, & Nyor, 2016). Financial statement of firms is expected to reveal the operational activities of firm and provide adequate information for different investors in making an informed economic decision regarding their investment. Usefulness of financial statement for decision making is an indication of high accounting earnings quality since it reflects the intent of the standard setters, especially when it adequately reflects the true and fair view or reality of firm while low quality of financial reporting statement may not be useful for decision making; Also, the main objective of financial information is to provide disclosure to investors on where the firm has been, where it is and where it is going (Bushman, Chen, Engel, & Smith, 2004). Therefore, determination of accounting earnings quality of firms becomes extremely important area of interest in financial accounting research (Herly, 2015).

Financial statements are prepared to provide reliable, relevant, understandable and comparable information. Accounting information is expected to be reliable to determine economic situation or reality of firms' financial activities, it is reliable when reported earnings of firm is free of error, objective, unbiased, truthful. Financial statement of firms is a way of communicating investors both within and outside the firm, it is very important to shareholders, general public, government authorities, creditors and customers. It is

generally difficult to believe that management presents the true financial position of firm and this has made it necessary for regulators to take accounting earnings quality very serious (Olowokure, Tanko, & Nyor, 2016). According to (Zhiwei, Yihong, Qingliang, & Xiangjian, 2015), high accounting earnings quality gives adequate information about the characteristics of firm's financial performance that are relevant to specific decisions to be made by decision makers to guide them in making an economic informed decision. It is therefore important for standard setters, investors and regulatory bodies to determine firm's accounting earnings quality without any form of bias. The primary objective of financial reporting is to provide high-quality financial reporting information concerning economic situation and financial activities of the firm through strict adherence to qualitative characteristics of financial reporting information (IASB, 2008).

High levels of financial scandals in many internationally recognized companies around the world have resulted in lack of trust in the financial reporting quality. It is generally believed that many companies involved in accounting scandals such as Cadbury, Enron and World com (Enofe, 2010). This is not an exception in Nigeria as result of several collapses in financial Institutions in Nigeria, which involved many banks such as Intercontinental Bank, Oceanic Bank, Bank PHB etc. These have affected the trust and confidence of shareholders in financial reporting quality and the management (Shehu, 2012); (Saheed, 2013); (Shehu & Bello, 2013). Therefore, this study would investigate whether Financial Reporting Quality (FRQ) represented by accounting earnings quality of quoted consumer goods companies in Nigeria may be influenced by monitoring, performance characteristics and structure. Consumer goods companies were selected because it forms the key component of manufacturing industry in Nigeria. Two independent variables would be selected as proxies for firm's attributes, these variables are: Firm size, Board composition. Given all these presumptions, it is not clear that the evidence from Nigerian firms, especially consumer goods companies in respect of financial information quality is consistent with those in the developed or other developing nations. The motivation behind this study is because Nigeria has the largest economy in Africa because of her population and size. The level of research in this area will ensure tremendous improvement in financial reporting quality of consumer goods companies in Nigeria and Africa. In the same vein, it will help in protecting various users of financial statements of listed consumer goods companies in Nigeria including both existing and potential investors in making an informed decision regarding their investment. Therefore, findings from this study is expected to have positive impact in formulation of policies and standards to reduce accounting manipulations in various firms and assist regulatory authorities in taking reasonable actions to ensure high quality of financial report.

This paper therefore examined the effect of firm size, board composition, profitability and firm growth on financial reporting quality of listed consumer goods companies in Nigeria because they are believed to have strong ties in influencing financial reporting quality. In line with the objectives, a null hypothesis (Ho) was developed as: Firm size, board composition, profitability and firm growth have no significant effect on financial reporting quality of listed consumer goods companies in Nigeria.

LITERATURE REVIEW:

Conceptual Review:

This sub section provides conceptualization of firm size, board composition, profitability and firm growth as variables for firm attributes.

