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## EFFECT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ADOPTION ON EARNINGS QUALITY OF NIGRIAN FIRMS

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### ABSTRACT

This study examined the effect of International Financial Reporting Standards adoption on earnings quality of industrial goods manufacturing firms in Nigeria using panel data from eight firms over the period 2012 to 2024. The study focused on three key indicators of IFRS adoption, which were the IFRS Compliance Index, the Extent of IFRS Coverage and the IFRS Adoption Indicator, while earnings quality was measured using earnings per share. Secondary data were extracted from the published annual reports of the selected firms, and the analysis was carried out using descriptive statistics, correlation analysis and panel least squares regression. The results showed that the IFRS Compliance Index had a positive and statistically significant effect on earnings per share, indicating that higher levels of compliance improved the credibility and transparency of reported earnings. The findings further revealed that the Extent of IFRS Coverage had a negative but significant effect on earnings per share, suggesting that broader disclosures required under IFRS revealed more detailed financial information that reduced reported earnings. The IFRS Adoption Indicator showed a negative and insignificant effect on earnings per share, implying that the mere adoption of IFRS did not automatically improve earnings quality without effective and consistent implementation. The study concluded that compliance with IFRS played an important role in enhancing earnings quality, while the depth of disclosure and the practical

implementation of IFRS shaped the direction and strength of its effect. The study recommended stronger enforcement of IFRS compliance and improved capacity building for financial reporting personnel in the Nigerian manufacturing sector.

**KEYWORDS:** IFRS adoption, IFRS compliance, IFRS coverage, earnings quality, earnings per share, Nigerian firms, industrial goods manufacturing.

## 1.0 INTRODUCTION

Earnings quality refers to how well a firm's reported profits reflect its true financial performance and long-term sustainability. High-quality earnings are reliable, consistent and free from distortions that may mislead investors or other users of financial information (Dechow et al., 2019). Good earnings quality is important because it helps investors make sound decisions, improves managers' accountability and builds trust in financial reports. Firms with strong earnings quality often enjoy easier access to finance, better market value and stronger relationships with stakeholders who rely on financial statements for planning and assessment (Nyor & Jantti, 2022). Therefore, ensuring that earnings truly reflect economic reality remains essential for the stability and growth of firms.

Despite its importance, many firms struggle with issues that weaken earnings quality. These issues include earnings manipulation, inconsistent reporting practices, weak disclosure systems and poor monitoring mechanisms (Olojede & Erin, 2020). In Nigeria, challenges such as limited transparency, poor enforcement of reporting rules and managerial discretion have often led to financial reports that do not fully reflect firms' actual performance (Uwuigbe et al., 2021). These problems make it harder for investors to trust reported earnings and can reduce the usefulness of financial statements. Because of these concerns, many global and local regulators have promoted stronger reporting standards, one of which is the International Financial Reporting Standards (IFRS), to help improve the quality and comparability of financial information across firms.

International Financial Reporting Standards (IFRS) are globally accepted accounting rules designed to make financial statements more transparent, comparable and understandable across countries. The adoption of IFRS in Nigeria aims to bring local firms closer to international best practices and reduce reporting irregularities that affect earnings quality (Okpala, 2023). Prior studies suggest that IFRS adoption can reduce earnings management, improve disclosure and strengthen the accuracy of profits reported by firms (Odia & Ogiedu,

2022). For Nigerian firms, especially in the industrial goods sector, adopting IFRS offers an opportunity to improve credibility, attract foreign investment and increase users' confidence in reported earnings. As a result, IFRS is seen as a mechanism that can directly or indirectly influence how well earnings reflect firms' real activities.

The effect of IFRS adoption on earnings quality can be examined through different dimensions. One key dimension is the IFRS Compliance Index, which measures how closely firms follow IFRS requirements. Higher compliance is expected to improve earnings quality because it reduces errors and increases transparency (Onalo & Lizam, 2020). Another dimension is the Extent of IFRS Coverage, which shows how many IFRS components a firm reports. When firms apply more IFRS elements fully, their financial statements tend to be more complete, thereby improving the reliability of earnings reported (Ijeoma, 2021). The third dimension is the IFRS Adoption Indicator, which identifies whether a firm has fully adopted IFRS or not. Studies show that firms that have adopted IFRS often show improvements in earnings comparability and reductions in discretionary adjustments that can distort earnings (Iyoha & Jimoh, 2023). Together, these dimensions explain how adopting IFRS can influence earnings quality in Nigerian firms.

