Vol.7 Issue.4 December 2022

RSEP Review of Socio - Economic Perspectives
ISSN: 2149 - 9276
E-ISSN: 2547-9385

Income smoothing and performances of enterprises: A study of manufacturing firms in Nigeria

Sani Alfred Ilemona[1,•]
[1] *Department of Accounting, Federal University Kashere. Gombe State, Nigeria*

Article History

Received: 15 July 2022 Revised: 10 November 2022 Accepted: 1 December 2022 Available Online: 5 December 2022

Keywords: income, smoothed, performance, businesses, financial statement.
JEL classification: L21; L25; M41

Citation: Ilemona, S.A. (2022). Income smoothing and performances of enterprises: A study of manufacturing firms in Nigeria, *Review of Socio-Economic Perspectives*, 7(4), 75-85.

Abstract

The study examined income smoothing and performance of enterprises: A study of manufacturing firms in Nigeria. The objective is to determine whether income smoothing has relationship with performance of businesses taking a study of manufacturing firms in Nigeria. Using purposively sampling, technique data for five years (2017-2021) on Market Value Per Share (MVPS), Earnings Per Share (EPS), Net Assets Value Per Share (MVPS), Earnings Per Share (EPS), Net and Income (NI) were obtained from the annual reports of selected 20 manufacturing firms quoted on Nigerian Stock Exchange (NSE) as at 31st December, 2021. The analysis of the data was done using correlation and regression methods. Further, F-test statistics was done to compare variance obtained from the grouped sample. It was found that relationship exist between income smoothing and performance of manufacturing business, it was also found that firms in the high sales bracket presents less variable income numbers in their financial statements implying smoothed income than those manufacturing enterprises in the low sales bracket. The study recommends engagement of qualified and skilled auditors to investors for proper analysis of financial statements of enterprises for identification of smoothed income in the financial statements which in some cases are done fraudulently.

1. Introduction

One of the key benefits of accrual based accounting system of International Financial Reporting Standards (IFRS) is its application of accounting principles that allow estimates and personal judgments in financial reporting. The application of the accounting system helps users of financial information in assessing the economic performance of an entity during a period. With the use of estimates and personal judgment, management can apply control over records of transactions and prepare reports based on their taste and choice (Mooren and Harnby, 2016). The taste and choice of management in financial report preparation are usually made in order to reduce fluctuations in earning from one period to another as a way of managing expectations. The management of expectations involves moving revenues and expenses from one accounting period to another with management intention to level fluctuations in net income from different reporting periods purposely to attract investors (Leonard & Allen, 2017). Income leveling or smoothing is a means to woo investors and they (investors) are usually willing to pay a premium for stocks with steady and predictable earnings streams as opposed to stocks of companies with unstable and volatile earnings pattern. A company that shows consistent returns from year to year is likely to attract more investments as the investors will be comfortable seeing steady returns on their investments (Lawrel & Patrick, 2018). Investment is key in micro and macro economic growth and volatility in earnings of enterprises is a deterient to this growth variable as such, companies, engage in income smoothing especially under the IFRS reporting regime to attract investors (Richard & Ocleam, 2016).

• **E-mail:** saniilemona@gmail.com & **ORCID:** https://orcid.org/0000-0001-7007-5268

DOI: https://doi.org/10.19275/RSEP143
Article Type: Original Paper

However, as advantageous as income smoothing is to a business strategy for investment attraction and growth, it is often used fraudulently and in a reverse manner detrimental to stockholders (Howski & Pencer, 2015). The reversal usage of income smoothing resulted in pursuit of interest has led to erosion of confidence of investors and collapse of many corporate organizations like Enron, Global crossing, Worldcom, Krispy Krene and others in some of these developed nations (Forllen & Garthmer, 2016 and Brainner & Fitzer,2017). In Nigeria, fraudulent reporting of earnings in the disguise of income smoothing brought transparency reporting and performance of banking industry into question in the 1990s and early 2000s when many of them went into liquidation. Though sometime, income smoothing can be used as a managerial tool to display unrealistic performance of an enterprise, but then, if accounts are smoothly prevented with focus on transparency reporting using accounting principles such as compliance and identify permitted by Generally Accepted Accounting Principles (GAAP) and (IFRS) information rolled out in such accounts and reports can impact positively on market valuation of the enterprise useful for investment purpose.

