

Corporate Governance and Conditional Accounting Conservatism in Nigeria Listed Food and Beverages Firms

Salami Suleiman¹ and Mutalib.Anifowose²

Abstract

The role of conservatism in accounting has been a subject of controversy and the explanations for its existence have important implications especially for accounting regulators. This study examines the effects of corporate governance on conditional accounting conservatism in the Nigeria food and beverages sector. Data for the study was obtained from the Nigerian Stock Exchange Fact Book and the companies' annual report for the period 2003 to 2010. This study developed a composite measure of corporate governance consisting of five internal governance proxies (CEO/Chairmanship separation, board size, board composition, directors' shareholding and presence of an audit committee). Conditional accounting conservatism is measured using the augmented asymmetric accrual to cash flow measure (AACF). The extent of the influence was estimated using regression method of analysis. Controlling for leverage, firm size and sales growth and profitability, our results shows that the asymmetric incorporation of bad news into earnings is significantly faster (timelier) than the incorporation of good news in firms with good governance. Thus, our evidence is consistent with firms having sound governance utilizing conservatism as a governance mechanism. We conclude that firms having sound governance significantly improve implementation of conservative reporting. Therefore, the Securities and Exchange Commission and Corporate Affairs Commission should not relent in ensuring best governance practices by the boards of Nigeria listed food and beverages firms to continually improve realization of accounting numbers.

Keywords: Corporate Governance, Board of Directors, Conditional Accounting Conservatism

¹ Phone: +2347036425085, Email: Suleiman_salami@yahoo.com

² Phone: +6016-6400246, Email: mutalib.sak@gmail.com

1.0 Introduction

Corporate scandals such as Enron and Worldcom (US), Parmalat (Italy), One Tel and HIH (Australia), Nortel (Canada) and Megan Media Berhad, Nasion Com Berhad, Transmile Group Berhad, United U-Li Corporation Berhad (Malaysia) among others have resulted in an increased interest on the role of Board of directors. This has led to growing interest in the governance structures of firms by academicians, practitioners, regulatory authorities, policy makers and other stakeholders'.

In recent times, corporate failure results from poor corporate governance practices. As reported by Lawrence and Marcus (2004), regulators and governance advocates argue that the stock price collapse of such former corporate stalwarts as Adelphia, Enron, Parmalat, Tyco, and WorldCom was due in large part to poor governance. The objective of corporate governance is not only to improve firm's performance but to also resolve agency problems by aligning managers' interests with that of stakeholders'. This may be achieved through watching over management's performance and inspecting the financial reporting process.

Corporate governance structure incorporates all stakeholders including the employees, managers and board of directors. The effective collaboration of these parties will facilitate the attainment of goal congruence within the firm. Corporate governance has also received keen interests because of its significance to the well-being of economic firms.

Corporate scandals brought to limelight the need to emphasize verification of earning so as to improve its realisation. Krim (2002) opined that "the event that led to Worldcom's bankruptcy was the announcement of \$3.9 billion of WorldCom's cost of leasing other company's network having been improperly capitalized rather than expensed". It was stressed further that "the rationalization for the capitalisation of unused capacity cost under the leasing contracts was that the unused capacity was incurred in anticipation of unverifiable increased future business".

Though, the amount of discretion applied in financial reporting is controlled by two fundamental accounting principles: conservatism and objectivity (Taibat, 2012), application of discretion in the treatment of specific transactions can lead to either aggressive or conservative accounting.

Aggressive accounting makes accounting numbers to be unreliable as the reported earnings will significantly differ from the operating cash flow; hence accounting numbers may not be realizable thereby increasing bankruptcy risk.

Aggressive accounting whereby companies tend to delay the recognition of losses and accelerate the recognition of gains is the opposite of accounting conservatism (Bhattacharya and Welker 2003). Contrary to aggressive accounting, when conservatism in financial reporting is impaired, earnings quality is compromised (Taibat, 2012). Accounting conservatism flows from the prudence concept which is categorized under reliability according to the IASB classification of Qualitative characteristics of financial reporting. Though conservatism in accounting could be classified into conditional and unconditional accounting, the focus of this paper is on conditional conservatism.

