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Accounting Practices and Financial Performance of Quoted Manufacturing Firms in Nigeria: Evidence from Revenue Recognition, Inventory Valuation and Depreciation Practices

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ABSTRACT **Original Research Article**

This study examines the relationship between selected accounting practices and the financial performance of quoted manufacturing firms in Nigeria. The study focuses on revenue recognition practices, inventory valuation methods and depreciation practices, with return on assets (ROA), operating profit margin (OPM) and return on equity (ROE) serving as the respective performance indicators. An ex-post facto design was adopted, using secondary information derived from the published financial reports of selected quoted manufacturing firms. The reported sample comprises Lafarge Africa Plc, BUA Group and Dangote Group. Descriptive statistics, correlation analysis and simple regression models were employed. The reported results indicate positive and statistically significant relationships between revenue recognition practices and ROA ($R = 0.748$; $R^2 = 0.559$; $\beta = 0.580$; $t = 5.999$; p < 0.001), inventory valuation methods and OPM ($R = 0.786$; $R^2 = 0.618$; $\beta = 0.691$; $t = 6.118$; p & lt; 0.001), and depreciation practices and ROE ($R = 0.804$; $R^2 = 0.646$; $\beta = 0.742$; $t = 6.761$; p & lt; 0.001). The findings suggest that accounting policy choices and their implementation are associated with reported financial performance in the firms covered by the study. The study recommends stronger compliance with applicable financial reporting requirements, robust internal controls over revenue recognition, effective inventory systems, and periodic review of depreciation policies. Because the source manuscript does not state the exact study period and contains some inconsistencies in the reported regression tables, the numerical findings should be checked against the underlying dataset and statistical output before journal submission.

Keywords: Accounting Practices, Revenue Recognition, Inventory Valuation, Depreciation, Financial Performance, Quoted Manufacturing Firms, Nigeria.

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Introduction

Financial performance represents the extent to which a firm converts its resources and operating activities into measurable financial outcomes. It is commonly assessed through profitability and return measures such as return on assets and return on equity. For users of corporate reports, these measures provide information about how effectively management deploys assets and capital and how successfully the firm generates returns.

Accounting practices are central to the production of that information. Revenue recognition determines when and how income is recorded; inventory valuation affects the measurement of inventories and cost of sales; and depreciation allocates the depreciable amount of long-lived assets over their useful lives. Consequently, accounting policies can influence both the reported financial position and the interpretation of operating performance.

The Nigerian manufacturing sector operates in an environment characterized by production-cost pressures, exchange-rate movements, regulatory changes and other macroeconomic conditions. Against this background, reliable and comparable financial reporting is important to investors, creditors, regulators and management. Weak or inconsistent accounting practices may impair comparability and may affect the interpretation of profitability and asset efficiency.

The study therefore evaluates three selected accounting practices—revenue recognition, inventory valuation and depreciation—and relates them to three financial-performance indicators among selected quoted manufacturing firms in Nigeria. The study is motivated by the need to provide firm-level empirical evidence on accounting practices rather than treating financial reporting quality only as a broad construct.

Objectives of the Study

1. To examine the effect of revenue recognition practices on return on assets of quoted manufacturing firms in Nigeria.
2. To assess the influence of inventory valuation methods on operating profit margin of quoted manufacturing firms in Nigeria.
3. To determine the effect of depreciation practices on return on equity of quoted manufacturing firms in Nigeria.

Research Hypotheses

$H0_1$: Revenue recognition practices do not have a significant effect on return on assets of quoted manufacturing firms in Nigeria.
$H0_2$: Inventory valuation methods do not have a significant influence on operating profit margin of quoted manufacturing firms in Nigeria.
$H0_3$: Depreciation practices do not have a significant effect on return on equity of quoted manufacturing firms in Nigeria.

Literature Review

Financial Performance

Financial performance reflects the financial results achieved by an organization over a specified period. The source study identifies ROA, OPM and ROE as key measures. ROA relates earnings to the asset base and therefore provides an indication of asset utilization. OPM relates operating profit to revenue and captures operating profitability. ROE relates earnings to shareholders' equity and indicates the return generated on owners' capital.

Accounting Practices

Accounting practices comprise the methods, policies and procedures used to recognize, measure, classify and disclose economic transactions. In the source study, the principal practices examined are revenue recognition, inventory valuation and depreciation. The choice and consistent application of accounting policies are relevant to the reliability and comparability of financial statements.

Revenue Recognition

Revenue recognition determines the conditions and timing under which revenue enters the financial statements. Appropriate recognition supports the matching of reported income with the economic activities that generated it and reduces the risk of distorted period-to-period performance measures.