The manufacturing industry is a critical component of the real sector of the Nigerian economy. The sector is significant in growth of the economy in terms of production and employment generation for which the participation of investor is key. Unfortunately, the sector is freighted with a myriad of operational difficulties that usually culminate into volatility of earnings. In the midst of these difficulties, it would not be out of place for managers these enterprises in an opportunistic behaviour engage in earning management/income smoothing mechanisms to influence the market value of their businesses in a bid to attract investors (Welldon & Jacklin, 2018). However, while Gilbert and Njoku (2020) and Dosunmu and Nabbo (2020) are of the view that the moderation of year to year fluctuations' in the income/earnings of many enterprises in Nigeria has helped in boosting their performance, authors such as Kuta and Dulora (2020) and Yunusa and Gana (2021) argued on the contrary that income smoothing is of no help to businesses in Nigeria particularly manufacturing enterprises as many investors see income smoothing as a means to dampen the volatility of underlying performance noting that reporting company's smoothed earnings is a deceptive practice as the act decreases predictability of future earnings. Colloborating the views of Kuta & Dulora, 2020; Yunsa & Gana, 2021) Ulenuga and Okheimen (2021) opined that doubts of investors on growth prospects of manufacturing enterprises in Nigeria are on the increase of which no managerial skills of accounting nature including income smoothing can erase.

It is against the backdrop of the contradicting views about the impact of income smoothing that paper has its objective to determine whether income smoothing has any relationship with the performance of especially manufacturing enterprises in Nigeria essentially in terms of meeting the yearnings of investors/fund providers.

2. Literature Review and Hypotheses Development

2.1.Conceptual Review

Firm performance (FP): A performing enterprise from funds suppliers or investors point of view is that enterprise with consistent increase in earnings from year to year (Pedro & Zedder, 2016). For them (investors), it is the level satisfaction of their wealth maximization goal and stability of increased earnings that matter most in the performance index of an enterprise. Thus, Parazelin and Lockney (2016) viewed a performing firm as the enterprise that consistently create value addition and meeting the expectation of the shareholders in terms of wealth maximization. In wealth maximization, shareholders or stockholders are keen on the yield of their investment and variables such as Market Value Per Share (MVPS), Earning Per Share (EP), Dividend Per Share (DPS) Net Asset Value Per Share (NAVPS) Net income scaled by total Assets as indices of performance (Dorthey 2015:; Morren & Hardler, 2016; and Schoola & Tucklern, 2018).

Market Value Per Share (MVPS): The MVPS of a company is the price at which the share of a company can be acquired in the market place particularly at the stock exchange market (Harvey & Arthur 2017). The price varies throughout a trading day as determined by the forces of demand and supply. The MVPS of a company is a good indication of investors' perception about the prospects of the business (Nicmas & Damien, 2018). The share value is determined by multiple of values accorded by investors such as price-to-sales, price to earnings, value to earnings before interest and taxes and so on (Nicholas, 2017). The higher the valuation, the higher the market value of share.

Earnings Per Share (EPS): it is a company's profit divided by outstanding shares of its common stock (Polycarp, 2018). The resulting number serves as an indicator of company's profitability. EPS indicates how much money a company makes for each share of its stock and it is widely used as a metric for estimating corporate value (Khante & Canon, 2016). A higher EPS indicates greater value because investors will pay more for a company's share if they think a company has a higher profit.

Dividend per Share (DPS): This refers to the dividend declared by a company for every ordinary share outstanding (Brein, 2016). DPS is arrived at by dividing the total dividends paid out a business over a period of time usually a year including interim dividend by the number of outstanding ordinary shares issued (Kennol &

Gregory, 2017). DPS is an important metric to investors because the amount a firm pays out in dividends directly translates into income for shareholders.

Net Asset Value Per Share (NAVPS): it is the net assets (Total assets on statement of financial position less total liabilities) divided by the number of equity shares in issue (Syllen & Hogler, 2018). Assets include total market value of investment, cash and cash equivalent, receivables and accrued income. Liabilities on the other hand include total short-term and long term liabilities plus(+) accrued expenses such as staff salaries and other operational expenses. An increase in NAVPS by means such as buyback may lead to an increase in the market value of a company's shares (Desmond & Elliot, 2017).

