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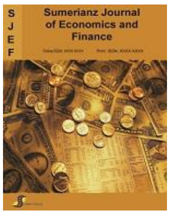

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Events After the Reporting Period and Investment Decisions in Manufacturing Companies in Nigeria

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Abstract

Investors worldwide require a high level of credibility and certainty from firms' financial reports to anchor their investment decisions. Thus, it is paramount for firms to comply with the regulatory framework to make the latter a success. On this basis, this study aims to determine how disclosure and adjustments of events after the reporting period (IAS 10) affect investment decisions in manufacturing companies in Nigeria. The study employed a descriptive survey design. Out of a total population of 25 manufacturing companies, 15 were specifically selected for the study. A questionnaire was used to collect data from the companies' six principal officers, including the managing director, the accountant, the credit officer/risk manager, the quality control officer, the internal auditor, and the operation/plant manager. The mean and standard deviation were used to answer research questions. The PPMC and linear regression analysis were used to test the hypothesis at the 0.05 significance level. It was found that the level of compliance with IAS 10 on disclosure and adjusting events after the reporting period is high among manufacturing companies. Also, disclosure and adjusting events significantly impact the investment decisions of manufacturing companies. The research suggests that relevant authorities strictly adhere to reporting criteria based on the results.

Keywords: Adjusting; Companies; Disclosure; IAS 10; Investment; Manufacturing; Non-adjusting; Reporting; Decisions.

1. Introduction

Financial reporting provides information about various activities carried out by an organisation over a specified period. Within the general concept of International Financial Reporting Standards (IFRS), Statements of Accounting Standards (SASs), and Generally Accepted Accounting Principles, an entity is expected to render financial reports based on a concept of periodicity (say, a period of twelve months). According to (Aslan, 2021), financial reporting is the accounting science of preparing and presenting financial reports that dwell on an entity's financial performance. Information reported by companies is valuable to various users or stakeholders (Melville, 2019). However, for ease of uniformity, comparability, reliability, and understandability and to open up a country for foreign direct investments, among others, International Financial Reporting Standards (IFRS) were adopted or adapted by various countries in the world (Adeuja, 2015).

International accounting standards have gained prominence as a result of globalisation influences and an increase in cross-border trades and other activities, as different stakeholders can review financial information and accounting numbers on an entity in different parts of the world as a result of globalisation impacts and an expansion in cross-line exchanges and different exercises. Several publications, which include Aslan (2021); Nobes (2020) and Melville (2019), have attested to the usage of accounting standards in the preparation of accounting reports leveraged on the concept of periodicity, covering a specified period and taking effect at a given date when the statement or report becomes decisive and authorised for use. Financial statements, also known as accounting reports, are one of the most important statements that IFRS expects to be made every time they cover a given period. Since new data or information may be discovered, found, or stumbled upon just at the beginning of the new accounting year but before when the account is finalized or authorized, there is a need to determine how relevant the information is gathered after the decisive moment but before authorization for the use of such accounts.

According to Abata and Amoo (2020), financial reports prepared in line with the provisions of the International Accounting Standards Board (IASB) provide a single set of comparable information to assist various users of financial information and other participants in the several capital markets across the world in making diverse economic decisions about an entity. Such users include investors. Some of this information, including that which occurred after the reporting period, may influence the decisions of existing or prospective investors in an entity, as anything relevant might happen between the year-end and when the report becomes operational, as financial information about an entity is a product of its accounting system and forms the heartbeat of the management (Kanu and Onuoha, 2016).

Some of this information may relate to some events that provide additional information on conditions at the reporting date, such as estimates used in preparing the financial statements for the period. Others may provide information about events related to new conditions that do not exist in the period. Some manufacturing companies tend to be creative and window-dress their financial reports. Hence, they may fail to adjust for these events as they may reduce income or the value of assets, leading to suboptimal financial statements. This study, therefore, sought to examine the events that occurred after the reporting period and their influence on investors in manufacturing companies in Nigeria. It investigated the level of disclosure of adjusted events after the reporting period as well as the effects of the adjusted events on investment decisions of manufacturing companies in Nigeria.

2. Literature Review

This section contains the description of the key concepts related to this research work under conceptual review. Also, theories underpinning the study as well as a review of relevant literature form major parts of this section.

