# Corporate Governance and Accounting Conservatism in Nigerian Foods and Beverages Firms

**Oyedokun G. Emmanuel[1] and Saad Salisu[2]**
[1,2]Department of Accounting Faculty of Administration, Nasarawa State University, Keffi, Nigeria
godwinoye@yahoo.com, salisu.saad@firs.gov.ng, saliu.saad@yahoo.com

**ABSTRACT**
This study examined the effects of corporate governance on accounting conservatism in Nigerian foods and beverages sector. The study adopted ex-post facto research design using panel data for the period 2012- 2016. The study population is 15 foods and beverages firms in the Nigerian Stock Exchange and 8 firms were selected as a sample after a filtering process. Secondary data were collected from financial statements and regression analysis was used to analyze the hypotheses. The study found that board independence has significant positive effects; board size has significant negative effects while audit committee independence has a positive but not significant effect on accounting conservatism of Nigerian foods and beverages sector. The study concludes that board independence and board size are factors that influence accounting conservatism while audit committee independence does not influence accounting conservatism of Nigerian foods and beverages sector. The study recommended that food and beverages firms in Nigeria should compose more of non-executive directors on their board as this can generate the needed assurance for better financial reporting as indicated by the result of the study. Also, firms should have a small board size so as to enhance conservatism reporting while firms should provide higher non-executive directors on their audit committee so as to improve the reporting quality of their reports.

**Keywords:** Board Size, Board Independence, Conservatism, Corporate Governance, Food and Beverages.

## Introduction

The wave of accounting scandals within the last few years that resulted in the sudden collapse of high profile companies such as Enron and WorldCom in the United States of America, HIH, One-Tel and Harris Scarfe in Australia and some companies in Nigeria like AIB Plc and AP Oil have led regulators, investors, academics and the general public to focus on improving corporate governance and accounting quality. Anecdotal evidence suggests that weak corporate governance and earnings manipulation were the main drivers of these collapses. For example, Lavelle (2002) opines that, to a large extent Enron's Collapse was caused by the audit committee's lack of independence, which resulted from poor governance, and the Horwath (2003) corporate Governance report stated that a common attribute of recent Australian failed companies is that all had poor corporate governance. Likewise, Dandago *et al*. (2010) also alleges that the collapse of Enron, World Com, Tyco International were caused by poor corporate governance.

The concept of conservatism in accounting practices has remained a predominant characteristic of the accounting field for several centuries. Conservative accounting has been practiced by firms for centuries and it is an important attribute of earnings. It has also been used to measure earnings quality by prior studies (Roslinda, 2009). Initially, conservative accounting was generally viewed as an accounting bias that resulted in low book values. However, recent studies distinguish between accounting bias resulting from timelier reporting of economic losses relative to gains (conditional conservatism) and accounting bias associated with a predetermined understatement of book values (unconditional conservatism) and argue that these two factors are not equally important from the contracting perspective. Empirical studies have since focused on establishing a link between corporate governance and accounting conservatism. If firms adopt more Conservative Accounting procedures, the result will be a reduction in the number of profits being

reported in financial statements, and hence the perception of inferior accounting performance (i.e. a downward bias in tests of any governance – performance relationship). Moreover, if market participants fail to recognize a link between conservative accounting and corporate governance characteristics then the result is likely to be that firms with better governance are undervalued. Hence, studying whether corporate governance increases the supply of conservatism is potentially interesting and important to regulators, investors and academics. Therefore, the extent of any link between conservative accounting and corporate governance is of considerable interest.

Despite the existence of code of best practices, acts of mismanagement and decisions inimical to the interests of the stakeholders and survival of the corporate body are continuously perpetrated by management of various organisations and companies most often used window dressing and creative accounting in their financial reports rather than conservative accounting (Aruwa and Atabs, 2011). Mulford and Comiskey (2002) identified creative accounting practices to include: recognizing premature or fictitious revenue, aggressive capitalization and extended amortization policies, misreported assets and liabilities, getting creative with income statement and problems with cash flow reporting. Therefore, window dressing and creative accounting can be said to be the use of accounting knowledge to influence the reported figures, while remaining within the jurisdiction of accounting rules and laws, so that instead of showing the actual performance or position of the company, they reflect what the management wants to tell the stakeholders. Therefore, these practices of window dressing and/or creative accounting contravenes the concept of accounting conservatism which is to 'anticipate no profits but anticipate all losses' and which can lead to poor performances.

The directors and management staff who are entrusted with the running of the affairs of businesses see the accounting standards as a set of rules to be circumvented, as it happened in the case of Cadbury Nig. Plc and Akintola Williams Deloitte and Touché whereby the board applied creative accounting techniques through the use of stock buybacks, cost deferrals and false suppliers stock certificates to window-dressed their financial reports and to go unrevealed by their External Auditors (Akintola Williams Deloitte and Touché) which led to almost collapse of the company (SEC, 2008). As such, there is, therefore, the need to assess the relevance of corporate governance on conservative accounting so as to ensure that, all financial statements produce shows the true positions of the affairs of the reporting enterprises. Thus, empirical evidence has shown a direct association between corporate governance mechanism and the implementation of conservative accounting policies (Beekes, Pope & Young, 2004; Ahmed & Duellman, 2007; Garcia, Garcia & Penalva, 2007; LaFond & Roychowdhury, 2008; Leventis, Dimitropoulos &Owusu-Ansah, 2013; Artiach & Clarkson, 2013; Callen, Guyan & Qui, 2014; Futing, 2015; Caskey & Laux, 2017; Abbas & Mohammadreza, 2015; Maali & Anis, 2015; Ahmed & Henry, 2012). In spite of the importance of these two issues and their significant advantages as well as robust international literature, there is a paucity of literature in Nigeria: these include that of Sanda, Mikailu and Garba (2004). This study filled the gap in academic research by ascertaining the impact of corporate governance on accounting conservatism by to assessing the relationship between Corporate Governance (CG) and Conservative Accounting of selected quoted food and beverages companies in Nigeria.