Net Income (NI): NI represents the overall profitability of a business after all expenses and costs have been deducted from total revenue (Burnkyn & Singer, 2016). NI, also referred to as the net profit or the bottom line generally refers to all monies that flow into a business minus all monies that flow out (Doonor, 2017). For a manufacturing enterprise, the major source from where income is derived is sale of goods of which the number of Sale Outlets (SOTLTs) are the determinants of the quantum of income revenue that comes in or the inflows. A part from the product sale other sources of revenue for manufacturers include interest income from investment income realized from sale of assets and other revenue sources perculiar to a manufacturing outfit (Gimtha & Edvin, 2016). The revenues from all sources constitute the total revenue from all operating expenses are deducted to arrive at the NI. Therefore the simple formular for NI calculation is Total Revenue – Total Expenses (NI = TR – TE) expanded as NI = TR – (Taxes + operating costs + Depreciation + Other expenses) (Kleiffer & Leonard, 2015; Dyer & Arnold, 2017 Harman & Gurceno, 2019).

Income Smoothing (IS): It is the use of accounting techniques to level out fluctuations in the NI of a business from (Leonard & Peck , 2015). The technique can sometime be used illegally or fraudulently by management and can also be used or deployed legally within the guidelines permitted by Generally Accepted Accounting principles (GAAP) (Leonard & Peck, 2015). It is part of earnings management that involves moving revenues and expenses around by business manager in order to help investors better predict future performance (Kent & Armon, 2016). Example of IS technique is revenue deferring during a good year where it is anticipated that the following year it could be difficult or deferring recognition of expenses in a challenging year in anticipation of improved performance in the near future.

Broadly classified into two, IS can be either natural or designed. Natural IS an embedded opportunity in operations of a business that creates smooth flow of income without manipulation of profits (Flywood & Nee, 2017). This type of smoothing is not part of earnings management in actual sense as it does not involve income or profit manipulation. On the other hand, designed or intentional smoothing is earnings management which occurs when managers use their personal judgment in financial reporting to manipulate structure of equations in order to change the financial reporting (Wright & Malta, 2016). Further, the designed or intentional smoothing could be real or artificial. Real IS refers to techniques of business managers implemented to smooth income with the end result of reducing cash flow volatility (Ornell & Berth, 2016). The technique of real IS typical of manufacturing organization according to Robert and Sleck (2017) include manipulation of sale through accelerating the timing of sales, creation of over production and credit conditions with falling prices and engaging in excessive production in order to report lower cost of goods sold etcetera. These according to Robert and Sleck (2017) are risky IS to derive assurances among customers and suppliers in anticipation of higher growth prospects.

Artificial Smoothing (AS) refers to accounting technique undertaken to shift revenues and costs from one period to another with no direct cash flow consequences (Silkert & Sarthurt, 2016). Examples of AS according to Murrey and Porter (2018) include shifting costs between expenses and capital accounts, timing of discretional expenses such as payment of bonuses, timing of sales of investment, changing of accounting principles examples from Weighted Average method to First-In –First-Out (FIFO) method etcetera. Implementation of any of these techniques is capable of reducing the variability of reported earnings by exercising discretion over financial reporting. Generally, the aim of implementation of AS is that business managers can use their discretion to communicate private information hypotheses (Muller & Oliver, 2015). It is in view of this communication of private information which can sometime be a mere desire to inform or cover up the true performance of a business that IS performance index, Eckel's IS index formular and analytical procedures have been developed for IS detection.

Eckel's index formular is a mathematic representation involving percentage changes in profit and sales of firm that shows smoothing (Younis, 2018 cited in Emad, Wasan & Laith, 2020). The formular is depicted as CV∆%

Net profit $\leq$CV∆% sales= smoothing where: CD∆% Net Profit = Net Profit – Net Profit -1/Net Profit – 1or CV∆% sales = Revenue – Revenue – 1/Revenue -1. If the result from the formular above is less than 0.9, it is an indication that the company performs smoothing and if the index is greater than 1.1, it show no smoothing is performed (Emad, Wasan& Laith, 2020).

The analytical procedure for IS detection are the basic tests that auditors use in studying and evaluating the relationship between financial and non-financial data and comparing these relationship to find deviations. Analytical procedure was statistical and mathematical tools such as financial ratios analysis, trend analysis, regression analysis and indicators analysis (Valaskova, Kliestik & Kovacova, 2018). A careful analytical procedures of auditors using these rations will help in identifying any significant or material deviations in financial statements signifying that the information have been smoothed

3. Empirical Review

In literature, the value of a firm and performance are largely based on the amount of revenue earned and the financial information that its accounting numbers represent during a period (Teoax & Edward, 2018). There are studies conducted on IS. For instance, Krama and Mrthlau (2017) carried out a study on value relevance of IS in the banking sector of Ghana. The study employed pooled regression technique of ten (10) banks from 2012-2016. Findings revealed a significant correlation between IS and adjusted returns of the banks. Similarly, Bayel and Perlyman (2018) in their study on the effect of IS on share prices of Kenyan firms in the service industry and Tharile and Domlan (2019) in a study of IS and performance of Rwandan firms, found out in their studies that IS has significant influence on stock prices and EPS of the firms. Stock prices and EPS are strong indicators/metrics of firms' value and critical for investment decision.

