Effect Of Tax and Provision for Depreciation on Financial Performance of Selected Quoted Consumer Goods Firms in Nigeria

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Abstract: The study analyzed the effect of tax and provision for depreciation on financial performance of selected quoted consumer goods firms in Nigeria, captured by reserve (2008-2017). The secondary data were sourced from the Published Annual Reports of selected quoted consumer goods firms in Nigeria, the study utilized panel least square analytical technique. The result of the findings showed that tax (TAX), provision for depreciation (PFD) and profit before tax (PBT) positively influenced the financial performance of FLRM and NEST by 31811588 and 6310438 respectively. Also, it was discovered that tax (TAX), provision for depreciation (PFD) and profit before tax (PBT) in the period under consideration hindered the financial performance of DANG, UNIL and NEST by 18482966, 16389816 and 2461191 respectively in Nigeria. The Adjusted R-squared of 0.90, 0.17 and 0.23 for fixed, random and pooled effect model showed that 90, 17 and 23 percent variation in the financial performance of the quoted consumer goods firms in Nigeria can be explained by tax and profit before tax of the quoted consumer goods firms under consideration. The result implies that an increase in taxes and provision for depreciation of the quoted consumer goods firms in Nigeria brings about significant improvement in the financial performance. Therefore, since TAX, PFD and PBT enhanced the financial performance of the quoted consumer goods firms in Nigeria, they should adopt policies that will increase their profit level so as to enhance and improve better financial performance through increment in reserve. We present the first test of the effect of tax and provision for depreciation on financial performance of quoted consumer goods firms in Nigeria

Keywords: Tax; Reserve; Provision for depreciation; Quoted consumer goods; Nigeria

JEL Classification: H20; H27; L25; L66

1. Introduction

Manufacturing firms dealing with consumer goods across the globe are informed the crucial of financial management through investment and retention policies that brings about effective business management. The management is accountable by established corporate policies for effective and efficient coordination as well as evaluation performance of reserve and provision for depreciation to achieve its goals. Business managers must adopt various financial policies to achieve its corporate goals (Nwude, 2007). The purpose of reserve is to obtained fund to finance the future projects which include, non-current asset. Non- current assets of the firm like furnitures and building, fixtures and fittings, motor vans and equipment used for the business for years (STS Tutorials, 2013). Provision for depreciation situated as result of wear and tear, usage, passage of time and others environmental factors

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Economic value of non-current assets is depreciated on yearly basis as revealed in the annual financial report and tax returns during the useful life of the asset (McNulty, 2014). Onojah and Unegbu (2013) opined that the practice of provision for depreciation has not uniform the specific amount charged as annual expenses against non-current asset. Iga (2008) argued that provision for depreciation by firms is very vital because it enhanced good decisions making.

Doepke (2004) reported that retained profit matter for the transmission of monetary policies due to the overall effect of leftover between different user of funds in the organisation. In meeting the demand of inventors, Shayne (2013) affirmed the need to satisfy the demand of investors by increasing firms reserve. Kim and Suh (2010) posited that in line with pecking order theory, firms do not need to maintain a specific leverage but because of adverse selection costs, firms chose internal financing such as retained profit but when raising external financing prefer debt to equity. There has been argument that although retained earnings are key items in shareholders' equity. Dominguez (2011) affirmed that, strategic asset allocation decision would be effective over the lengthy age of time, the allocation might be reviewed in the light of changing in investment opportunities. Asset distribution decisions could be captured via secure retention and investment policies in terms of the magnitude and nature of reserves and provisions to be established.

Therefore, in this study the bond that exists between tax, provision for depreciation and financial performance of quoted consumer goods firms in Nigeria will be evaluated and also to investigated the influence of tax and provision for depreciation on financial performance of selected quoted consumer goods firms in Nigeria.

2. Literature Review

Conceptual Literature

Provisions for Depreciation (PFD)

IAS 37 defined Provisions as a 'liability of an uncertain timing or amount'. The uncertainty is the distinguishing feature making the provisions different from payables or accruals. Despite the inherent risks, provisions meet the requirement for recognition in financial statements. They presented obligations that exist during the reporting year; and a reliable estimate of the potential outflow of resources necessary to settle the liability can be estimated. A quantification of the provisions is established upon the notion of obligation classes such as warranties, the provision is recognized for the all-inclusive class founded on the likelihood of outflow with a view of the settlement of an individual contract (IAS 37)

Provision for depreciation is the amount set aside in order to ultimately replace a non-current asset. Provision for depreciation always maintains a credit balance whereas depreciation always maintains a debit balance. Provision for depreciation is a forecast of an amount that a given asset or any item of PPE would have depreciated within a given period of time, while depreciation refers to actual loss in value of a give item. Provision for depreciation show the cumulative depreciation of an asset since its attainment. Provision for depreciation is foreseen loss in the value of an asset.

