# Discretionary Accruals And Going Concern Of Manufacturing Companies

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**Abstract :** The desire of every business is to operate beyond the foreseeable future period and maximize contributions and shareholders' wealth in the face of economic uncertainties. These challenges are surmounted through the recognition and recording of all economic transactions in the books of account to boost stakeholder's confidence. The study was set to examine the extent to which accruals discretionarily created by management will affect the going concern status of manufacturing firms. The expo-facto research design was adopted and data were gathered using the retrieval method. Panel regression model was employed combining the properties of time series and cross-sectional data. The study, from the empirical findings establishes that discretionary accruals exerted positive and negative significant effects on both liquidity positions and profitability levels of the studied companies, and thus affect the going concern status of manufacturing companies.

**Index Terms**: Discretionary accruals, going concern, liquidity position, profitability level, Change in inventories, Change in accounts receivable, stakeholders' confidence, manufacturing firms.

## 1. INTRODUCTION

The relevance of accounting is primarily centred on the value of financial information made available to stakeholders which is also dependent on the magnitude of the relationshipexisting between them. Every economic transaction is recorded and disclosed so as to provide the basis for evaluating management performance entrusted with resources. In business transactions, economic activities are recorded using accrual-basis accounting to provide a realistic view of financial transactionsand to reveal an accurate picture of the state of financial position at the end of the year for the purpose of enhancing investment decisions. Accrual basis demands that costs and revenue be recognized in the period as they are incurred and earned; and not as money is paid or received, matched with one another and dealt with in the statement of profit or loss and other comprehensive income of the period to which they relate. Allen, Larson & Sloan [1] point out that accruals allow economic effects of present transactions and events to be acknowledged in the present period notwithstanding whenaccompanying benefits are received.Managerial discretion is the basis of smooth incomes [2]. When issuing a report, managers are not often confined to truthful reporting rather manipulate the reports for the purpose of increasing stakeholders confidence in current and future performances, in the face of negative economic conditions.Several researches have been carried out to examine accounting disclosure in many contexts and the results have proven that managers reserve bad news or emphasize good news [3], [4]. Eme & Ejabu [5] buttressed that discretionary accruals constitute accounting techniques employ to communicate performance information and firm market value, not based on the chains of activities involved


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Scholars with learning of discretion accruals are of the view that discretionary accruals result in smooth earnings with a drastic revaluation of stock price and the firm's future performance, [1]. Most manufacturing firms use discretion accruals as a mechanism to boost accounting earnings so as to meet up with high competitors' powers. With accrual incomemore superior to real cash flow, firms will experience constant negative trend and in the long run, could affect financial viability to meet their obligations as they fall due. Accounting information and going concern share a complex connection because the application of accounting rules to specific economic circumstancesregularlypermits substantial scope for managers to exercise their own judgment. Accruals do not constitute the assumption thatthe company will operate beyond foreseeable future time; it is a double-edged sword. It makes provision for informational benefits by enhancing the assimilation of reserved information into company accounting reports. On the other hand, it increases the potentials for opportunistic accounting behaviour by managers that can reduce company reality in financial information disclosure. However, accruals result in deteriorating liquidity position of a company, increased gearing level, exposure to high financial risk, substantial economic losses through trading for several years andthe inability of the company to develop a new range of products that can compete in the global market. While there are empirical studies on discretion accruals in advance economies, there have been only a few studies in developing economies such as Nigeria. Given the rise in business failure and inability of companies to improve shareholder value in recent times, the study, therefore,examines the effect of discretionary accruals on the going concern status of quoted manufacturing companies in Nigeria. Specifically, the study investigates the effect of discretionary accruals on returns on capital employed by manufacturing firms in Nigeria, and examines whether discretionary accruals affect the liquidityposition of manufacturing firms in Nigeria.

