



EARNINGS MANAGEMENT AND FINANCIAL PERFORMANCE OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

This research examines the effect of earnings management on the financial performance of listed deposit money banks in Nigeria. The main objective of this study was to examine the effects of earnings management on financial performance of listed deposit money banks in Nigeria. Earnings management was measured by discretionary accruals, (DAC) and abnormal cashflow from operation, (ABCFO) as the independent variables and financial performance which was measured by return on assets, (ROA), as the dependent variable. Correlational research design was adopted and secondary data were obtained from the annual financial statements of listed deposit money banks Nigeria for the period of 9 years (2015 – 2023). The population of the study consists of all fourteen (14) deposit money banks listed on the Nigerian Exchange Group, from which a sample of ten (10) was selected for the study through simple random sampling. The data collected for the study were statistically analyzed using STATA 14. Ordinary least square (OLS) regression analysis was employed to test the formulated hypotheses. The result from the OLS regression reveals that DAC has a positive and significant effect on ROA, ABCFO has a positive and significant effect on ROA. Based on this, the study concludes that earnings management has an effect on financial performance of Nigerian deposit money banks.

Keywords: Earnings, Managements, Performance, Accruals, Cashflow.

Introduction

Earnings management is the practice of manipulating financial statements to meet certain predetermined goals, such as increasing reported earnings or disguising the true financial health of a company, (Osma, et al. 2022). This is a prevalent concern within the banking industry, particularly for listed deposit money banks. Earnings management or earnings manipulation is a legal or illegal way or action that the management takes to either increase the earnings or reduce the amount of losses to be reported (Nyakarimi, 2022). The methods used to manipulate earnings may involve actual transactions or

management of accruals. Accrual management arises due to flexibility of accounting standards where managers are allowed to select accounting policies and methods that they apply in estimations and judgment. On the other hand, measurements and recognition concepts are applied in actual transactions, which are sometimes not prudently applied, (Golubeva, 2023).

One of the key effects of earnings management on the financial performance of listed deposit money banks is the distortion of financial ratios and indicators. By manipulating the reported earnings, these banks can appear more profitable and less risky than they actually

are. This may misinform investors to make investment decisions based on unreliable financial data, ultimately harming the stability of the financial system.

Financial reports are prepared and presented by management in order to show the quality of its performance and explain its responsibility to potential investors, employees, customers, society, and government. Earnings management is the manipulation of financial numbers, usually within the letter of the rules of law and standard accounting practices, but deviating from the spirit of those rules and certainly not providing the true and fair view that accounts are supposed to, (Olaoye & Adeniyi, 2020). Manipulation of earnings has become an area of interest to many researchers, after the cases of Enron, WorldCom, and other similar accounting scandals in Nigeria, particularly in deposit money banks, in September 2024 the house of representatives petitioned the Central Bank of Nigeria to conduct a forensic audit on GTB and suspend its CEO Jimi Agbaje pending the outcome of investigation into the alleged fictitious 1 trillion profit.

Also in September 2024, a U.S. federal court issued a default judgment in favor of the Securities and Exchange Commission (SEC) against Nigerian entrepreneur Dozy Mmobuosi and his companies, Tingo Group, Agri-Fintech Holdings, and Tingo International Holdings. The SEC determined that the firms had misrepresented their financial performance by fabricating key metrics, including overstating customer numbers and asset values. Consequently, the court imposed a \$250 million penalty and prohibited Mmobuosi from serving as a director of any public company.

Earnings management practices can occur either by increasing of the current

profit in the interest of prior or future period or by decreasing the current profit in the interest of prior or future period, (Al-Begali & Phua, 2023). This is done in the presence of internal auditors and other controlling parties since such practices are allowed. The Generally Accepted Accounting Principles (GAAP) permits firms to report incomes they have not yet earned. Also, earnings manipulation is adopted because of the flexibility of the International Financial Reporting Standards (Dimitropoulos, 2025).

Financial statements of the business enterprises are the main sources of information and therefore the main focus in corporate reporting should be the quality of earnings reflected in financial statements. Despite the importance of financial statements as a source of information, people who prepare the financial statements have freedom of selecting the applicable accounting rules and estimations in order to make financial reports informative (Bordeman, 2023).