Inventory Valuation

Inventory valuation determines the monetary amount assigned to inventories at reporting dates and consequently affects cost of sales and reported profit. In manufacturing businesses, where inventories can represent a substantial component of operating resources, valuation practices have direct implications for the measurement of operating profitability.

Depreciation Practices

Depreciation is the systematic allocation of the depreciable amount of a tangible asset over its useful life. The depreciation method, useful-life estimates and residual values affect periodic expenses, carrying amounts and reported earnings. These effects can consequently be reflected in profitability measures, including ROE.

Theoretical Perspectives

The source study draws on Positive Accounting Theory, Decision Usefulness Theory and the Resource-Based View. Positive Accounting Theory is relevant because managers may have incentives to select or apply accounting methods in ways that affect reported outcomes. Decision Usefulness Theory emphasizes the usefulness of relevant and reliable accounting information to investors, creditors and other users. The Resource-Based View focuses on firm resources and capabilities as potential sources of sustained performance. Together, these perspectives provide a framework for considering why accounting practices matter for reported performance and managerial decision-making.

Empirical Evidence

Prior studies cited in the source manuscript report mixed but generally relevant evidence on accounting systems, accounting policies, creative accounting and financial performance. John and Isamade (2021), for example, reported significant effects of selected accounting-policy disclosures on ROA among Nigerian firms. Ikeokwu et al. (2024) examined creative accounting and performance among quoted Nigerian manufacturing companies and reported significant relationships among the variables studied. Odukwu and Eke (2022) reported a significant relationship between selected financial information measures and

manufacturing-firm performance. Siyanbola et al. (2020) found a positive association between accounting information systems and SME performance. These findings support continued investigation of specific accounting practices in listed manufacturing firms.

Research Gap

The source manuscript identifies three principal gaps. First, much of the prior Nigerian literature examines individual accounting or financial-reporting issues rather than combining revenue recognition, inventory valuation and depreciation in a single analytical framework. Second, a considerable body of research addresses SMEs, banks, corporate governance or earnings management rather than quoted manufacturing firms. Third, prior findings are not fully consistent across accounting practices and performance measures. This study addresses these gaps by examining three specific accounting practices against three financial-performance indicators.

Methodology

Research Design

The study adopts an ex-post facto research design because it relies on historical financial information and does not manipulate the explanatory variables. The source manuscript states that the analysis is based on published annual reports and financial statements.

Population and Sample

The population is described as manufacturing firms listed on the Nigerian Exchange Group. Purposive sampling was used to select firms with complete financial information for the period covered by the study. The selected firms reported in the manuscript are Lafarge Africa Plc, BUA Group and Dangote Group. The manuscript does not state the exact study period; this should be inserted from the underlying dataset before submission.

Data Source and Analysis

Secondary data were obtained from published annual reports and financial statements. Descriptive statistics,

Pearson correlation and regression analysis were used. The reported regression results are based on 30 observations, as indicated by residual degrees of freedom of 28 in the three simple-regression ANOVA tables.

This observation count should be reconciled with the actual firm-year dataset before submission.

Model Specification

The analytical relationships reported in the source manuscript are:

$$ROA_{it} = \beta_0 + \beta_1 RRP_{it} + \varepsilon_{it}$$
$$OPM_{it} = \beta_0 + \beta_1 IVM_{it} + \varepsilon_{it}$$
$$ROE_{it} = \beta_0 + \beta_1 DP_{it} + \varepsilon_{it}$$

where ROA denotes return on assets; OPM denotes operating profit margin; ROE denotes return on equity; RRP denotes revenue recognition practices; IVM denotes inventory valuation methods; DP denotes depreciation practices; β_0 is the intercept; β_1 is the slope coefficient; and ε is the error term.

Results

Descriptive Statistics

Variable	Mean	Maximum	Minimum	Std.Deviation
ROA	12.48	28.61	4.12	5.83
OPM	18.36	35.74	6.41	7.22
ROE	16.92	38.15	5.23	8.10
RRP	14.27	29.33	5.74	5.41
IVM	13.16	26.20	4.65	4.92
DP	11.88	24.31	3.41	4.60

The reported descriptive statistics show variation in both accounting-practice measures and financial-performance indicators. ROA has a mean of 12.48, OPM 18.36 and ROE 16.92. Among the accounting-practice variables, RRP has a mean of 14.27, IVM 13.16 and DP 11.88.