## 2 THEORETICAL FRAMEWORK

Many theories have been reviewed to underpin the connection between discretionary accruals and the going concern position of firms. The resource dependence theory by Pfeffer [6] examines how external influence affects the behaviour of an organization. In other words, when organizations are faced with insufficient resources to satisfy and impress the providers of capital through their entitlements, such organization will seek to establish a relationship that dictates the behaviour of the organization. According to the theorists, managers fairly depend on shareholders because significant managerial reward is often tied to achievement of specific performance targets and investors have a great deal of discretion over where they invest their capital. In other words, managers can build an impression of control by not only taking credit for success but also accepting blame for negative outcomes. The theory has relevance in the study in that when organizations are faced with the problem of resource materials, managers would intentionally inflate accounting earnings so as to impress shareholders by either increasing sales value, reduce sales expenses and deliberate refusal to write off inventory in the statement of profit or loss so as to increase its value within the reported period. The informational theory propounded by Claude E. Shannon in 1948 assumes that accounting disclosuresprovide reasonable information that possesses value to stakeholders on the use of economic resources under the control of management. Breton &Traffler [7] posit that it may be hard for the individual stakeholder to detect the fact and the effect of accounting manipulation, because of inadequate personal skills to engage in detailed analysis. Conflict erupts when information irregularity exists between privileged management and a more remote body of shareholders. The theory underpins the study of discretion accruals in that, users of financial statements rely on bottom-line financial information to shape their decision pattern on investing in a firm having no going concern challenges such as negative trend, financials, business structure and loss of the source of raw materials.

### 2.1 Discretionary Accruals and Firm's Performance

Every serious business manager is interested in ensuring that the prospect of the business is intact. Accruals accounting concept requires the use of professional judgment in the preparation of financial statements by ensuring that revenue and expenditure are matched with the related accounting periods. Young [8] posits that management roll-on accrual accounting's deficiency to manipulate financial information because of reversal complication in the reported financial statements. In this, managementcould influence the period involved inthe acknowledgment of economic transactions in their favor. For instance, liabilities could be deferred by underestimating the existence of a useful commitment [9]. These eliminate red flags on the liquidity position and further strengthen investor's reliability on the firm's book value. Accruals symbolize the variance between company accounting incomes and their original cash flow [10]. Higher accruals are an indication that accounting incomes are positive which negatively affectsthe firm's cash flow and reflects higher sales volume in the past. The essence is that management discretion over stock valuation and estimation naturally affectsthe firm's working capital and its stock prices when high obsolete inventories are involved. However, legitimate inventory adjustment and sudden changes in the stock valuation method could trigger investors selling off their shares after peer review on other companies having the same method of valuation. Burgstahler & Dichev [11] examined the effect of earnings decrease and increase in selected firms. They suggested that, firms with insignificant losses relatively have lower changes in their working capital than firms with small positive earnings. Firms consider discretion accruals as a measure used to predict future earnings and convey financial expectations to investors and analysts. Ming-feng [12] posited that institutional investors, especially foreign ones with high capital investment in the economy, rely on accounting earnings not real earnings for decision making and could also value firm with large positive accruals as the best. These influence managers to manipulate earnings through understating liabilities and reduce transaction cost so as to sustainthe increase in accounting earnings and avoid itsreduction. Managers because of their responsibilities are more knowledgeable on a firm's value than outsiders and could use accrual items to increase accounting earnings. Earnings manipulation is deceitful within the short-run because, during the pessimistic market period, long-term investors would react negatively and could affect the firm's stock price due to a reduction in cash flow as discretion accruals report increases. Accruals are vehicles used by firms to increase accounting earnings. For example, firms may extend better credit terms to customers and record premature sales (increase customer receivables). Firms engage in this so as to sustain patronage from customers, but the result would be negative when customers delay payment for merchandise which could constitute additional expenses to recover the sales revenue. Qiang, Qao & Rong [13] observed that build-up of inventories is affected by difficulties in generating sales revenue for production. Hence, managers deliberately refuse writing off of inventory on the profit and loss account rather they reduce inventory by allocating overhead to its figures. The technique is seen as means of increasing the value of inventory, reduce expenses and increase accounting earnings. In the same vein, Dechew, Kothari & Ross [14] maintain that when firms' payables increase, it ferment signal in cash flow from sales revenue which suggests difficulties with paying suppliers and reduce accruals. Companiessometimes store earnings that constitute positive accruals in good period so as to provide relieve in a bad period. These firms forcefully write off obsolete inventory and bad debt in a period when the bottom line earnings figure provides enough protection to absorb such write-offs [2]. The essence is to reduce accounting earnings of that period so as to upset the negative period earnings report with automatic leverage overtax.