Reserve (RE)

The reserve of a manufacturing firm is the accrued overall income of the firm that is reserved or retained by the firm at a certain point of time. In order words, is the excess of net income for the firm

after it has funded dividends payment to its shareholders. Retained Earnings are the portion of a business' profits that are not disseminated as dividend to shareholders but instead are set aside for reinvestment back into the business. Normally, these funds are used for working capital and non-current asset purchases (capital expenditure) or allotted for paying off debt obligations.

Non-current Assets

These are equity investments determined at acquisition cost which consist of procurement price plus transaction costs. It allows annual impairment tests to be executed on the basis of revenue and profit projections that are majorly derived from business plans by using discounted cash flow technique. Thus, if there is a weighty and prolonged decline in the value of an investment, then its use is below acquisition cost, a provision for impairment is recorded. If necessary, this provision may be supplemented by a provision for impairment of the current account with the subsidiary or affiliate. Tax depreciation is levied contrary transaction costs relating to acquisitions of equity interests, in line with the regulation described. This comprises: tax depreciation on production shares for television programs not yet transmitted and other user rights, calculated from the first day of the month following the end of shooting in harmony by means of the defined rules; tax depreciation for software and licenses, in order to recognized depreciation in the statement of financial position; tax depreciation on transaction costs relating to acquisitions of equity interests.

Retained Earnings

In order for a company to develop, advance and enlarge retained earnings had to be used for the accumulation of assets that generated income for the company. When income is generated it gives a company the means for expansion, as well as help in its research and development programmes. Slavery (2004) asserted that corporate retained earnings are crucial in financial performance of a firms because it help the firm to meet up with financial obligation that needed to rendered to stakeholders and the environment in which the firms is operating. Retained earnings is part of corporate undistributed profit after tax. Earnings retained are the aggregation of a company's profit after dividend payments, from the time when the company commences operation. It furthermore denoted as earned surplus, retained capital or accumulated earnings. Retained earnings are an essential source of internal or self-financing by a company. The retention of earnings by companies decrease their dependence on funds from external sources in order to finance their steady business needs.

Kamat (2008) found retained earnings to be an essential internal sources of financing by companies. Bhayani (2009) affirmed that retention of earnings by companies as earnings retained were better source of finance which were diverted to profitable investment openings netting a greater yield hence, growing the worth of the businesses.

Empirical Evidence

Bessong and Charles (2012) investigated the comparative effect of accounting technique on the reported profits. The study focused on manufacturing companies in Nigeria. A multiple linear regression technique was employed and the result revealed that the profit measurement technique adopted directly influenced on amount calculated by depreciation, amount charged as taxes and dividend paid

Similarly, Kim and Suth (2010) investigated the interaction between retained profit and capital structure. The study utilized correlation and multiple regression analytical techniques. From the study,

retained profit carry information about funding needs, that is, asset growth and internal funds and that the inverted –U-shape relation is an outcome of the interaction amid the two factors. The study concluded that the relationship amid leverage and performance is inverted –U-shaped which reveals a comparable relationship amongst resource necessities and internal reserves.

Also, Wu and Yeung (2010) examined retained earnings and dividend paid. The study employed correlation analysis technique. The study showed that firms that pay dividends take greater proportions of reserves-to-equity and high tendencies to pay timely on, businesses that do not pay dividends take insistently low RE/TE and low PTP after two decades of development. The study suggested that the growth type view can explain why low RE/TE and PTP can be unexpectedly long-lasting. The study suggests that distinctive non-payers purposely do not reimburse payments when they are able to so, since doing so might obscure the market.

The above empirical reviewed showed that studies in this research area of effect of tax and provision for depreciation on financial performance of selected quoted consumer goods is scanty and unavailable in the case of Nigeria consumer goods and even globally. Where an associated research occurs, the procedure of analysis middles on multiple regression; creating just the correlation between the variables. However, this study pursues to analyze the effect of tax and provision for depreciation on financial performance of selected quoted consumer goods firms in Nigeria, with the aid of panel data analytical technique.