Conditional conservatism arises whenever preparers of financial statement incorporate bad news (losses) into account more than good news (gains). Basu (1997) predicts and finds that earnings and prices tend to reflect bad news simultaneously, whilst prices reflect good news faster than accounting earnings. This prediction is the basis of the asymmetric timeliness of earnings measure which could also be called: ex-post conservatism, news-dependent conservatism or earnings conservatism.

Examples of conditional (profit and loss) conservatism includes the impairment accounting for long-lived tangible and intangible assets, the lower of cost and market accounting rule for inventory, the lack of assets revaluation and, assets receivables write-down and asymmetric recognition of contingent losses and contingent gains.

Though studies in advanced and developing economies like Beeks, Pope and Young (2004) in the U.K; Ahmed and Duellman (2007) in the U.S, Wuchun, Chiawen & Taychang (2007) in China, Garcia, Beatriz and Penalva (2009) in Spain, Rahimah (2011) in Malaysia, provides evidence that internal governance mechanisms including CEO duality, board size, insider managerial shareholding and independent directors on the board is related with conditional conservative accounting practice, less is known about this in Nigeria. Besides, empirical evidence on the relationship between internal governance mechanisms and conditional conservative accounting appears to be inconclusive.

Despite the significance of conservatism as a governance tool employed by directors, most studies on corporate governance mechanisms in Nigeria such as Sanda, Mikaila and Garba (2004), Shitu (2010), Chandrasekharan (2010), Yancy (2011) examined its effect on either financial performance or loan portfolio. However, the study of Ibrahim (2011) examined the effects of corporate governance on capital structure of listed firms in Nigeria.

The findings of prior researches on corporate governance and accounting conservatism may not be applicable to Nigeria, due to its different economic situation. Given the need for accountants' both in practice and academics to provide valuable input towards ensuring realization of accounting numbers in Nigeria, this study intends to investigate the effects of corporate governance mechanisms on conditional conservative accounting in Nigerian food and beverages firms.

The objectives of this study is to investigate the effect of corporate governance mechanisms (CEO duality, board size, board composition, director shareholding and presence of an audit committee) using a composite measure of sound boards on conditional conservative accounting in the Nigerian food and beverages sector. In line with the above, this study hypothesizes thus;

H_0 : Corporate governance has no significant effect on conditional conservative accounting in Nigeria listed food and beverages firms.

2.0 Literature Review Theoretical Framework

2.1 Empirical Studies on Board of Directors Characteristics' and Accounting Conservatism

Prior researches suggest that conservatism plays a role in the corporate governance. Ahmed and Duellman (2007) opines that managers may ordinarily bias accounting numbers in their favour. However, accounting conservatism mitigates management's upward bias of accounting numbers. Garcia , Beatriz and Fernando (2005) posits that corporate governance is a set of mechanisms put in place to ensure that the assets of the firm are used to prevent the inappropriate distribution of the assets to the managers or to the other parties at the expense of the rest of stakeholders.

In line with Garcia, Beatriz and Fernando (2005), corporate governance mechanisms results better monitoring of managers and produces more timely accounting information, accelerates the recognition of bad news into earnings in relation to good news (conditional accounting conservatism) thereby providing board of directors with early warning signals to investigate the reasons for the bad news, and reduces the likelihood of incurring litigation costs.

There exists empirical evidence on the relationship between board characteristics and accounting conservatism. Beeks, Pope and Young (2004) investigated the link between board composition, earnings timeliness and earnings conservatism (conditional accounting conservatism). They examined the influence of non executive directors on earning timeliness and conservatism in reported accounting numbers. The study adopted the Basu (1997) asymmetric timeliness in measuring the level of conservatism in sample firms. Using a sample of listed non-financial firms in the UK from 1993 to 1995, the results showed that the proportion of non executive directors on the board is positively related to conservatism in firms. The study incorporate into their model, the existence of block holders, and the result still provides evidence in support of their expectation which shows outside directors incorporating bad news into earnings than good news.