3. Conceptual Review

The major concept related to this study is IAS 10.

4. The Concept of IAS 10

According to the International Accounting Standard Board (2018), International Accounting Standard (IAS) 10: Events after the Reporting Period provides a framework for dealing with events that occur after the reporting period has ended. In July 1997, the International Accounting Standards Committee (IASC) changed IAS 10 from Exposure Draft 10, Contingencies and Events Occurring after the Balance Sheet Date to IAS 10, Contingencies and Events Occurring after the Balance Sheet Date, which had results from January 1, 1980, when IAS 10 was first used. Another Exposure Draft E63 of November 1998 led to the issuance of IAS 37: Provisions, Contingent Liabilities, and Contingent Assets, replacing the earlier IAS 10. In May 1999, a revised IAS 10 was issued, superseding the earlier IAS 10, and became effective on January 1, 2000. The International Accounting Standards Board issued another amended version of IAS 10 on December 18, 2003 (IASB). This became successful on September 6, 2005, and September 6, 2007. The board amended the title of IAS 10 to "Occasions Following the Reporting Period."

The following definitions arise from the provisions of IAS 10 and have been used accordingly.

4.1. Event after the Reporting Period

This refers to an event, good or bad, that happens at the end of the time frame for the report and when it is approved for use. While there is a time requirement for the preparation, approval, and publication of financial statements, the activities, events, and processes of the business do not cease. Events during this period may affect the decisions of users of accounting information on the entity's financial report or statement of financial position. Therefore, there may be a need to reflect on some of these changes, which may have a material impact on the financial statement (Aslan, 2021), and may directly or indirectly affect investor decisions. With the preceding, it may be necessary to use the approval date of the financial statement as a focal point.

4.2. Adjusting Event

This refers to an occasion after the announcing time frame, which, in any case, gives additional proof of conditions that existed toward the finish of the detailing time frame. It incorporates occasions that show that the going concern suspicion comparable to the entire or some portion of the venture is not fit. Changing occasions give proof of conditions or occasions that existed toward the end of the detailed time frame that began at the present, revealing the date (Greuning *et al.*, 2010).

According to Kanu and Onuoha (2016) and Örten *et al.* (2013), some of the events or situations which may lead to an adjustment in the financial statements are:

- When a recoverable debt arises, or a customer goes bankrupt and his debt cannot be recovered,
- A situation where inventory is already included at cost in the financial statement was sold at a lower cost.
- Where the selling price of items of property, plant and equipment is sold below the carrying cost.
- If there is damage to inventory, it may affect the entity's going concern.
- When there is a lawsuit arising from events occurring before or during the reporting period and the settlement is after the reporting period.

4.3. Non-adjusting Event

An occasion after the report time frame that is characteristic of a condition that emerged after the finish of the announcing time frame is taken as a non-adjusting occasion. It infers that these occasions happened after the announcement and before the financial summaries were approved for release. Such events do not affect the conditions and position of the entity at the reporting date. Still, they may be mere indications of conditions that arose after the end of the period. Therefore, no adjustment should be made to the financial statement (Cotter *et al.*, 2012). Some situations that could give rise to non-adjusting events are:

Business combinations;
Changes in the value of assets;
Changes due to exchange rate;
Destruction of the company's assets;
Guarantee or agreement;
Sales of equity or shares.

4.4. Recognition and Measurement: This Requires Events after the Reporting Date to be Classified into Two Event Types:

- Those that provide evidence of conditions that existed at the reporting period (adjusting events after the reporting period);
- Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

It is pertinent to note that IAS 10 does provide additional guidance that the post reporting period should end at the date of authorization.

5. Financial Report and Investment Decision

A financial report can be described as a report that outlines several activities carried out by an entity over a given period. Assad and Alshurideh (2020), noted that a financial report contains quantitative and qualitative information used for planning and decision making by various users of financial information. Several stakeholders or users of an entity's financial reports include the investors or shareholders, the creditors, vendors, employees, government agencies, the entity's management, and the host communities. These users have one interest or the other in the information provided in an entity's financials to guide their interests in a clear and concise form. One of the assumptions users of the financial report make is that the financial information contained therein is sufficient and reliable Assad and Alshurideh (2020). Therefore, any wrong information in the financial report may mislead the users of the accounting information and result in severe losses for the investors and other stakeholders or users.