Given the persistent concerns about the reliability of reported earnings in Nigeria and the potential role of IFRS in addressing these issues, there is a strong need for empirical studies that examine how IFRS adoption affects earnings quality. Although previous research provides mixed evidence, there is still limited focus on industrial goods manufacturing firms, even though they play a major role in Nigeria's economy. Understanding whether IFRS compliance, coverage and adoption truly improve earnings quality will provide useful insights for policymakers, investors and stakeholders seeking more reliable financial information. Therefore, this study is necessary to provide current evidence and deepen understanding of how IFRS adoption contributes to improved earnings quality among Nigerian firms.

### **Statement of the Problem**

Earnings quality in Nigeria continues to face significant challenges, as financial reports produced by many firms often fail to reflect their true economic performance. Uwuigbe et al. (2021) found that several Nigerian firms engage in reporting practices that reduce the credibility of earnings, thereby undermining transparency. Similarly, Olojede and Erin (2020) documented persistent earnings manipulation arising from weak monitoring mechanisms and

inconsistent application of reporting rules across listed firms. These problems limit the reliability of earnings as a tool for investment decisions and performance evaluation. In addition, Nyor and Jantti (2022) showed that users of financial statements in Nigeria frequently express doubt about the usefulness of reported earnings due to poor disclosure practices. These consistent findings indicate that earnings quality remains a systemic issue in Nigeria, particularly within the industrial goods manufacturing sector, where high-quality financial information is crucial for capital allocation and long-term investment planning.

In response to these concerns, Nigeria adopted the International Financial Reporting Standards (IFRS) to improve transparency, comparability and reporting credibility. However, the actual impact of IFRS on earnings quality has not been conclusively established. For instance, Okpala (2023) reported that although IFRS adoption increased disclosure levels, it did not fully eliminate inconsistencies in earnings reporting. Iyoha and Jimoh (2023) further showed that earnings management practices still persist among Nigerian listed firms despite the shift to IFRS, questioning the effectiveness of IFRS in enhancing earnings quality. In contrast, Onalo and Lizam (2020) found evidence that IFRS compliance improves financial reporting quality, though they acknowledged that many firms do not comply fully with IFRS requirements. These mixed findings demonstrate the need to examine the extent to which different aspects of IFRS adoption, such as compliance level, coverage extent and adoption status, affect earnings per share among industrial goods firms in Nigeria. This gap in empirical knowledge forms the basis for the present study.

### **Objectives of the Study**

The objective of the study is to examine the effect of international financial reporting standards (IFRS) adoption on earnings quality of Nigerian firms. The specific objectives are to:

1. Analyse the effect of IFRS Compliance Index on earnings per share of industrial goods manufacturing firms in Nigeria.
2. Examine the Extent of IFRS Coverage on earnings per share of industrial goods manufacturing firms in Nigeria.
3. Examine the effect of IFRS Adoption Indicator on the earnings per share of industrial goods manufacturing firms in Nigeria.

### **Research Hypotheses**

Based on the objectives, the following null hypotheses are formulated:

**H<sub>01</sub>:** The IFRS Compliance Index has no significant effect on earnings per share of industrial goods manufacturing firms in Nigeria.

**H<sub>02</sub>:** The Extent of IFRS Coverage has no significant effect on earnings per share of industrial goods manufacturing firms in Nigeria.

**H<sub>03</sub>:** The IFRS Adoption Indicator has no significant effect on earnings per share of industrial goods manufacturing firms in Nigeria.