Extending the study of Beeks, Pope and Young (2004), Ahmed and Duellman (2007) investigated this relationship using a sample of 306 U.S firms from 1999 through 2001. They argued that the result might not hold because the US GAAP is more conservative compared to what is obtainable in the UK. Given that firms reduce agency problems in different ways, the study control for industry, firm size, leverage, growth opportunities, institutional ownership, inside director ownership, strength of shareholder rights and unobservable firm characteristics that are stable over time. The result provide evidence consistent with the findings of Beeks Pope and Young (2004) which shows that independent boards recognize bad news in a timelier manner than good news. It was concluded that accounting conservatism assists directors in reducing the agency costs of firms (Ahmed and Duellman 2004). However the study fails to control for endogeneity nature of corporate governance.

Garcia, Beatriz & Fernando (2005), investigate whether firms with sound corporate governance shows higher degree of conservatism than weak firms.

They control for the endogenous nature of corporate governance and the fact that governance and conservatism may be simultaneously determined using a composite measure that incorporates the level of antitakeover protection and the level of CEO involvement and internal governance. Using a large sample of U.S. firms during the period, they found that firms with stronger corporate governance provisions in place are more conservative. Their result is similar even after isolating the event that resulted in exogenous shock to corporate governance and the passage of the Sarbanes Oxley Act of 2002. They also observed causality from strong governance structures to conservatism and not vice versa. That is, strong corporate governance employs conservatism as a tool to fulfill its monitoring role. Their study is limited by the aggregation of governance structures across firms.

Garcia et al. (2007) investigates this relationship in the Spanish context by utilising 69 non-financial Spanish firms from 1997 to 2002. They use a more extensive measure of corporate governance by aggregating the index incorporating the following board characteristics. The characteristics of the board includes; directors' denominations, board size, proportion of non-executive directors, independent directors, number of board meetings, CEO/Chairman duality, the existence of audit committee and the existence of a nomination/remuneration committee. They provide evidence which shows that firms with strong boards use conservative accounting numbers as a governance tool even in an institutional setting with low litigation risk. Similar to their U.S study, their research is limited by only aggregating governance structures across firms.

Wuchun, Chiawen, and Taychang (2007) explored this relationship in Taiwan. Moving away from other studies, they employed the C-Score developed by Khan and Whats (2007). The results shows that institutional investors and larger board size have less demand for conservative reporting while, firms with higher insider ownership and CEO duality have a greater demand for conservative reporting to make up for the weakness in corporate governance. Contrary to other studies, the results show accounting conservatism serves as a substitute for other corporate governance mechanisms and is capable of reducing information asymmetry. Finally, conservatism is not only influenced by debt and compensation contracts, litigation, regulatory, political process and taxes as opined by Watts (2003) but also related to stockholders benefit (Wuchun, Chiawen, & Taychang 2007). However, their study measure conservatism using only C-Score by Khan and Watts (2007).

Evidence on the position of the agency theory that directors' shareholding is capable of resolving agency conflict is inconclusive, and has led to the use of other theories like stewardship theory to explain the relationship. Directors with a sizeable shareholding are less likely to support actions that would reduce shareholders wealth (Eyesan and Bashir 2011).

In line with the agency theory, greater managerial ownership generates greater alignment of the interests of shareholders and managers, and mitigates the agency problems between the two parties (Jensen and Meckling 1976 cited in LaFond & Rowchowdury 2007). Prior studies indicate managerial ownership might yield two effects between managers and shareholders: the incentive alignment effect and the management entrenchment effect.

In line with the incentive alignment effect, managers with larger shareholdings have stronger incentives to act in line with outside shareholders' interests. That is, as managerial ownership increases, corporate performance increases and opportunistic managerial behavior decreases monotonically. On the contrary when managerial ownership is at the lower level, the effect is expected to result in higher agency costs. Managerial entrenchment effect on the other hand suggests larger shareholding by managers gives them greater control over firms. This results in management having greater scope to act in their own interest (Morck et al., 1988 cited in Akinobu and Tomomi 2010)

Akinobu and Tomomi (2010) argue that the alignment effect would be dominant for the low and high levels of ownership, while the entrenchment effect would be dominant for the intermediate levels of managerial ownership. They empirically examine the non monotonic relationship between managerial ownership and the demand for accounting conservatism for Japanese firms. The study utilised 27,448 firm year observation from 1991 to 2005, and controlled for market to book value, leverage, firm size and year. It was found that that within the low and high levels of managerial shareholding, the relationship between managerial ownership and the asymmetric timeliness of earnings is significantly negative. This implies that the demand for accounting conservatism decreases as the agency problem decreases, which is consistent with the incentive alignment effect.