Firm Size:

The firm size of a company is associated with the total resources owned by it; company size could be represented by average total assets, average sale, total assets and number of sales. Firm size can also be measured by natural logarithm of total asset. The best proxy for firm size of a company is assets size (Abed, Al-Attar, & Suwaidan, 2012). It is mostly argued the larger the firm the less likely they involved in the earning management activities and there are possibilities of getting more concern with the quality of their financial reporting. The findings of (Dwi Lusi, 2013) are consistent with prior research revealing a positive relationship between the disclosure policy decisions and firm size. It has been revealed that larger companies are better monitored than smaller companies. Also, there is lots of argument that, the agency problem to be faced by larger company is likely to be higher, as a result of large size of the company. Larger companies do have pressure to disclose more vital financial information and the same time increase the quality of financial reporting. Large companies and SMEs are seen as very important to the economy of a

nation and therefore, there are more expectations from them to prepare quality financial reporting (Sinan, Qutaiba, & Ayat, 2016).

Board Composition:

Board composition is another important attribute of firm to determine the quality of financial report of a firm. Board composition is measured by the proportion of independent directors or nonexecutive director to total directors. It is expected of a firm to have at least two independent directors as board members for effective monitoring and control of company activities and they must be appointed based on merit. Independent director can be an officer of another company with adequate experience. Managers' decision can be contested by independent directors to ensure effective control and it is believed that, higher the number of independent directors lesser the accounting manipulation and the higher quality financial report of company. Based on their experience, independent directors can contest decisions made by managers and therefore exercise more effective control.

Profitability:

Profitability is another firm attribute identified to have a great influence on the financial reporting quality. Profitability of a firm is measured by its profit after tax to total assets. It is a way of financial measurement to evaluate ability of firm to generate income. When a firm is profitable, it will be proud to disclose all relevant information to the general public in order to create good impression in the mind of its shareholders and potential shareholders regarding its financial performance at the end of financial year. The level of profitability of company could force a firm to engage in accounting manipulation especially when the profit is too low and can discourage potential investors in doing business with such company. At the same time, manager may involve in accounting manipulation in order to increase their benefit.

Firm Growth:

Firm growth has been identified as one of the factors likely to influence financial reporting quality; it is determined by total sales of assets per annum. Firm growth is used to determine whether firm is improving over a period of time on annual basis. It is expected that any growing firm will have less sustainable earnings (Campa & Camach, 2013). While some claim that, a growing firm will not like its financial status to change and as a result of this, may engage in earnings management which will eventually affect the financial reporting quality. Also, it may be as a result of pressure to meet earnings target. Some growing firm may determine to report their declining earnings exactly the way it is because they are aware any attempt to manipulate to portray the firm to be financially stable may affect the firm in the long run, most especially when the firm is not under pressure to meet a particular earnings target. Firm growth has been identified as determinant factor to predict future stock price of the firm.

Empirical Review:

This sub section presents a thorough review of related empirical studies carried out by researchers on the research topic.

Firm size and Financial Reporting Quality:

(Swastika, 2013) investigated impact of corporate governance and firm size on the financial reporting quality of food and beverages companies in Indonesia Stock Exchange. The total of fifty one (51) companies was selected while multiple regressions were utilized to test the relationship and impact of corporate governance and firm size financial reporting quality. The result from the study shows that only two variables of corporate governance which are board of directors and audit quality have significant impact on financial reporting quality and firm size is also significant on financial reporting quality. (Chan-Jane, Tawei, & Chae-Jung, 2015), explains the relationship between asset size and financial reporting quality which is referring to the spectacular attributes surrounding the size of a firm. They investigated the relationship between attributes of two companies and adequate disclosures, asset size and listing status. Disclosure index of 39 selected attributes in the financial reports was used and 88 samples of firms in which 44 are listed on the New York (NYSE) while the other 44 are unlisted, the study adopted Kendall rank

correlation coefficient test and Wilcoxon. It was discovered that asset size influences the quality of financial reporting.