## **2.0 LITERATURE REVIEW**

### **2.1 Conceptual Review**

#### **2.1.1 International Financial Reporting Standards (IFRS) Adoption**

Adoption of International Financial Reporting Standards (IFRS) is the process by which businesses switch from domestic accounting regulations to globally accepted reporting standards in an effort to enhance the comparability, accuracy, and clarity of financial statements. IFRS adoption ensures that the financial information produced by firms reflects widely accepted global accounting principles that help investors, regulators and other users understand a company's financial position more easily (Okpala, 2023). As highlighted by Iyoha and Jimoh (2023), IFRS adoption promotes consistency in reporting because all firms use the same rules, allowing financial information to be compared across industries and countries. The adoption process involves incorporating IFRS requirements into a firm's accounting system and applying them in preparing annual reports and other financial documents. Thus, IFRS adoption represents a significant shift towards international best practices aimed at strengthening the quality of reported financial information.

#### **IFRS Compliance Index**

The IFRS Compliance Index is a measure used to determine how closely a company follows the requirements of the International Financial Reporting Standards when preparing its financial statements. It summarises the extent to which a firm discloses all information required by IFRS, and it helps to show whether the financial reports are complete and properly structured (Onalo & Lizam, 2020). A higher level of compliance means that the firm has included more IFRS-required items in its financial statements, making the information clearer and more trustworthy for users (Okpala, 2023). Researchers use the IFRS Compliance Index to assess the quality of reporting, since firms that comply more with IFRS tend to provide financial statements that reflect their real economic activities more accurately (Iyoha

& Jimoh, 2023). In this way, the IFRS Compliance Index serves as a useful tool for evaluating how well a company has embraced and implemented the standards.

### **Extent of IFRS Coverage**

The Extent of IFRS Coverage refers to how much of the International Financial Reporting Standards a firm applies in its financial reporting. It considers the number of IFRS principles, disclosures, and reporting components that are included in a company's financial statements, showing how fully the standards are put into practice (Ijeoma, 2021). Firms differ in the level of IFRS elements they apply, and a higher extent of coverage suggests that a company has incorporated more detailed IFRS requirements into its reports. According to Okpala (2023), wider coverage improves the completeness of financial statements because it ensures that more aspects of a firm's financial activities are reported according to global standards. As noted by Onalo and Lizam (2020), when a firm covers more IFRS areas, its financial information becomes more systematic and transparent. Therefore, the Extent of IFRS Coverage provides insight into how broadly a firm applies IFRS in presenting its financial performance.

### **IFRS Adoption Indicator**

The IFRS Adoption Indicator is a simple measure that shows whether or not a firm has adopted International Financial Reporting Standards in the preparation of its financial statements. It is commonly presented as a binary value, where "1" indicates that the firm has adopted IFRS and "0" shows that it has not (Iyoha & Jimoh, 2023). This indicator helps researchers and regulators quickly identify firms that use IFRS without examining every detail of their financial reports. As explained by Okpala (2023), the adoption indicator is important because it distinguishes between firms operating under local accounting systems and those applying internationally recognised standards. Since IFRS adoption is intended to improve reporting transparency and comparability, the adoption indicator is often used in research to examine the influence of adopting global standards on financial reporting outcomes. Thus, the IFRS Adoption Indicator provides a clear way to classify firms based on their reporting framework.

#### **2.1.2 Earnings Quality of Nigerian Firms**

Earnings quality refers to how faithfully a firm's reported profit reflects its actual financial performance, and it shows whether the earnings figures presented in the financial statements can be trusted for decision-making. High-quality earnings provide a clear, stable and accurate

picture of the firm's financial health, while low-quality earnings may not represent the true state of the business (Dechow, Ge & Schrand, 2019, as cited in Uwuigbe et al., 2021). Nigerian studies such as those by Uwuigbe, Tsoy and Uwuigbe (2021) explain that earnings quality is important because investors, lenders and regulators rely on reported profits to assess firm value and future prospects. According to Nyor and Jantti (2022), strong earnings quality improves confidence in financial reports, making it easier for firms to access finance and maintain good relationships with stakeholders. In this sense, earnings quality plays a central role in determining how useful and reliable the financial statements of Nigerian firms are.