Correlation Analysis

Variable	ROA	OPM	ROE	RRP	IVM	DP
ROA	1.000	0.621	0.584	0.748	0.541	0.490
OPM	0.621	1.000	0.713	0.615	0.786	0.552
ROE	0.584	0.713	1.000	0.592	0.503	0.804
RRP	0.748	0.615	0.592	1.000	0.432	0.405
IVM	0.541	0.786	0.503	0.432	1.000	0.467
DP	0.490	0.552	0.804	0.405	0.467	1.000

The reported correlation coefficients are positive for each accounting-practice/performance pair examined. RRP and ROA correlate at 0.748; IVM and OPM at 0.786; and DP and ROE at 0.804. Correlation does not, by itself, establish causation; the regression results are therefore considered separately.

Regression Results and Hypothesis Tests

Hypothesis	Dependent variable	Predictor	R	R^2	β	t	p
$H0_1$	ROA	RRP	0.748	0.559	0.580	5.999	<0.001
$H0_2$	OPM	IVM	0.786	0.618	0.691	6.118	<0.001*
$H0_3$	ROE	DP	0.804	0.646	0.742	6.761	<0.001

*The source document contains an apparent transcription inconsistency in the $H0_2$ coefficient table: one displayed cell reads "2.52", while the accompanying interpretation reports a probability value of 0.000. The table above follows the interpretation and the stated hypothesis decision, but the original statistical output should be checked before publication.

For $H0_1$, the reported model has R = 0.748 and R^2 = 0.559, with an ANOVA F-statistic of 35.998 and reported p & lt; 0.001. The coefficient of RRP is 0.580 (t = 5.999). On the reported evidence, the null hypothesis is rejected at the 5% level.

For $H0_2$, the reported model has R = 0.786 and R^2 = 0.618, with F = 37.421 and reported p & lt; 0.001. The coefficient of IVM is 0.691 (t = 6.118). On the reported evidence, the null hypothesis is rejected at the 5% level, subject to verification of the inconsistent probability entry noted above.

For $H0_3$, the reported model has R = 0.804 and R^2 = 0.646, with F = 45.712 and reported p & lt; 0.001. The coefficient of DP is 0.742 (t = 6.761). On the reported evidence, the null hypothesis is rejected at the 5% level.

Discussion of Findings

The reported positive association between revenue recognition practices and ROA indicates that variation in revenue-recognition practices is accompanied by variation in asset-based returns within the study sample. This result is consistent with the decision-usefulness perspective because the credibility and timing of revenue information affect the usefulness of reported performance measures.

The relationship between inventory valuation methods and OPM is also positive in the reported results. Because inventory valuation affects cost of sales and the measurement of operating profit, differences in valuation practices can be reflected in operating-margin calculations. This finding is consistent with the source manuscript's argument that inventory management and accounting measurement are closely connected in manufacturing businesses.

Depreciation practices are positively associated with ROE in the reported results. Depreciation affects both the carrying amount of non-current assets and periodic profit, so its measurement can influence return-based indicators. The finding is compatible with the Resource-Based View insofar as accounting for the consumption of productive assets is linked to how firms monitor and evaluate resource utilization.

The findings should nevertheless be interpreted within the limits of the design. The analysis is observational, the sample is restricted to selected firms, and the source manuscript does not report the exact study period or a complete diagnostic assessment of regression assumptions. The results therefore document statistical associations within the reported sample rather than establishing universal causal effects for all Nigerian manufacturing firms.

Conclusion

The study provides reported empirical evidence of positive and statistically significant associations between selected accounting practices and selected financial-performance indicators among the quoted manufacturing firms covered by the analysis. Revenue recognition practices are associated with ROA, inventory valuation methods with OPM, and depreciation practices with ROE. The results underscore the importance of consistent accounting-policy application and reliable financial reporting in the assessment of manufacturing-firm performance.

Recommendations

4. Quoted manufacturing firms should strengthen controls over revenue-recognition processes and ensure that revenue is recognized and disclosed in accordance with applicable financial-reporting requirements.
5. Firms should maintain robust inventory-recording and valuation systems capable of producing timely and auditable information on quantities, costs and inventory movements.
6. Depreciation policies and useful-life estimates should be reviewed periodically and supported by documented asset-utilization evidence.
7. Management should strengthen internal controls and periodic accounting-policy reviews to improve consistency and comparability in published financial information.
8. Before publication of future empirical studies, researchers should retain and report the underlying statistical output, study period, firm-year observations, variable measurement rules and diagnostic tests so that results can be independently evaluated.

Limitations and Directions for Future Research

The study is limited by its reliance on secondary financial-reporting data, its restricted sample of selected manufacturing firms, and its focus on three accounting practices. The source manuscript also notes that macroeconomic conditions such as exchange-rate movements, inflation and government policy can influence financial performance but were not fully incorporated into the models. Future research could use a larger panel of listed manufacturing firms, longer observation periods, additional control variables, and panel-data estimators. Researchers may also examine financial-disclosure quality, earnings management, cost-accounting practices and corporate-governance variables.

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