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Impact of Changes in Accounting Standard on Earning Management

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Abstract
We employed empirically evaluated the impact of changes in accounting standards on earning management, by engaging different literatures in order to infer judgement, investigation from prior literature revealed that accounting standards statistical effect on earning managements, also literature revealed that countries that has an already established standard prior the adoption of IFRSs tends to do better in its reporting style, and are often god with earning management. However none of the literature review thus far, was able to categorically segregate earning management, therefore this study was able to identify ethical an unethical earnings management, which was diagrammatically display in chapter three of this paper. Based on the findings from literature review thus, we can therefore suggested that managers of economic resources should always keep itself abreast with current accounting standard, while entities should engage in continuous training and retraining of its staff.
Keywords: *Earning management, Accounting standard, Policies*

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I. INTRODUCTION

Over the years just like man and economic activities changes, accounting policies and standard has seriously being dynamic. Therefore managers of economic resources must keep themselves acquainted with the current standards propounded by the regulatory bodies and international financial reporting standards (IFRSs) in order to make themselves relevant to society and the organization they represent. Every manager of resources strive for different ways of improving the wealth of stakeholders, hence in to achieve the said purpose they adopt different accounting techniques in order to achieve it, and sometime they engage in earnings smoothening. Earnings smoothening is majorly common with entities that tied manager's remuneration to earnings, and many a times the managers may display this action in the way, they represent the assets in statement of financial position and in the reporting of the entity goodwill. Entity managers may take advantage of goodwill, because the entity have different ways of reporting its goodwill during acquisition (see IAS 38 and IFRS 3), hence managers can hide under the said standards of reporting goodwill in trying to smoothening earnings. IAS 38 and IFRS 3, permits the managers to report purchased goodwill by using any of the seven of the ways: Carry it as an asset and amortize it over its estimated useful life through the profit and loss account; Carry it as an asset and amortize it over its estimated useful life by writing off against reserves; Eliminate it against reserves immediately on acquisition; Retain it in the accounts indefinitely, unless a permanent reduction in its value becomes evident, when impairment is recognized; Charge it as an expense against profits in the period when it is acquired; Show it as a deduction from shareholders' equity (and cither amortize it or carry it indefinitely) and Revalue it annually to incorporate later non-purchased goodwill (David, Anne, ann, Martin & Carien, 2014). The different scandals experience by the business world has prompted the emergence of serious standard and policy to regulate the economic activities of companies, a good example of world scandal in the business world is Worldcom and Enron that occurred in the United States, which crippled virtually all investors. The introduction of new standards or changes in standards is usually aimed at improving the accuracy, comparability and uniformity of accounting numbers across firms and economies, with aim of taming unethical earnings management (Anja, 2008).

II. REVIEW OF LITERATURE

Abogun, Olaniyi, Ijaiya and Fagbemi (2020) investigated the persistence of earnings of Nigerian listed banks, the entire fifteen (15) quoted deposit money banks which constitute the population of the study was examined covering from 2005 to 2015. The Generalized Method of Moments (GMM) dynamic panel estimation technique was employed, the result showed that earnings of the Nigerian listed banks are less persistent, that is, less sustainable, therefore suggested that investors should exercise caution by paying less attention to reported earnings. Instead, effort should be made to determine the persistent level of earnings to avoid wrong investment decisions.

Muhamad, Saleh and Paridon (2020) investigate the effect of accounting standard on earing management, the study also try to found out whether German companies that have applied IFRS have less earnings management compared to German companies that report according to the German Generally Accepted Accounting Principles (GGAAP). Two listed companies in Germany (Südzucker Group and Henkel Group) with data spanning from 2003 to 2014 was used, the output revealed that IFRS-adopters show different earnings management performance compared to companies reporting under German GAAP. This finding contributes to the discussion on whether high quality standards are appropriate and operational in countries with weak investor protection rights. Also adopters of IFRS in Germany can be related with less use of earnings management as a result of changes in accounting standards.

Malofeeva (2018) investigated the influences of International Financial Reporting Standards (IFRS) adoption on the frequency of earnings management in Russia, 361 companies was sampled which was sampled from the Russian public companies from various industries during the period from 2010 to 2015 according to accruals-based approach. The linear regression model which includes a dependent variable (discretionary accruals), an independent variable (accounting standards) and some control variables, the output revealed that earnings management was intensified after IFRS implementation in Russia.