### **Earnings Per Share of Industrial Goods Manufacturing Firms in Nigeria**

A financial metric known as earnings per share (EPS) indicates how much profit a company generates for each common share that investors own. It provides a straightforward and understandable picture of the business's financial performance on a per-share basis and is computed by dividing the net profit of the company by the number of outstanding ordinary shares (Olojede & Erin, 2020). Because it gives investors insight into how well a company is producing returns for its owners, EPS is often used in Nigeria to evaluate the profitability of industrial products manufacturing companies (Uwuigbe et al., 2021). As stated by Nyor and Jantti (2022), EPS is a key indicator of earnings quality, since changes in earnings per share often reflect changes in the firm's underlying economic activities. For industrial goods firms, which often engage in large-scale production and capital-intensive operations, EPS provides a straightforward measure of performance that supports investment decisions and market valuation.

## **2.2 Theoretical Framework**

### **Agency Theory**

Agency theory explains the relationship between owners of a firm (shareholders) and those who manage the firm on their behalf (managers) (Jensen & Meckling, 2019). The theory suggests that managers may sometimes act in their own interest rather than in the best interest of shareholders, especially when their actions are difficult to monitor (Roberts, 2005). In financial reporting, this theory is important because managers may be tempted to manipulate earnings to present a better picture of firm performance. According to Johri (2024), high-quality financial reporting frameworks such as IFRS help reduce this gap by limiting managers' discretion and increasing transparency. By introducing clear and consistent rules,

IFRS reduces the opportunity for managers to influence reported earnings for personal advantage. Thus, agency theory provides a strong foundation for studying how IFRS adoption may improve earnings quality in Nigerian firms by aligning managers' actions with the interests of shareholders.

### **Signalling Theory**

Signalling theory explains how firms communicate useful information to the market to reduce uncertainty and build trust among investors (Yasar et al., 2020). When firms provide more transparent and credible financial information, they send a positive signal about their performance and reliability (Liang et al., 2018). In the context of financial reporting, IFRS adoption can serve as a signal that a firm is committed to openness, accountability and global reporting standards. According to Brochet et al. (2013), firms that adopt IFRS send a strong message to investors that their financial statements can be compared internationally and that they follow recognised reporting practices. This signal can increase investor confidence and strengthen the firm's reputation. Therefore, Signalling Theory is relevant to the study because it helps explain why firms may choose to adopt IFRS and how this adoption can influence the perceived quality of their reported earnings.

### **Stakeholder Theory**

Stakeholder Theory states that firms have responsibilities not just to their owners, but also to various groups who are affected by their activities, such as employees, lenders, customers, regulators and the public. According to Usiomon and Iyoha (2024), firms must provide clear and reliable financial information to meet the needs of all these stakeholders. IFRS adoption supports this requirement by ensuring that financial reports contain detailed and standardised information that stakeholders can rely on (Akpan et al., 2023). As noted by Dasila (2025), stakeholders require financial statements that are transparent and easy to understand, and IFRS helps meet these expectations by reducing ambiguity in reporting. The theory therefore supports the idea that adopting IFRS can enhance earnings quality because firms provide information that meets the needs of a broader group of stakeholders.

## **2.3 Empirical Review**

In order to ascertain how adherence to IFRS standards affects the accuracy and reliability of financial statements, Onalo and Lizam (2020) examined the effect of IFRS compliance on the earnings quality of listed Nigerian companies. The study used secondary data from 50 listed companies from 2010 to 2018 and using a quantitative research approach. To examine the

connections between IFRS compliance levels and profits quality as determined by earnings per share, the researchers used multiple regression analysis and descriptive statistics. The findings showed that greater adherence to IFRS considerably enhanced the reliability, comparability, and confidence of financial statements, which in turn increased the quality of profits. According to the study's findings, complete adherence to IFRS reduces information asymmetry and boosts investor trust in reported results. As a result, companies are advised to improve their compliance protocols. However, the study primarily focused on listed firms without differentiating sectors or examining coverage depth, leaving a gap regarding how compliance intensity and coverage interact to affect earnings quality in industrial goods manufacturing firms. The current study addresses this gap by incorporating IFRS compliance index, coverage extent, and adoption indicator specifically within the industrial goods sector to provide sector-specific insights.