Past studies on earnings, management and financial performance such as Uchegbu, et al. (2025), Bababo and Christopher, (2023), Ogbodo and Okenwa, (2023), Ikebujo, et al. though studied earnings management but focused on manufacturing sectors. Also, they measured earnings management with operational risk and total accruals. Few studies such as Adebimpe et al (2018), Agbata et al. (2022) focused on the banking sector, used loan loss provision as a measure of earnings management. But there are other measures of earnings management than the ones used by those authors such as discretionary accruals, abnormal cash flow, and magnitude of earnings. This study strives to measure earnings management and financial performance of deposit money banks using discretionary accruals, abnormal cash flow, and magnitude of earnings as the independent variable and return on asset as dependent variable to see if earnings

management has negative or positive effect on the financial performance of deposit money banks.

Review of Related Literature

Financial Performance

Financial performance is a complete evaluation of a company's overall standing in categories such as assets, liabilities, equity, expenses, revenue, and overall profitability, (Barman, 2023). It is measured through various business-related formulas that allow users to calculate exact details regarding a company's potential effectiveness. There have been a large number of empirical studies on financial performance around the world, researchers have applied several surrogates as measures of financial performance, such metrics include a combination of financial ratio analysis, benchmarking and measuring of performance against budget. Others include return on assets, returns on equity, gross profit margin, net profit margin, and a host of others. However, the European Central Bank (ECB, 2010) cautioned that A comprehensive performance measurement framework should extend beyond profitability and other market-oriented indicators to capture a multidimensional view of organizational success. Traditional measures, such as return on equity (ROE) or earnings per share provide useful insights into shareholder value but are limited, as they can be subject to short-term market manipulation and do not fully reflect the long-term health of an organization, (Thi, et al. 2023).

Return on Assets

Return on Assets (ROA) is profitability metric calculated by dividing a company's net income by its total assets, indicating how efficiently management uses its assets to generate profit, (Kusuma, 2021). The study

adopted Return on Assets (ROA) as a measure of profitability in banks because ROA measures how profitable and efficient the management of a bank is in using the bank's total assets in generating income. It is measured by $ROA = \frac{\text{Net Profit}}{\text{Total Assets}}$. The underlying theory of ROA involves evaluating how efficiently a firm converts its investments in assets into profits, because a higher ROA indicates effective asset utilization, while a lower ROA suggests inefficiency, (Kovalchuk & Verhun, 2020).

ROA is commonly used as a benchmark for comparing performance across firms and industries, particularly when variations in leverage are taken into account. By capturing both operational efficiency and the effectiveness of resource utilization. ROA is frequently applied in strategic management, corporate governance, and empirical finance research as a measure of long-term organizational success rather than just short-term profitability (Gibson, 2019). Therefore, ROA will be adopted in this study as a proxy for financial performance (Gibson, 2019; Pervan et al., 2019; Rashid et al., 2020).

Earnings Management

Earnings Management Earnings management (EM) can be referred to as creative accounting or aggressive accounting. Earnings management happens when company managers have the chance of making accounting resolutions which alters reported earnings and utilize those chances, (Brennan, 2023). Earnings management has become an area of concern to many researchers, after the case of Enron in the United State of America, and other similar accounting scandals in Nigeria particularly in deposit money banks such as the failure of Afrikbank Plc., Intercontinental Bank Plc, Bank PHB and Oceanic Bank Plc. Earnings management is the deliberate manipulation of financial information to either mislead potential and existing investors on the underlying economic

status of a firm or to gain some contractual incentives that depend largely on the fluctuations of accounting numbers (Narsa, et al. 2023). Accruals are one of the most important earnings management instruments that are used by managers to fluctuate reported income, (Susanto, 2017). Accruals are components of earnings that do not reflect in current cash flows and major managerial discretion go into their calculation (Hartono, et al. 2018).

The rewards for earnings manipulation have been identified in previous literature in varying contexts, for example, it is seen as an attempt to enhance shareholders' value and to increase managers' compensation through income smoothing and creative accounting, (Abogun, et al. 2021). Managers engage in window dressing of financial statements with the intention of enhancing their compensation and securing their positions, as well as to prevent violations of debt covenants, reduce regulatory costs, or maximize regulatory benefits, (Bassi, 2024). Managers use discretionary accruals as a motivation for options (the incentive of bonus income for attaining some level of performance) and affecting stock prices to enhance managers' wealth through stock compensation, (Shu & Thomas, 2017). Other incentives for managers' opportunistic behavior include bonus plans, meeting analyst's expectations or raising funds on more favorable terms (Nienhaus, 2021).

