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Firm Attributes and Financial Reporting Quality of Listed Multinational Firms in Nigeria

Gbenga Ayodele Falana[1,*], Olusola Esther Igbekoyi[2], Oluyinka Isaiah Oluwagbade[1]

[1]Department of Accounting, Afe Babalola University, Nigeria
[2]Department of Accounting, Adekunle Ajasin University, Nigeria

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Abstract In recent times, poor financial reporting quality has led to accounting scandals, resulting in a loss of financing and investor confidence. Therefore, this study investigated how company attributes affected the standard of financial reporting from multinational corporations in Nigeria. This study employed a causal-comparative research design. The study's population included 46 multinational corporations located in Nigeria. To determine the study's sample size, the whole population was chosen using the exhaustive survey technique. This study's timeframe covered thirteen years, from 2011 to 2023. The data were acquired from the sampled firms' annual reports and examined using descriptive statistics and feasible generalised least squares regression analysis. The study's findings observed that firm size and innovation capacity have a relevant and beneficial effect on financial reporting quality. Conversely, firm leverage has significant adverse effects on financial reporting quality. The study concludes that some firm-specific attributes are crucial for improving the quality of financial reports. The study recommends that firms with huge assets should prioritise strategies for quality financial reporting, invest in sophisticated systems, maintain manageable leverage, and balance firm size, leverage, and innovation investment with strong financial control. The study contributes by showing a negative relationship between innovation capability and accrual ratio. While accrual ratio and innovation capability have been underdeveloped areas in literature, the study implies innovative firms focus on long-term strategies over short-term goals. While the study covers 2011 to 2023, this may not cover the long-term evolution of firms' behaviour.

Keywords Accrual Ratio, Faithful Representation, Firm Leverage, Firm Size, Innovation Capacity

JEL CODE M41; O31

1. Introduction

Over time, numerous instances of poor financial reporting quality have led to accounting malpractices that resulted in reduced confidence among investors and financial losses [1]. A study conducted by Audit Analytics indicates a 289% increase in financial reporting restatements [2]. In addition to this, Deloitte's 2022 report revealed that 51.6% of U.S. firms carried out restatements, highlighting the complexity of revenue recognition due to new accounting standards [3]. Accordingly, most of these restatements were filed by financial, healthcare, pharmaceuticals, and computer and software firms, with 32% of these restatements having a negative impact on net income [4].

While these issues are not limited to the US, an ESMA's 2023 study revealed that 25% of EU financial statements contained material misstatements due to inadequate revenue recognition and errors in accounting [5]. In Asia, a 2023 report by IFRS stated that 20% of Asian countries were not fully compliant with financial reporting

regulations [6]. Conversely, "Quiñónez [7] asserted that most companies face challenges in maintaining high-quality financial reporting across several Latin American countries. In the past two decades, these issues have been prevalent and significant, resulting in huge financial losses, destroying firms, and causing significant harm to individuals [8].

Also, the World Bank reports that 40% of African countries struggled with financial reporting transparency, with only 30% fully adopting IFRS, leading to inconsistencies in financial reporting quality [9]. PwC's 2020 survey revealed that 60% of South African private companies had material misstatements in their financial reports due to inadequate accounting practices, fraud, and non-adherence to IFRS standards [10]. Conversely, Otuya and Emiaso [11] stated that window-dressing and manipulation practices in financial reporting have resulted in financial statement restatement in Nigeria, requiring companies to correct and reissue their financial statements. In this regard, all these issues, to a great extent, entail poor financial reporting quality.

On the one hand, common causes of these issues include inadequate accounting practices, non-adherence, inconsistencies or misapplication of accounting standards, inappropriate accounting for accruals, and fraud [4]. While all these undermine financial reporting quality, these issues entail some specific attributes of firms might offer insight into financial reporting quality. Based on this, there is a need for a thorough study on how firms' specific features affect financial reporting quality. Understanding this is critical to stakeholders' ability to make informed decisions. In this regard, firms' attributes, especially firm size, leverage, and innovation capability, are examined in relation to financial reporting quality.

On the other hand, studies have been done on the relationship between firms' attributes and financial reporting quality [12, 13]. Some of these studies focused on listed consumer products firms in Nigeria with inconsistent findings [14, 15, 16]. While Korolo [17] and Oseji et al. [18] focused on the industrial goods sector of the economy, multinational firms have received little attention. Also, some of these studies have not examined innovation capability as a specific attribute of firms in the context of financial reporting quality nor assessed faithful representation in terms of variance analysis between earnings and cashflows from operations [19, 20]. Based on this, the study conducts a comprehensive examination of how firms' attributes affect the financial reporting quality of multinational firms in Nigeria.

This study examines the relationship between the firms' attributes and the quality of financial reporting among listed multinational firms in Nigeria. Through an extensive examination, this study will provide clear information on these attributes and their impact. This can help in formulating policies and strategies to enhance financial reporting quality, thereby improving investor confidence and market stability. Policymakers, regulators, and management will be greatly impacted by the study's findings.

2. Literature Review

This section outlines concepts, reviews the theoretical underpinning, and discusses the associated studies.

2.1. Conceptual Review

To help with comprehension of the study's objectives, this section describes the concepts and the study's variables.

2.1.1. Financial Reporting Quality

Financial reporting quality, according to Ngoc Hung [21], is the quality of information included in financial reports, including disclosures. This description emphasises the importance of information and disclosure while focusing on the foundation of financial reporting quality. It captures the general understanding of financial reporting quality. However, it is quite broad and does not provide specific criteria or metrics of what constitutes quality.

On the one hand, Setiyawati [22] defined the quality of financial reports as accounting standards compliance, measured by the level of non-compliance, and attained through inspection. In this regard, Falana [23] stated that the quality of accounting information can be determined by analysing accounting information's relevance and timeliness to stakeholders in making decisions. The accounting standards aim to produce relevant and reliable financial statements. While offering information on what constitutes financial reporting quality, this definition assumes compliance entails quality. But compliance alone might neglect the evolving nature of financial reporting practices and the ongoing efforts by regulators to maintain or improve quality.