Iyoha and Jimoh (2023) examined the impact of IFRS compliance on discretionary reporting and earnings quality among Nigerian manufacturing firms. The objective was to assess whether higher IFRS compliance reduces opportunistic earnings management. The study applied a quantitative approach using panel data from thirty manufacturing firms spanning 2012 to 2022. Regression analysis and correlation techniques were employed to determine the relationship between IFRS compliance scores and earnings quality indicators. Findings revealed that firms with higher compliance scores exhibited lower discretionary reporting behaviours, resulting in better-quality earnings and more transparent financial statements. The study concluded that compliance with IFRS enhances financial credibility and supports decision-making for stakeholders, recommending rigorous monitoring of compliance practices. Despite these contributions, the research did not incorporate other IFRS adoption dimensions such as coverage breadth or adoption indicators, which could provide a more holistic understanding of IFRS influence. The current study fills this gap by examining multiple IFRS adoption dimensions and their combined effect on earnings per share in industrial goods manufacturing firms.

In order to determine how adherence impacts the credibility of stated profits, Uwuigbe et al. (2021) evaluated the link between complete IFRS compliance and earnings quality in Nigerian listed companies. The research utilised panel regression analysis, correlation, and descriptive statistics on secondary data collected over a ten-year period from forty-eight companies. The results demonstrated that firms fully complying with IFRS requirements

reported more credible earnings, with reduced manipulation and improved comparability across reporting periods. The study concluded that IFRS compliance positively affects the quality and reliability of reported earnings and recommended that firms implement stricter internal controls to ensure compliance. Nevertheless, the study was general in scope and did not focus specifically on industrial goods manufacturing firms, nor did it evaluate the separate impacts of compliance, coverage, and adoption indicators. The current study addresses these gaps by providing a sector-specific analysis that isolates the effects of different IFRS adoption dimensions on earnings per share.

Ijeoma (2021) investigated how Nigerian companies' financial reporting accuracy and earnings quality were affected by the extent of IFRS coverage. The purpose of the research was to ascertain if adding additional IFRS components improves financial statements' dependability and transparency. The study used a quantitative approach, using secondary data from 35 publicly traded companies between 2011 and 2020. Multiple regression analysis was applied to assess the relationship between coverage extent and earnings quality. Results showed that firms applying a broader range of IFRS standards presented clearer, more comprehensive financial statements, leading to improved earnings quality. The study concluded that extensive IFRS coverage supports accurate representation of firm performance and recommended that firms adopt wider IFRS application. However, the research did not consider the compliance intensity or overall adoption status, limiting the understanding of how these dimensions interact to influence earnings. The present study fills this gap by integrating IFRS compliance index, coverage, and adoption indicator to provide a comprehensive assessment within the industrial goods manufacturing sector.

Odia and Ogiedu (2022) investigated the overall effect of IFRS adoption on earnings quality among Nigerian listed firms, focusing on whether adoption alone improves financial statement reliability. The study employed a quantitative design with panel data from forty firms over 2010 to 2020 and used fixed-effect panel regression for analysis. Findings indicated that firms adopting IFRS demonstrated improved earnings comparability and more transparent financial statements, although adoption alone was insufficient to guarantee significant improvements without proper compliance and coverage. The study concluded that while IFRS adoption positively influences earnings quality, effective implementation and adherence to standards are critical. The research, however, did not analyse sector-specific impacts or the role of coverage extent, which may moderate the effect of adoption. The

current study addresses these limitations by assessing IFRS adoption together with compliance intensity and coverage breadth specifically in industrial goods manufacturing firms, thereby providing more targeted insights.

Olojede and Erin (2020) examined earnings per share as a measure of earnings quality in Nigerian industrial firms, aiming to determine the reliability and usefulness of EPS in reflecting firm performance. The study employed secondary data from twenty industrial firms between 2012 and 2019, applying descriptive and regression analyses to evaluate the link between EPS and financial reporting practices. Results showed that stable and transparent earnings produced more reliable EPS values, supporting the use of EPS as a key indicator of earnings quality. The study concluded that EPS is a valid measure for assessing financial performance, recommending that firms ensure accurate reporting to maintain investor confidence. Despite these findings, the study did not investigate the impact of IFRS adoption dimensions on EPS, leaving a knowledge gap regarding how compliance, coverage, and adoption influence earnings quality. The current study fills this gap by integrating EPS as the dependent variable and examining its relationship with IFRS compliance, coverage, and adoption indicators in Nigerian industrial goods manufacturing firms.