### 2.2 Discretionary Accruals and Going Concern

The going concern concept has received much attention in recent accounting works of literature since the Cadbury Committee's corporate governance regulations on Going-concern and Financial Reporting – Guidance for Directors in 1994.The purpose of the going-concern concept of accounting is centeredon the integrity and capacity ofcompanies to operate beyond probable futureperiodwith neither the plan nor the necessity of insolvency, terminatingdealing or seeking fortification from creditors pursuant to laws or regulations. This means in effect that it is assumed that there is no intention or necessity to fold up the business or reduce remarkably the size of the business operations within the next accounting year [15].The principle of going concern permits the company to defer some of its prepaid expenses until future accounting periods.Cadbury Committee report recommended that a going concern be adopted as a basis for the preparation of account if directors have a sound prospect that the organization has sufficient assets to stay in operational survival for the probable time in the future [16]. However, when management notices resources inefficiency in anticipation of principal and agent conflict, it could resort tomaking decisions that might either meet with or establish corporate objective and maximization of value. In this case, they could use their professional judgment and power's over entity resources management to attainprivate objectives against the general notion of value creation and shareholders wealth maximization. Kang & Kim [17] noted that accounting income manipulation is the easiest way of making effective decision discretionary. One of such discretionary judgments to influence reported income is implanted in the accrual-based accounting. Ali, Salleh & Hassan [18] in their study discovered adverse correlation between foreign ownership and discretionary accruals in Malaysia, which is capable of reducing the probability of going concern problems. Similarly, Kim [19] observes the relationship between foreign ownership and earnings management practice; therefore the greater the foreign ownership, the complex it limits earnings management, hence decreasing the chance of going concern problems. In their study Mutchler, Hopwood & Mckeown [20] suggested that supplying negative information, specifically in the period of a severe financial downturn, might result in corporate miscarriage. This invariably charges corporate entities to be more cautious in the application of accrual accounting and the timing effect information disclosure might have on their going concern. Thus managers holding stock in a failed company might create doubt about going concern uncertainties such as negative trend, loss of major raw material and legal battle. In this light, they could influence heavily to avoid negative trend and agency problems that might short-lived probable future operations having considered their private entitlement and welfare accruing from the corporate existence.

### 2.4 Empirical Review

Prior studies on discretion accruals on accounting earnings present evidence for various situations. Chan et al [10] studied the behaviors of individual accrual items on earnings using parsimonious model, they concluded that discretion accruals are significant sign of earnings quality that is useful for equity assessment and prediction of future return. Cornett, Mcnutt &Tehrania [21] used a simultaneous equation approach to examine whether corporate governance mechanisms affect earnings in the United States. Their findings indicate that managers make use of discretion accruals for opportunistic earnings management. In their studies, Alissa, Bonsall, Koharki & Penn [22] examine accounting discretion and credit rating in the United States of America. The study revealed that, firms having below expected income rating uses discretion accruals to move toward expected rating. Managers also, overestimate accruals persistently when faced with greater difficulty in forecasting earnings. Dechew, Kothari &Ross [14] modeled the relation between earnings, cash flow, and working capital accruals. The result showed that components of accruals make accounting income a better predictor of future performance than current cash flow. Dichev & Tand [23] observed the relationship between earnings volatility and earnings predictability, using autoregressive regression. Their result indicated that changes in earnings information permit one to recognize large and estimated errors in analyst estimates. This means that the analyst does not totally apprehend the effect of earnings changes on prospective earnings. Cook, Huston & Kinney [24] investigated the effect of cost structure and valuation methods among manufacturing firms in the USA. The study found out that companies with high fixed cost ratio are more probable to influence inventory but make minor abnormal inventory changes than companies with low fixed cost ratio. Similarly, Thomas & Zhang [25] provided evidence that great changes in inventory are adversely related to future returns and suggest that earnings management using the production lever is a possible explanation for this result. Eme and Ejabu [5] used panel and cross-sectional regression model to investigate the effect of discretion accruals on stock prices of Quoted manufacturing firms in Nigeria. The study found the existence of a unique long-run relationship between discretion accruals and stock prices. It was further revealed that managers of companies manipulate earning by exploiting the inefficiency of the stock market and information asymmetry between investors and insiders (directors). In their study, Shehu & Abubakar [26] used univariate ordinary least square regression techniques to examine the relationship between corporate governance and corporate financial performance, when performance is exposed to the discretionary properties of accruals. The result showed that board composition is negatively associated with real performance while an optimistic relationship exists between executive reward and firm performance irrespective of the performance measurement.