(Kirubel, 2016) studied determinants of financial reporting quality of large manufacturing companies in Addis Ababa; the study adopted simple random sampling method for selection of fourteen (14) companies for a period of five years with 70 observations. The results of panel least square regression analysis revealed that: Type of Auditor and Share Dispersion, Firm Profitability have significant and positive relationship on financial reporting quality manufacturing companies. Also, firm size has negative and significant relationship with financial reporting quality of manufacturing companies. The study recommends that investors should carry out intensive investigation on internal control of poor performing and large firm companies in order to assess and improve their financial reporting quality. (Liao, Kang, Morris, & Tang) examines voluntary disclosure practices among listed companies in Nigeria. The study found significant positive relationship between voluntary disclosure and firm size, measured as the natural logarithm of total asset. (Chan-Jane, Tawei, and Chae-Jung, 2015), investigated the impact of firm characteristics on financial reporting in annual reports of Spanish firms. Using both qualitative and quantitative information in constructing an index of comprehensive disclosure, multiple regressions was used as a tool of analysis. The study posits that firm size significantly affect financial reporting. classifying firm characteristics into three categories; structure variables (firm size, growth and leverage), performance variables (liquidity, earnings return and profit margin) and market variables (auditor type, industry type, listing status) but limitations such as small sample size of only 50 firms and few disclosure items (16) may affect the validity of their result statistically.

Board composition and Financial Reporting Quality:

The combination of both non-executive and executive directors as board members of company is known as board composition. Nigerian security and exchange commission code of corporate governance for Nigerian companies require companies to have minimum of two (2) non-executive board members should be independent directors who have no business interest in the companies and at the same time do not represent interest of any shareholders in the company, these non-executive members are expected to be appointed on merit by company. Executive directors in the company are expected to exceed non-executive directors subject to a maximum board size of fifteen (15) and minimum of five (5) directors. Independent directors must come from outside and must be those who have good constructive ideas and contributions to move the company forward because their contribution to the progress of company is very significant during board's deliberation.

Characteristics and quality of financial reporting of listed manufacturing companies in Nigeria were examined by (Shehu & Bello, 2013). Firm characteristics like profitability, board composition, leverage and growth were used while correlation research design was adopted with pooled balanced data of 24 companies as sample of the study. Multiple regressions were used as tool of analysis for the study. The findings from the result of analysis revealed that there is significant relationship between financial reporting quality and board of independent directors. Also, (Olowokure, Tanko, & Nyor, 2016) in their study, investigated the sample size of thirteen listed banks in Nigeria for a period of ten years between 2005 and 2014. Impact of firm characteristics like firm size, firm leverage and board composition on financial reporting quality was examined using loan provision model to generate residuals known as abnormal loan loss provisions as the dependent variables for the multiple regression analysis. The findings revealed that there was significant relationship between financial reporting quality and board composition. In developed countries several studies have reported advantage of having large proportion of Independent non-executive directors sit on the board and their impact on financial reporting quality since they are not actively involved in the management of company, this will give them advantage to monitor board and provide quality financial reports (Uyar & Kilic, 2012); (Anis, 2014); (Ahsan & Haiyang, 2015).

The study of (Feyitimi, 2014) also revealed positive significant impact of board composition on financial reporting quality while (Olowokure, Tanko, & Nyor, 2016) find no significant relationship between high proportion of directors from out and earnings management, research carried out by (Mamta, 2016) in Taiwan and Hong Kong revealed that large proportion of outside directors as member of board helps a lot to mitigate earnings

(Barako, 2007) In his study, examined voluntary disclosure practices in Kenyan listed companies from 1992 to 2001. The result suggests that board compositions in the agricultural sector are significantly associated with the voluntary disclosure of all four types of information disclosures. One of the fundamental reasons for including independent directors on the board is to ensure that directors from outside are encouraged in carryout monitoring activities efficiently and effectively without colluding with top management (Ezelibe, Nwosu, & Orazulike, 2017).

Profitability and Financial Reporting Quality:

Profitability of company has been seen as a vital factor to have impact on the financial reporting quality of many firms. When company is profitable, it may be encouraged and feel proud of its financial performance and will like to make more information available to the general public in order to enhance its positive image (Musa & Olorunoba, 2014). The study carried out by (Jahanzaib, Akbar, & Tahira, 2012) revealed that there is no significant positive relationship between return on equity (ROE) with voluntary disclosure. Profitability was used as one of the independent variables while disclosure index was used as dependent variable. The research study carried out by Usman, (2013) between the periods of 1999 to 2000 in India, the findings of the result also revealed there is positive relationship between disclosure index and profitability.