Discretionary Accruals

Accruals refer to the difference between income from continuing operations and cash flow from operations resulting from accounting rules and journal entries for the recognition of revenues and expenses, (Lyon, et al. 2021). Discretionary accruals, however,

represent accounting adjustments made at management's discretion with the aim of influencing reported earnings beyond what is strictly dictated by actual cash flows, (Totowa & Mokoaleli-Mokoteli, 2025). They are those accruals that are reported by managers of a firm voluntarily and not as stipulated by law or as regulated by standards. The impact of discretionary accruals on the informational content of earnings remains a subject of debate, as such managerial interventions in financial reporting may either reduce earnings quality through manipulation or, conversely, enhance the value relevance of reported earnings by better reflecting underlying economic conditions (Isiaka, et al. 2025). The most widely applied models for estimating discretionary accruals include the Healy model, the DeAngelo model, the Jones model, the Modified Jones model, the Industry model, the Cross-sectional Jones model, and the Performance-matched discretionary accruals model (Healy, 1985; DeAngelo, 1986; Jones, 1991; Dechow et al., 1995; Kothari et al., 2005).

The use of discretionary accruals as an earnings management tool stems from managers' ability to exercise judgment in the preparation of financial reports. However, distinguishing the discretionary component of total accruals that reflects managerial manipulation poses a significant challenge for researchers. To address this issue, prior studies have developed several econometric models aimed at separating total accruals into discretionary and nondiscretionary components, thereby providing a basis for estimating the extent of earnings management (Healy, 1985; Jones, 1991; Dechow et al., 1995; Kothari et al., 2005).

Literature suggests that managers may exploit their discretion over certain accruals to manipulate reported earnings, largely due to loopholes and flexibility inherent in accounting

principles and reporting guidelines. Consequently, discretionary accruals are widely employed as a proxy for earnings management and are adopted for the purpose of this study (Ogbodo & Okenwa, 2023; Isiaka, et al., 2025; Kothari et al., 2005).

Abnormal Cash Flow

Cash flow from operations (CFO) is a fundamental indicator of a firm's ability to generate cash from its primary business activities and is widely regarded as a measure of financial health. However, deviations in CFO, commonly referred to as abnormal cash flows, have been linked to earnings management practices. When reported earnings appear strong while CFO is unusually low or negative, this may indicate opportunistic managerial behavior, such as aggressive revenue recognition or the postponement of expenses, (Enomoto et al., 2015). To capture these deviations, researchers typically estimate expected CFO by regressing actual CFO on firm-specific variables (such as sales and changes in sales) and comparing it against industry norms. The residuals from this regression represent abnormal cash flow from operations (ABCFO), defined as the difference between actual and expected CFO. A significant deviation suggests the potential presence of earnings management through real activities manipulation, (Huang & Sun, 2017).

Recent studies continue to use ABCFO as a reliable proxy for detecting earnings management, particularly in contexts where firms seek to meet earnings benchmarks or manage reported performance in response to market pressures (Osma & Young, 2022; Alhadab, 2023). Thus, ABCFO remains an important construct in empirical research on financial reporting quality. Therefore, abnormal cash flow from operations will be

adopted in this study as a proxy for earnings management, given its robustness in capturing deviations arising from real activities manipulation (Osma & Young, 2022; Alhadab, 2023).

Theoretical Framework

Agency Theory

Agency theory was propounded by Jansen and Meckling in (1976), it clarifies the association between the proprietors of businesses (the principals) and the managers (the agents). Proprietors typically appoint managers to oversee and operate their businesses on their behalf, with the expectation that these managers will act in the proprietors' best interests. However, managers may sometimes prioritize their personal interests over those of the proprietors, leading to conflicts between the two parties.

Agency theory is relevant to this study because managers often have incentives to manipulate earnings in order to maximize their bonuses, compensation, and commissions, which are directly tied to the firm's reported income, (Hoskisson, et al. 2018). Earnings management behavior can be explained as a consequence of conflicts of interest between managers and shareholders that arise from the separation of ownership and control in public companies, (Yahaya, et al. 2019) Such conflicts often lead managers to obscure the true state of financial reporting due to costly contracting arrangements, shareholders' limited ability to fully comprehend managerial actions, and difficulties in effectively communicating relevant information. Within this context, the contracting theory, bounded rationality theory, and information asymmetry theory interact to shape earnings management practices, (Bergh, et al. 2018) Collectively these perspectives suggest three primary categories of motives underlying earnings management behavior: contracting

motives, capital market motives, and third-party motives, (Strakova, 2021).