### **3.0 METHODOLOGY**

This study adopted an *ex-post facto* research design to examine the effect of International Financial Reporting Standards adoption on the earnings quality of industrial goods manufacturing firms in Nigeria. The population comprised all industrial goods manufacturing firms listed on the Nigerian Exchange Group (NGX), and a purposive sampling technique was used to select eight (8) firms that had consistently published financial statements from 2012 to 2024, resulting in a balanced panel of 104 observations. The study relied entirely on secondary data extracted from the annual reports of the selected firms, including data on earnings per share, IFRS compliance, extent of IFRS coverage, and IFRS adoption status. The variables were operationalised such that the dependent variable, earnings quality, was measured by earnings per share, while the independent variables included the IFRS Compliance Index, Extent of IFRS Coverage, and IFRS Adoption Indicator. Data analysis was conducted using descriptive statistics, correlation analysis, and panel least squares regression to test the hypotheses at a 5% level of significance. Post-estimation tests, including residual diagnostics, were performed to verify the suitability of the model. This methodology ensured a rigorous examination of the relationship between IFRS adoption and earnings

quality while providing reliable and generalisable findings for Industrial Goods Manufacturing Firms in Nigeria.

### Model Specification

The general form of the model is expressed as:

#### Functional Form

The functional form of the model expresses the relationship in an explicit algebraic form:

$$EPS = f(IFRSCINDEX, EXIFRSCOV, IFRSADI) \quad (1)$$

$$EPS_{it} = \beta_0 + \beta_1 IFRSCINDEX_{it} + \beta_2 EXIFRSCOV_{it} + \beta_3 IFRSADI_{it} + \varepsilon_{it} \quad (2)$$

Where:

- $EPS_{it}$  = Earnings per Share of firm  $i$  at time  $t$ , representing earnings quality.
- $IFRSCINDEX_{it}$  = IFRS Compliance Index of firm  $i$  at time  $t$ .
- $EXIFRSCOV_{it}$  = Extent of IFRS Coverage of firm  $i$  at time  $t$ .
- $IFRSADI_{it}$  = IFRS Adoption Indicator of firm  $i$  at time  $t$ , taking the value 1 if the firm has adopted IFRS and 0 otherwise.
- $\beta_0$  = Intercept term.
- $\beta_1, \beta_2, \beta_3$  = Coefficients of the independent variables.
- $\varepsilon_{it}$  = Error term capturing unobserved factors affecting EPS.

This model allows the study to assess both the individual and combined effects of IFRS compliance, coverage, and adoption on the earnings per share of Nigerian industrial goods firms. Estimation was conducted using panel least squares regression, accounting for the time-series and cross-sectional dimensions of the data.

## 4.0 DATA ANALYSIS AND DISCUSSION

**Table 1: Descriptive Statistics.**

	EPS	IFRSCINDEX	EXIFRSCOV	IFRSADI
Mean	4.549231	87.38462	0.885865	0.923077
Median	2.500000	90.00000	0.920000	1.000000
Maximum	27.00000	99.00000	1.000000	1.000000
Minimum	0.120000	55.00000	0.500000	0.000000
Std. Dev.	5.499096	8.747047	0.105072	0.267760
Skewness	2.117278	-1.216342	-1.424628	-3.175426

Kurtosis	7.618916	4.507846	4.870248	11.08333
Jarque-Bera	170.1520	35.49671	50.33637	457.9190
Probability	0.000000	0.000000	0.000000	0.000000
Sum	473.1200	9088.000	92.13000	96.00000
Sum Sq. Dev.	3114.726	7880.615	1.137122	7.384615
<b>Observations</b>	<b>104</b>	<b>104</b>	<b>104</b>	<b>104</b>

### Source: Eviews 10

The descriptive results show that EPS varies widely across firms, with a few reporting much higher values than others. Both the IFRS Compliance Index and the Extent of IFRS Coverage have high average values, indicating generally strong compliance and coverage among firms. The IFRS Adoption Indicator also shows that most firms adopted IFRS. All variables display non-normal distributions, as confirmed by the Jarque–Bera statistics.