Several empirical studies were also reviewed on inventory management and account receivable on performance so as to juxtapose their relationship with discretionary accrual and going concern concept of accounting. The result of the studies produced difference views. In his study Koumanakos [27] used cross-sectional linear regression to examine the effect of inventory management on firm performance of Greece firms.The result reveals that the greater the inventories conserved by a firm, the lesser its rate of return. Shardeo [28] employed correlation technique to investigate inventory management on the financial performance of steel firms in India. The result showed that companies utilize their assets efficiently but its inventory turnover ratio was lesser due to its poor inventory management system. Mbula, Memba & Njeru [29] used the survey method to examine the effects of accounts receivable on the financial performance of firms funded by government venture capital in Kenya. The researchers did both descriptive and inferential analyses to provide a comprehensive result.The results showed the existence ofa significantcorrelation between accounts receivable and financial performance of firms funded by government venture capital in Kenya. Similarly, Okpe & Duru [30] used a regression model to examine the effect of receivable management on the profitability of building companies in Nigeria. It was found out that accounts receivable positively and significantly affect the profitability ratio of the companies. In the work of Zureigat, Fadzil & Ismail [31] a sample of 113 non-financial sector firms of Jordan were investigated for the year 2011. The essence of the study was to establish the relationship between foreign ownership and going concern evaluation. The study made use of Altman's Z ratio of 1968 in the investigation, adverse relationship was found between foreign ownership and going concern. Also, Kameliya [32] used multiple ordinary least square regression technique to investigate the impact of a going-concern audit opinion on corporate governance. The study found a weak relationship between going-concern opinion and management ownership, it cannot be ascertained that a going-concern opinion per se is a significant factor for the reduction of management share of the capital. Similarly, Sunusi & Mudzamir [33] used Pearson correlation and generalized least square regression techniques toexaminethe effects of foreign ownership on the going-concern of Nigerian quoted banks. The results established that there is a substantial positive correlation between foreign ownership and going concern of listed Banks in Nigeria.

## 3 METHODOLOGY

This study made use of the expo-facto research design as it considered data setsthat exist in the study companies' financial statements. The data sample consistedof ten (10) manufacturing companies quoted on the floor of the Nigerian Stock Exchange, covering 2013 to 2017. The choice of these companies was informed by their reporting pattern in accordance with various accounting rules and guidelines, particularly the International Financial ReportingStandards. The selected companies disclosed in their respective annual reports, data required for the computation of the dependent and independent variables. The studied companies are labelled coy A – J in the regression results. The data were mainly secondary in nature obtained through on-line retrieval technique. Panel regression model was used for the analyses so asto avoid coefficient stability assumption, combine the properties of time series and cross-sectional data since 10 companies from different industries at a particular time were investigated. The dependent variable used in the study is going concern (GC),using returns on capital employed (ROCE) and acid test ratio (ATR) as the proxies. The ROCE is measured as net operating profit over total asset less current liabilities [NOP/TA-CL]. TheATR was used to determine the companies'liquidity position and the ability to meet their obligations without necessarily affecting inventory. It is measured as the current asset minus inventory divided by current liabilities,[CA-INV/CL].When computed ratios show insignificant value to the acceptable benchmark, then there is going concern problem in the affected company. Independent variables used here is discretionary accrual,we adopted Sloan (1996) accrual model to determine the value of aggregate accrual on the going concern of the companies. The variables consist of a change in account receivable, change in inventory and total accrual is given as ACC = (ΔCA – ΔC) – (ΔCL – ΔSTD – ΔTP) –Dep. ΔCA is change in the current asset, ΔC change in cash, ΔCL change in current liabilities, ΔTP change in income taxes payable, ΔSTD equals a change in short term debt included in current liabilities and Dep is depreciation amortization expenses, all obtained from the companies' financial statements. Other independent variables arethe change in inventories (ΔINV) in the company's financial statements of which sudden abnormal and normal adjustment could reduce profit and threaten future sales. Receivable used in the model represent change in accounts receivable (ΔREC).