Low-quality financial reporting may threaten the ability of a conglomerate to maintain a competitive edge in the industry over time. Several studies on financial reporting and investment decisions, including Assad and Alshurideh (2020); Ferracuti and Stubben (2019); Lin *et al.* (2016) and Roychowdhury *et al.* (2019), found that firm financial reporting influences investment decisions. Good quality financial reports and disclosures enhance investment as they help managers and investors efficiently allocate resources, reduce agency conflict, improve investment efficiency, and resolve uncertainties about corporate investment opportunities.

According to evidence from the Gulf Cooperation Council (GCC) countries, the quality of monetary disclosure has a vital and positive association with speculation productivity, and review quality affects venture. Ferracuti and Stubben (2019), studied the role of financial reporting in resolving uncertainty about corporate investment opportunities. They discovered that financial reporting helps managers allocate capital across various investment opportunities in their companies under conditions of uncertainty. Likewise, Roychowdhury *et al.* (2019) looked into the impacts of monetary revealing and exposure on corporate speculation and proposed that organizations' monetary revelation choices and data environment influence venture choices.

In line with the relationship between financial reporting and disclosures on investment decisions, the purpose of this study was to establish the relationship between the divulgence of occasions after the revealing time frame, IAS 10, and speculation choices on manufacturing organizations in Nigeria.

6. Theoretical Underpinning

The study is hinged on the theory of moral hazard.

7. Moral Hazard Theory

Agency theory prescribes that managers are agents of the business owners or investors as the owners employ the managers to carry on with the smooth conduct, operations and oversee the affairs of their businesses. It is generally believed that managers are supposed to act to the greatest advantage of the entrepreneur. However, agency theory, argued that managers have access to more quality information about the firm's businesses when there is information asymmetry. So, if the interests of the managers and shareholders are divergent, instead of maximising the shareholders' wealth, managers seek to prioritise their gains therefore resulting in moral hazard. This may lead to investors' apathy as investors may choose not to invest in promising firms, bad ones, or not invest at all.

According to Goodman *et al.* (2014); Campello and Graham (2013); and Ramalingegowda *et al.* (2013), investment has a relationship with investment opportunities, hence the quality of financial reported information, such as earnings, has a relationship with the quality of investment decisions made by Goodman *et al.* (2014). This theory is related to this work as investors make investment decisions based on the quality of the information provided by the managers, especially information relating to events after the reporting period, with the expectation that such information reduces investor hazard.

8. The Pure – Impression – Management Model of Accounting (PIMM)

According to the PIMM theory, which was developed by Keppler in 1995 cited by Garuba and Donwa (2011), accountability acts as a connection construct by constantly reminding people that they must act in accordance with the current form and content of financial reporting and by advancing compelling arguments, justifications, and excuses for conduct that deviates from those standards. Ezeani and Oladele (2012) contend that if certain generally expected rules or standards are not adhered to, financial reporting cannot be accepted by the general public or prospective investors. This implies consistency and adherence to pertinent standards are necessary for the efficient operation of public companies.

According to Ezeani and Oladele (2012), PIMM theory, which is based on the behavioural aspect of accounting, requires adherence to rules, standards, policies and guidelines applicable to every business. Accountability, or the relationship between individual decision-makers and the collectives in which they live and work, is the missing piece in the seemingly endless level of analysis debate (Garuba and Donwa, 2011). As previously mentioned, it is now clearer how the need to present a financial statement that is acceptable and one that falls short of the users' expectations are related. The PIMM acknowledges that for institutions to operate effectively, a significant amount of trust and self-accountability are required.

Therefore, the PIMM of accountability will produce positive results in terms of public accountability if it is used appropriately by the management of companies or institutions in Nigeria (Ezeani and Oladele, 2012).