**Literature Review**

Conservatism is interpreted as representing the accountant's tendency to require a higher degree of verification to recognize good news as gains than to recognize bad news as losses (Basu, 1997). This interpretation reflects the asymmetrical verification requirements for gains vs. losses and also describes conservatism from the point of gains and losses. While the definition as provided by Givoly and Hayn (2000) defined accounting conservatism as a selection criterion between accounting principles that leads to the minimization of cumulative reported earnings and net assets by lower revenue recognition and lower asset valuation. While Watts (2003a) defined conservatism as the differential verifiability required for recognition of profits versus losses. Basu (1997) therefore, interpreted conservatism as having higher verification requirements for losses than gains. This interpretation, however, does not make a clear distinction between conservatism

associated with the recognition of anticipated losses but not gains (ex-ante sense) and conservatism associated with the asymmetric timely recognition of actual losses and gains (ex-post sense). Some studies make this distinction and some studies, such as Pope and Walker (2003), categorize these two functions as ex-ante conservatism and ex-post conservatism, respectively. In this thesis, they are referred to as conditional and unconditional conservatism, respectively. Examples of conditional conservatism include the recognition of contingent losses but not gains and impairment of assets. Examples of unconditional conservatism include the use of FIFO rather than LIFO for computing the cost of inventories and a depreciation method that, gives a higher depreciation expense.

Another way, García et al. (2007) define conservatism as a prudent reaction towards uncertainty that requires a higher level of verification and guarantees when recognizing profits than when declaring losses. While accounting conservatism is defined by Ruch and Taylor (2015) as "the tendency towards using policies and methods to understate the value of net assets in relation to their net economic value". Therefore, accounting conservatism implies the exercise of caution in the recognition and measurement of income and assets. The definition by Givoly and Hayn (2000) is based on the combination of the balance sheet and loss and gain. In this sight, conservatism is seen to be an accounting concept which results in decreasing reported retained earnings through subsequent identifying of earnings and more quickly identifying costs, undervaluation of assets and upper valuation of debts. Relative to the above alternative definitions, this definition is more descriptive and properly recognizes the overall effects of accounting conservatism. In this research work, therefore, this definition is adopted and is used subsequently to calculate conservatism criteria. Conservative accounting practices are also reflected in accounting standards. It is interesting, however, to observe that, standard setters are moving away from the notion of conservative accounting and towards the notion of neutrality, the framework for the preparation and presentation of financial statements (IASB 2006), which is reflected in the increased adoption of Fair Value Accounting. Neutrality implies a symmetric recognition of economic losses and gains and is therefore not consistent with the notion of conservative accounting (Lai & Taylor 2008). Watts (2003a, 2006), however, cautions against the use of unverifiable fair-value accounting, as it provides more opportunities for managers to exercise their discretion. Conservatism is an important attribute of earnings and is closely linked to corporate governance. Both are important in reducing agency costs associated with contracting. Conservative accounting reduces potential earnings manipulation by managers who typically manipulate earnings in an upward direction by choosing aggressive accounting, the flip side of conservatism (Beasley, Carcello, Hermanson & Lapides, 2000) indeed, corporate governance complements conservatism, in that it ensures conservative accounting is adopted in financial reporting. Due to that, this study intends to assess the relationship between corporate governance and conservative accounting.

Corporate governance is defined by Ford, Austin, and Ramsay (1999) as being about the management of business enterprises organized in corporate form and the mechanisms by which managers are supervised and in Larcker, Richardson, and Tuna, (2007), as "the set of mechanisms that influence the decisions made by managers when there is a separation of ownership and control". A common theme in these definitions is that they focus on the actions of managers. A broader definition is that corporate governance is defined as a set of mechanisms that ensure a firm's assets are managed in an efficient way (Shleifer and Vishny, 1997). These mechanisms are a set of structures, processes, cultures and systems through which objectives are set, and the means of attaining the objectives and monitoring performance are determined and companies are directed and controlled.

**The Link between Corporate Governance and Accounting Conservatism**

A firm is a nexus of contracts and hence the link between corporate governance and conservative accounting stems from the important role of each in facilitating efficient contracting. These contracts exist to mitigate agency problems associated with the separation of ownership and control within the firm. One of the most important contracts is the contract between shareholders

and managers of the firm. Since managers may act on maximizing their own wealth rather than shareholders' wealth, accounting conservatism mechanisms are put in place to mitigate these problems (Watts and Zimmerman, 1986). The board of directors plays a central role in corporate governance. Thus, an effective board is likely to demand that; managers adopt conservative accounting practices to prevent overcompensation and to reduce the probability and magnitude of corporate collapses; since managers tend to be optimistic. Therefore, board independence is an important element of board effectiveness. Since boards need to be independent of the managers in order to monitor them effectively. Hence, boards will be motivated to demand a conservative accounting to reduce litigation risks.