Review of Related Literature

Isiaka, et al. (2025) examined the impact of discretionary accrual earnings management on the firm value of listed consumer goods firms in Nigeria. The study adopted a longitudinal panel research design, selecting a sample of sixteen (16) firms through a purposive sampling technique from the population of twenty-one consumer goods firms listed in the Nigerian Exchange Group (NGX) as of 31st December 2022. Earnings management was proxied using the absolute value of discretionary accruals via a modified Jones model, while Tobin's Q ratio served as the measure for firm value. Data spanning 2013 to 2022 was sourced from audited annual financial statements of the sampled firms. Various analytical methods, including descriptive analysis, correlation analysis, and multiple regression techniques, were employed to analyze the dataset. The results revealed that discretionary accrual earnings management has a positive and significant impact on the firm value of listed consumer goods firms in Nigeria.

Nguyen, et al. (2025) examined the influence of earnings management through accruals on the performance of Vietnamese stock market firms based on a panel of 330 HOSE-listed non-financial companies from 2018 to 2022. Discretionary accruals, estimated from the Modified Jones Model, are the proxy for earnings manipulation. Firm performance is gauged by both accounting-based indicators, Return on Assets (ROA) and Return on Equity (ROE), and a market-based measure, Tobin's Q. Employing fixed-effects panel regression to control for firm-specific heterogeneity and macroeconomic volatility, the findings indicate a significant and

consistent negative association between discretionary accruals and all performance measures. Robustness tests using lagged accruals, Kothari's model performance-matched approach, and subsample tests by size of firm confirm the findings. These results suggest that earnings management comes at the cost of profitability and firm value, particularly for smaller firms that have poorer governance.

Okunuga, et al. (2025) evaluated the impact of earnings management and firm performance in Nigeria on quoted insurance firms. It adopted the ex-post facto research design. Data for the study were sourced from the financials of the selected companies for the period of 2012-2021 and pooled OLS was adopted for the analysis. The study investigated how earnings management affects various financial ratios and the claims ratio in insurance firms. The results indicated that earnings management had a positive and significant impact on gross premium ratio (GPR), discretionary accruals (DAC), and asset turnover ratio (ATR).

Uchegbu, et al. (2023) examined the effect of cash flow management on financial performance of listed manufacturing firms in Nigeria for a period of ten (10) years covering from 2013-2022. Panel data were used in this study, which were obtained from the annual reports and accounts of twenty (21) sampled listed manufacturing firms for the period 2013-2022. Ex-Post Facto research design was employed. Inferential statistics using Pearson correlation coefficient, Multicollinearity test, Panel Least Square (PLS) regression analysis and Hausman test were applied to test the hypotheses of the study. The results revealed that abnormal cash flow has a significant and positive effect on cash value added ($\beta_1=0.242867$; $p\text{-value} = 0.0000$); abnormal production cost has a significant and positive effect on cash value added ($\beta_2=0.043125$; $p\text{-}$

value = 0.0000); of listed manufacturing firms in Nigeria at 5% level of significance respectively. In conclusion, the study found that manipulated cash flows and cost of sales has a significant effect on financial performance of listed manufacturing firms at 5% level of significance.

Bababo and Christopher, (2023) investigated the relationship between accruals management and the financial performance of listed manufacturing companies in Nigeria. In order to achieve the aim of the research, six specific objectives and hypothesis were proposed. Accruals management was measured by discretionary accruals (DACC) and non-discretionary accruals (NDAC) while financial performance was measured by return on assets (ROA); net profit margin (NPM); and return on capital employed (ROCE). Data for the research covered a period of 11 years from 2010-2020 for 20 listed manufacturing companies, thus comprising 220 firm years. Analytical employed for the purpose of the research included descriptive statistics, Pearson correlation and panel least square (PLS) regression method as well as ADF unit root test. Findings of the research revealed that there is a negative non-significant relationship between discretionary accruals and return on assets; net profit margin; and return on capital employed. And non-significant negative relationship between nondiscretionary accruals and return on assets; net profit margin; and return on capital employed.