9. Research Method

This study employed a survey research design. The study was conducted in 15 of Nigeria's 25 manufacturing firms. The manufacturing companies were carefully chosen based on their size and coverage. The survey design was adopted to sample the opinions of professionals, management, and internal auditors in the manufacturing sector of the Nigerian economy as they have a lot to offer on issues relating to financial reporting in compliance with IAS and other statutory disclosure requirements. A pilot survey was carried out to determine the validity of the content and reliability of the questionnaire. The questionnaire used was divided into two parts. While section one captured the personal biodata of the respondents, section two solicited information on the adjustment and disclosure of events after the reporting period on the reports of the selected manufacturing firms in Nigeria under the arrangements of IAS 10. A total of 90 questionnaires were distributed and retrieved; six copies were distributed to each company for the following officials: the Managing Director, the Accountant, the Credit Officer/Risk Manager, the Quality Control Officer, the Internal Auditor, and the Operation/Plant Manager. The demographic data were analysed using the descriptive method and simple percentages. The mean and standard deviation were used to answer research questions. Finally, the Pearson correlation coefficient and linear regression were used to test the hypotheses at a 0.05 level of statistical significance using Statistical Package for Social Sciences (SPSS).

10. Results

Table-4.1. Demographic Data

Variables	F	Percentage	Variables	F	Percentage
Designation			Education		
Managing Director	15	16.7	PhD	3	3.3
Auditor		16.7	BSc		83.3
Risk officer		16.7	Experience		
Quality Control officer		16.7	5-10yr	44	48.9
Accountant	15 15 15 15	16.7	MSc	12 75	13.3
			16-20yr		17.8

Total	90	100%	Total	90	100%
Plant manager	15	16.7	11-15yr	30 16	33.3

The demographic statistics of the sample in the study may be found in Table 4.1. Six principal officers from 15 manufacturing companies were chosen from the data described above. The managing director, Accountant, internal auditor, risk officer, and quality control officer are all part of this team. Three participants had Ph.D. degrees, 12 had MSc degrees, and 75 had BSc degrees, representing 3.3 percent, 13.3 percent, and 83.3 percent, respectively, in the educational attainment statistics. On the other hand, 44 (48.9%) of respondents had 5–10 years of job experience, 30 (33.3%) had 11–15 years, and 16 (17.8%) had 16–20 years of work experience. This reveals that there were more respondents with 5–10 years of job experience in the study.

10.1. Research Question One

What is the level of disclosure and adjustment of events after the reporting period by manufacturing companies in Nigeria?

Table-4.2. Mean and standard deviation of the level of disclosure and adjustment of events after the reporting period by manufacturing companies in Nigeria

SN	Items	N	Mean	STD	Remark
1	Settlements after reporting date of court cases that confirm the entity had a present obligation at reporting date are usually disclosed after reporting period.	90	3.43	0.637	High
2	Receipt of information after reporting date indicating that an asset was impaired at reporting date and the discovery of fraud or errors that show the financial statements are incorrect are immediately adjusted to reflect true nature of event	90	3.53	0.69	Very High
3	Adjustment are made for the bankruptcy of a customer that occurs after reporting date that confirms a loss existed at reporting date on trade receivables.	90	3.17	0.738	High
4	Whenever the company adjust the amounts recognised in its financial statements, relevant disclosure is made to reflect such events by the company.	90	3.44	0.736	High
5	Dividends issued after the reporting date are not recognised as an obligation at the conclusion of the fiscal quarter.	90	3.16	0.82	High
6	Where the selling price of items of property, plant and equipment was sold below the carrying cost, disclosure is usually made after the reporting period.	90	3.27	0.761	High
7	As a compliance requirement, destruction of a major production plant by fire after reporting date are disclosed	90	3.4	0.897	High
8	Disclosure is made when inventory already included at cost in the financial statement was sold at a lower cost.	90	3.1	0.849	High
9	Your company does not make any adjustments to the values recognised in its financial statements to reflect nonrecurring occurrences that occur after the accounting periods.	90	3.07	0.832	High
10	Adjustments are usually made when a recoverable debt arouse, or a customer goes bankrupt and his debt cannot be recovered.	90	3.52	0.657	High
	Grand Mean	90	3.31		High