In the UK, Donley and Cohen (2019) analysed the impact of earning management activities on stock prices and investment decision. The study was conducted among the service industry between 2018 and 2019. Firstly, they found evidence of positive relationship between earning management and investment profile in the industry and secondly they also found a positive influence of earning management on stock prices of the companies. The positive influence of IS/earning management was further confirmed in a study of Baron and Thompson (2020) that investigated the moderating effect of IS on performance and predictability of future earnings. Data for the study were obtained from 1200 companies in UK from 2015 – 2019. IS was measured by changes in firms' NI compared to changes in discretionary accruals (difference between operating cash flows and accounting profits). The results of panel analysis and Ordinary Least Square (OLS) model indicated that as shareholdings increase, the association between IS and predictability of future earnings increase. The findings implies that shareholding is the key motivating factor that make mangers to use IS to report earning according to their taste for the purpose of influencing investors.

The study of Rothman and Graham (2020) provide evidence that slightly differ from the findings of (Krama & Murthlau, 2017; Bayel & Perlyman, 2018; Donley & Cohen, 2019; Tharile & Domlan, 2019 and Baron & Thompson, 2020) that examined the impact of IS and performance of firms; A comparative analysis of discretionary and non-discretionary accruals methods. In analysis of impact of IS on the performance of 200 firms in USA for two years -2018-2019, it was found that while positive relationship exist between usage of discretionary accrual method of IS and performance of firms, non-discretionary accrual method of IS is limited due to industrial regulations and as such is incapable of influencing share prices and investment decisions of investors. However, the findings from the study of Bryan and Herfrey (2020) on the influence of discretionary accruals of IS on the performance of firms differ from that of Rothman and Graham (2020) where in a study of 250firms in China found out that the usage of IS practice by managers have impaired the ability of investors to correctly predict future performance and earnings of the firms. Similarly, Burnner and Synord (2021) in their study of the relevance of IS on stock prices of firms found that IS is weak and a means of fooling the market as there is no correlation between share prices and actual performance of firms .It is against these contradictory findings that the following hypotheses were formed to guide this study:

Ho_1: There is no relationship between income smoothing and market value of manufacturing firms in Nigeria

Ho_2: The incidence of income smoothing is not related to increase in sales of manufacturing firms in Nigeria

4. Theoretical Framework

The study is anchored on income and dividend smoothing theory propound by Miller and Modigliani in 1961. The theory postulates that firms adjust dividend payment in response to changes in earnings and the value of speed of adjustment coefficient that C_i is within the range of $O<C_i$ (zero less than adjustment coefficient) the theory closely related to that dividend signaling suggests that the amount a company pay as its dividend is always in response to earnings and management would engage in income smoothing using applicable accounting rules to satisfy the yearnings of investors. Investor's satisfaction is critical to managers as shareholders always consider a company paying high dividends to be more profitable than those paying smaller dividends. The general assumption of the theory is that the aim/goal of income and dividend smoothing is to satisfy the expectation of investors and other business stakeholders. Investors do often ascertain the extent to which their

expectations of are meant by monitoring a company's cash flow to see how much cash they generate from operation (Christen & Harris, 2016). If a company is profitable then it should generate positive cash flow and have enough funds set aside in retain earnings to pay out or increase dividends (Hallison & Dodhar, 2017).

The relevance of the theory to the study stems from its assumption and emphasis on dividend payment in response to income generated from operation often smoothed to meet the yearnings of investors.

5. Methodology

This section describes the method used in carrying out the study and the procedure adopted in data collection. The study covered manufacturing companies quoted on Nigerian Stock Exchange (NSE) as at 31st December, 2021. Out of 43 of them, a sample of 20 were purposively selected. Using a five year (2017-2021) annual reports, data on the MVPS, EPS, DPS, NAVPS and NI of the selected companies were obtained. The analysis of the data was done empirically using correlation and regression method/technique. Further, F-test statistics, was done to compare the variances obtained from the samples.