**Empirical Review**

Empirically, there exists evidence on the relationship between corporate governance and accounting conservatism. The percentage of outside or independent directors on the board has been commonly used by prior research to measure board independence. Previous studies consistently show that the percentage of independent directors is positively associated with the effectiveness of monitoring managers in preparing financial reports. For example, Beekes *et al*. (2004) and Ahmed and Duellman (2007), found firms with a relatively high proportion of outsiders on the board, to be more conservative. Garcia et al. (2007) a using aggregate index as a proxy for strong boards found a positive relationship between outside directors and accounting conservatism. They reported that strong boards of directors incorporate bad news significantly faster into earnings than weak boards. That is, accounting conservatism is utilized by independent directors to assist them in monitoring management.

On the contrary, Donglin and Song (2009) investigated the determinants of accounting conservatism using accrual-based measure and data from 2001 to 2006 in China. They found that a higher degree of leverage, low level of control of ultimate shareholders, and a low level of management ownership lead to conservative reporting. They provide evidence in support of their argument that management incentives to comply with standards significantly influence the level of conservative accounting reporting. Their findings revealed that board independence does not have any significant effect on conservative accounting. Also, the finding of the studies conducted by Nasr and Ntim (2017) indicates a significant positive relationship between board independence and accounting conservatism. Furthermore, firms with a high level of independent directors are less likely to commit a fraud in the presentation of financial statements, to restate earnings and manage earnings (Agrawal & Williamson, 2006) and also experience a higher CEO turnover. The empirical evidence on the link between the size of the board and conservative accounting is mixed. For example, Yermack (1996), Ball & Shivakumar (2005) Joo (2009) and Nasr and Ntim (2017) indicates that board size is negatively associated with accounting conservatism. While, Chi, Liu and Wang (2009) carried out their study on Taiwan listed firms and found out that board size and CEO duality have negative and positive significant relation with conservatism. On the other hand, an Australian study by Kiel and Nicholson (2003) and that of Ahmed and Duellman (2007) finds board size to be positively associated with conservative accounting. While the Rahimah (2011) provides evidence which shows board size is positively associated with conservative accounting. The mixed result could be due to the fact that, small boards are normally easier to coordinate and have fewer problems. However, larger boards are likely to have more experienced directors whilst allowing directors to be more focus on their task at hand (Ahmed & Duellman 2007). The ideal size of the board is likely to depend on the complexity and nature of the firm. While Mohammed (2011) using an 826 firm-year observation comprising large listed firms in Malaysia reported that board size, audit quality and management ownership results in a lower level of conservatism. He provides evidence that board size is not related to accounting conservatism in Malaysian firms.

Audit committees need to be independent of the managers to be effective at performing their duties. Prior research shows that an independent audit committee is important in preventing opportunistic earnings management (Klein 2002), accounting errors and fraud. The percentage of non-executive directors on the audit committee has been commonly used by prior research to

measure audit committee independence. Klein (2002) and Ahmed and Henry (2012) established audit committee independence to be positively associated with conservatism. With regard to the firm's size, Lim (2011) noted that firm size is sensitive and positively associated with accounting conservatism. This is because the larger firms tend to be more conservative about their reporting than smaller firms are, due to public scrutiny.

**Theoretical Framework**

There are several theories which attempted to clarify the demand for accounting conservatism. These theories examine different sources of the demand for accounting conservatism and explain the rise of conservatism in financial statements. The earliest clarification is the contracting theory (Basu, 1997; Watts, 2003b). Other theories have been suggested more recently, for example, the increase in shareholder litigation, conservatism in the tax system and that of regulation. The contracting theory is associated with the demand for accounting conservatism in contracts which have been used to reduce agency problems associated with the separation of ownership and control within a firm (Watts & Zimmerman 1986). Conservative accounting is required for contracting between shareholders and managers. Since the performance of managers is measured by accounting numbers and since managers' tenure is limited and they normally have more information than shareholders, they have incentives to artificially inflate short-term earnings by choosing aggressive accounting, thereby boosting their performance in the eyes of the shareholders. It is for this reason that shareholders, through their board, demand that the firm adopts conservative accounting to offset managerial optimism (Roslinda, 2009).

**Methodology**

The purpose of this study is to examine the effects of corporate governance on conservative accounting reporting. The *ex-post facto* research design was employed for the study. The population of this study consists of all publically quoted firms in Foods and Beverages sector in Nigeria. As at 31st December 2016 there were fifteen (15) listed firms in the Foods and Beverages sector within the consumer goods. For any firm in this sector to qualify as a sample of the study, a filter was used among with are; first, it must have been in operation for the last five (5) years after being listed in the Nigerian Stock Exchange as at 31st December 2016. Second, it must have been quoted without being delisted between 2012 and 2016 years (being the study period). The second criterion is included to enable the researcher to have access to the annual accounts and reports of the sampled firms from 2012 to 2016. Only seven (7) firms such as satisfy our criteria and the study (Appendix 1). The data for this study are purely secondary data derived from the annual reports and accounts from the sample firms.