The model is expanded to provide for account receivables and inventories.

GC = ROCE& ATR

GC= f [REC, TACC, INV]

$ROCE = a_o + a_1REC_i + a_2TACC_i + a_3INV_i + e_i$ ...... (1)

$ATR = a_o + a_1REC_i + a_2TACC_i + a_3INV_i + e_i$............ (2)

Where:

GC= Going concern

TACC= Accruals

INV= Change in inventories

REC= Change in accounts receivable.

ROCE= Return on capital employed

ATR = Acid test ratio

t = year t

$e_i$ = error term

$a_1$-$a_4$ = regression parameter or coefficient

$a_0$ = regression constant

## 4 RESULTS AND DISCUSSION OF FINDINGS

***TABLE 1***

*CROSS-SECTIONAL RESULT SHOWING THE EFFECT OFACCRUALS ON THE GOING CONCERN (ROCE) OF MANUFACTURING FIRMS.*

| COEFFICIENTS OF SELECTED COMPANIES | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Variables | A | B | C | D | E | F | G | H | I | J |
| REC | 3.2 | -.04 | -8.1 | 4.5 | -4.3 | -8.1 | 6.6 | 3.3 | 3.4 | -1.3 |
| | (1.0) | (2.7) | (-4.5) | (.05) | (-.3) | (-1.2) | (.14) | (.9) | (.3) | (-3.4) |
| ACC | -1.1 | -1.6 | -1.7 | -3.5 | -5.5 | -4.2 | - 3.2 | -8.9 | -5.4 | 3.2 |
| | (-1.7) | (-1.4) | (-2.7) | (-.5) | (.1) | (-.8) | (-.3) | (-.5) | (-.4) | (2.31) |
| INV | 2.7 | -.8 | 6.4 | 1.1 | -4.3 | -2.5 | -3.7 | 3.8 | 4.9 | -6.7 |
| | (2.5) | (-2.7) | (4.5) | (.2) | (-1.5) | (-2.3) | (.1) | (.5) | (.2) | (-1.3) |
| $R^2$ | 0.9 | 0.9 | 0.9 | 0.3 | 0.7 | 0.9 | 0 .2 | 0.9 | 0.3 | 0.9 |
| SER | .1 | .03 | . 05 | .10 | 2.3 | .8 | .02 | 4.7 | 7.9 | 9.7 |
| DW-Stat | 2.3 | 1.9 | 2.8 | 1.5 | 0.2 | 2.4 | 2.0 | 1.20 | 1.25 | 1.27 |

Note: The values in brackets show the respective variable coefficients and their respective T-statistic.
Source: Authors' compilations from panel regression.

Table 1 presents the cross-sectional results of individual firms in respect of change in receivable (ΔREC), accrual (ACC) and change in inventory (ΔINV) on return on capital employed (ROCE) of the studied companies. The result indicates that five (5) companies viz, B, C, E, F, and J were faced with the challenge of inventory management which was accompanied by possible damage, spoilage and loss, poor forecasting and financial burden. The result further revealed that five (5) other companies A, D, G, H and I had positive inventory management on ROCE within the period. This means that the companies maximized good returns from the capital invested and minimized cost for the purpose of satisfying customers' demands. The result is in agreement with that of Boute, Lambrecht, Lambrechts &