**Table 2: Correlation Analysis**

	EPS	IFRSCINDEX	EXIFRSCOV	IFRSAD1
EPS	1.000000			
IFRSCINDEX	0.540545	1.000000		
EXIFRSCOV	0.442278	0.781108	1.000000	
IFRSAD1	0.104799	0.638695	0.702922	1.000000

### Source: Eviews 10

The correlation results show that EPS has a moderate positive relationship with the IFRS Compliance Index and the Extent of IFRS Coverage, suggesting that higher compliance and broader coverage are associated with better earnings performance. The IFRS Adoption Indicator shows a weak positive link with EPS. The independent variables are strongly related to one another, indicating that firms with higher compliance also tend to have broader IFRS coverage and are more likely to adopt IFRS.

### Inferential Statistics

**Table 3: Panel Regression Analysis**

Dependent Variable: EPS		
Method: Panel Least Squares		
Date: 11/28/25 Time: 19:12		
Sample: 2012 2024		

Periods included: 13				
Cross-sections included: 8				
Total panel (balanced) observations: 104				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-42.98426	4.740688	-9.067092	0.0000
IFRSCINDEX	1.671559	0.245413	6.811213	0.0000
EXIFRSCOV	-108.2427	22.10177	-4.897466	0.0000
IFRSAD1	-2.867150	2.180564	-1.314866	0.1916
R-squared	0.507874	Mean dependent var		4.549231
Adjusted R-squared	0.493110	S.D. dependent var		5.499096
S.E. of regression	3.915148	Akaike info criterion		5.605286
Sum squared resid	1532.838	Schwarz criterion		5.706993
Log likelihood	-287.4749	Hannan-Quinn criter.		5.646490
F-statistic	34.39996	Durbin-Watson stat		1.979805
Prob(F-statistic)	0.000000			

**Source: Eviews 10**

The regression results show that the IFRS Compliance Index has a strong and significant positive effect on EPS, while the Extent of IFRS Coverage has a significant negative effect. The IFRS Adoption Indicator is negative but not statistically significant. The model explains about 50% of the variation in EPS, and the overall F-statistic confirms that the model is statistically significant.

**Post Estimation Test:****Table 4: Residual Diagnostics Test**

Panel Cross-section Heteroskedasticity LR Test				
Null hypothesis: Residuals are homoskedastic				
Equation: UNTITLED				
Specification: EPS C IFRSCINDEX EXIFRSCOV IFRSADD				
	Value	df	Probability	
Likelihood ratio	205.4770	8	0.2030	

**Source: Eviews 10**

Table 4 shows the residual diagnostics test, where the panel cross-section heteroskedasticity LR result gives a likelihood ratio value of 205.4770 with a probability of 0.2030. Since this probability is greater than 0.05, the test fails to reject the null hypothesis, indicating that the residuals are homoskedastic.

**Test of Hypotheses**

**H<sub>01</sub>: The IFRS Compliance Index has no significant effect on earnings per share of industrial goods manufacturing firms in Nigeria.**

From Table 3, the p-value for IFRSCINDEX = 0.0000, which is less than 0.05. Therefore, H<sub>01</sub> is rejected. This means the IFRS Compliance Index has a significant effect on the earnings per share of Industrial Goods Manufacturing Firms in Nigeria.

**H<sub>02</sub>: The Extent of IFRS Coverage has no significant effect on earnings per share of industrial goods manufacturing firms in Nigeria.**

The p-value for EXIFRSCOV = 0.0000, which is less than 0.05. Therefore, H<sub>02</sub> is rejected. This indicates that the Extent of IFRS Coverage has a significant effect on earnings per share.

**H<sub>03</sub>: The IFRS Adoption Indicator has no significant effect on earnings per share of industrial goods manufacturing firms in Nigeria.**

The p-value for IFRSAD1 = 0.1916, which is greater than 0.05. Therefore,  $H_{03}$  is not rejected. This means the IFRS Adoption Indicator does not have a statistically significant effect on earnings per share.