Table 4.2 shows the level of disclosure and post-reporting-period event adjustments made by manufacturing companies in Nigeria due to their adherence to IAS 10. The item means of the 10 items raised to address the research question exceed the criterion mean of 2.5. The item mean scores were 3.43, 3.53, 3.17, 3.44, 3.16, 3.27, 3.4, 3.1, 3.07, 3.52, and 3.31, for items 1–10, respectively. Settlements of court disputes after the end of each reporting period that establish the business owed money at the measurement date; and receipt of information after the reporting date indicating that an asset was damaged at the end of each reporting period. Also, the discovery of fraud or accounting mistakes; the bankruptcy of a customer that occurs after the reporting date that confirms a loss existed at the reporting date; and not recognising those dividends that are declared after reorganisation were all disclosure and

post-reporting-period event adjustments made by manufacturing companies in Nigeria. Furthermore, the grand mean of 3.31 indicates that manufacturing enterprises in Nigeria have a high level of compliance with disclosure and adjustment events following the reporting period.

10.2. Research Question Two

What is the impact of disclosure and adjustment of events after the reporting period on the investment decisions of manufacturing companies in Nigeria?

Table-4.3. Mean and standard deviation of the impact of disclosure and adjustment of events after the reporting period on the investment decisions

SN	Items	N	Mean	STD	Remark
11	Allowing investors to discover non-compliance of IAS 10 is a way of losing competitive advantage in the industry	90	3.28	0.936	Agree
12	Disclosing abnormality and significant changes, after the reporting date build investors trust in the corporate reporting system of the company.	90	2.88	1.14	Agree
13	The company drops the going concern concept in reporting when there is a decision by management to liquidate the entity or to cease trading prevents investors from continuing with investment choices	90	3.3	0.841	Agree
14	There is a direct link between non-disclosure of adjusting event and risk of return on investment.	90	3.52	0.674	Strongly agree
15	The higher the magnitude of non-disclosure, the higher the potential risk of losing investors	90	3.08	1.008	Agree
16	By complying to IAS 10 provision, the firm is positioned to make decisions that benefits the performance of the company	90	3.18	0.773	Agree
17	When companies comply with IAS 10, they are able to avert material misrepresentation in their report.	90	3.18	0.919	Agree
18	Adjusting events after reporting period by including asset categories with investment returns within a portfolio, an investor can help protect against significant losses.	90	3.47	0.69	Agree
19	By adjusting financial report after the period in line with the provisions of IAS 10 provide a single set of comparable information to assist users of financial information in the several capital markets across the world to make diverse economic decisions about an entity.	90	3.03	0.741	Agree
20	Low quality financial reporting may threatens the ability of a company to maintain competitive edge in the industry over time.	90	2.97	1.043	Agree
	Grand Mean	**90**	**3.19**		**Positive**

Table 4.3 shows the influence of post-reporting-period disclosure and event adjustments on manufacturing enterprises' investment choices in Nigeria. Two of the ten items generated to address the research question have an item mean greater than 2.5, the criteria mean. Item mean scores for items 11–20 are 3.28, 2.88, 3.3, 3.52, 3.08, 3.18, 3.18, 3.47, 3.03, and 2.97, respectively. Item 11-15 claims that when investors discover a company's non-compliance with IAS 10, it erodes its competitive edge, and vice versa. According to another viewpoint, investors gain confidence and trust in a firm when irregularities are acknowledged. As a result, the more non-disclosure, the greater the danger of losing investors and vice versa. From both the company's and investors' perspectives, compliance with IAS 10 as well as correcting and disclosing appropriate events following the reporting period, are linked to successful investment choices. It provides a single collection of comparable data to help consumers of financial data in various capital markets worldwide make different economic judgments about a business. Finally, the grand mean of 3.19 shows that events that were revealed and changed after the reporting period also impacted the investment decisions of manufacturing businesses.

10.3. Hypothesis One

There is no significant relationship between disclosure and adjustment events after the reporting period and investment decisions of manufacturing companies in Nigeria.

Pearson test of a significant relationship between disclosure and adjustment events after the reporting period and investment decisions.

Table-4.4.

Variables	Mean	STD	Alpha	r	P-value	Remark
Disclosure and Adjusting	33.089	3.925	0.05	0.820**	0.000	Sig.
Investment Decision	31.878	4.825				

The above table shows the relationship between disclosure and adjustment events after the reporting period and the investment decisions of manufacturing companies in Nigeria. The correlation output has a coefficient (r = 0.820), indicating a strong positive association between the two variables. Similarly, the p-value of 0.000 is less than the 0.05 alpha level, which means there is a significant relationship between disclosure and adjustment events after the reporting period and investment decisions of manufacturing companies in Nigeria. Thus, the null hypothesis is rejected, and the alternative hypothesis is accepted.