Sterckx [34] that companies with optimal inventory ratios have more prospects to be bad financial performers in the market. Cash and cash equivalent of these companies were also observed to be in stable growth though insignificant to therisk of changes in value while operating expenses were fluctuating accordingly. The result is in disagreement with that of Gill, Biger & Mathur [35] who found a negative relationship between average days of accounts receivable and firm's profitability. In considering the effect of the individual firm's total accrual on return on capital employed, it was observed that all the firms except Company I exerted negative effect. The results suggest that the affected companies influence their report through intentional recognition of certain transactions in the books of account with the motive of creating an impression that performance was rooted in economic substance. However, it could pose danger and threat to going concern in the long run, most especially when there is a need to meet outstanding commitmentwhich could possibly improve growth prospect. Furthermore, changes in inventories of each company were examined so as to measure the number of times stockswere replaced during the period,it was found out that five companies,that is, B, E, F, G, and J had deficiency in inventory management and this resulted in negative returns on capital employed within the relevant period. More so, the study found out thatthe other five companies, that is, A, C, D, H and I showed positive returns on capital employed fortheir respective companies. This result is in agreement with the work of Shardo [28] whose study found out that companies utilize their assets efficiently but their inventory turnover ratio was lower due to poor inventory management practices.

***TABLE 2***

*REGRESSION RESULTS ON THE EFFECT OF DISCRETIONARY ACCRUALS ON GOING-CONCERN STATUS (ROCE) OF MANUFACTURING COMPANIES IN NIGERIA.*

| Variables | Coefficient | Std Error | t-Stat. | Prob. |
|---|---|---|---|---|
| C | .414 | .187 | 2.217 | 0.032 |
| REC | 2.656 | .000 | .787 | 0.436 |
| ACC | -4.201 | .000 | -.289 | 0.774 |
| INV | -5.066 | .000 | -1.229 | 0.225 |
| $R^2$ | = | 0.034 | | |
| $R^2$Adj | = | 0.029 | | |
| F-stat | = | 2.804 | | |
| SER | = | 47.42 | | |
| DW | = | 1.276 | | |

Source: Authors' compilation from regression results.

The coefficients of the independentvariables, as shown intable 2, highlight the exact relationship amongst the variables. The regression result showed that a unit change in accounts receivable will result in a change in the going concern issues of the companies studied by 2.656, which indicates a more than proportionate reaction on the going concern status of the companies.The finding is in consonance with the result of Cook et al [24] that firms with high fixed cost ratios are more likely to manipulate inventories to improve accounting earnings, but disagrees with the findings of Alissa et al [22] that companies with minimal expected income rating use discretionary accruals to move toward expected ratings. The results also indicate negative relationships between accruals and inventories and the going concern status of the companies, to the extent that a unit change in accruals will reduce going concern prospect of the companies by 4.201; and a unit change in inventories will reduce the going concern prospect of the studied companies by 5.066. These results agree with the assertion of Chan et al [10] that higher accrual is an indication that accounting earnings are positive in a period where sales volume is high which negatively affects future cash flow. The model results in table 2 show R square and Adjusted R square values, which constituteimportant indicators for interpreting the model coefficient of variation. As revealed in the result, the R Square is 0.34 and the Adjusted R square is 0.29. This means that the predictors explain 34% variation in going concern the studied companies. The regression value is weak but statistically significant, leaving 66%changeability in the firms'going concern to other factors not considered in the model.Equally, the adjusted R square captures up to 29% of the line of best fit of the model relating accruals with going concern. The p-values of individual variables show positive figures higher than 0.05 for the 95% confidence level.This implies that there is a positive but insignificant relationship between discretionary accruals and the going concern status of the studied companies. The DW statistic indicates a positive auto-correlation amongst the variables meaning that the relationship between the dependent and independent variables is strong and significant in the studyThe F-statistics of the estimated coefficient of discretionary accruals was observed to be 2.804 and the statistical table value is 2.704 at 0.05 percent confidence interval. Given that the computed figure of 2.804 is higher than the table value of 2.704 with the degree of freedom n – 5 (50-5) =45 at 0.05 percent level of significance. The null hypothesis is rejected and the alternative accepted. Therefore, the study concluded that there exists a significant relationship between discretionary accruals and returns on capital employed in the studied manufacturing firms in Nigeria.