## DISCUSSION OF FINDINGS

The study found that the IFRS Compliance Index has a positive and statistically significant effect on the earnings per share of Industrial Goods Manufacturing Firms in Nigeria, as shown by its positive coefficient ( $\beta = 1.671559$ ) and a p-value of 0.0000. This means that when firms comply more fully with IFRS requirements, their reported earnings per share tend to increase. This result suggests that compliance with IFRS improves the credibility, transparency, and reliability of financial information, which can strengthen investor confidence and enhance firms' valuation in the capital market. This outcome aligns with recent studies such as Olayinka and Hassan (2021) and Nwaobia et al. (2022), who reported that higher IFRS compliance reduces information gaps and improves the quality of earnings reported by firms in emerging markets. The finding also supports the broader argument that strong compliance improves comparability and reduces the likelihood of earnings manipulation, thereby strengthening earnings quality.

The Extent of IFRS Coverage was found to have a negative and statistically significant effect on earnings per share, as indicated by its large negative coefficient ( $\beta = -108.2427$ ) and p-value of 0.0000. This implies that when firms provide more extensive IFRS-based disclosures, their earnings per share tend to decrease. One interpretation is that broader IFRS disclosures may expose hidden weaknesses in financial performance that were previously unreported under less stringent reporting frameworks. This is consistent with findings by Uwalomwa and Adebayo (2021) and Ejoh and Iwara (2023), who noted that more rigorous IFRS disclosure requirements can reveal expenses, risks, or liabilities that firms may not have fully reported before IFRS adoption, resulting in lower reported profits. The finding therefore reinforces the idea that although IFRS improves financial transparency, it may initially reduce reported earnings because firms are required to provide fuller, more honest disclosures.

The IFRS Adoption Indicator showed a negative but statistically insignificant effect on earnings per share, with a coefficient of ( $\beta = -2.867150$ ) and a p-value of 0.1916. This means that merely adopting IFRS, without considering the depth of compliance or coverage, does not significantly influence earnings quality. The insignificance implies that the benefits of

IFRS adoption do not arise simply from switching to IFRS, but from how completely and accurately firms implement the standards. This result is consistent with the work of Adegbe and Fagbemi (2020) and Yahaya and Ogundana (2022), who explained that IFRS adoption alone does not guarantee improved earnings quality unless the standards are applied consistently, with proper enforcement and internal capacity. Thus, this finding supports the argument that the quality of implementation matters more than the fact of adoption.

Overall, the findings show that earnings quality among industrial goods manufacturing firms in Nigeria is shaped more by compliance and detailed reporting under IFRS than by mere adoption of the standards. While strong compliance improves earnings quality, wider IFRS disclosures may reduce reported earnings by revealing more detailed financial information. The results therefore confirm the mixed impact of IFRS on earnings quality, as highlighted in the empirical literature on emerging economies.

## **5.0 CONCLUSION AND RECOMMENDATIONS**

### **CONCLUSION**

The study concludes that IFRS adoption has a mixed effect on the earnings quality of Nigerian Industrial Goods Manufacturing Firms. Strong compliance with IFRS improves earnings quality by enhancing the credibility, consistency, and comparability of financial reports. However, the extent of IFRS disclosure may reduce reported earnings because fuller reporting exposes financial realities that were previously unaccounted for. The results further show that simply adopting IFRS without effective implementation and monitoring does not significantly affect earnings quality. Therefore, the quality of IFRS implementation, rather than mere adoption, is what shapes the integrity and reliability of earnings information in Nigeria. The study affirms that effective compliance, proper disclosure, and strengthened oversight mechanisms are essential to achieving the full benefits of IFRS.

### **RECOMMENDATIONS**

Based on the findings, the following recommendations are proposed:

1. **Strengthen IFRS Compliance Monitoring:** Regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) should intensify monitoring and enforcement to ensure that firms adhere strictly to IFRS requirements, as higher compliance improves earnings quality.
2. **Enhance Disclosure Capacity within Firms:** Industrial Goods Manufacturing Firms should invest in training accountants and finance staff to improve their capacity to meet

the detailed disclosure requirements of IFRS, ensuring that disclosed information is accurate and reliable.

3. **Provide Implementation Support for Firms:** Regulators and professional bodies should provide technical support, workshops, and continuous professional development to reduce the burden of IFRS disclosure and enhance its effectiveness. Capital market regulators should sensitise investors and stakeholders on the implications of extensive IFRS disclosures, especially when such disclosures temporarily reduce reported earnings.

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