Usaini and Hooy, (2023) examined the effect of earnings management on the financial performance of financial listed firms. It also investigates the moderating role of CEO competency on the relationship between earnings management and financial performance. Using a sample of deposit

money banks in Nigeria, the study adopts the panel regression estimator to analyze the testable hypotheses. The study finds evidence that earnings management reduces financial performance, while the interaction of CEO competency and earnings management negatively reduce financial performance, indicating that CEOs use their competencies to entrench themselves for their personal interests more than the interests of shareholders.

Agbata, et al. (2023) investigated Earnings Management (EM) and Financial Performance of the Nigerian Deposit Money Banks (DMBs). Population comprised DMBs quoted on the Nigerian Exchange Group. Data that spanned from 2012 – 2018 were gathered from the selected quoted DMBs in Nigeria. The simple linear regression method was used in analyzing data. The research findings disclosed significant effect of EM on DMBs' financial measures - Earnings Before Interest, Tax, Depreciation and Amortization; Dividend Pay Out Ratio; and Net Profit Margin. The study concluded that earnings management exists in DMBs and it has significant negative and positive effects on their financial performance.

Ogbodo and Okenwa, (2023) examined the effect of earnings management on financial performance of listed manufacturing firms in Nigeria from 2012-2021. Specifically, this study examines the effect of discretionary accruals on returns on assets, returns on equity, earnings per share and net profit margin. Panel data were used in this study, which were obtained from the annual reports and accounts of twenty one (21) sampled manufacturing firms for the periods 2012-2021. Ex-Post Facto research design was employed. Pearson correlation coefficient and Panel Least Square (PLS) regression analysis were applied to test the hypotheses of the study. The results revealed that discretionary accrual has a positive and significant effect on returns on assets, returns on equity, earnings per share and net profit margin.

Kumar and Goswami, (2022) examined the impact of accrual-based earnings management on future performance among listed non-financial Indian firms. This study estimates accruals management proxies for 2006-2017 using the widely accepted modified-Jones model of discretionary accruals. Firm performance is measured using ROA, ROE, and PE ratio. This study uses a one-step System Generalised Method of Moments (GMM) to address the problem of endogeneity in the dynamic panel model. The result from the estimator indicates that discretionary accruals have a negative impact on accounting-based performance measures (ROA and ROE) and a positive impact on the market-based performance measure (PE ratio).

Boachie and Mensah (2022) investigated the relationship between earnings management and financial performance of firms in Anglophone sub-Saharan African Countries in a dynamic framework. The study shows how this relationship is moderated by aggregate disclosure and best-practice corporate governance quality metrics. The findings indicate that earnings management's performance effects persist even after controlling for dynamic endogeneity, simultaneity, and unobserved time-invariant heterogeneity inherent in the earnings management and performance relationship.

Nguyen and Duong, (2022) investigated the effect of earnings management and its impact on accounting performance at the time of the listing event. The analysis is based on a sample of 189 firms listing their securities on the Ho Chi Minh, Vietnam stock exchange for the period of 2009 to 2017. Four cross-sectional models were adopted for this study to estimate earnings management with two models

based on total accruals and two models based on current accruals. The article first provides evidence that Vietnamese firms aggressively manipulate their earnings upward in the year before listing in an attempt to meet listing requirements when adopting current accruals models, but not when earnings management was measured by total discretionary accruals. Additionally, firms exhibit a significant decline in accounting performance (measured by ROE and ROA) for two consecutive years after listing. Consistent with our expectations, earnings management (measured by discretionary current accruals) in the pre-listing year are negatively related to poor accounting performance for two years after listing but not in the listing year. This study also provides an additional robustness check on the results with respect to handling outliers.

Methodology

Research Design

To achieve its objectives, this study adopted a correlational research design, which is appropriate for examining relationships between variables without manipulating them, (Bhandari, 2023). A correlational design enables researchers to test hypothesized statistical associations and make predictions based on observed relationships. Therefore, it is well-suited for this study's aim: to determine the effect of earnings management (independent variable) on financial performance (dependent variable) among listed Deposit Money Banks (DMBs) in Nigeria.