In analyzing the data, this study follows previous studies (Ahmed & Duellman, 2007; Garcia et al., 2009) in using multiple regression model in order to test the strength of the relationship between corporate governance and conservative accounting. Aggregating the dependent, independent and control variables, the model is as follows;

$$COSER_i t = \alpha_0 + \beta_1 BOID_{it} + \beta_2 BS_{it} + \beta_3 AC_{it} + \beta_4 FS_{it} + \beta_5 FL_{it} + E_{it}$$

where, CONSER= Conservatism Accounting, BOID= Board Independence, BS= Board Size, AC= Audit Committee Independent, FS= Firm Size, FL= Firm Leverage, $E_{it}$= Error term for the model

**Variables and Measurements**

**Dependent Variable:** this is represented by the accounting conservatism. In accounting literature, the most frequent proxies for accounting conservatism are Basu's (1997) model and the accrual-based measure of Givoly and Hayn's (2000) model. The reliability of the Basu's model has been called into doubt by the recent works of Dietrich, Muller and Riedl (2007), Patatoukas and Thomas (2011) and Cano-Rodriguez and Nunez-Nickel (2015). However, this study is adopting the Givoly and Hayn model (the accrual model); is an accounting-based measure in all of its

aspects and thus facilitates calculations based on published financial statements (Nasr & Ntim, 2017). Thus, the equation is as follows:

$$CONSER_{it} = (IBEXT_{it} + DEP_{it} - CFO_{it})X - 1$$

where, CONSER = Accounting conservatism in firm i and year t, IBEXT = Net income before extraordinary items, DEP= Depreciation expense and CFO= Cash flow from operating activities.

If the result from the equation above is positive, this means that more accounting conservatism was reported; and if negative, companies tend to be less conservative about their reporting (Nasr and Ntim, 2017).

**Independent and Control Variables:** independent variables are the board size, board independence and audit committee independence while firm size and firm leverage are the control variables (See table 1).

**Table 1: Measurements of dependent and independent variables**

| Variable | Abbreviations | Variable Measurement |
|---|---|---|
| ***Dependent variable:*** | | |
| Accounting Conservatism | CONSER *it* | Measured based on an accrual-based measure of conservatism following Givoly and Hayn (2000). $CONSER_{it}$ = ($IBEXT_{it}$ + $DEP_{it}$- $CFO_{it}$) X –1 = (net income before extraordinary item plus depreciation expense less cash flows from operations averaged, over 3 years by total assets and centred around year *t*) X -1. |
| ***Independent variables:*** | | |
| Board Size | BS | Measured as total number of directors on the board. |
| Board Independence | BOID | Measured as a proportion of non-executive directors to the total number of directors on the board |
| Audit Committee Independence | AC | Measured as % of non-executive directors on the audit committee |
| ***Control variables:*** | | |
| Firm size | FS | Measured as natural logarithm of total assets at year end |
| Firm leverage | FL | Measured as the ratio of Total debt / Total assets |

***Source*****:** *Authors' Compilation (2018)*

## Results

**Table 2:** Descriptive statistics result

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| **CONSER** | 35 | 7.666 | 5.226329 | .16 | 20.56 |
| **BOID** | 35 | .7025714 | .1225067 | .43 | .9 |
| **BSIZE** | 35 | 7.8037997 | .0874061 | 5 | 10 |
| **AC** | 35 | .7567773 | .0477047 | .60206 | .7781513 |
| **FS** | 35 | .8387396 | .731276 | .6844454 | .9224455 |
| **FL** | 35 | 1.959066 | .5089332 | 1.58509 | 3.254723 |

***Source:*** *Computed using Stata 13.0 from Annual Reports and Accounts of the sampled Firms 2012-2016*

The results in Table 2 above show that the mean value of accounting conservatism is 7.666. The positive values of Min and Max indicate that firms tend to be more conservative in their financial reporting. For independent variables, the descriptive statistics for BOID show that the average percentage of non-executive directors on the board is 70%. BS shows that the minimum number is three (3) and the maximum number is ten (10). Moreover, the average percentage of non-executive directors on the audit committee is 76%. The standard deviation (SD) indicated 5.226329 for conservatism while 0.1225067, 0.874061 and 0.0477047 represent the SD for board independence, board size and audit committee independence. While the firm size and firm

leverage are represented by 0.0731276 and 0.5089332 respectively. Note that, the total numbers of observations are thirty-five (35).

**Table 3: Correlation matrix**

| | CONSER | BOID | BS | AC | FS | FL | VIF |
|---|---|---|---|---|---|---|---|
| **CONSER** | 1 | | | | | | |
| **BOID** | -0.3706 | 1 | | | | | 1.08 |
| **BS** | -0.4495 | 0.1157 | 1 | | | | 1.08 |
| **AC** | 0.0559 | 0.2113 | 0.0314 | 1 | | | 1.06 |
| **FS** | 0.5142 | 0.0838 | -0.2267 | -0.0683 | 1 | | 2.69 |
| **FL** | -0.5660 | -0.0868 | 0.1852 | 0.0708 | -0.7881 | 1 | 2.65 |