The result also shows that within the intermediate levels of managerial shareholding, the relationship between managerial ownership and the Basu asymmetric timeliness of earnings is significantly positive which is consistent with the entrenchment effect. However their study only relies heavily on the assumption of the efficient market hypothesis provided by the Basu asymmetric timeliness of earnings model.

Garcia, Beatriz & Fernando (2007) using aggregate index as a proxy for strong boards found a positive relationship between outside directors and accounting conservatism. They reported that strong boards of directors incorporate bad news significantly faster into earnings than weak boards.

Ahmed and Duellman (2012) examined the relationship between managerial overconfidence and conservatism. They argue that because overconfident managers overestimate future returns from their firms' projects, conservatism and managerial overconfidence will be negatively related. Utilizing 14,641 firm-years from 1993-2009, the results show a significant negative relation between overconfidence and conservatism. They provide evidence that changes in managerial overconfidence are negatively related to changes in accounting conservatism following a CEO change which is robust to a battery of robustness and specification tests. Furthermore, the study tests whether external monitoring helps to mitigate this effect. The results show external monitoring does not appear to mitigate this effect. However, the evidence does not find that external monitoring effects this relation.

Also, agency theory suggests that managerial shareholding help in aligning their interests with those of the shareholders (Jensen and Meckling, 1976 cited in Akinobu & Tomomi 2010). In line with this theory, the use of managerial shareholding in resolving the agency problem will result in either the incentive alignment effect or the management entrenchment effect. The incentive alignment effect opines that larger shareholdings have incentives to act in line with outside shareholders interests. That is, managerial shareholding will increase corporate performance and decreases managerial opportunistic behavior. On the contrary, the entrenchment effect suggests that managers with larger shareholdings have greater control over firms, and therefore, they possess stronger incentives to act in their own interest (Morck et al., 1988 cited in Akinobu & Tomomi 2010).

2.2 Theoretical Framework

Watts (2003) suggest contracting governance theory as an explanation for the role of conservatism in monitoring managers. In line with this theory, shareholders are better able to take actions that improve firms' performance when they receive bad news on a timelier basis. For example, if managers initiate a zero or negative net present value project, conservative accounting will enhance the possibility of shareholders or board of directors to receive this bad news on a timely basis and discipline managers. Earnings conservatism provides shareholders more time to induce management to make changes or help shareholders to replace management on a timelier basis. That is, "contracting governance theory of accounting conservatism predicts that better governed firms should have more conservative accounting" (Ryan & Sonja 2007). Therefore, in line with Ryan & Sonja (2007), contracting governance theory provides a complete framework for this study.

3.0 Research Methodology

The purpose of this study is to examine the effects of internal governance mechanism (CEO duality, board size, board composition, director shareholding and presence of an audit committee) using a composite measure on conditional conservative accounting. This study therefore employs a descriptive and correlational research design using panel data.

3.1 Population and Sampling

The population of this study comprises of all food and beverages firms listed on the Nigerian stock exchange as at 31st of December 2011 which are sixteen. For the purpose of this study, census strategy is adopted. In view of the objectives of this study, certain criteria have been satisfied by firms included for the final analyses. Four firms were eliminated for not being listed on the Nigerian stock exchange prior to or as at 31st December 2003. Firms that its shares were not constantly traded are six and were eliminated. In line with Ahmed and Duellman 2009, a firm was eliminated for inadequate information on directors leaving a sample of five firms for the study.

The data for this study are purely secondary data derived from the annual reports of sampled firms obtained online. We utilize the multiple regression analysis in estimating the hypothesis of the study.