Population of the Study

The population of this study was determined using information obtained from the Nigerian Exchange Group as of 2023. Therefore, the population comprises the 14 deposit money banks (DMBs) listed on the Nigerian Exchange Group during the period. Below are the listed deposit money banks:

Sample and Sampling Technique

The sample size for this study comprises ten (10) deposit money banks (DMBs) selected from the fourteen (14) listed DMBs in Nigeria, covering the period 2015–2023. The choice of banks was informed by the availability of current annual reports during the study period. A simple random sampling technique was adopted, as it provides each element in the population with an equal chance of being selected, thereby minimizing selection bias and enhancing representativeness (Creswell & Creswell, 2018).

Table 1: Sample of the Study

S/N	Name
1.	Access Bank plc
2	Zenith Bank
3	Fidelity Bank plc
4	First city monument Bank
5	First Bank Nigeria plc
6	Guarantee trust Bank
7	Union Bank Plc
8	United Bank for Africa
9	Eco Bank Plc
10	Sterling Bank

Method of Data Collection

This study employed secondary data spanning a period of nine (9) years, covering 2015–2023. The data were obtained from the published annual financial reports of the selected deposit money banks in Nigeria.

Method of Data Analysis

The data were analyzed using both descriptive and inferential statistics, including correlation and multiple regression techniques. Specifically, the Ordinary Least Squares (OLS) linear regression model was employed to examine the relationships among the study variables. The OLS regression technique is widely recognized as the Best Linear Unbiased Estimator when the classical assumptions of regression are satisfied. This approach provides consistent and efficient parameter estimates, allowing for meaningful interpretation of the regression coefficients and ensuring a reliable assessment of the linear effects of the explanatory variables on the dependent variable (Wooldridge, 2016).

Model Specification

$$ROA = \beta_0 it + \beta_1 DACit + \beta_2 ABCFO + \epsilon it$$

ROA = Return on Assets

DAC = Discretionary accruals

ABCFO = Abnormal cash flow from operation

β_0 = Intercept

ϵit = Error term

Data Presentation and Analysis

Table 2: Descriptive Statistics

Variables	Obs.	Mean	Std. Dev.	Minimum	Maximum
ROA	90	0.0174	0.02167	-.1105383	.1154467
DAC	90	3.3507	00.9831	-1.1373	7.98358
ABCFO	90	-6.6307	0.9887	-2.8514	2.36507

The analysis reveals that the mean ROA is 0.0174, implying that, on average, listed deposit money banks (DMBs) in Nigeria generate a return of 1.74% on their total assets. This indicates that for every unit of

assets invested, the banks earn approximately 1.74% in net returns, reflecting a modest level of asset profitability. The observed ROA values range from a minimum of -0.1105 to a maximum of 0.1154, highlighting considerable

disparities in asset utilization efficiency across the sampled banks. Furthermore, the standard deviation of 0.0217 suggests substantial variability in financial performance, underscoring the heterogeneous nature of profitability within the Nigerian banking sector. Such dispersion may be attributed to differences in bank size, operational efficiency, management practices, and risk exposure.

The results further indicate that the mean value of Discretionary Accruals (DAC) is 3.3507, with a standard deviation of 0.9831. The EM values range from a minimum of -1.1373 to a maximum of 7.9836, suggesting substantial variability in the extent of discretionary accrual among the listed deposit money banks (DMBs) in Nigeria over the study period. This wide dispersion reflects differences in managerial discretion, reporting practices, and possibly varying pressures from

regulatory requirements or market competition.

The findings reveal that the mean abnormal cash flow from operations (ABCFO) is -6.6307, indicating a negative average value across the sampled banks. This suggests that, on average, the listed deposit money banks (DMBs) in Nigeria report operating cash flows that deviate unfavorably from the expected normal levels, potentially signaling earnings manipulation or inefficiencies in cash flow management. The ABCFO values range from -2.8514 to 2.3651, with a standard deviation of 0.9887, reflecting considerable variation among the banks. This dispersion implies differences in the extent to which managers adjust or distort operating cash flows in response to performance pressures or opportunistic incentives.

Table 3: Regression Analysis

Variables	Coefficient	T	P-value
cont.	-.0051038	-0.23	0.820
DAC	.0154581	7.97	0.000
ABCFO	.0054776	2.91	0.005
R ²	0.5938		
F-statistics	31.07		
Prob	0.0000		

Test of Hypotheses

Hypothesis One

H0₁: Discretionary accruals have no significant effect on the financial performance of listed deposit money banks in Nigeria.