***Source:*** *Computed using Stata 13.0 (2018)*

Table 3 above reports the correlation coefficients on the relationship between the dependent, independent and the control variables. The results show that there is evidence of a negative correlation between BOID and BS with CONSERV (r=-0.3706, -0.4495) while AC has a positive correlation with CONSERV (r=0.0559). For control variables, FS is positively correlated with CONSERV at a significant level of 5% (r=0.5142) and this indicates that larger firms tend to be more conservative in their reporting than lower firms are, while FL is negatively correlated with CONSERV at a significant level of 5% (r=-0.5660). Variance Inflation Factor (VIF) is a commonly used technique in determining the presence of multicollinearity is. The rule is that VIF of more than 10 indicates the presences of multicollinearity (Kurawa & Kabara, 2014). The result from Table 2 above shows that the VIF of all the variables is less than 10 ranging from 1.06 to 2.69 which indicates the absence of any serious multicollinearity. Hence, the predictive ability of the independent variables is not adversely affected by their relationship. Normality test was conducted and Skewness/Kurtosis tests and Kernel density estimate were used for this purpose. The results of the tests in appendix 3 suggest that the data is normal as an error term of prob>chi2 is 0.0556 which higher than 0.05 significant level. Also, the Kernel density estimate with a U-shape shows that the data is normal. Test for heteroskedasticity using Breusch-pagan/Cook-Weisberg was conducted. P-value of less than 5% indicates the presence of heteroskedasticity while a p-value of greater than 5% indicates otherwise. The test conducted in appendix 3 signifies absent of heteroskedasticity with prob>chi2 of 0.2878 which is greater than the 5% significant level of the study. Hence the data of the study is robust.

**Table 4: Regression result**

| CONSER | Coefficients | | Std. Errors | t | P>V |
|---|---|---|---|---|---|
| **BOID** | 18.33769 | | 5.012251 | 3.66 | 0.001 |
| **BS** | -17.34906 | | 7.009643 | -2.48 | 0.019 |
| **AC** | 21.64469 | | 12.73032 | 1.70 | 0.100 |
| **FS** | 10.15386 | | 13.26159 | 0.77 | 0.450 |
| **FL** | -4.637306 | | 1.888435 | -2.46 | 0.020 |
| **Constant** | 20.07077 | | 18.57607 | 1.08 | 0.289 |
| **R-square** | 0.6294 | | | | |
| **Adj. R-square** | 0.5655 | | | | |
| **F value** | 9.85 | | | | |
| **Prob>F** | 0.0000 | | | | |

***Source:*** *Computed using Stata 13.0 (2018)*

Table 4 contains the OLS regression result of corporate governance attributes on accounting conservatism in the Nigerian foods and beverages sector. The result The OLS results indicates that R-squared is 0.6294, indicating that the 63% of variations in the dependent variables (CONSER)

are caused by independent variables while the remaining 37% is explained by other variables not included in the model. The model of fitness is appropriate with F-value of 9.85 and P-value of 0.0000 at 5% level of significance. The overall model shows that the attributes of corporate governance under this study predicted the conservative accounting reports of the Food and beverages firms in Nigeria.

**Discussions**

Table 3 above indicates a significant positive relationship between BOID and CONSERV, thus *H1* is rejected. This finding is consistent with those of Beekes et al., Ahmed and Duellman (2007), Ahemd and Henry (2012) and Nasr and Ntim (2017). But its inconsistent with the studies by Dongling and Song (2009) which indicates that BOID does not have a significant effect on conservatism while Lim (2011) found a weak association between the variables. This inconsistency may be due to disclosure requirement and proxy for measuring board independence. BS and CONSERV to have a significant negative relationship, thus *H2* is rejected. This finding is consistent with those of Chi et al. (2009), Joo (2009) and Nasr and Ntim (2017) while the findings from Kiel and Nicholson (2003), Ahmed and Duellman (2007) and Rahimah (2011) disagree with this finding. This disagreement may arise due to different sample years and measures of conservatism. The relationship between AC and CONSERV is positive but not significant, thus *H3* will be accepted. This finding is consistent with those of Klein (2002) and Ahmed and Henry (2012).

**Conclusion and Recommendations**

This research work examined the effects of corporate governance and accounting conservatism. Based on the findings of this study the following conclusions are drawn:

a) There is a significant and positive relationship between BOID and CONSERV in the Nigerian food and beverages sector. Hence BOID influences CONSERV positively and this means that boards with higher non-executive directors tend to demand more accounting conservatism in their reporting.
b) BS and CONSERV have a significant negative relationship and therefore BS influences CONSERV negatively i.e. the larger the board size, the lower the incidence of accounting conservatism and vice versa. Hence, the fact that small boards are normally easier to coordinate and have fewer problems and enhance conservatism reporting.
c) The relationship between AC and CONSERV is positive but not significant and this indicates that AC does not influence CONSERV.

Based on the findings and conclusion it was recommended that food and beverages firms should compose more of non-executive directors on their board as this can generate the needed assurance for better financial reporting as indicated by the result of the study. Also, firms should have a small board size so as to enhance conservatism reporting. Firms should provide higher non-executive directors on their audit committee so as to improve the reporting quality of their reports.

**References**

Abbas, G. Z., & Mohammadreza, S. (2015). The effect of corporate governance, supervision and management attributes on accounting conservatism. *Journal of Management and Accounting Studies, 3* (4), 211-222.