10.4. Hypothesis Two

Disclosure and adjustment of events after the reporting period have no significant impact on the investment decisions of manufacturing companies in Nigeria.

Regression analysis of the impact of disclosure and adjustment of events after the reporting period on investment decisions.

Table-4.5.

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1392.750	1	1392.750	180.529	.000[b]
Residual	678.906	88	7.715		
Total	2071.656	89			
Model	***R***	***R Square***	***Adjusted R Square***	***Std. Error of the Estimate***	***Durbin-Watson***
	.820[a]	.672	.669	2.77756	1.625

a. Dependent Variable: Decision
b. Predictors: (Constant), Adjustment

The above table reveals the impact of disclosure and adjustment of events after the reporting period on the investment decisions of manufacturing companies in Nigeria. The adjusted R-squared of 0.669 suggests that the disclosure and adjustment of events 67% of the variation in investment decisions after the reporting period. On the other hand, the Durbin-Watson test statistics of 1.625 is within the acceptable range of 2.0, indicating the model is a good fit. The F-statistic (180.529) has a p-value of 0.0001, less than the 0.05 alpha level of statistical significance. Based on the above data from the F-statistic, we can conclude that disclosure and adjustment of events after the reporting period significantly impact the investment decisions of manufacturing companies in Nigeria. Therefore, the null hypothesis of no significant impact is rejected.

11. Discussion of Findings

The results of research question one, as shown in table 4.2, show that manufacturing enterprises comply with IAS 10 on disclosure, as well as adjusting and non-adjusting events following the reporting period, to a substantial degree. In contrast, as shown in Table 4.3, study question two reveals that the amount of compliance with disclosure and adjustment influences manufacturing enterprises' investment decisions in Nigeria.

Hypotheses one and two, respectively, corroborated the previous findings. The first hypothesis examined the impact of event disclosure and adjustment beyond the reporting period on manufacturing company investment choices. Table 4.4 shows a correlation coefficient (r = 0.820), a p-value of 0.0001, and an alpha (α) of less than 0.05. This indicates a strong, positive, and substantial relationship between post-reporting period disclosure and adjustment events and manufacturing company investment choices in Nigeria. Hypothesis two also examined the influence of event disclosure and modification beyond the reporting period on manufacturing company investment choices. The p-value of 0.000, which is less than the 0.05 alpha, indicates that disclosure and adjustment of events beyond the reporting period substantially influence the investment choices of manufacturing enterprises in Nigeria, as shown in table 4.5. Finally, the corrected R-squared of 0.669 indicates that the disclosure and adjustment of events that occurred after the reporting period account for 67% of the variation in investment decisions.

The findings of Assad and Alshurideh (2020); Ferracuti and Stubben (2019); Lin *et al.* (2016); and Roychowdhury *et al.* (2019) all agree that the quality of a firm's financial reporting influences investment decisions. Assad and Alshurideh (2020), discovered a robust and favourable correlation between financial detailing quality, review quality, and speculation effectiveness when they examined financial detailing quality, review quality, and venture proficiency. As a result, a high quality financial report and disclosures promote investment by assisting managers and investors with resource allocation, reducing agency conflict, increasing investment efficiency, and resolving doubts regarding corporate investment prospects.

12. Conclusion

The purpose of this study was to ascertain the impact of disclosure and adjustments of events that occurred after the reporting period (IAS 10) on investment choices made by Nigerian manufacturing companies. According to the research's findings, manufacturing companies in Nigeria generally disclose and adjust for events that occur after the reporting period in accordance with IAS 10. When manufacturing companies report and adjust events after the reporting period is another factor that significantly influences investment decisions in Nigeria.

Recommendation

Based on the results and findings of the research, the following recommendations are provided.

1. Listed companies should be required to post their annual reports online so that potential investors can verify that they comply with all applicable laws.

Regulatory authorities should impose the appropriate sanctions for non-compliance with disclosure standards. The severity of these penalties should be sufficient to deter the omission and/or misrepresentation of important information.

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