The Ordinary Least Squares (OLS) regression results show that discretionary accruals have a coefficient of 0.0155 with a corresponding p-value of 0.000. This indicates that earnings management exerts a positive and statistically significant effect on the financial performance of listed deposit money banks (DMBs) in Nigeria. Consequently, the study rejects the null hypothesis, which

posited that earnings management has no significant effect on the financial performance of listed DMBs in Nigeria.

Hypothesis Two

H0₂: Abnormal cash flow has no significant effect on the financial performance of listed deposit money banks in Nigeria.

The regression analysis shows that the coefficient of abnormal cash flow from operations (ABCFO) is 0.0055 with a p-value of 0.005, indicating a statistically significant relationship. This suggests that deviations in operating cash flows exert a positive and significant effect on the financial performance

of listed deposit money banks (DMBs) in Nigeria. Consequently, the study rejects the null hypothesis, which stated that abnormal cash flow has no significant effect on the financial performance of listed DMBs in Nigeria.

Discussion of Findings

Discretionary accruals (DAC) represent a critical component of financial reporting, as they reflect managerial judgment in estimating and recording non-cash transactions. Examining their effect on Return on Assets (ROA) provides insights into the quality of reported earnings and the extent of potential earnings manipulation. The regression results show that DAC has a positive effect on ROA, with a coefficient of 0.0155. This implies that for every unit increase in earnings management, ROA increases by approximately 0.0155 units. The relationship is statistically significant, as evidenced by a very low p-value (0.000), confirming that discretionary accruals exert a significant positive influence on ROA.

Empirical evidence supports the view that discretionary accruals may enhance reported profitability in the short term but can undermine long-term performance. Kumar and Goswami (2023) found that firms with higher levels of discretionary accruals tend to exhibit lower future profitability, suggesting that inflated earnings achieved through accrual-based earnings management are not sustainable and may negatively affect ROA over time. Similarly, Bababo and Christopher (2023) reported a significant negative relationship between discretionary accruals and ROA, indicating that firms engaging in earnings management through accruals ultimately experience reduced profitability. These findings highlight that while discretionary accruals may temporarily boost performance indicators, such practices often distort the true financial

position of firms and expose them to risks of value erosion in the long run.

The results for abnormal cash flow from operations (ABCFO) show a coefficient of 0.0055, which is statistically significant at the 0.005 level. This indicates that firms with abnormal cash flow records tend to report higher ROA, suggesting that ABCFO positively influences the financial performance of listed deposit money banks (DMBs) in Nigeria. This finding is consistent with the study by Uchegbu et al. (2023), which reported that abnormal cash flows from operations can positively affect ROA, particularly when arising from strategic investments or temporary fluctuations in operating performance. Their study further suggests that firms may deliberately generate abnormal cash flows to support growth initiatives or exploit short-term opportunities, thereby enhancing profitability and overall financial performance.

Conclusion and Recommendation

Earnings management refers to managerial discretion in financial reporting aimed at misleading stakeholders regarding a firm's economic performance or influencing contractual outcomes. Common practices include the premature or fictitious recognition of revenue, aggressive capitalization and extended amortization policies, misstatement of assets and liabilities, manipulation of income statement items, and distortions in cash flow reporting. The regression results in this study show that earnings management significantly affects the financial performance of deposit money banks (DMBs) in Nigeria. Specifically, all the proxies for earnings management (discretionary accruals (DAC), managed change in net income (MCNI), and abnormal cash flow from operations (ABCFO)) exhibit significant effects on Return on Assets (ROA), which serves as the indicator of financial

performance. Conversely, firm size, included as a control variable, shows no significant effect on ROA, suggesting that size is not a relevant determinant in explaining the relationship between earnings management and financial performance in this context.

Based on the findings of this study, the following recommendations are proposed: The boards of directors of deposit money banks (DMBs) should ensure the appointment of credible and competent external auditors who can thoroughly and independently review financial statements. This would enhance the reliability of reported earnings and provide assurance that the financial statements present a true and fair view of the banks' financial position. The Financial Reporting Council of Nigeria (FRCN), in collaboration with other relevant regulatory bodies, should develop clear accounting standards and guidelines for the measurement and disclosure of earnings management. Such standards would promote uniformity, improve transparency in financial reporting, and enable reliable comparisons across listed DMBs in Nigeria.

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