5.1. Model Specification

The econometric equations depicting the relationship between the variables are as follows:

Model 1: $$NI_{it} = \alpha_0 + \mu_1 + CNI_{it} + \alpha_1 S_{it} + \alpha_2 NOS_{it} + \alpha_3 SOLTs_{it} + \varepsilon_{it}$$

Model 2: $$MVPs_{it} = \alpha_0 + \mu_1 CNI_{it} + \alpha_1 EPS_{it} + \alpha_2 DPS_{it} + \alpha_3 NAVPS_{it} + \varepsilon$$

Model 3: $$\frac{n\sum CNI_i^2 -}{N(N-1)}$$

Where: S = Sales, NI = Net Income, $MVPS_{it}$ = Market Value Per Share for Firm i in year t., EPS_{it} = Earnings Per Share from i in year t., DPS_{it} = Dividend Per Share for Firm i year t, .NAVPS =Net Asset Value Per Share for Firm I in year , CNI_{it} = Change in Net Income for Firm i in year t, NOS = Number of Shares, SOLTs= Sale Outlet of a Firm, E = Error Term, N = Number of branches of a Firm

6. Results and Discussion

Table 1: Correlation between change in Net Income and other Performance Variables

	MVPS	CNI	EPS	DPS	NAVPS
Pearson correlation	1.00	0.625	0.440	0.436	0.514
Sig (2 tailed)		0.052**	0.001*	0.005*	0.011**
N	20	20	20	20	20
Pearson correlation	0.612	1.00	0.528	0.493	0.578
Sig (2 tailed)	0.001*		0.052**	0.005*	0.0001*
N	20	20	20	20	20
Pearson correlation	0.545	0.326	1.00	0.511	0.472
Sig (2 tailed)	0.053*	0.125***	0.171***	0.039**	0.101***
N	20	20	20	20	20
Pearson correlation	0.416	0.645	0.502	1.00	0.417
Sig (2 tailed)	0.019*	0.0055**	0.168***	0.121***	0.0533**
N	20	20	20	20	20
Pearson correlation	0.673	0.512	0.659	0.511	1.00
Sig (2 tailed)	0.115***	0.057**	0.013*	0.051**	0.018*

N	20	20	20	20	20

Computation using SPPS version 2018.

***Correlation significant at 10 percent level, **Correlation significant at 5 percent level and *Correlation significant at 1 percent level

The correlation matrix in table 1 showed that all the variables are positively associated all the variables are positively associated and are significant at either 1 percent; 5 percent and 10 percent for a two-tailed test. The highest correlation occurred between MP and EPS (0.673 and 0.659). Further, the positive signs of the values indicate the importance of the variables in performance assessment of the firms by stakeholders particularly investors. Further, the coefficient values are less than 0.7 confirming the absence of multicolinearity among the variables.

Table 2: Regression of MVPS on Income Smoothing

Variable	Coefficient	Std. Error	Z	P>/z/	Prob
CNI	0.475985	0.198310	2.036410	0.01581	0.000
NOS	0.583958	0.175927	2.977736	0.01264	0.000
EPS	0.642354	0.193518	3.149196	0.38318	0.000
DPS	0.610237	0.254243	2.314101	0.01565	0.000
NAVPS	0.501036	0.150944	2.456373	0.015167	0.000
C	5.692425	0.702136	6.420922	0.43012	0.000
R-squared	Within 0.4458		Number of obs		20
	Between 0.2094		Number of groups		2
	Overall 0.5108		Obs per group (min)		1
Corr (u,i,x)	0		Avg		1.5
Sigma u	0.287332		Max		2
Sigma e	0.308786		Waldchi 2(3)		19.87
Rho	0.801594		Prob>chi 2		0.001

Source: STRATA version 12 Output

Table 2 presents the regression result of MVPS on change in NI on the performance variables. The calculated probability (p>/z/) value for the variables (CNI, MP, NOS, EPS, DPS and NAVPS) are greater than 1.96 (z.> 1.96) at 5 percent (α0.05) significant level or 95 percent confidence level for a two-tailed test. Therefore, the first null hypothesis of the study is rejected. This implies therefore that there is a relationship between IS and MVPS. This result is consistent with Golbert and Njoku (2020) and Dosunmu and Nabbo (2020). Further, the overall coefficient of determination (R^2) value of 0.51 is an indication that 51 percent variation or change in NI of the firms are associated with management acts to improve companies MVPS, NOS, EPS, DPS and NAVPS to satisfy investors.