In this study, the quality of a financial report is conceptualised as the extent to which it contains decision-useful and reliable information regarding an organisation's financial performance and situation to address users' needs. In this regard, financial reporting quality entails not just information of a financial nature but also non-financial information and disclosures that aid decision-making. The study, therefore, represents financial reporting quality with faithful representation.

2.1.1.1. Faithful Representation

Abakasanga [24] described faithful representation as the reflection of economic occurrences in figures and statistics. To be valuable, information must relevantly and accurately represent business reality [25]. With a focus on output, this description offers insightful foundational information by linking faithful representation to the reflection of economic occurrences in figures and statistics. It, however, oversimplifies complex accounting concepts by failing to incorporate key qualitative characteristics and users'

perspectives.

Conversely, DeFond [26] defined faithful representation as the depiction of the true essence of an economic event, rather than its legal form. The focus of this definition is ensuring financial statements convey the real economic implications of business activities. This implies that all aspects of the economic occurrence should be captured, including any risks, benefits, or obligations that are not immediately apparent from the legal form. In the face of legal complexities, this definition offers flexibility. However, this does not state what constitutes faithful representation.

Based on this, the study defines faithful representation as the accurate, complete, and unbiased depiction of an entity's financial transactions, events, and conditions. Accordingly, faithful representation entails accuracy, neutrality, and completeness [23]. While these components make up faithful representation, this study uses variance analysis to measure accuracy, neutrality, and completeness.

2.1.2. Firm Attributes

Farouk [27] described firms' attributes as those variables that influence the activities of a firm and that are positioned at different levels. In this regard, firm attributes are seen as factors or variables that vary in influence and impact across different hierarchical levels within the firm. It emphasises the role of internal and external factors at various organisational levels that can affect a firm's operations, strategies, and outcomes. However, it is quite broad and offers no specifics on what denotes different levels.

Conversely, Korolo [17] stated that a firm's attributes are factors that are largely under the control of management, which define a firm and influence its operations, performance, and relationships with stakeholders. These features show firms' uniqueness and form the basis of differentiation and perception of the firm's prospects and performances. Firm attributes are the firm's demographic, legal, political, ethical, social, economic, and managerial variables that embody a firm's mission. However, it does not specify which attributes are the most relevant for predicting performance, nor does it address how these attributes interact with each other.

While attributes serve as predictors of assessing firms' performance, Johnson [28] stated that firm attributes are a wide variety of information disclosed in the corporate annual reports. While this definition ties firm attributes solely to disclosed information, it overlooks some non-disclosed influential attributes such as internal processes and proprietary strategies. This study, therefore, conceptualises firm attributes as a variety of contributing features that may affect the standard of financial reporting. Based on this, firm attributes provide information on the firm's distinctiveness and account for variations in financial performance. On a company-by-company basis, firm attributes represent the basis of comparison and metrics for firms' performance evaluation.

2.1.2.1. Firm Size

Awodiran and Ogundele [29] described firm size as the size of resources a firm owns. It encompasses the internal resources that a firm possesses. Firm size in this context entails the firm's capacity to use such resources for various purposes. It suggests that the scale of resources directly correlates with the firm's potential. However, this description may be too narrow by focusing solely on the resources owned by a firm without considering the firm's external influences.

Conversely, Gupta and Garg [30] defined firm size as the scale on which a company operates. This emphasises the operational scale by focusing on the extent and reach of a firm's activities. However, its focus on the scale of operation neglects resource ownership or organisational structure. Based on this, the study conceptualised firm size as the overall size of resources of a firm and the capacity with which this size is deployed.

2.1.2.2. Firm Leverage

Financial leverage, according to Al-Slehat [31], is the measure of debt utilization in a firm's capital framework. While this focuses on the amount of debt to equity in a firm's capital framework, it emphasises the role of borrowed funds in financing the company's operations and growth. This shows the significance of debt usage in a firm's operations with its potential impact on growth and profitability. While this focuses on the debt as a component of leverage, it does not address risk and other factors associated with a firm's choice of leverage.

Conversely, Ghofir and Yusuf [32] defined financial leverage as firms' ability to use fixed-expense assets and/or funds (debt and/or special shares) to fulfil firms' wealth maximisation goals. This focuses on all types of debt that can be used in financing a firm's operations. It also recognises the broad range of financial instruments that can be leveraged beyond traditional debt. However, Ghofir and Yusuf [32] provided a comprehensive approach to what makes up debt but ignored the risks associated with leverage. In this regard, the study described financial leverage as the strategic use of debt and other fixed-cost financial instruments within a firm's capital structure.

2.1.2.3. Firm Innovation Capability

Alosani [33] described innovation capability as the firm's capacity to develop creative ideas into successful services and products. This focuses on firms' potential that is fostered by a favourable environment. Innovation capability is viewed as a process that starts with creativity and ends with successful market implementation. However, the definition may overemphasize internal factors, potentially downplaying the importance of other factors such as resources, collaboration, and external partnerships. Conversely, Zhang and Guo [34] described innovation capability as the ability of a firm to incorporate diverse knowledge bases and resources, both internally and

externally, to develop innovative solutions. It emphasises the role of collaboration and partnerships in enhancing a firm's innovation capacity. While providing a holistic view, it focuses more on the technical and strategic aspects of innovation and less on the internal organisational culture.

Again, Kaukab [35] described innovation capability as the abilities and know-how required to assimilate, grasp, and enhance current technologies as well as develop new ones. Leveraging new technologies may overlook other dimensions of innovation, such as business model innovation, organisational change, or market-driven innovation. In the context of a dynamic process. In this regard, the study conceptualised innovation capability as the firm's potential to effectively incorporate and apply knowledge, skills, and resources to continuously develop and implement new ideas, technologies, and processes.

2.2. Theoretical Review

This section introduces the theoretical basis for the study, laying the groundwork for comprehending the important concepts and relationships investigated. It examines relevant theories and models to support the study, providing context and justification for the study's assumptions and methodologies.