3. Research Methods

The model for this study is stated in panel functional and linear forms as:

$$RE = f(TAX, PFD, PBT) \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (1)$$

$$RE_{it} = \alpha_0 + \alpha_1 TAX_{it} + \alpha_2 PFD_{it} + a_3 PBT_{it} + u_{it} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (2)$$

Where,

RE = Reserve

PFD= Provision for Depreciation

TAX= Tax

PBT = Profit before tax

U = Error terms

Source of Data

The study relied on secondary data sourced from published annual report of five (5) randomly selected quoted consumer goods firms in Nigeria. These selected quoted consumer goods firms were choosing due to consistency in the preparation of published annual reports. Also, those selected consumer goods firms operating in Nigeria and availability of the required information on the variables under study. The consumer goods firms for this study were Dangote Flour Plc., Flour Mills Nigeria Plc. Unilever Nigeria Plc., PZ Cusson Nigeria Plc. and Nestle Nigeria Plc. The study covered a period of ten (10) years (2008-2017). Data collated were analyzed using descriptive statistics and panel least square such

as pooled, fixed and random effect estimation as well as post-estimation diagnostic tests for evaluating the consistency and efficiency of the estimates.

4. Results and Discussions

This section shows the correlation of the characteristics of the variables ranging from descriptive analysis, Correlation matrix; Panel least square; Hausman test and Residual cross-section dependence test.

Table 1. Descriptive Analysis

	RE	PFD	TAX	PBT
Mean	24345616	1136431.	2543341.	7316709.
Median	22866041	327125.0	1508560.	4570787.
Maximum	70102232	5234712.	13623440	33723730
Minimum	20468.00	379.0000	1851.000	5263.000
Std. Dev.	21188245	1555675.	3569530.	8606123.
Skewness	0.526510	1.443867	2.285873	1.618038
Kurtosis	2.276669	3.710680	7.461812	5.041033
Jarque-Bera	1.700063	9.212570	42.50899	15.24792
Probability	0.427402	0.009989	0.000000	0.000489

Source: Data Analysis, 2019

Table 1 showed the descriptive analysis results on the effect of tax (TAX), provision for depreciation (PFD) and profit before tax (PBT) on the financial performance of quoted consumer goods firms measured by reserve (RE) for the period 2008-2017. The results revealed that the reserve (RE), provision for depreciation (PFD), tax (TAX) and (PBT) were 24345616, 1136431, 2543341 and 7316709 respectively. The standard deviation values of 21188245, 1555675, 3569530 and 8606123 respectively, this revealed the value at which the reserve (RE), provision for depreciation (PFD), tax (TAX) and profit before tax (PBT) for the financial performance of quoted consumer goods firms captured by reserve in Nigeria were been deviated from their respective expected value.

Also, it was discovered that the performance measured by reserve (RE), provision for depreciation (PFD), tax (TAX) and (PBT) for the selected quoted consumer goods in Nigeria were positively skewed with skewness given as 0.526510, 1.443867, 2.285873 and 1.618038 respectively. Thus, the variables were distributed with a long tail to the right which was more evidenced in tax. However, the kurtosis of the financial variables showed that reserve (RE), provision for depreciation (PFD), tax (TAX) and (PBT) for the financial performance of quoted consumer goods firms in Nigeria were with kurtosis coefficient indexes of 2.2767, 3.7107, 7.4618 and 5.0410 respectively. The Jarque-Bera and probability values revealed that the reserve (RE), provision for depreciation (PFD), tax (TAX) and (PBT) were statistically significant in observing the effect of tax on reserve and provision for depreciation of quoted consumer goods firms in Nigeria.

Table 2. Correlation Matrix

	RE	PFD	TAX	PBT
RE	1.000000	-0.115508	0.403709	0.571338
PFD	-0.115508	1.000000	-0.040492	-0.111267
TAX	0.403709	-0.040492	1.000000	0.673216
TP	0.571338	-0.111267	0.673216	1.000000

Source: Data Analysis, 2019

Table 2 showed the degree or the extent of relationship that exists between the reserve (RE), provision for depreciation (PFD), tax (TAX) and (PBT) of quoted consumer goods firms in Nigeria. From table 2, it was revealed that a positive relationship occurs between reserve (RE) and tax (TAX) and reserve (RE) and (PBT) on the financial performance of quoted consumer goods firms under study with correlation coefficient of 0.40 and 0.57 respectively. A negative correlation was revealed between reserve (RE) and provision for depreciation (PFD), provision for depreciation (PFD) and tax (TAX) and provision for depreciation (PFD) and (PBT) with correlation coefficient of -0.12, -0.04 and -0.11 respectively.