Agrawal, A., & Williamson, A. (2006). Did new regulations target the relevant corporate governance attributes? *Working Paper*, Georgetown University.

Ahmed, A. S., & Duellman, S. (2007). Accounting conservatism and board of director characteristics: An empirical analysis. *Journal of Accounting and Economics, 43* (2-3), 411-437.

Ahmed, K., & Henry, D. (2012). Accounting conservatism and voluntary corporate governance mechanisms by Australian firms. *Accounting & Finance, 52* (3), 631–662.

Artiach, T. C., & Clarkson, P. M. (2013). Conservatism, disclosure and the cost of equity capital. *Australian Journal of Management, 0* (0), 1-22

Aruwa, S. A. S., & Atabs, T. S. (2011). The effect of creative accounting practices on reported profit and liquidity of quoted commercial banks in Nigeria. *Journal of Governmental and Financial Accounting Research*, *1* (1).

Ball, R., & Shivakumar, L. (2005). Earnings quality in UK private firms: Comparative loss recognition timeliness. *Journal of Accounting and Economics, 39* (1): 83-128.

Basu, S. (1997). The conservatism principle and the asymmetric timeliness of earnings. *Journal of Accounting and Economics, 24* (1), 3-37.

Beasley, M. S., Carcello, J. V., Hermanson, D. R., & Lapides, P. D. (2000). Fraudulent financial reporting: Consideration of industry traits and corporate governance mechanisms. *Accounting Horizon 14* (4), 441-454.

Beekes, W., Pope, P., & Young, S. (2004). The link between earnings timeliness, earnings conservatism and board composition: Evidence from the UK. *Corporate Governance: An international review, 12* (1), 47-59.

Callen, J., Guan, Y. & Qiu, J. (2014). The market for corporate control and accounting conservatism. *Social Science Research Network*.

Cano-Rodríguez, M., & Núñez-Nickel, M. (2015). Aggregation bias in estimates of conditional conservatism: theory and evidence. *Journal of Business Finance & Accounting, 42* (1-2), 51-78.

Caskey, J., & Laux, V. (2017). Corporate governance, accounting conservatism and manipulation. *Journal* of *Management Science,* 63 (2), 424-437.

Chi, W., Liu, C., & Wang, T. (2009). What affects accounting conservatism: A corporate governance perspective? *Journal of Contemporary Accounting and Economics, 5* (1), 47-59.

Dandago, K. I., Akintoye, I. R., Obisesan, D. O. O., Enigbokan, F., Adegun, E. A., Popoola, T., Offiah, E. & Ogunjubom, F. I. (2010). *Financial Reporting and Ethics*. Lagos, Nigeria: V.I. Publishing limited.

Dietrich, D., Muller, K., & Riedl, E. (2007). Asymmetric timeliness tests of accounting conservatism. *Review of Accounting Studies, 12* (1), 95-124.

Donglin, X., & Song, Z. (2009). Corporate governance and accounting conservatism in China. *China Journal of Accounting Research, 2* (2), 81-108.

Ford, H. A. J., Austin, R. P., & Ramsay, I. M. (1999). *Ford's principles of corporation's law. (9th ed.).* Butterworths, Sydney.

Futing, T. (2015). Empirical research of accounting conservatism and over-investment in listed firms of China. *International Journal of Economics, Commerce and Management, 3* (5), 145-159.

Garcia, L. J. M., Garcia, O. & Penalva, F. (2007). Board of directors' characteristics and conditional accounting conservatism: Spanish evidence. *European Accounting Review, 16* (4), 727-755

Givoly, D., & Hayn, C. (2000). The changing time-series properties of earnings, cash flows and accruals: Has financial reporting become more conservative? *Journal of Accounting and Economics, 29* (3), 287-320.

Horwath, NSW. (2003). *Corporate governance report*. Sydney Australia: Horwath (NSW) Pty Limited.

International Accounting Standards Board (2006). Preliminary views on an improved conceptual framework for financial reporting: The objective of financial reporting and qualitative characteristics of decision-useful financial reporting information. *International Accounting Standards Board.*

Joo, A. H. (2009). Association between board characteristics and accounting conservatism: Empirical evidence from Malaysia. *Dissertation.* Auckland University of Technology, Malaysia.

Kiel, G. C., & Nicholson, G. J. (2003). Board composition and corporate performance: how the Australian experience informs contrasting theories of corporate governance. *Corporate Governance, 11* (3), 189-205.

Klein, A., (2002). The audit committee, the board of director characteristics, and earnings management. *Journal of Accounting and Economics, 33* (3), 375-400.

Kurawa, J. M., & Kabara, A. S. (2014). Impact of corporate governance on voluntary disclosure by firms in the downstream sector of the Nigerian petroleum industry. *World Business Research Conference*. Dubai, UAE.

LaFond, R., & Roychowdhury, S. (2008). Managerial ownership and accounting conservatism. *Journal of Accounting Research, 46*, 101-135.

Lai, C., & Taylor, S. L. (2008). Estimating and validating a firm-year-specific measure of conservatism: Australian evidence. *Working Paper*, University of New South Wales.

Larcker, D., Richardson, S., Tuna, I., (2007). How important is corporate governance? *Working Paper*. University of Pennsylvania - The Wharton School.