Obigbemi, Omolehinwa, Mukoro, Caleb and Olusanmi (2016) sampled 137 quoted companies in Nigeria for a period of 8 years (2003 to 2010) in trying to know the role board structure plays in curtailing earnings management practices in Nigerian companies. Earnings management was measured using the magnitude of the discretionary accruals as estimated by the performance matched modified Jones model. The ordinary least squares (OLS) regression technique and Pearson moment correlation coefficient was employed in testing the hypotheses. The study revealed that there is a significant relationship between board structure and earnings management practices in Nigeria, also there was a negative significant influence between board size, gender, and board composition with earnings management; also, there is a positive significant relationship between board meeting and earnings management practices in Nigeria. There is a positive nonsignificant relationship between the presence of a remuneration committee and the dualization of CEO and chairman positions with earnings management practices in Nigeria. Therefore recommended that regulators at all levels should enforce the preparation and publication of financial reports by companies operating in Nigeria.

Baig and Khan (2016) evaluated the impact of introduction of International Financial Reporting Standards on earnings management of Public limited companies in Pakistan, 100 Companies listed on Karachi Stock Exchange of Pakistan, to investigate the quality of accounting information enhanced in the context of pre-post IAS/IFRS period i.e. 2001. The cross-sectional modified Jones model was used, and discovered that the global practice is converging towards transitioning from GAAP to domestic IFRS. With this, in many countries the use of earnings management has significantly decreased, but this is not the case in Pakistan due to two reasons; 1) Pakistan is using the IAS/IFRs based system since its inception 2) Due to 1) the data features are in a comparable form to check the effectiveness of IFRS. However, since the onset of 2001, a decreasing trend has been observed in the using of earnings management. It renders ineffective, also the introduction of IFRS, during the period 2001 to 2009, led to less earnings management.

Onalo, Lizam and Kaseri (2014) investigate the effects of changes from Malaysia and Nigeria previous accounting standards to IFRSs-based standards on earnings management of Malaysia and Nigeria banks. 23 banks was sampled, 8 representing Malaysian banks and 15 Nigerian banks for a study period of 4 years (2009 to 2012). The modified the Jones model was employed, and discovered that, the Malaysia financial reporting standards (MFRSs) and IFRSs impact more significantly and positively on the quality of accounting information of banks than the previous FRSs and SASs respectively for Malaysia and Nigeria. Therefore suggested that globally, IFRSs should be adopted as the standard for the preparation and reporting of financial statements.

Cai, Rahman and Courtenay (2012) investigated 31 countries IFRSs by trying to know whether convergence of IFRS will favour an entity (country) or adoption the adoption, and discovered that some of the countries that have adopted IFRS had accounting standards similar to IFRS prior to adopting IFRS while others had accounting standards less similar to IFRS. We contend that the latter group benefit more from IFRS adoption because their accounting standards undergo greater improvements. Also discovered that when IFRS is adopted or when accounting standards are more similar to IFRS, countries have lower levels of earnings management. Also, countries with accounting standards less similar to IFRS prior to IFRS adoption have a greater drop in earnings management after IFRS adoption, which seconded the assertion that countries with lower quality accounting standards would benefit more from IFRS adoption.

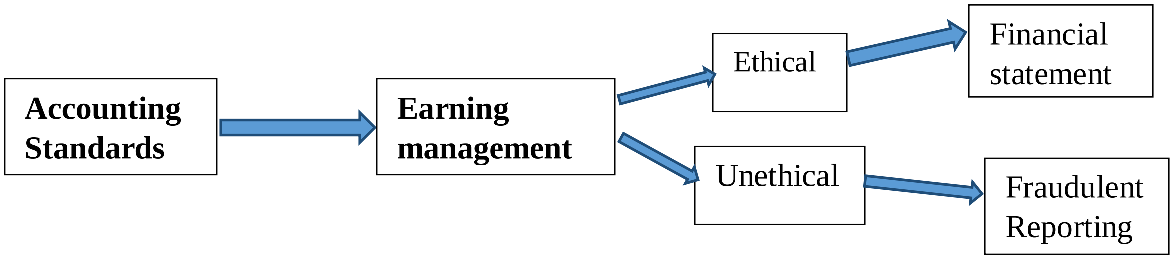
Mate and Navarro (2012) examined the temporal trend of earnings management over the last decade in a sample of German listed companies. The discretionary accruals of firms yielded from 2001 to 2010 applying the Seemingly Unrelated Regression (SUR) methodology and highlighting the mandatory character of IFRS from 2005 on. The result revealed that as companies have incentives to adopt IFRS, the level of earnings management decreases for a certain period of time, although, there was no evidence about higher financial reporting quality in mandatory IFRS adopters after IFRS adoption.