3.2 Variables Measurement

3.2.1 Asymmetric Timeliness (AT) Measure of Conditional Accounting Conservatism

Basu (1997) is the first to operationalise accounting conservatism in the form of asymmetric timeliness of earnings of earnings. Basu (1997) used a regression of annual earnings on returns, which is based on differential reaction of good and bad news in earnings. He used stock prices as a proxy for good and bad news. Since the sensitivity of bad news in earnings is reflected timelier than good news, he predicted a higher association between earnings and returns when returns are negative than when returns are positive. The Basu asymmetric timeliness of earnings is thus:

$$E_{it}/P_{it}-1 = \beta_0 + \beta_1 R_{it} + \beta_2 D_{it} + \beta_3 R_{it} * D_{it} + \varepsilon_{it} \dots \dots \dots 1$$

However, the Basu (1997) is based on the assumption of efficient market hypothesis using change in stock market prices as proxies for good news and bad news respectively. Following the shortcomings of the Basu model, Ball and Shivakumar (2005) developed asymmetric accrual to cash flow measure (AACF) which is based on purely accounting data.

This measure is given as:

$$ACC_{it} = a_0 + \beta_0 DCFO_{it} + \beta_1 CFO_{it} + \beta_2 DCFO_{it} CFO_{it} + \varepsilon_{it} \dots \dots \dots 2$$

The difference between the two models above is that while Basu's model uses stock return as proxy for economic news, the AACF model uses operating cash flow. As regards the response variable, Basu's model uses total earnings while Ball and Shivakumar opines that conservatism only affects the accrual component of earnings.

In relation to the AACF model, Cong, Fei and Xiangang (2010) observed that firms may not report negative cash flows within the period of the study. Their study utilized cash flow changes as a proxy for economic news with positive (negative) cash flows changes representing good (bad) news respectively.

This study therefore estimates the augmented Ball and Shivakumar (2006) in line with Cong, Fei and Xiangang (2010) as:

$$ACC_{it} = \alpha_0 + \beta_0 \Delta CFO_{it} + \beta_1 DCFO_{it} + \beta_2 \Delta CFO_{it} DCFO_{it} + \varepsilon_{it}$$

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3.2.2 Composite Measure of Corporate Governance:

We follow the work of Bertrand and Mullainathan (2001), Gompers, Ishii and Metrick (2003) in developing a composite measure of corporate governance. However, this study concentrates on five internal governance proxies (CEO/Chairmanship separation, board size, board composition, directors' shareholding and presence of an audit committee).

In arriving at the index, we add one to the index if the chairman is not the CEO and zero otherwise. Given that the audit committee is a standing committee of the board of directors charged with overseeing the financial reporting process of a firm, we add one if there exists an audit committee and zero otherwise. Under the SEC code of corporate governance, membership of the board should not be less than five and not exceed fifteen. Therefore, we also add a dummy variable of one if the number of directors serving on the board is between five and fifteen and otherwise zero in line with (Garcia et. al., 2009). The ratio of the number of independent directors serving on the board to the total number of directors and the percentage of shares held by directors to the total shares in issue. Following Garcia et al (2009), we define our aggregate governance measure as the mean of the five variables represented by (*Gov5*). For brevity, higher values of *Gov5* indicate sound corporate governance practice.

3.2.3 Control Variables

This study control for leverage in determining the effect of board characteristics on accounting conservatism. Firms with high leverage are likely to have greater bondholder and shareholder conflict which may affect the level of conservatism in firms (Duellman, 2004). Highly leveraged firms experience greater bondholder and shareholder conflict (Morton and Harris 2002 cited in Nor et. al 2011) which increases agency cost.

However, management of highly leveraged firms may also engage in income increasing practices in other to avoid violation of debt contract. This is measured as the ratio of the total debt (long term and short term) to total assets (Ahmed and Duellman 2007).

The size of firms can be argued to be an important factor in influencing the quality of accounting numbers. Large firms are more visible to the public view and face a lot of pressures to release more credible information. In line with positive accounting theory, larger firms are more conservative in other to avoid political cost (Watts and Zimmerman, 1986 cited in Akinobu & Tomomi 2010). However, prior studies provide evidence on the contrary; which shows that firm size is negatively related to conservative accounting. The reasons being the effect of aggregate income and return across multiple segment/projects and information asymmetry (Givoly et al., 2007, LaFond and Watts, 2008 cited in Akinobu 2010). This is measured as the log of total assets at the end of the year (Joo, 2009).