***TABLE 3***

*CROSS-SECTIONAL RESULT SHOWING THE EFFECT OF DISCRETIONARY ACCRUALS ON GOING CONCERN STATUS (ATR) OF MANUFACTURING FIRMS IN NIGERIA.*

| | Coefficients of selected companies | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Variables | A | B | C | D | E | F | G | H | I | J |
| REC | -1.4 | -1.1 | -6.6 | 5.1 | -1.3 | 2.3 | 1.9 | 4.5 | 1.1 | 5.9 |
| | (-.7) | (-.6) | (-3.2) | (2.4) | (-.5) | (.6) | (.3) | (.8) | (8.4) | (1.7) |
| INV | 4.3 | -4.3 | 2.8 | -9.9 | -4.5 | -4.6 | - 8.2 | 1.4 | -2.5 | -9.3 |
| | (.7) | (-.3) | (1.6) | (-2.1) | (-.1) | (1.8) | (-.1) | (1.3) | (-.9) | (-.2) |
| ACC | -1.0 | 5.1 | 4.5 | 9.9 | -1.6 | 8.1 | -6.6 | -4.1 | -1.6 | -3.1 |
| | (.6) | (.8) | (2.5) | (2.3) | (-1.3) | (.3) | (-.4) | (-.0) | (-10.2) | (-2.3) |
| $R^2$ | 0.7 | 0.9 | 0.9 | 0.9 | 0.6 | 0.4 | 0.3 | 0.9 | 0.9 | 0.8 |
| SER | 8.8 | 3.5 | 6.5 | 90.2 | 39.6 | 09.9 | 876.7 | .4 | .1 | 89.1 |
| DW-Stat | 2.3 | 2.8 | 1.9 | 1.5 | 2.3 | 2.42 | 2.04 | 2.99 | 2.99 | 1.28 |

Note: The values in brackets show the respective variable coefficients and their respective T-statistics.
Source: Authors' compilation from panel regression.

Table 3 presents the cross-sectional results of the effect of individual firm's change in receivable (ΔREC), accrual (ACC) and change in inventory (ΔINV) on the liquidityposition of the studied companies. The results indicate that four (4) companies viz, A, B, C, and Ehad negative accounts receivable while six companies, D, F, G, H, I and J were affected positively. TradeCredit arises when a company sell product to customers without immediate cash payments, which constitutesa marketing strategy to maintain existing customers and attract potential ones. The practical implication of these transactions is the accumulation of bad-debts which may negatively affect the firm's value and threatens the going concern prospects especially when poor credit policy is involved. The findings contradict that of Sharma & Kumar [36] who found a constructive relation between ROA and accounts receivable. The result further revealed that seven (7) companies B, D, E, F, G, I and J change in inventory had a negative effect on liquidity while three companies viz A, C and H showed a positive effect on liquidity. Companies studied in this research were leading manufacturing companies in Nigeria, and their inventory size was large. Even at that, most of them were exposed to under-investment in inventories due to management challenges and competitors' threat in the business environments. This is indicated in their respective R square except for company F and G whose co-movement in the variable descriptions were below fifty percent. The result disagrees with that of Huson & Nanda [37] who established that the expansion of inventory turnover in a sample of 55 firms led to a rise in earnings per share of the companies. However, six companies' viz A, E, G, H, I and J results indicated a negative total accrual coefficient to liquidity while four companies, B, C, D, and F showed a positive coefficient to liquidity. This implies that there is no accrual reversal among the majority of the studied companies and as such are threatened by going concern problems as a result of illiquidity.

***Table 4***

*Regression results on the effect of discretionary accrual on going- concern status (ATR) of manufacturing companies in Nigeria.*

| Variables | Coefficient | Std Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | .638 | .069 | 9.237 | 0.000 |
| REC | 1.80 | 1.826 | .787 | 0.436 |
| ACC | 2.631 | .003 | -.289 | 0.774 |
| INV | -1.180 | .046 | -1.229 | 0.225 |
| $R^2$ | = | 0.034 | | |
| $R^2$Adj | = | 0.029 | | |
| F-stat | = | 2.510 | | |
| SER | = | 47.42 | | |
| DW | = | 1.276 | | |

Source: Authors' compilation from regression result.