Table 3: F-Statistical Test for Active and Non-Active Stocks

	Firms with Active Stocks	Firms with Non-Active Stocks
Mean	-0.41823	-0.79722
Variance	2.86750	4.19973
Observations	9	11
DF	8	12
F	0.64864	
P(F-Stat<f)	0.23273	

Source: SPSS version 18 output.

Table 3 presents variability of change in NI for manufacturing firms with active stocks and those with non-active stocks. The results indicated that the variance for firm with non-active stocks at approximately 4.2 is greater than the variance for firms with active stocks at 2.9 approximately. This implies that firms with active stocks are more likely to engage in income smoothing as means of providing continuous assurances to investors of performance and stability of earnings at all times including periods of low income. Investors are always interested in stability of their investments and earnings of companies they have committed their funds.

Table 4: Correlation between Sales and Change in Net Income

	Sales	CNI	SOUT
Pearson correlation	1.00	0.421	0.694
Sig (2-tailed)		0.182***	0.0576**
N	20	20	20
Pearson correlation	0.587	1.00	0.522
Sig (2-tailed)	0.014**	0.056**	0.001*
N	20	20	20
Pearson correlation	0.611	0.468	
Sig (2-tailed)	0.051**	0.030**	0.001*
N	20	20	20

Source: Computation using SPSS version 18

***Correlation significant at 10 percent level,**Correlation significant at 5 percent level and *Correlation significant at 1 percent level.

The matrix in tables showed the correlation between the variables in a 2-tailed test. The figures indicated that a positive association/relationship exist between all the variables (Sales (S), CNI and SOLTs). The positive signs of the values showed the importance of the variables especially S and SOLTs in terms of their quantum in assessing the performance of a firm.

Table 5: Regression of Gross Sales on Income Smoothing

Variable	Coefficient	Std. Error	Z	p>/z/	Prob
S	874.7505	110.1876	2.957	0.01613	0.000
SOLTs	219.8004	88.1470	2.3665	0.0129	0.000
C	1948.972	2476.070	2.780	0.391	0.000
R-Squared	Within 0.1835		Number of obs		20
	Between 0.2781		Number of groups		2
	Overall 0.4623		Obs per group (Min)		1
Corr (u,i,x)	0		Avg		1.5
Sigma u	0.3516.068		Max		2
Sigmae	0.2755.276		Waldchi 2(3)		19.87
Rho	0.721435		Prob>chi 2		0.001

Source: STRATA version 12

Table 5 presents the regression analysis of gross sale being a major source of income for manufacturing enterprise on income smoothing. The calculated probability values for the variables (S and SOLTs) are greater than 1.96 (<> 1.96) at 5 percent (α0.05) level of significance or 95 percent confidence level for a two-tailed test. Therefore the second hypothesis of the study is rejected. This implies that the implementation or incidence of IS is related to the sales value in financial reports of the companies. Further, the overall value of the coefficient of determination (R^2) at 0.46 approximately signifies that 46 percent variation in NI of the enterprises is accounted for associated with IS.

Table 6: Analysis of variability of change in Net Income for the selected Manufacturing Firms

	High Sales	Low Sales
Mean	-0.46516	-0.82199
Variance	1.85249	4.96912
Observation	07	13
Df	12	15
F	0.3691	
P(f<=f) 2 tailed	0.231	

Source: computation SPSS version 18

Table 6 presents the variability of change in NI for manufacturing companies with high sales and those with low sales. The categorization into high and low sales groups is based on sales volume. Those enterprises with sales volume in billions of naira and above in a year are in the high sales group while those in with sales volume in millions of naira but less than billions of naira in a year are in the low sales groups. From the table, the variability of change in NI of manufacturing enterprises recording high turnover is smaller than those enterprises recording low sales. This therefore implies that manufacturing firms recording high sales present less but variable but smoothed income numbers in their financial statements than those recording low sales.