Lavelle, L. (2002). Enron: How corporate governance rules failed. *Business Week (Asian ed.),* 21, 38-39.

Leventis, S., Dimitropoulos, P., & Owusu-Ansah, S. (2013). Corporate governance and accounting conservatism: Evidence from the banking industry. *Corporate Governance: An International Review, 21* (3), 264-286.

Lim, R. (2011). Are corporate governance attributes associated with accounting conservatism? *Accounting & Finance, 51* (4), 1007-1030.

Maali, K., & Anis, J. (2015). Accounting conservatism and earning timeliness: Impact on corporate governance index. *International Journal of Advanced Research, 3* (7), 132-142.

Mohammed, N. F. (2011). Accounting conservatism, corporate governance and political influence. *Msc Accounting Thesis.* La Trobe University, Australia.

Mulford, W. C., & Comiskey, M. E. (2002). *The financial numbers game: Detecting creative accounting practices*. New York: John Wiley and Sons.

Nasr, M. A., & Ntim, C. G. (2017). Corporate governance mechanisms and accounting conservatism: evidence from Egypt. Corporate Governance: *The International Journal of Business in Society, 18* (3), *386-407.*

Patatoukas, P. N., & Thomas, J. K. (2011). More evidence of bias in differential timeliness estimates of conditional conservatism. *The Accounting Review, 86* (5), 1765–1793.

Poorzamani, Z., & Anhari, N. (2013). The relationship between conditional and unconditional conservatism with Altman's bankruptcy model index. *Life Science Journal, 10* (7).

Pope, P. F., & Walker, M., (2003). Ex-ante and ex-post accounting conservatism, asset recognition and asymmetric earnings timeliness. *Working Paper*. Lancaster University, England.

Rahimah, M. Y. (2011).The effect of ownership concentration, board of directors, audit committee and ethnicity on conservative accounting: Malaysian evidence. *PhD Thesis*, Edith Cowan University, Australia.

Roslinda, D. (2009). The effect of corporate governance and accounting conservatism. *A PhD dissertation*. University of New South Wales.

Ruch, G. W., & Taylor, G. (2015). Accounting conservatism: A review of the literature. *Journal of Accounting Literature, 34,* 17-38.

Sanda, A. U., Mikailu, A. S., & Garba, T. (2004). Director shareholding, board size and firm performance of firms in Nigerian Stock Exchange. *Nigerian Journal of Accounting Research, 1* (1), 22-34.

Security and Exchange Commission (2008). *SEC's findings and decision on Cadbury's misstatements in published accounts*. S.E.C., Nigeria.

Shleifer, A., & Vishny, R. (1997). A survey of corporate governance. *Journal of Finance, 52* (2), 737-787.

Watts, R. L. (2003a). Conservatism in accounting part I: Explanations and implications. *Accounting Horizons, 17* (3), 207–221.

Watts, R. L. (2003b). Conservatism in accounting part II: Evidence and research opportunities. *Accounting Horizons, 17* (4), 287–301.

Watts, R. L. (2006). What has the invisible hand achieved? *Accounting and Business Research, 36* (1), 51-61.

Watts, R. L., & Zimmerman, J. L. (1986). *Positive accounting theory*. Prentice-Hall, Englewood Cliffs, N. J.

Yermack, D. (1995). Higher market valuation of companies with a small board of directors. *Journal of Financial Economics, 40,* 185-211.

# Appendix

**List of Sampled Firms**

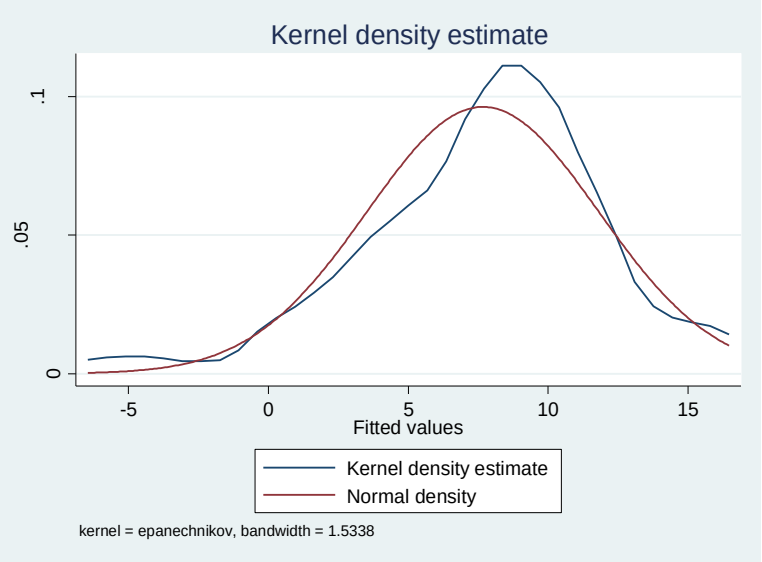
| S/N | NAME |
|---|---|
| 1 | CADBURY NIGERIA PLC |
| 2 | FLOUR MILLS OF NIG PLC |
| 3 | NATIONAL SALT COMPANY OF NIG. PLC |
| 4 | NESTLE NIGERIA PLC |
| 5 | NORTHERN NIGERIA FLOUR MILLS PLC |
| 6 | SEVEN-UP BOTTLING CO. PLC |
| 7 | UTC NIGERIA PLC |