Firm Growth and Financial Reporting Quality:

Another attribute of firm is firm growth which is very important for every firm (Rasha, 2017) find that firm's growth gives managers advantage to smooth earnings, volatility of earnings increase firm risk and negatively affect the cost of capital needed by the firm. Similarly, (Che-Ahmad, Osazuwa, & Mgbame, 2015) and (Oyelere, Fawzi, & Richard, 2000) found a positive association between earnings management and firms growth level. In their study, it was explained that firm growth are more likely to avoid cash flows to assure the availability of funds.

(Olowokure, Tanko, & Nyor, 2016) had different views from his study on deposit money banks in Nigeria for a period of ten years and the findings between 2005 and 2014, using multiple regression analysis and the results revealed that there is no significant relationship between earnings quality and firm growth. Also, (Ibrahim, 2014) investigated the firm characteristics where samples of 76 firms were used in 2011. The findings of the result revealed that, there was a negative relationship between voluntary disclosure and firm growth.

METHODOLOGY:

This study determine the effect of firm characteristics on financial reporting quality of consumer goods companies in Nigeria for the period of 2008-2017. Therefore, financial reporting quality was measured by Discretionary Accounting Accrual (DAA) while Jones model (1991) was adopted because of its popularity among studies on financial reporting quality. However, the residual for the modified Jones (1991) model determines the accrual quality, the higher the residuals, the lower the quality of accruals and vice versa. Secondary data were used in this study for multiple regression analysis. Secondary data were obtained mainly from published annual reports of selected consumer goods companies in Nigeria. These financial reports were obtained from the Nigerian Stock Exchange and the companies web sites.

Model Specification:

The following model using balanced panel data of multiple regressions was used for the study:

$$FRQ = \beta_0 + \beta_1 FS_{it} + \beta_2 BC_{it} + \beta_3 PR_{it} + \beta_4 FG_{it} + e$$

Where:

FRQ = Financial Reporting Quality

β_0 = Intercept

β_{1-4} = Coefficient of the independent variables

i = firm or company

t = year

FS = Firm Size

BC = Board Composition

PR = Profitability

FG= Firm Growth
e = Residual or error term

RESULTS AND DISCUSSION:

Table 1: Descriptive Statistics

Variables	Observations	Mean	Std. Dev.	Minimum	Maximum
Financial Reporting Quality	115	-.0003249	.1522835	-.441083	.709056
Profitability	115	.1956469	.1678517	-.123921	.861197
Firm Size	115	14.34116	3.674661	7.28993	19.7226
Board Composition	115	.6150704	.1596204	0	.785714
Firm Growth	115	-3.84e-09	.3032605	-.8715532	1.396332

Source: Researcher's Computation Using Stata 12, 2018

Table 1 above presents the descriptive statistics for the selected consumer goods companies. The result shows that on the average the value of financial reporting quality is -.0003249. This reveals that the financial reporting quality of selected consumer goods companies in Nigeria is relatively low and the high standard deviation of .1522835. This implies that during the study period, the sampled consumer goods companies have abnormal accrual on average, with log value of -.0003249 and at the same time the standard deviation shows a widely spread of the low quality of financial reporting quality among the selected consumer goods companies in Nigeria. On the other hand, the minimum and maximum value of -.441083 and .709056 this indicate that, from the sampled consumer goods companies, a consumer goods company has maximum of .709056 while a consumer goods company with -.441083 has a minimum financial reporting quality. The entire figure shows that the consumer goods companies in Nigeria have averagely negative log -.0003249 of abnormal accrual i.e. inflation of firm's valuation which will definitely have negative effect on financial reporting quality.