7. Conclusion and Recommendations

Income smoothing has always been an intentional interference of management in external financial reporting with intent to woo investors. However, the relevance of IS in enhancing the performance of companies in a bid to attract investors has always been in doubt in Nigerian business environment. The study therefore investigated the relationship between IS and performance of manufacturing enterprises in Nigeria. Data for the study were obtained from annual financial statements of 20 Purposively selected manufacturing companies quoted on Nigerian Stock (NSE) as at 31st December, 2021. Result of variability analysis of changes in NI Shows that manufacturing firms in high sales bracket present less variable income numbers in their financial statements than those manufacturing enterprises in low sales bracket. Further, the F-statistical test for and non-active stocks provides evidence that firms with active stock profile presents less variance in their financial statements than those companies recording non-active stocks. This is consistent with the earlier results of variability analysis of changes in NI. Generally, IS though legal if the accounting techniques used are within the guidelines of GAAP, it can be performed fraudulently for desired result to the disadvantage of investors' ability to assess performance and correctly predict future earnings of business entities. It is in view of this that the following recommendations are put forward as a guide to investors:

(i) Engage the services of qualified, competent and skilled and auditors to use models especially that of Eckel's and to also perform various analytical procedures for evidence of income smoothing in financial statement of enterprises before investment.

(ii) In case of company's performance in terms of consistent rising income suspected to be smoothed, investors (actual and potential) should do well to carefully check Chief Executive Officers (CEOs) or Directors' relative holdings of options and stocks. If the options dominate, it is always advisable to proceed to invest in the company because of the numerous advantages of holding of options compared to that of holding investments in stocks.

References

Baron, O.T & Thompson, A (2020) Income smoothing and earning management and impact on investment decision. *Journal of Entrepreneurial Finance and Management 11*(1) 307-319

Bayel, N.L & Perlyman, C (2018) Determinants of Corporate performance: An analysis of investors perspectives. *Journal of Business and Management Studies 3*(2), 98-110.

Brainner, D & Fitzer, O.O (2017) Income smoothing quality and stock performance predictions. *Journal of Financial and Entrepreneurial Research, 9*(3), 75-87.

Brein, M.G (2016) Earnings reporting under IFRS and benefits to cash flow. *Journal of Management Accounting and Social Sciences 4*(2), 192-205.

Bryan, P & Herfrey, S (2020) Value relevance of accounting information: An analysis of effect of income smoothing. *Journal of Entrepreneurial Finance and Management 2*(1), 39-51.

Burner, W.T & Synord, E (2021) Artificial Vs natural income smoothing: Effect analysis of the two on business performance. Journal of Financial and Corporate Studies 12(2), 216-228.

Burnkyn, A & Singer, F.L (2016) Earnings manipulation and effects on investors' decision. *Journal of Management, Economics and Entrepreneurship Finance 3*(1), 81-93.

Christen, T & Harris, I.O (2016) Effects of income smoothing on earnings quality. Journal of Accounting, Management and Entrepreneurial Research Studies 2(2), 57-68.

Desmond, B & Elliot, K (2017) Earnings informativeness and hindrances to ideal investment decision. *Journa lof Accounting, Management and Economic Research, 4*(2) 103-117.

Donley, M.M & Cohen, D.B (2019) Earnings Management: A veritable to wooing investors. *Journal of Management and Business perspectives 1*(1), 148-159.

Dosunmu, V & Nabbo, C.H (2020) Income smoothing: An overview of discretionary accruals: *Journal of Finance Entrepreneurship and Auditing 1*(4) 273-285.

Doonor, S.B (2017) Income smoothing. Is it a tool of management to report unrealistic performance of a business? *Journal of Business and Management Accounting Research, 3*(3), 227-239.

Dorthey, R (2015) the intricacies of earnings smoothing: Who benefits? *Journal of Entrepreneurship Studies and Finance 2*(5), 98-111.

Dyer, W & Arnold, G.I (2017) Income smoothing and rational investment behaviour. *Business and Management Review 7*(4). 139-151.

Emad, K, Wasan, Y.A & Laith, J.K (2020) Measurement and analysis of income smoothing using Eckel's model and analytical procedure. *International Journal of Innovation, Creativity and Change, 13*(3), 1153-1171.

Flywood, C.K & Nee, L.T (2017) Income smoothing: Detection models and impact on investment decisions: *Journal of Management Research and Economy 6*(1), 119-132.

Forllen, R & Garthmer, A (2016) Income smoothing rationality: The losses decreases perspective. *Journal of Finance and Entrepreneurial Science 3*(4), 204-217.

Gilbert, P.N & Njoku, E (2020): Corporate performance: the two competing explanations for income smoothing. *Journal of business finance and management 8*(2), 361-373

Gimtha, U.W & Edwin, I.C (2016) Effect of income smoothing on volatility of earnings: An analysis of investors options. *Journal of Entrepreneurship Finance and Management 2*(6), 56-67.