Also, a positive correlation was discovered between the tax (TAX) and (PBT) for the performance of quoted consumer goods firms under consideration with strong correlation coefficient of 0.67. This implies that an increase in tax (TAX) and (PBT) for the quoted consumer goods firms led to increase in reserve (RE) of the quoted consumer goods firms in Nigeria. However, an increase in tax (TAX) and (PBT) for the quoted consumer goods firms led to a decline in the provision for depreciation (PFD) of the quoted consumer goods firms in Nigeria.

Table 3. Panel Least Square

Dependent Variable: RE						
Method: Panel Least Squares						
	Pooled effect		Fixed effect		Random effect	
Variable	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	14882707	0.0190	18947010	0.0000	15449526	0.0000
TAX	0.227232	0.0057	0.080975	0.0087	0.412798	0.0014
PFD	-0.734416	0.7674	1.531493	0.2125	0.178786	0.8637
PBT	1.328411	0.0376	0.471827	0.0016	1.044599	0.0003
Effects Specification						
					S.D.	Rho
			Cross-section random		3943535.	0.2653
			Idiosyncratic random		6562736.	0.7347
	Cross-section Pooled		Cross-section fixed		Cross-section random	
DANG	-		-18482966		-9659520.	
FLRM	-		31811588		19326941	
UNIL	-		-16389816		-7808204.	
PZCU	-		-3249244.		601975.6	
NEST	-		6310438		-2461191.	
R-squared	0.329958		0.932046		0.270436	
Adjusted R-squared	0.234237		0.904064		0.166212	
F-statistic	3.447099		33.30969		2.594767	
Prob(F-statistic)	0.035136		0.000000		0.079534	

Source: Data Analysis, 2019

Table 3 showed the result of the pooled, fixed and random effect panel regression output. It was discovered from the results that a linear relationship exists between the tax (TAX), provision for depreciation (PFD) and the financial performance of quoted consumer goods firms measured by

reserve (RE) in Nigeria. Precisely, the outcome of the three panel model showed both positive and negative relationship with the financial performance of quoted consumer goods firms measured by reserve (RE) thus, tax (TAX), provision for depreciation (PFD) and (PBT) were positively related with the financial performance of the quoted consumer goods firms captured by reserve (RE). While, provision for depreciation (PFD) was negatively related with the financial performance of the quoted consumer goods firms reserve (RE) under consideration in Nigeria.

This result further revealed from the pooled effect model that tax (TAX) and (PBT) led to improvement in the financial performance of quoted consumer goods captured by reserve (RE) to the turn of 0.23 and 1.33 respectively while, provision for depreciation (PFD) was negatively related with the financial performance measured by reserve (RE) and thus hindered the financial performance of the consumer goods captured by reserve (RE) to the turn of 0.73. From the fixed effect model, it was discovered that tax (TAX), provision for depreciation (PFD) and (PBT) were positively related with the financial performance of the quoted consumer goods firms measured by reserve (RE) and thus led to improvement in the financial performance of the quoted consumer goods firms measured by reserve (RE) to the turn of 0.08, 1.53 and 0.47 respectively. The random effect model showed that tax (TAX), provision for depreciation (PFD) and (PBT) led to improvement in the financial performance of the quoted consumer goods captured by reserve (RE) to the turn of 0.41, 0.18 and 1.04 respectively.

The probability values of 0.01, 0.04, 0.01, 0.00, 0.00 and 0.00 < 0.05 revealed that the estimated parameter for tax (TAX) and (PBT) for the pooled, fixed and random effect models were statistically significant in determining the financial performance of the quoted consumer goods measured by reserve (RE) in Nigeria under study. However, the probability values of 0.77, 0.21 and 0.86 > 0.05 revealed that the estimated parameter for provision for depreciation (PFD) for the pooled, fixed and random effect models were statistically insignificant in determining the financial performance of the quoted consumer goods firms measured by reserve (RE) in Nigeria during the period under study. A detailed investigation of the outcome of fixed effect model based on the separate selected quoted consumer goods showed that tax (TAX) provision for depreciation (PFD) and (PBT) were positively influence the performance of the FLRM and PZCU by 19326941 and 601975.6 respectively. Also, it was discovered that tax (TAX), provision for depreciation (PFD) and (PBT) under consideration hindered the financial performance of DANG, UNIL and PZCU captured by reserve (RE) by 9659520, 7808204 and 3249244 respectively in Nigeria. The outcome of random effect model based on the separate selected quoted consumer goods firms revealed to a certain extent a contrary result as it showed that tax (TAX) provision for depreciation (PFD) and (PBT) positively influence the financial performance of FLRM and NEST measured by reserve (RE) to the turn 31811588 and 6310438 respectively. Also, it was discovered that tax (TAX), provision for depreciation (PFD) and (PBT) under consideration reduced the reserve of DANG, UNIL and NEST by 18482966, 16389816 and 2461191 respectively in Nigeria. The Idiosyncratic random error term with Rho value of 0.7347 revealed a strong correlation between the individually selected quoted consumer goods and cross sectional error term. The Adjusted R-squared of 0.23, 0.90 and 0.17 for the pooled, fixed and random effect models showed that 23, 90 and 17 percent variation in the financial performance of the quoted consumer goods firms captured by reserve (RE) in Nigeria can be explained by tax (TAX), provision for depreciation (PFD) and profit before tax (PBT) of the quoted consumer goods under consideration. Thus, it implied the importance of tax (TAX), provision for depreciation (PFD) and (PBT) in determining the performance of the quoted consumer goods captured by reserve (RE) in Nigeria. Above all, the probability of the F- statistics 0.035 and 0.000 < 0.05 indicated that the pooled and fixed effect panel models were statistically significant, valid, reliable, appropriate and acceptable for