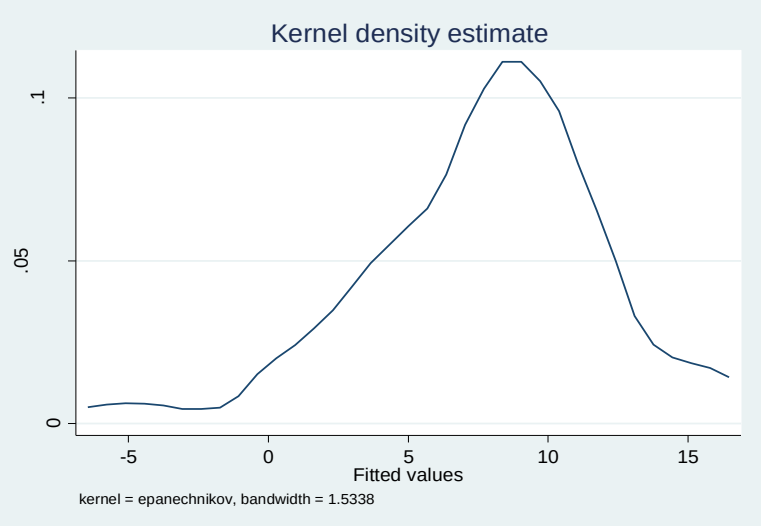
**Result of the Tests**

```
  ___  ____  ____  ____  ____ (R)
 /__    /   ____/   /   ____/
___/   /   /___/   /   /___/   13.0   Copyright 1985-2013 StataCorp LP
  Statistics/Data Analysis            StataCorp
                                      4905 Lakeway Drive
                                      College Station, Texas 77845 USA
                                      800-STATA-PC        http://www.stata.com
                                      979-696-4600        stata@stata.com
                                      979-696-4601 (fax)

3-user Stata network perpetual license:
       Serial number:  501306208483
         Licensed to:  Adamu
                       Private

Notes:
      1.  You are running Small Stata.

. *(8 variables, 35 observations pasted into data editor)

. summarize conser boid logbs logac logfs fl

    Variable |       Obs        Mean    Std. Dev.       Min        Max
-------------+--------------------------------------------------------
      conser |        35       7.666    5.226329        .16      20.56
        boid |        35    .7025714    .1225067        .43         .9
       logbs |        35   7.8037997   .0874061         5          10
       logac |        35    .7567773    .0477047     .60206    .7781513
       logfs |        35    .8387396    .0731276    .6844454   .9224455
-------------+--------------------------------------------------------
          fl |        35    1.959066    .5089332     1.58509   3.254723

. correlate
(obs=35)

             |     year     firm   conser     boid    logbs    logac    logfs       fl
-------------+------------------------------------------------------------------------
        year |   1.0000
        firm |   0.0000   1.0000
      conser |   0.1688   0.2703   1.0000
        boid |  -0.2660  -0.1621  -0.3706   1.0000
       logbs |   0.0260   0.0674  -0.4495   0.1157   1.0000
       logac |  -0.1930   0.1418   0.0559   0.2113   0.0314   1.0000
       logfs |   0.0259   0.0717   0.5142   0.0838  -0.2267  -0.0683   1.0000
          fl |  -0.0029  -0.3957  -0.5660  -0.0868   0.1852   0.0708  -0.7881   1.0000

. regress conser boid logbs logac logfs fl

      Source |       SS       df       MS              Number of obs =      35
-------------+------------------------------           F(  5,    29) =    9.85
       Model |  584.518455     5  116.903691            Prob > F      =  0.0000
    Residual |  344.175125    29  11.8681078            R-squared     =  0.6294
```

```
-------------+------------------------------           Adj R-squared =  0.5655
       Total |  928.693581    34  27.3145171           Root MSE      =   3.445

------------------------------------------------------------------------------
      conser |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
       boid |   18.33769   5.012251     3.66   0.001     -28.5889    8.086487
      logbs |  -17.34906   7.009643    -2.48   0.019    -31.68539   -3.012731
      logac |   21.64469   12.73032     1.70   0.100    -4.39175    47.68112
      logfs |   10.15386   13.26159     0.77   0.450    -16.96912    37.27685
         fl |  -4.637306   1.888435    -2.46   0.020    -8.49959   -.7750221
      _cons |   20.07077   18.57607     1.08   0.289    -17.92156    58.06309
------------------------------------------------------------------------------
```

```
. predict e
(option xb assumed; fitted values)

. sktest e

                    Skewness/Kurtosis tests for Normality
                                              ------- joint ------
    Variable |   Obs   Pr(Skewness)   Pr(Kurtosis)  adj chi2(2)    Prob>chi2
-------------+-------------------------------------------------------------
           e |    35      0.0598         0.1072         5.78         0.0556

. kdensity e, normal
(n() set to 35)
```






. vif

| Variable | VIF | 1/VIF |
|---|---|---|
| logfs | 2.69 | 0.371150 |
| fl | 2.65 | 0.377900 |
| boid | 1.08 | 0.925800 |
| logbs | 1.08 | 0.929880 |
| logac | 1.06 | 0.946459 |
| Mean VIF | 1.71 | |

. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of conser

chi2(1) = 1.13
Prob > chi2 = 0.2878