2.2.1. Decision-usefulness Theory

While decision-usefulness theory serves as the basis of the study's theoretical foundation, it was propounded by George Staubus in 1961. The decision-usefulness theory assumes that rational people utilise accounting information and that the primary purpose of financial reporting is to offer relevant information for decision-making. Accordingly, the FASB and IASB recognise decision usefulness as the primary goal of financial reporting [23]. In essence, it is a market-based model that assumes the availability of relevant information to enable rational decision-making and efficient resource allocation [36].

Decision usefulness theory is important in the financial reporting context, providing insight into financial reporting quality. This theory has been used to justify accounting standards, policies, and choice selection for over 40 years [37]. Soyinka [38] applied the assumptions of decision usefulness theory to explain the financial reporting quality's importance, decision-making and information provision. Kamotho [39], on the other hand, asserted that it can be extended to an integrated report. Hitz [40] emphasised the importance of decision usefulness in fair value accounting, while Yew [41] stated decision usefulness theory is important in differentiating net income and comprehensive income.

However, this theory has been criticised due to differences in users' needs. Williams and Ravenscroft [37] argued that variations might affect certain financial reporting quality in terms of priority and importance. Over time, users' perceptions change, and such changes affect the application of decision usefulness theory. According to Procházka [42], the assumptions of decision usefulness theory may be abandoned under extreme conditions. While the primary assumption of decision usefulness theory lies in utility, Williams and Ravenscroft [37] opined that such might be inadequate for policy choices at micro or macro levels. Other factors inform decision-making and choices.

2.3. Empirical Review

The relevant literature on the connection between firm qualities and the standard of financial reporting is discussed in this section. It highlights the results of earlier research on the effects of various firm qualities on the transparency and accuracy of financial reports.

2.3.1. Firm Size and Financial Reporting Quality

Recent studies have evaluated the firm attributes' impact on the standard of reporting finance. Ogechukwuka and Frank [15] assessed the correlation between the standard of reporting finance and firm attributes in Nigerian consumer products firms. The study used data from 12 firms from 2012 to 2021, focusing on board composition, growth, profitability, and firm size. Results showed that board growth and composition significantly impacted reports' quality produced, while firm size and profitability had insignificant effects. Conversely, Olowookere [14] analysed the relationship between the standard of reporting finance and firm characteristics of Nigerian-listed consumable products firms from 2014 to 2019. Results showed that board composition, institutional shareholding and liquidity favourably and considerably influenced the standard of reporting, while firm size negatively impacted it.

Again, Terkende and Karim [16] looked into the relationship between the standard of reporting and firm attributes of Nigerian consumer products firms from 2017 to 2021. The results showed that firm size and financial leverage negatively affect financial reporting and its quality. On the other hand, Arie and Suryandari [43] evaluated the effects of corporate characteristics and financial performance on the integrity of financial reports. The study focused on 16 property development firms listed on the Indonesia Stock Exchange from 2018 to 2021. Results showed that managerial ownership, institutional ownership, and firm size negatively affect the integrity of financial reports. However, an independent commissioner's presence positively affects financial reports' integrity.

Also, Ngoc Hung [21] explored the impact of firm characteristics and the standard of financial statements of listed firms in Vietnam's stock market. Results showed Board of Directors' size, business size, and profitability positively correlate with financial statement quality, while state ownership, dividend policy, and listing time of firms negatively affect it. Conversely, Balios [44] studied the factors affecting financial reporting quality, such as audit firm size, firm size, leverage, geographical location,

profitability and liquidity. Results showed that firm size, audit firm size, headquarters location and geographical distribution positively correlate with financial reporting quality. Profitability is negatively correlated, while leverage is not.

Adebayo [12] researched the impact of leverage and firm size on listed Nigerian real-sector firms' reporting quality. This study analysed the influence of firms' features on the financial reporting quality of listed non-financial firms in Nigeria. It was found that leverage negatively affects the reporting quality, while firm size positively influences it. Also, Efut [45] analysed the impact of firm characteristics on the reporting quality of Nigerian universal banks. The research found that profitability, firm size, and leverage negatively impacted the standard of reporting of these banks.

Findings from many studies demonstrate inconsistencies in the impact of firms' size on the standard of reporting finance. While some research showed a beneficial correlation between firm size and the standard of reporting finance [12, 44], others showed a negative correlation [16, 43]. This suggests that more research is needed to reconcile these contradictory findings and better understand the underlying causes. Based on the above facts, this study hypothesised as follows:

H_{01}: There is no significant association between firm size and the accrual ratio of multinational firms in Nigeria.

2.3.2. Firm Leverage and Financial Reporting Quality

Several studies have assessed how firm features, particularly firm leverage, influence financial reporting. Okwoma [20], in this regard, focused on profitability, asset growth, ownership structure, growth opportunities, sales growth, access to capital markets, size, board characteristics, leverage, liquidity, age, dividend payout, and turnover and their impacts on the standard of reporting finance. The study utilised a discretionary accrual and a sample size of 154 listed real-sector firms on the Nigerian Exchange Group. Results showed no considerable relationship between profitability and the standard of reporting finance but leverage positively correlates with it.

In the same vein, Tran [46] explored the impact of reporting standards of financial processes on financial leverage, using Vietnam's annual reports and earnings quality. Results showed that higher reporting quality reduces debt ratios and information asymmetry, with the quality of firms' characteristics playing a more significant role in reducing information asymmetry. Also, Amanamah [47] investigated the impact of the quality of external audits, financial leverage and corporate governance on the standard of reporting financial processes in Ghana. The study, analysing 650 observations from 2009-2021, found an inverse but significant correlation between membership size of the board and compliance with international financial reporting standards, with an independent audit committee positively correlated with compliance, while financial leverage negatively impacted compliance.

Also, Nan and Wen [48] evaluated the relationship between the standard of information processing quality and financial leverage in entrepreneurship, investment and decision-making. The study revealed a positive correlation between ideal information quality and leverage, with low leverage promoting low quality and high leverage promoting high quality.

Moreover, Rahma and Nurcahyono [16] analysed the impact of managerial and institutional ownership, firm size, independent commissioners, leverage and audit committees on the integrity of financial statements from 2020-2023. Results showed that these factors have no considerable effects on financial statement integrity, while audit committees positively influence it, firm size negatively affects it. Arabi [13] evaluated the relationship between financial reporting quality and corporate attributes of listed real sector entities in Nigeria from 2011 to 2020. Findings showed that company size, profitability, and board size positively impact financial reporting quality, except for company size, which negatively affects it. Leverage and growth showed a non-significant impact on the standard of financial processing quality of listed non-financial firms in Nigeria.

