

The Effects of Changes in Accounting Standards on Loan Loss Provisions (LLP) as Earnings Management Device: Evidence from Malaysia and Nigeria Banks (Part I)

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Abstract : In view of dearth of studies on changes in accounting standards and banks' earnings management particularly in the context of emerging economies, and the recent Malaysia and Nigeria change from their respective local GAAP to IFRS, this study deemed it overwhelming to investigate the effects of the switch on banks' earnings management focusing on LLP as the manipulative device. This study employed judgmental sampling to select twenty eight banks- eight Malaysia and twenty Nigeria banks as sample covering period 2008-2013. To provide an empirical research setting in pursuant of the objective of this study, the study period is further partitioned into pre (2008, 2009, 2010) and post (2011, 2012, 2013) IFRS adoption periods. This study consistent with previous studies models a LLP regression model to investigate specific discretionary accruals of banks. Findings suggest that Malaysia and Nigeria banks individually use LLP to manage reported earnings more prior to IFRS implementation. Comparative overall results evidenced that the pre IFRS adoption or domestic GAAP era for both Malaysia and Nigeria sample banks is associated with higher prevalent earnings management through LLP than the corresponding post IFRS adoption era in diverse magnitude but in favour of Malaysia banks for both periods. With results demonstrating that IFRS adoption is linked to lower earnings management via LLP, this study therefore recommends the global adoption of IFRS as reporting framework. This study also endorses that Nigeria banks embrace and borrow a leaf from Malaysia banks good corporate governance practices.

Keywords : accounting standards, IFRS, FRS, SAS, LLP, earnings management

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