Literature Gap

The driving force behind this study is lack of consensus among scholars on the adoption of International accounting standard, despite international accounting standard has been adopted by many countries there are still a school of thought that doesn't support single accounting system reporting. Kvaal and Nobes (2010), Oseni, Ireghah and Ali-Momoh (2011) gave different reasons for not adopting a single standard of reporting among them is lack of flexibility, this is due to the fact that every economy has its own cultural background that influences economic activities. On other hand, other scholars such as Antwi (2010) and Beke (2011) to mention but a few negate their view that, adoption of IFRSs will encourage comparability and attract foreign investors to an economy. Therefore we want conceptually investigate the influence of changes in accounting standard on earning management.

III. CHANGES IN ACCOUNTING STANDARDS & EARNING MANAGEMENT

IAS 8 asserted that Accounting policies, which can also connote standards are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. On the other hand, Earnings management takes advantage of how accounting rules are applied and creates financial statements that inflate or "smooth" earnings, in a simple word earning management, is the use of accounting techniques to produce financial result that present an overly positive view of a company's business activities and financial position. Any management is not a bad thing, if it's within the frame of accounting standard, however it's bad if it goes beyond the established standard by the IFRSs are the GAAPs. Therefore if accounting standard are not well structured, it will give the managers of resources the opportunity to massage the accounting statement, hence accounting standard should not be ambiguous, such that readers can users can easily interpreted. The product of accounting standard will give birth to different approaches to earning managements. The aforementioned was seconded by the diagram below:



The above reaffirm the fact that, accounting standards give rise to earnings management, and changes in accounting occurs due to the economic needs for themselves, the business world is always dynamic, hence over the years accounting standard are review and sometime new standards are enacted in order to meet the economic needs of users. Therefore earning management could be ethical or ethical or unethical, where managers take advantage of loopholes in accounting standard in reporting its economic activities, is consider ethical financial reporting, however if the managers go against ethical standard is considered fraudulent financial reporting, which is a serious financial offence. There are different driven forces that makes entity engage in unethical earning management, which may likely lead to fraudulent reporting, the driven forces are usually represented by the acronyms "WISE" which mean Window dressing, Internal targets, income **S**moothing, External Expectations. The various technique engage by entity who are involves in window dressing are: Cooking jar, the big bath; change accounting method, one time charges to mention but a few.

IV. IS EARNING MANAGEMENT GOOD OR BAD?

Jones (2011) asserted that earnings management involved the use of the flexibility within accounting to manage the accounts in order to deliver a predetermined profit or achieve a specific objective. This may involves the use of accounting and non-accounting techniques that can be used to manipulate earnings otherwise referred to as attributes of earnings. Just like goodwill that has different ways of accounting for it, earnings management will be describes good if take advantage of the different accounting approaches and standard set out by the regulatory entities, however if the aim earning management is to mislead investors and to achieve individual aims without considering the stakeholders, then it is bad. Therefore accounting standard over the time should be review to meet the dynamic needs of users and most especially try to cover the loopholes in already established accounting standard.

When a Standard or an Interpretation specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item must be determined by applying the Standard or Interpretation and considering any relevant Implementation Guidance issued by the IASB for the Standard or Interpretation. In making judgement, management must refer to, and consider the applicability of, the following sources in descending order (IAS 8):

a. The requirements and guidance in IASB standards and interpretations dealing with similar and related issues; and

b. The definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.

Management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11 of IAS 8.12.

Consistency of accounting policies

An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless a Standard or an Interpretation specifically requires or permits categorization of items for which different policies may be appropriate. If a Standard or an Interpretation requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.

Changes in accounting policies

An entity is permitted to change an accounting policy only if the change:

a. Is required by a standard or interpretation; or

b. Results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows.

Changes in accounting policies do not include applying an accounting policy to a kind of transaction or event that did not occur previously or were immaterial.

If a change in accounting policy is required by a new IASB standard or interpretation, the change is accounted for as required by that new pronouncement or, if the new pronouncement does not include specific transition provisions, then the change in accounting policy is applied retrospectively.

By retrospective application means adjusting the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. However, if it is impracticable to determine either the period-specific effects or the cumulative effect of the change for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period. Also, if it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.

V. CONCLUSION

We employed empirically evaluated the impact of changes in accounting standards on earning management, by engaging different literatures in order to infer judgement, investigation from prior literature revealed that accounting standards statistical effect on earning managements, also literature revealed that countries that has an already established standard prior the adoption of IFRSs tends to do better in its reporting style, and are often god with earning management. However none of the literature review thus far, was able to categorically segregate earning management, therefore this study was able to identify ethical an unethical earnings management, which was diagrammatically display in chapter three of this paper. Based on the findings from literature review thus, we can therefore suggested that managers of economic resources should always keep itself abreast with current accounting standard, while entities should engage in continuous training and retraining of its staff.

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