Again, Ibrahim and Abubakar [49] examined the impact of firm characteristics on the standard of reporting of listed consumer products firms in Nigeria from 2008 to 2017. The research, involving 22 firms listed on the Nigerian Stock Exchange, used panel regression analysis and census sampling. Results showed that leverage negatively affected the standard of reporting finance, while institutional shareholding, firm and board size, liquidity and profitability had no significant effect. Asyik [50] examined what determines financial report quality and its consequences on company values. The study sampled 85 publicly traded companies on the Indonesia Stock Exchange using a quantitative methodology. The results showed that sales volatility, operation cycle and firm age and size contribute to FRQ, while firm's leverage and age do not.

Results from the reviewed literature are inconsistent considering the impact of firm leverage on the standard of reporting finance. Okwoma [20], for instance, discovered a positive correlation between the standard of reporting finance and leverage. Conversely, Ibrahim and Abubakar [49] discovered that leverage negatively affects financial reporting quality. This discrepancy points to the need for additional study to better understand the actual significance of these variables and resolve contradictory findings. Also, investigating the conditions under which firm leverage affects reporting quality differently could offer valuable insights. Conversely, Okwoma [20] used discretionary accruals to measure financial reporting quality. Although this method is useful, other approaches, like variance analysis of accruals quality, could be used to confirm results and investigate additional aspects of financial reporting quality. In light of this, this study hypothesised that:

H_{02}: There is no significant association between firms' leverage and accrual ratio of multinational firms in Nigeria.

2.3.3. Firm Innovation Capability and Financial Reporting Quality

Breuer and Vanhaverbeke [51] studied how reporting regulation affects business innovation activities. Using thresholds in European legislation and a significant shift in German enforcement, the paper demonstrated that compelling enterprises to publish their financial accounts lowers innovation and increases reliance on patents. This imposes proprietary costs on creative enterprises, which reduces their incentives. The study also discovers that positive information spillovers within industries are insufficient to compensate for the negative impact on innovation prevalence, resulting in concentrated innovation among a few major enterprises.

On the one hand, Huang [52] used Bushman and Smith's framework for corporate transparency as a theoretical framework to synthesise empirical data on innovation in finance, corporate accounting and governance. The study revealed conflicting conclusions about the relationship between innovation and financial reporting. On the other hand, Mungai and Lee [53] assessed the impact of the information technology capability of firms and management ability on the standard of reporting finance. Using the resource-based view of the company and a sample of firms from 2000 to 2013, the study discovered that enterprises with high-ability managers have higher financial reporting quality and are less inclined to restate their financial statements in the following quarters and that the combination of IT capacity with managerial aptitude increases financial reporting quality.

Again, Wen [54] looked at how financial technology (FinTech) power influences financial market informativeness in terms of corporate financial reporting quality. Using manually gathered data on FinTech patents, the study characterised regional FinTech development and investigated its impact on real earnings management, demonstrating the trustworthiness of company financial disclosure to external investors. The study discovered that regional FinTech development hinders enterprises' real earnings management by improving information production, external supervision, and credit accessibility, but also reducing external financing incentives.

Also, Park [55] evaluated the relationship between company innovation and financial reporting. Financial reporting quality positively correlates with future innovation, especially in organisations with extensive R&D operations and competitive industries, as supported by empirical evidence. High-quality financial reporting leads to improved innovation outcomes and increased business value.

Huang [52] found conflicting conclusions about the relationship between innovation and financial reporting. On the other hand, Park [55] demonstrated a positive correlation between innovation and the standard of reporting finance, particularly in competitive, R&D-intensive industries. The discrepancy between these findings indicates a need for further research to clarify how innovation impacts financial reporting quality across different contexts and industries. Also, Wen [54] found that regional FinTech development improves financial reporting by reducing real earnings management but also reduces external financing incentives. This dual impact suggests a need for further research into how FinTech affects the standard of reporting finance in various contexts. Based on the above facts, this study hypothesised as follows:

H_{03}: There is no significant association between firms' innovation capability and the accrual ratio of multinational firms in Nigeria.

2.4. Conceptual Framework

Figure 1 depicts the interactions between the firms' size, leverage, innovation capability and accrual ratio.

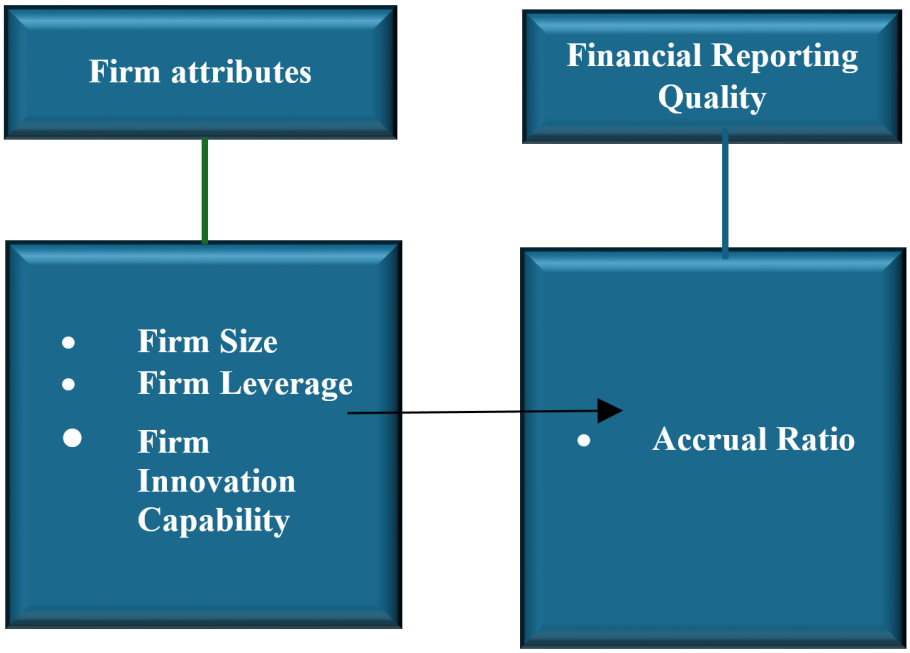

Figure 1. Conceptual Framework

3. Methodology

This study employed a causal-comparative research design, with data gathered from annual reports of listed multinational companies in Nigeria. The research population included 46 multinational firms in Nigeria, with census sample methodologies used to cover the whole population. The study covered 13 years, from 2011 to 2023.