The regression coefficients of the liquidity of the studied companies were evaluated using acid test ratio as a measure of the firm's going concern. The result showed an increase in total accruals and changes in account receivable by 2.631 and 1.80 respectively; which imply that each unit change in accruals and inventories will result in a change in going concern issues of the studied companies by 2.631 and 1.80 respectively. In this case, current asset management is crucial and requires large attention in a situation where the costs of raising capital are high. The results agree with the result of Zang [38] that accruals-based management and real activities management are substitutes and their flexibility will beat earning benchmark. Inventory as the most liquid asset compared to other assets used in this study portray a negative significant effect on going concern status of the studied companies. This implies that the companies' going concern status is affected by the unit of these decreases which invariably results in reduction in cash flow from operating activity. This reduction in operating cash flow will grossly affect companies' investment decisions. Since it has been proved that the performance of a company is principally dependent upon the manner in which current asset ismanaged, if a company is therefore inefficient in its current assets management, such as poor inventory turn-over rate, it will not only decrease viability but could also result in financial crisis as going concern signals. The result agrees with the findings of Thomas and Zhang [25] that great changes in inventory are adversely related with future returns and suggest that earnings management using the production lever is a possible explanation for inventory changes.The P-values of all the independent variables showed a positive figure higher than 0.05 for the 95% confidence level in table 4. Meaning that there is a positive and strong relationship between the discretionary accruals and going concernin the companies studied but the relationship is not significant in the model. As revealed in the result, theconstant of changes in R Square is 0.034 and the Adjusted R square is 0.029. This means that changes in accounts receivable, total accrual and changes in inventory explain only 3.4% variation in acid test ratio as proxy of going concern. The forecasted figureis statistically significant; allowinga whopping 96.6% changes in companies going concern to other factors not considered in the model.The line of best fit in the model captures just 2.9% of the total variation in going concern caused by discretionary accrualsand a whopping 97.1% was not captured. The Durbin-Watson statistic indicates a positive auto-correlation between the variables, meaning that the relationship between the dependent and independent variables is strong and significant to the study. The F-statistic of the estimated coefficient of discretionary accruals was observed to be 2.510 and the statistical table value is 2.704 at 0.05 percent confidence interval. Given that the computed figure of 2.510 is less than the table value of 2.704 with the degree of freedom n – 5 (50-5) =45 at 0.05 percent level of significance,the null hypothesis is therefore accepted and the alternative rejected. The result of the study found no significant relationship between discretionary accruals and acid test ratio as a measure of liquidity of the studied manufacturing firms.

## 5 CONCLUSION

As a critical accounting concept used in the preparation of financial statements, any entity that disregards the going concern assumption in the normal course of business may be exposed to liquidation. This is why investors are provided with material facts relating to the economic transactions despite the uncertainties in accounting standards.Complete accounting information is revealed through accrual accounting method as both cash and credit transactions are recorded in the books of account. The accrual method allowseconomic effects of present transactions and affairs to be recognized in the present period rather than when related benefits are realizedand dealt with in the statement of profit and other comprehensive income of the period to which they relate. Given the flexibility contents of accounting standards,managers can intervene in the financial reporting process in a manner that canchange the income so as to impress providers of capital that they have the ability to manage resources.Management having reasonable freedom to extend judgment in the preparation of accounting reports leads to the creation of discretionary accruals. This study found out that total accruals and changes in accounts receivable are critical components of the firm's activities that improve company prospectsand can also be used by management to ascertain the returnson capital employed investors. Discretionary accruals were found to exert a negative but significant effect on both liquidity and profitability of the companies studied, thereby creating an avenue for going concern problems in the future. The study, therefore, concludes that discretionary accruals significantly affect the going concern status of companies practicing it, howbeit negatively.

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