Hallison, R.Z & Dodharm, V.A (2017) Income smoothing and effects on organizational growth. *Journal of business management and economics 2*(1), 236-247.

Harman, J.O & Gureceno, C (2019) Earnings management. The choice between accounting methods and mere manipulation. *Journal of Business Research Studies 1*(5), 69-81.

Harrey, Y & Arthur, B (2017) Income smoothing and firm value. *Journal of Accounting, Management and Economics 3*(4), 112-121.

Kennol, O.B & Gregory, H (2017) Business information and individual investment decisions. *Economy and Socio-Political Review 4*(6) 287-298.

Kent, F.B & Armin, T.A (2016) The persuasive theory of income smoothing. The principal problem. *Finance and Entrepreneurship Review 2*(7) 59-71

Khante, N & Canon, S.K (2016) Income smoothing, corporate transparency and firm value. *Journal of Business and Management studies 5*(4), 139-152.

Kleiffer, Y.I & Leonard, H.H (2015) Income smoothing interrocation: How to make good investment decisions. *Journal of Entrepreneurship Research and Economy 3*(6) 321-332

Krama, A.P & Murthlau, Z.D (2017) Towards a positive theory of earning management for investors' decisions. *Journal of Contemporary Studies in Finance and Business 8*(2), 207-221.

Kuta, U,F & Dulora, M (2020): Investment decision: Fundamental information analysis. *Journal of Business, Management and Financial Studies 4*(1), 141-153.

Lawal, D & Partrick, W (2018) Testing for income smoothing: A personal assessment using analytical tools. *Journal of Financial Management and Psychology Studies 2*(6), 61-75.

Leonard, T.H & Allen, V (2017) Effects of earnings management on firms' market performance. *Journal of Strategic Studies and Accounting 11*(3), 195-206.

Leonard, E.A & Peak, H.G (2015) Theoretical development of earning management. *Journal of Managementand Entrepreneurship Finance 4*(4), 122-134.

Lowski, R.F & Spencer, E.W (2015) Income smoothing as a legal option for wooing investors. *Contemporary Studies in Entrepreneurship Financial Management 1*(8), 41-53.

Mooren, O & Hornby, R.M (2016) Income smoothing and management behaviour. The congruence analysis of investors' perspective. *Journal of Business Finance and Economics Studies 2*(7), 58-69.

Morren, L.B & Hardler, S (2016) Income Smoothing and performance of corporate entities: The moderating effect of management characteristics. *Journal of Financial Management and Entrepreneurship Research 5*(3), 136-148.

Muller, A & Oliver, O.C (2015) Income smoothing: IS it contract or financial reporting: An analysis of the pros and cons of the two. *Finance, Management and Entrepreneurship Review 1*(4), 108-119.

Murrey, T & Porter, N (2018) Income smoothing: Am examination of the benchmark for organizations'earnings management. *Contemporary Studies in Entrepreneurship and Financial Management 4*(2), 231-244.

Nicholas, H.R (2017) Income smoothing: An analysis of corporate risk reduction relevance of the concept. *Journal of Management Entrepreneurship and Psychology Research 3*(1), 87-101.

Nicmas, O.R & Damien, K (2018) Investors' expectations: Tracing the causes and consequences of earnings manipulation. *Journal of Business Management and Research Studies 3*(3), 62-74.

Ornall, B & Berth, W.A (2016) Income smoothing theory: An assessment and Review. *Accounting Management and Entrepreneurship Review 2*(8) 126-139.

Parazelin, E & Lockey, D (2016) Incentives for investment. *Journal of Economics and Psychology of Entrepreneurship 1*(2), 379-392.

Pedro, H & Zedder, I (2016) Management intuition and impact of income smoothing. *Journal of Development Studies in Accounting and Finance 6*(4), 38-51.

Polycarp, S.C (2018) Income smoothing and Business growth: Effect of shareholders' valuation. *Journal of Social, Management and Entrepreneurship Research, 3*(1), 1121-1134.

Richard, T.L & Oclean, F (2016) Earnings management: It is a managerial strategy to fool the market? *Journal of Social Business and Economic Research 10*(2), 143-156.

Valaskova, K, Kliestik, T & Kovacova M.J. O.C (2018). *Management of financial risks in Slovak enterprises using regression analysis 9*(1), 105-121.