3.1. Model Specification

The insights gained from the evaluation of theoretical and empirical literature on the relationship between financial reporting quality and firm attributes served as the foundation for the model definition for this study. To investigate this relationship, a functional form of a model proposed by Okwoma [20] was adapted.

$$FRQ_{it} = \alpha_1 + \beta_1 FINC_{it} + \beta_2 FSIZE_{it} + \beta_3 FLEV_{it} + \epsilon_1$$

Where:
FRQ = Financial Reporting Quality
FINC = Firm Innovation Capability
FSIZE = Firm Size
FLEV = Firm Leverage
α_1 = Intercept
ϵ_1 = Stochastic Error Term
β_1, β_2, β_3 = independent variable coefficients.

The theoretical-based expectation is that β_1, β_2, and β_3 would be greater than 0. This implies that the explanatory variables and the dependent variable should have a positive correlation.

3.2. Measurement and Description of Variables

Table 1 displays the explained and explanatory variables under investigation, including their description, measurement, data source, and literature evidence. This includes faithful representation, firms' size, leverage and innovation capacity.

3.3. Data Analysis Techniques

To analyse data, this study employed inferential statistics (panel regression analysis, correlational analysis, and so on) and descriptive statistics (standard deviation, mean, median, variance, skewness, and kurtosis).

Table 1. Measurement and Description of Research Variables

SN	Variable	Description	Measurement	Data Source	Literature Evidence
	Dependent Variable:				
1	Faithful representation (FR)	Faithful Representation refers to the accurate, complete, and unbiased depiction of an entity's financial transactions, events, and conditions.	Accrual ratio as measured by accrual component divided by total asset.	Annual Reports.	Nikolaev [56]
	Independent Variables:				
2	Firm attributes (FA)	Firm attributes refer to a variety of contributing features that may influence the standard of reporting finance in a firm.			
2a	Firm Size (FSIZE)	Firm size refers to the overall size of resources of a firm and the capacity with which this size is deployed.	Log of total assets.	Annual Reports.	Rahman & Yilun [57]
2b	Firm Leverage (FLEV)	Financial leverage entails the strategic use of debt and other fixed-cost financial instruments within a firm's capital structure considering its risk potential and returns to equity holders.	The leverage index is calculated by dividing the total debt to total assets in year t by the total debt to total assets in year t-1.	Annual Reports.	Marais [10]
2c	Firm Innovation Capability (FINC)	Firm Innovation Capability refers to the firm's ability to effectively integrate and apply knowledge, skills, and resources to continuously develop and implement new ideas, technologies, and processes.	Research and Development Intensity Index. The ratio of R & D expenditure to total revenue in year t divided by the ratio of R & D expenditure to total revenue in year t-1.	Annual Reports.	Griliches [58]

4. Data Analysis and Discussion of Findings

This section portrays the characteristics of the variables used, data analysis, and study results. These statistics summarise the variable distribution.

4.1. Descriptive Statistics

Table 2 includes statistical features for each variable, as well as information on their distribution and properties across datasets. In this case, each variable has 598 observations, indicating that data were gathered from 46 entities during thirteen years. This shows the number of data points or observations in the sample. Conversely, the mean amount of the firm's size is 10.9222, while the standard deviation is 2.3949. This implies that the sampled firms have significant total assets on average subjected to some considerable variation. Some firms' assets are very small in size, as shown by a minimum value of 0, while the largest firm has a log of total assets equal to 14.64, which represents a very large firm in the dataset. The FSIZE distribution is negatively skewed (skewness = -3.7162). The distribution is leptokurtic, with a kurtosis of around 17.5133 (greater than 3).

Also, the average value of firm leverage is 0.6667. On average, 66.7% of the firm's capital comes from debt finance, indicating a large proportion of debt capital being used by the sampled firms for their operations. This implies around two-thirds of borrowed capital was used to finance firm operations. Across firms, the standard deviation of 0.24 implies a moderate degree of variation in the leverage ratios. While some firms did not use debt capital to finance their operations, as the minimum leverage ratio is 0, the maximum leverage ratio of 1.23 implies some firms have more debt capital than equity capital. A skewness of -0.9836 denotes that the FLEV distribution is negatively skewed relative to its form. The kurtosis of the distribution is relatively more than three, or approximately 3.7805, indicating that it is mesokurtic.

On the other hand, firms allocate a relatively small proportion of their revenue to research and development based on the average value of 0.0147, or about 1.47%. This suggests little investment in development and research

across the firms examined. The standard deviation of 0.0377 denotes some variation in FINC, although most firms allocate a small portion of revenue to research and development. The minimum FINC is 0, suggesting that some firms did not invest in research and development. The maximum FINC is 0.3558, implying that some firms allocate up to 35.58% of their revenue to research and development. This represents the highest investment among the sampled firms. The distribution exhibits a positive skewness with a skewness of 3.6744. With a kurtosis of roughly 19.9771, the distribution can be considered platykurtic.

The standard of reporting finance is indicated by the size of the mean accrual ratio of -0.0367. This suggests that cash flow from operations is higher than reported earnings. This little difference in reported earnings and cashflow from operations suggests more cash-based earnings and potentially higher financial reporting quality. Nonetheless, a substantial variance in the accrual ratios among the firms studied is indicated by the standard deviation of 0.1062. The minimum accrual ratio is -0.6267, indicating, in some cases, the highest form of financial reporting quality. The maximum accrual ratio of 1.0616 suggests a high level of poor-quality reporting among the firms examined. This implies that there are both extremely positive and negative accruals across the sample, showing varying accrual practices, albeit financial reporting quality. The distribution has a positive skewness with a value of 2.8324. With a kurtosis of approximately 40.6576, the distribution is platykurtic.