The first explanatory variable of the study profitability measure, return on asset shows, how much return the company have generated from the asset employed within a financial year. In this case, return on asset has a mean value of 19.57 percent and standard deviation of 16.78 percent. Thus, the management of the consumer goods companies have generated on average 19.57% return for each asset employed and the deviation from the mean value was 16.78% which means the profit made by selected consumer goods companies in Nigeria is widely spread. Besides, the minimum and maximum amount of return on asset of the sampled companies is -12.4 percent and 86.12 percent respectively. This indicates that, there is a consumer goods company with a maximum return on asset ratio of 86.12 percent and a company with a minimum return on asset ratio of -12.4 percent.

Company Firm Size reveals the mean of this variable for the selected consumer goods companies to be 14.34116, this indicate that the level of increase in total assets of selected consumer goods companies is low because it reveals that total assets of companies increases by 14% within the period considered and a standard deviation of 3.674661 indicates that the low growth rate of consumer goods companies spreads by 3.7% while the minimum and maximum value for the variable is 7.28993 and 19.7226 respectively.

The composition of board of directors, as shown on the table 4.1 has average value of .6150704 this indicates that the selected consumer goods companies in Nigeria have adequate independent directors on the board within the period of study and at the same time it is clear that most selected consumer goods companies has complied with the government policy released by Financial Reporting Council of Nigeria that, there must be at least minimum of two independent directors on the board and this is reflected from the result with 61% of selected consumer goods companies having at least two independent directors on their board. The minimum and maximum independent board of director's value for this consumer goods companies is reported to be 0 percent and .785714 percent respectively, where 0% implies no independent

board of director and .785714 means the at least one company have .785714 independent board of directors in its company. Standard deviation value of .1596204 reveals the average spread of independent directors of selected consumer goods companies by 15% among the selected consumer goods companies in Nigeria. Finally, firm growth which happened to be the last explanatory variable reveals the mean of this variable for the selected consumer goods companies to be $-3.84e-09$ and this indicates that a lower firm growth rate of selected consumer goods companies in Nigeria within the period of study. Also, with a standard deviation of .3032605, it shows that the lower growth rate of selected consumer goods companies in Nigeria is spread by 30% and this could responsible for the low financial reporting quality of selected consumer goods companies within the period of study while the minimum and maximum value for the variable $-.8715532$ and 1.396332 respectively.

Table 2: Regression Result

Statistics Variables	Beta coefficients	T-values	Significance
PR	.00608	1.84	0.069
FS	-.00007	-0.45	0.653
BC	.04936	14.49	0.000
FG	.50150	281.8	0.000
R ²	0.9946		
Adjusted R ²	0.9944		
F-Statistic	5054.2		
Significance	0.0000		

Source: Researcher's Computation using Stata 12, 2018.

The statistical results as presented in Table 2 indicate a positively significant correlation between FRQ (dependent variable) and PR, BC, FG with exception of FS with a correlation coefficient of 99.46%, coefficient of determination (R²) of 99.5% and adjusted R² of 99.4%. With the corresponding p value of 0.001 one is quite assured of the overall fitness of the Regression Model. Impliedly, the four explanatory variables viz PR, FS and BC are responsible for only 99.5% of the variations in the financial reporting quality in the period 2008 to 2017. This is a pointer to the fact that there are other qualitative and quantitative variables that were not captured in the model with impact on the financial reporting quality.

In order to assess multicollinearity and autocorrelation of the variables, we used the Variance Inflation Factor (VIF). Whereas, the VIF values assessed the multicollinearity of the values, the VIF values, which is less than 5 for both explanatory variables suggested complete absence of multicollinearity among the variables. This is in conformity with the prescription of (Gujarati, 2009).

From the analysis Firm size has negative coefficients and can result in a negative change in the financial reporting quality of consumer goods companies whenever its value increases. However, a look at its p value which is 0.653 tells us that its impact is insignificant. Conversely, the PR, BC and FG have a positive and significant effect on the financial reporting quality of consumer goods companies. This indicates that an increment in PR, BC and FG financial reporting quality will also improve by .00608, .04936 and .50150 respectively.