As there could be firm with declining sales within a study sample, Ahmed et. al (2002) cited in Ahmed and Duellman (2007) stressed the need to control for sales growth in using accrual measure of conservatism. Also, growth in sales could affect accruals such as inventories and receivables which may in turn affect accrual measure of conservatism. This is measured as $SGROW = (sales_t - sales_{t-1}) / sales_{t-1} \times 100$

In utilizing news dependent conservatism, this study controls for profitability. However, our measure is the asymmetric accruals to cash flow model flowing from asymmetric timeliness measure. It was noted that highly profitable firms tend to use more conservative accounting. Consistent with Ahmed and Duellman (2007), this is proxied as cash flow from operations deflated by total assets.

This study utilizes multiple regression in modeling the relationship between sound board of director characteristics and conditional accounting conservatism thus: this study incorporate *Gov5* into stage three of the augmented Ball and Shivakumar model in line with Cong, Fei and Xiangang (2010), we have;

$$ACC_{it} = \alpha_0 + \beta_1 \Delta CFO_{it} + \beta_2 DCFO_{it} + \beta_3 \Delta CFODCFO_{it} + \beta_4 Gov5_{it} + \beta_5 \Delta CFODGov5_{it} + \beta_6 DCFOGov5_{it} + \beta_7 \Delta CFODCFOGov5_{it} \dots \dots \dots$$

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In line with Ahmed and Duellman (2007), this study control for leverage, firm size, sales growth and profitability. We have;

$$\begin{aligned}
 ACC_{it} = & a_0 + \beta_1 \Delta CFO_{it} + \beta_2 DCFO_{it} + \beta_3 \Delta CFODCFO_{it} + \beta_4 Gov5_{it} + \\
 & \beta_5 \Delta CFO_{Gov5_{it}} + \beta_6 DCFO_{Gov5_{it}} + \beta_7 \Delta CFODCFO_{Gov5_{it}} + \beta_8 LEV \\
 & + \beta_9 \Delta CFOLEV_{it} + \beta_{10} DCFOLEV_{it} + \beta_{11} \Delta CFODCFOLEV_{it} + \beta_{12} FS_{it} + \\
 & \beta_{13} \Delta CFOS_{it} + \beta_{14} DCFOS_{it} + \beta_{15} \Delta CFODCFOS_{it} + \beta_{16} SG_{it} + \beta_{17} \Delta CFOSG_{it} + \\
 & \beta_{18} DCFOSG_{it} + \beta_{19} \Delta CFODCFOSG_{it} + \beta_{20} Prof_{it} + \beta_{21} \Delta CFO Prof_{it} + \beta_{22} DCF Prof_{it} + \\
 & \beta_{23} \Delta CFODCFOProf_{it} \dots \dots \dots 5
 \end{aligned}$$

where:

ACC_{it} = total accruals estimated as earnings before extraordinary items plus depreciation minus cash flows from operations scaled by total asset

ΔCFO_{it} = change in cash flow from operations at year end scaled by total assets.

$DCFO_{it}$ = Dummy variable equals to one if ΔCFO_{it} is negative and zero otherwise.

$Gov5$ = Composite measure of strong boards

In the model above, β_1 and β_2 represents the coefficient for good and bad news respectively. β_3 measures the asymmetric timeliness of bad news (losses) being reflected in accruals relative to good news (gains). The higher β_3 is, the higher the degree of conservatism and the coefficient β_7 captures the effect on accounting conservatism of strong boards represented by $Gov4$. All other variables are as previously defined. In the model above, β_1 and β_2 represents the coefficient for good and bad news respectively. β_3 measures the asymmetric timeliness of bad news (losses) being reflected in accruals relative to good news (gains). The higher β_3 is, the higher the degree of conservatism and the coefficient β_7 captures the effect on accounting conservatism of strong boards represented by $Gov5$. All other variables are as previously defined.

4.0 Results and Discussion

This table shows the result of our regression of the model relating sound board characteristics and conditional conservative accounting.