4.2. Test of Variables

This part contains critical pre- and post-estimation testing to ascertain the relevance and dependability of the study's results. Pre-estimation methods like the unit root test, correlation analysis, multicollinearity, and post-estimation tests like the Hausman and heteroscedasticity tests were carried out to confirm model efficiency.

4.2.1. Pre-estimation Test

The following tests were conducted to guarantee that the chosen model's assumptions were met and that the data utilised for analysis was sufficient.

4.2.1.1. Variables' Stationary Test

The stationary test results are shown in Table 3. Harris-Tzavalis and Hadri LM test statistics were used. The null hypothesis asserts data distribution changes over time. The alternate hypothesis asserts data distribution does not change over time. The null hypothesis is accepted if the significant value is above 0.05, while it is rejected if it is below 0.05. The p-values for FSIZE, FLEV, FINC, and FR were all less than 0.05. This suggested that all variables were stationary. Based on this, cointegration analysis was not performed.

4.2.1.2. Correlation Analysis

Table 4 displays pairwise correlation coefficients and its test results carried out among independent variables. The test result showed a relevant direct relationship between firm size (FSIZE) and firm leverage (FLEV), as shown by a factor of 0.6564 and a significant value of 0.0000. Furthermore, a weak correlation occurs between firm size (FSIZE) and firm innovation capacity (FINC), with a factor of 0.0226. Based on the correlation factor of 0.0589 and a significant value of 0.1502, a direct but weak linear relationship between firm leverage (FLEV) and firm innovation capacity (FINC) was found. Finally, the findings demonstrated among independent variables a mixed relationship.

Table 2. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis
FSIZE	598	10.9222	2.3949	0	14.6383	-3.7162	17.5133
FLEV	598	0.6667	0.2422	0	1.2335	-0.9836	3.7805
FINC	598	0.0147	0.0377	0	0.3558	3.6744	19.9771
FR	598	-0.0367	0.1062	-0.6267	1.0616	2.8324	40.6576

Results obtained from the measurement of variables

Table 3. Stationary Test

Variable	Harris-Tzavalis		Hadri LM Stationary	
	Z-value	P-value	Z-value	P-value
FSIZE	-1.9285	0.0269	30.0918	0.0000
FLEV	-4.4551	0.0000	24.0046	0.0000
FINC	-21.714	0.0000	6.2642	0.0000
FR	-20.887	0.0000	6.9373	0.0000

The table shows unit root tests.

Table 4. Pairwise Correlation

	FSIZE	FLEV	FINC	FR
FSIZE	1.0000	1.0000		
FLEV	0.6564*	1.0000		
	0.0000	0.0000		
FINC	0.0226	0.0589	1.0000	
	0.5807	0.1502		
FR	-0.037	0.024	-0.0343	1.0
	0.3735	0.5576	0.4019	

The table above shows a pairwise correlation.

4.2.1.3. Multicollinearity

Perfect linear correlation among independent variables affects the model's estimates and standard errors. Based on earlier reported results of analysis on correlation, the degree of multicollinearity in the data distribution was further determined by the application of variance inflation factor (VIF) analysis. VIF values below 5, according to O'Brien [59], are generally considered acceptable. In this regard, FSZIE and FLEV both have a VIF of 1.76, indicating an acceptably low level of multicollinearity. Conversely, FINC has a VIF of 1.00, indicating no multicollinearity with the other manipulated variables.

Table 5. Variance Inflation Factor

Variable	VIF	1/VIF
FLEV	1.76	0.5671
FSIZE	1.76	0.5688
FINC	1.00	0.9961
Mean VIF	1.51	

The table above shows the VIF values.

4.2.2. Post-Estimation Tests

The Ramsey RESET test was used to check model specifications, bias, functional forms, linearities, and powers of the fitted values. The null hypothesis asserts model is accurately defined, while the alternate hypothesis asserts model is inaccurately defined. A higher p-value (p-value > 0.05) and f-statistic indicate no significant evidence of omitted variable bias (correct model specification); otherwise, there is a model specification error. The test findings show an f-coefficient of 1.27 and a coefficient of significance of 0.2840, indicating that the model has no omitted variable bias nor is incorrectly specified in terms of functional form.

In addition, a heteroskedasticity test was carried out to assess the constant variance of residuals or changes with fitted values. The null hypothesis for this test is homoscedasticity while the alternate hypothesis is varied variance at different values. A higher chi-square test statistic and significant p-value (p-value < 0.05) show evidence of heteroskedasticity, otherwise homoskedasticity. The test outcomes showed a chi-square of 82.95 and a significant value of 0.0000, indicating strong evidence of heteroskedasticity in the residuals of the study's model. This suggests that the variance of the residuals changes with the fitted values of the accrual ratio.

Again, the variables were tested for normality using the Shapiro-Wilk test. The alternative hypothesis asserts non-normal distribution among variables, whereas the null hypothesis asserts normal distribution. The null hypothesis is accepted if the significant value is above 0.05, otherwise rejected if it is below 0.05. Since the significant value is 0.0000, the null hypothesis was rejected. The data in this instance are irregularly distributed. Consequently, every variable was transformed.

Furthermore, the Durbin-Watson test was performed to detect autocorrelation in the data distribution. The DW statistic's value ranges from 0 to 4. The absence of autocorrelation is indicated by a test statistical value of 2. Negative autocorrelation is indicated by a value much more than 2 (closer to 4), and positive autocorrelation is suggested by a value much less than 2 (closer to 0). The Durbin-Watson statistic of 1.627, although slightly below 2, suggests a less strong indication of positive autocorrelation in the residuals. According to Wooldridge [60], Durbin-Watson test results in the range of 1.5 to 2.5 are deemed reasonable. Based on this, the study therefore concludes there is no autocorrelation.