These results, however, provide evidence that the regression model is well fitted and that the three explanatory variables (PR, BC & FG) as firm attributes have significant impact on the financial reporting quality of consumer goods companies in Nigeria. Though, three variables collectively impact significantly on the financial reporting quality a cursory look at the coefficients and p value of each individually reveals that while PR, BC & FG impacts positively and significantly on financial reporting quality while FS has a negative and insignificant impact on the financial reporting quality of consumer goods companies in Nigeria.

To this end, this finding leads us to reject the second, third and fourth hypotheses of this study and uphold the unstated alternative hypotheses which states that PR, BC and FG have significant impact on the financial reporting quality of consumer goods companies in Nigeria. On the contrary, the study failed to reject that

hypothesis which asserts that FS does not have significant impact on financial reporting quality of consumer goods companies.

CONCLUSION AND RECOMMENDATIONS:

Financial reporting is very vital to economic activities. There have been increasing interests in financial reporting quality research. However, the attributes of financial reporting quality are not yet understood in the current accounting literature as a result of difference in the meaning of quality in accounting because it is different from other fields. In addition, accounting regulations and environments also contributes to different level of financial reporting quality.

The measurement of financial reporting quality and how it can be determined is the main concern. Researchers have attempted to identify impact of these various factors of determining financial reporting quality especially in industrialized nations with well-developed regulatory framework but previous studies have shown varying results of these factors on financial reporting quality. As a result of the above, the basic objective of this study was to determine the impact of firm attributes (Firm size, Profitability, Board Composition and Firm growth) on financial reporting quality of consumer goods companies in Nigeria.

The results of the random effect estimation model showed the existence of the following relationship between FRQ and independent variables. Profitability had statistically positive significant relationship with FRQ, which was not in line with aprior expectation. Similarly, board composition had a positive and statistically significant relationship with FRQ, which was not also in line the expected sign. The result suggests that company's composition of independent board of directors will influence the FRQ of consumer goods companies in Nigeria.

Regarding the effect of profitability on the financial reporting quality of consumer goods companies in this study, the result shows that there was negative and statistically significant relationship with FRQ, which is not line with signalling theory. However, the results of study revealed that firm size had statistically insignificant and negative relationship with FRQ. Also, the relationship between financial reporting quality and firm growth is positive and statistically significant in consumer goods companies in Nigeria. This result was consistence with Signal theory and other studies which reveals significant impact. In conclusion, the finding of the study suggests that Firm growth, profitability and Board composition influence financial reporting quality of consumer goods companies in Nigeria during the period 2008 - 2017. However, Firm Size did not influence financial reporting quality of consumer goods companies in Nigeria.

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APPENDICES

Appendix A: Result of Descriptive Statistics using Stata 14

summarize frq pr fs bcprfg

Variable	Obs.	Mean	Std. Dev.	Min	Max
frq	115	-.0003249	.1522835	-.441083	.709056
pr	115	.1956469	.1678517	-.123921	.861197
fs	115	14.34116	3.674661	7.28993	19.7226
bc	115	.6150704	.1596204	0	.785714
pr	115	.1956469	.1678517	-.123921	.861197
fg	115	-3.84e-09	.3032605	-.8715532	1.396332

APPENDIX B: MULTICOLLINEARITY TEST USING STATA 14:

.vif

Variable	VIF	1/VIF
fs	1.08	0.928708
pr	1.07	0.936641
bc	1.02	0.976160
fg	1.01	0.991428
		1.04

Appendix C: Regression Results and Test for the Presence of Heteroskedasticity:

Robust regression Number of obs = 115
 F(4, 110) = 20108.01
 Prob> F = 0.0000

frq	Coef.	Std. Err.	T	P> t	[95% Conf. Interval]	
pr	.0060784	.0033078	1.84	0.069	-.0004768	.0126336
fs	-.0000684	.0001517	-0.45	0.653	-.0003692	.0002323
bc	.0493606	.0034072	14.49	0.000	.0426083	.0561129
fg	.5015022	.0017795	281.82	0.000	.4979756	.5050287
cons	-.0316938	.0034032	-9.31	0.000	-.0384381	-.0249495