Table 1: Regression of Ball and Shivakumar Model for GOV5 and Conditional Conservatism

Variables	Coefficients	T.Values	Sig
$\Delta CFODCFO$	13.430	3.120***	.008
<i>GOV5</i>	1.437	1.061	.308
$\Delta CFO GOV5$	-10.085	-1.266	.228
<i>DCF GOV5</i>	-1.644	-.802	.437
$\Delta CFODCFOGOV5$	13.417	2.217**	.045
<i>LEV</i>	-.249	-.578	.573
$\Delta CFOLEV$	-1.561	-.514	.616
<i>DCFOLEV</i>	1.434	.977	.347
$\Delta CFODCFOLEV$	16.534	2.939***	.012
<i>FS</i>	-.265	-.629	.540
$\Delta CFOFS$	11.143	1.080	.300
<i>DCFOFS</i>	.199	.077	.940
$\Delta CFODCFOFS$	-39.828	-3.498***	.004
<i>SG</i>	.261	.389	.703
$\Delta CFO SG$	-.194	-.148	.884
<i>DCFOSG</i>	-.083	-.089	.931
$\Delta CFODCFOSG$	2.146	1.238	.238
<i>PROF</i>	.418	.512	.617
$\Delta CFO PROF$	-.907	-.439	.668
<i>DCFOPROF</i>	.075	.097	.924
$\Delta CFODCFOPROF$	2.491	1.190	.255
Adjusted R-Square		.542	
F-Statistics		2.913**	.026
Durbin-Watson		1.637	

*significant at 0.1 (2-tailed) **significant at 0.05 (2-tailed) ***significant at 0.01 (2-tailed)

Source: SPSS Output Result

Discussion

The result of the model shows accounting practices of listed food and beverages firms in Nigerian is conservative. The proxy for good and bad news is represented by ΔCF and DCF while the proxy for conservatism is $\Delta CFODCFO$ which must be positive and statistically significant. The coefficient for $\Delta CFODCFO$ is 13.430 which is statistically significant at 1%. The coefficient for composite governance represented by $\Delta CFODCFOGOV5$ is positive and statistically significant at 5%. The result is consistent with Beeks, Pope and Young (2004), Garcia et al (2005), Garcia et al (2007) and Ahmed and Duellman (2007) and contrary to the findings of Wuchun, Chiawen, and Taychang (2007).

Our result suggests that sound board of directors' characteristics improve conservative financial reporting. Therefore, we reject our hypothesis which states that strong boards of directors do not have any significant effect on conditional accounting conservatism. The adjusted R-Square is 54.2% while the model is fit at 2.913, which is statistically significant at 5%.

Consistent with our expectation, the coefficient for leverage in relation to conservative reporting is positive and statistically significant. This confirms the debt contracting theory of accounting conservatism which states that debt and bond holders demand conservative reporting as they will not be paid excess interest when earnings is higher than expectation (Watts, 2003). This is in line with Joo (2009) and Rahimah (2011)

Also, the results show a significant negative relationship between firm size and accounting conservatism. This is contrary to our apriori expectation in line with positive accounting theory that larger firms are more conservative in other to avoid political cost. This is consistent with Rahmah (2011) and contrary to Joo (2009). Sales growth and profitability though positively related to conservatism is however not strong enough to influence conservative practice in Nigerian listed food and beverages firms.

Conclusion and Recommendation

This study assessed the quality of corporate governance using an aggregate measure that incorporates several governance characteristics. This measure includes CEO duality, board size, independent directors on the board, presence of an audit committee and interest of directors serving on the board. It is therefore acknowledged that this measure is a simplification of the composite measure as forwarded by Bertrand and Mullainathan (2001), Gompers, Ishii and Metrick (2003).

Controlling for leverage, firm size and sales growth and profitability, our results shows that the asymmetric incorporation of bad news into earnings is significantly faster (timelier) than the incorporation of good news in firms with strong boards. Thus, our evidence is consistent with strong boards using conservatism as a governance mechanism. We conclude that Stronger boards of directors significantly improve implementation of conservative reporting. Therefore, The Securities and Exchange Commission and Corporate Affairs Commission should not relent in ensuring best governance practices by the boards of Nigeria listed food and beverages firms.

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