However, the F-test examines whether the firm-specific or group-specific effects in a fixed effects model are equal to zero or otherwise. The null hypothesis claims that all individual effects are zero, whereas the alternative hypothesis states that at least some individual effects are not zero. The null hypothesis is rejected if the significant value is below 0.05, otherwise accepted. The results of the F-test showed that the fixed model is effective, with an f-value of 1.99 and a significance value of 0.0002. The Breusch and Pagan Lagrange multiplier test was employed to ascertain the estimate's accuracy between the random effect model and the pooled OLS. The test outcome is 15.93, and the coefficient of significance is 0.0000. This implies that the OLS model is more appropriate. The most efficient model between fixed and random effects was identified using the Hausman test. Given that the test result

had a probability value of 0.7087 and a chi-square of 1.39, the random model was the most appropriate. Due to the presence of heteroskedasticity, a feasible generalised least squares regression analysis (FGLS) was carried out.

Table 6. Summary of Post-Estimation Test Results

Test	F-Statistic	P-value
Ramsey RESET test	1.27	0.284
Breusch-Pagan / Cook-Weisberg test	82.95	0.0000
Shapiro-Wilk test	11.295	0.0000
Durbin-Watson d-statistic	1.6277	
F test that all ui=0: F (45, 549)	1.99	0.0002
Breusch and Pagan Lagrangian multiplier test	15.93	0.0000
Hausman Test	1.39	0.7087

The table above shows the results of post-estimation tests.

4.3. Ordinary Least Square, Random Effect and Fixed Effect Model

As displayed in Table 7, the F-statistics test the overall model's relevance to the study's objectives. The OLS's f-statistic is 1.37 with a significant value of 0.2578, implying the independent variable did not explain a significant portion of the variance in the accrual ratio. This connotes that only 0.68% of the variance in the accrual ratio is predicted by the model, as shown by the R-squared of 0.0068. Under this model, FSIZE is marginally insignificant, with a 0.4% decrease in accrual ratio based on a 1% increase in FSIZE. Conversely, FLEV's coefficient is positive. The association between FLEV and FR suggests higher leverage entails a lower quality of financial reporting. However, FINC has an inverse but statistically irrelevant effect on reporting quality.

Considering fixed effect model, both within, between, and overall R-squared (0.0035, 0.0051, 0.0027) were low, indicating a low explanation of variance in FR. The F-value of 0.64 and the significance value of 0.5916 imply that the predictors are not collectively influencing FR. In terms of FSIZE, a small negative effect on FR is indicated but statistically irrelevant at a significant value of 0.592. The effect of FLEV is positive; such an effect is statistically insignificant on FR. Conversely, the effect of FINC is inverse and insignificant at a significant value of 0.226.

Under the random effect model, both within, between, and overall R-squared (0.0022, 0.0315, and 0.0064) have low values. This connotes that the model explains only a proportion of the variance within individual firms repeatedly and between firms. The Wald chi2(3) of 2.60 and p-value of 0.4580 suggest the manipulated variables have no apparent effect on the explained variable. The negative coefficients of both FSIZE and FINC suggest a negative effect on FR, although insignificant. FLEV, however, has a positive effect on FR.

Table 7. Regression Results

	Pooled OLS Model			Fixed-effects Model			Random-effects Model		
FR	Coeff.	t-value	P>|t|	Coeff.	z	P>z	Coeff.	t-value	P>|t|
FSIZE	-0.0041	-0.71	0.087	-0.0018	-0.54	0.592	-0.0034	-1.27	0.206
FLEV	0.0382	1.61	0.109	0.0089	0.24	0.812	0.0295	1.06	0.29
FINC	-0.1052	-0.91	0.362	-0.2685	-1.21	0.226	-0.14	-0.98	0.325
_cons	-0.0157	-0.77	0.442	-0.019	-0.73	0.467	-0.0169	-0.74	0.456
R-squared (within)				0.0035			0.0022		
R-squared(between)				0.0051			0.0315		
R-squared(overall)	0.0068			0.0027			0.0064		
F (4,227)	1.35			0.64					
Prob > F	0.2578			0.5916					
Wald chi Square							2.6		
Prob > F							0.458		

The table above shows the results of the fixed-effect, random-effect and pool OLS model.

4.4. Firm Attributes and Financial Reporting Quality

Earlier analysis of model selection concluded that the random-effect model is the most efficient model to be used in this study. However, the presence of panel-specific heteroskedasticity revealed during pre- and post-estimation tests necessitates the use of feasible generalised least squares. In this regard, inference of the effect of FSIZE, FLEV, and FINC on FR was based on the p-value and coefficients generated from this analysis. The result of this analysis is shown in Table 8.

Table 8. FGLS Regression Analysis

FR	coef	Std. Err.	P>z
FSIZE	-0.005	-3.85	0.000
FLEV	0.054	5.15	0.000
FINC	-0.086	-2.1	0.035
_cons	-0.013	-1.05	0.296
Wald chi2(3)	30.2		
Prob > chi2	0.0000		

The table above shows the FGLS results.

The Wald statistics evaluated the explanatory power of the independent variables. While the test result shows a Wald chi-square of 30.20 and a significant value of 0.0000, this very low p-value (0.0000) indicates that FSIZE, FLEV, and FINC are significant as a group in explaining the variation in FR. Specifically, the regression results indicate that firm size (FSIZE) has a negative and relevant effect on financial reporting quality (FR), with a factor of -0.0051 and a significant value of 0.0000. The negative relationship indicates that when firms grow, their accrual ratios tend to decrease, therefore improving the standard of reporting finance. This implies that larger firms, which may have stronger internal controls and more sophisticated financial reporting procedures, may have higher financial reporting quality. Therefore, the null hypothesis is rejected.

The result of this study is consistent with the findings of Terkende and Karim [16], who investigated the impact of firm attributes on the standard of reporting finance in Nigerian consumer products firms from 2017 to 2021. The findings indicated that financial leverage and firm size have a negative impact on the standard of reporting. This finding also supports the study of Arie and Suryandari [15], which assessed the effect of a firm's characteristics and the integrity of reporting quality and performance. The results revealed that ownership by institutions and management, and firm size all have a negative impact on the credibility of reporting finance. However, this finding contradicts Ngoc Hung's study [21], which investigated how firm characteristics affected the standard of financial statements for firms listed on the Vietnamese stock exchange. The results showed that firm size positively impacts financial statement quality. This finding also contradicts a study by Adebayo [12], which researched the impact of firm scale and capital framework on the standard of reporting of listed real-sector firms in Nigeria.