determining the effect of tax (TAX) and provision for depreciation (PFD) on the financial performance of the quoted consumer goods firms measured by reserve (RE) in Nigeria.

Table 5. Correlated Random Effects - Hausman Test

Test cross-section random effects				
Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		57.1196	3	0.0000
Cross-section random effects test comparisons				
Variable	Fixed	Random	Var(Diff.)	Prob.
TAX	0.080975	0.412798	0.048382	0.1314
PFD	1.531493	0.178786	0.340105	0.0204
PBT	0.471827	1.044599	0.039816	0.0041

Source: Data Analysis, 2019

Table 5 showed the result of Hausman Test for the cross-section random effect. The chi-square value 57.12 with the probability value of 0.00 < 0.05 revealed that random effect model for the study of effect tax and provision for depreciation on the performance of the quoted consumer goods firms measured by reserve (RE) was significant and appropriate for this study. Thus, the use of model was efficient, consistent, sufficient and unbiased in investigating the effect of tax, provision for depreciation and profit before tax on the financial performance of the quoted consumer goods firms under investigation in Nigeria.

Table 6. Residual Cross-Section Dependence Test

Null hypothesis: No cross-section dependence (correlation) in weighted residual			
Periods included: 10			
Cross-sections included: 5			
Total panel (balanced) observations: 50			
Test employs centered correlations computed from pairwise samples			
Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	16.50170	35	0.0861
Pesaran scaled LM	0.335791		0.7370
Bias-corrected scaled LM	-0.289209		0.7724
Pesaran CD	0.664207		0.5066

Source: Data Analysis, 2019

Table 6, showed the result of the residual cross-section dependence using Breusch-Pagan LM was presented. Thus, Breusch-Pagan LM, Pesaran scale LM, Bias-corrected scale LM statistic value of 16.5017, 0.3357 and -0.2892 respectively with the probabilities value of 0.086, 0.737 and 0.772 > 0.05 showed that cross-section dependence cannot be rejected. Hence, it implies that there was cross-section dependence between the tax (TAX) and provision for depreciation (PFD) on the financial performance of the quoted consumer goods firms captured by reserve (RE) in Nigeria.

5. Implications of the Findings, Conclusion and Recommendation

The study analyzed the effect of tax and provision for depreciation on the financial performance of the selected quoted consumer goods firms in Nigeria. The financial performance was measured by reserve. The study revealed that tax, provision for depreciation and profit before tax positively influenced the financial performance of the quoted consumer goods firms under consideration. This result was in consonance with the Bessong and Charles (2012) that established that the profit measurement technique adopted directly influences the amount calculated by depreciation. Similarly, Kim and Suth

(2010) emphasised that retained earnings convey information about both funding needs that enhance asset growth and internal funds and thus, established a relation with leverage and profitability. Based on these findings the study concluded that there is an improvement in the financial performance of the selected quoted consumer goods firms captured by reserve (RE) in Nigeria as the tax, provision for depreciation and profit before tax increases. This implied that an increase in tax and provision for depreciation of the selected quoted consumer goods firms in Nigeria brings about significant improvement in the financial performance measured by reserve. Therefore, since tax, provision for depreciation and profit before tax enhances the financial performance measured by reserve, the quoted consumer goods firms in Nigeria should adopt policies that can increase their profit level so as to enhance and improve their financial performance through increment in reserve.

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