Moreover, the result presented in Table 7 shows a firm leverage (FLEV) coefficient of 0.0540 and a significance value of 0.0000. This denotes that leverage has a statistically relevant and direct effect on the standard of reporting finance. The accrual ratio, by implication, rises by 0.054 units for every unit increase in leverage. As leverage is going up, the accrual ratio is also going up thereby reducing financial reporting quality. This indicates that firms with higher debt levels may have incentives to manipulate accruals to meet debt covenants or present a more favourable financial position. In this regard, the null hypothesis is therefore rejected. This finding agrees with the study of Nan and Wen [48], Okwoma [20], and Rahma and Nurcahyono [16], who focused on growth opportunities, dividend payout, access to capital markets, ownership structure, size, asset growth, profitability, leverage, liquidity, sales growth, turnover, board characteristics, age and their impacts on reporting quality. This finding however negates the work of Amanamah [47].

Likewise, the firm innovation capacity (FINC) coefficient is -0.0859 with a significant value of 0.035. This implies that firm innovation capacity has a relevant negative effect on accrual ratio. A unit increase in firm innovation capacity is associated with a decrease in accrual ratio, therefore improving financial reporting quality by 0.0859 units. Based on this, the null hypothesis is therefore rejected. Firms with more R&D intensity had lower accrual ratios, indicating better accrual quality. Firms that invest more in R&D may be more concerned with long-term growth and innovation than with short-term earnings manipulation. This finding agrees with the study conducted by Mungai and Lee [53] and Wen [54] that assessed the impact of a firm's information technology (IT) capacity on the quality of financial reporting.

4.5. Discussion of Findings

The regression results showed that firm size has a negative but substantial effect on the accrual ratio, albeit the standard of reporting finance of Nigerian multinational firms. This negative and relevant effect of firm size on the standard of reporting finance implies that larger firms may have better internal controls and more sophisticated financial reporting mechanisms. This suggests the effect of large resources among multinational firms might entail higher quality in financial reporting. This implies that multinational firms benefit from financial resources and business scale. Larger firms tend to have better accrual quality, as evidenced by an inverse relationship between accrual ratio and firm scale.

According to decision usefulness theory, financial information should be relevant, reliable, and useful for all stakeholders' decision-making needs. Firms' financial resources and operational scale should be used to meet these assumptions. Based on this, the larger the resources,

the more reliable the reporting quality, as the availability, management, and usage of financial resources are vital. Efut [45], in this regard, asserted that an inverse relationship between firm scale and standard of reporting finance generally improves quality based on an increase in firm size. However, this finding was inconsistent with the assertions made by Balios [44] and Adebayo [12].

Also, the regression analysis carried out results in a relevant positive relationship between accrual ratio and firm leverage. This suggests that firms with greater debt burden may have incentives to manipulate accruals to meet debt covenants or present a more favourable financial position leading to a high accrual ratio. In line with decision usefulness theory, high leverage combined with high accrual ratios suggests that financial reporting may not be fully reliable, diminishing its usefulness for decisions. Therefore, highly leveraged firms will exhibit a positive relationship with accrual ratio, indicating potential poor financial reporting quality. This finding agrees with the study conducted by Ibrahim and Abubakar [49] while negating Okwoma's assertions [20].

Again, the regression analysis shows a significant negative relationship between accrual ratio and innovation capacity. This negative relationship entails firms with higher R&D intensity tend to have lower accrual ratios, indicating better financial reporting quality. This could be because firms investing more in R&D might be focused on long-term growth and innovation rather than short-term earnings manipulation. This negative relationship also aligns with the assumptions of decision usefulness theory. High provision of information on innovation capacity, in this regard, might reduce accrual ratio. Firms with higher R&D intensity tend to have lower accrual ratios, suggesting better accrual quality and less earnings manipulation. This agrees with the findings of Mungai and Lee [53] and Wen [54].

Overall, the study's findings suggest that firms with certain attributes (larger size, lower leverage, higher innovation capacity) tend to have a lower accrual ratio, indicating more reliable financial reporting. This suggests that firm size, leverage, and R&D intensity impact accrual quality, with larger firms and those with higher R&D intensity exhibiting better quality, while highly leveraged firms exhibit worse accrual quality.

5. Conclusions and Recommendations

This study evaluated the effect of firm attributes on the standard of reporting finance by multinational firms in Nigeria. Literature on firm attributes and their effects on these standards was reviewed. Data on firm size, leverage, and firm innovation capacity were collated from the annual reports of 46 sample firms between 2011 and 2023. These data were analysed using a feasible generalised least squares regression analysis. As shown by the analysis, innovation capacity and firm size have a significant negative influence on accrual ratio of selected multinational firms in Nigeria. Firm leverage has a significant positive effect on accrual ratio.

The findings indicate that certain firm attributes (larger size, lower leverage, higher R&D) are associated with better accrual quality and, consequently, more reliable financial reporting. These study's findings highlight that firms with lower-quality financial reporting tend to carry higher risks of restatements, legal issues, or loss of investor confidence. The study concludes that some firms' specific attributes affect financial reporting quality. Large resources, scale of operation, and innovation capacity, while generally regarded as important features, may negatively impact the financial reporting quality if not effectively managed. Conversely, low leverage may be a factor in financial reporting. Therefore, careful consideration should be given to these firms' specific attributes.

Based on this, the following recommendations were made: Firstly, firms with large assets should prioritise their strategies to ensure continued quality financial reporting. Investment in more sophisticated financial reporting systems should be on a continuous basis and in relation to current accounting issues and complex financial operations. Secondly, firms need to maintain a manageable level of leverage. While the use of leverage in a firm may be beneficial to some extent, its use should be within industrial standards. Managing firm leverage effectively is therefore critical to ensuring quality financial reporting. Thirdly, there should be a balance between firm size, leverage, and investment in innovation capacity with strong financial control. This will help ensure the responsible use of leverage, match increased firm size with efficiency, and align investment in innovation with firms' long-term strategy and goals.

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