

**ENVIRONMENTAL ACCOUNTING DISCLOSURES AND FINANCIAL REPORTING  
QUALITY OF QUOTED MANUFACTURING COMPANIES IN NIGERIA  
(2006-2014)**

**Jadesola Abiodun, PINHEIRO  
BSC ACCOUNTING (AAU)  
ADP11/12/H/2712**

**A THESIS SUBMITTED TO THE DEPARTMENT OF MANAGEMENT AND  
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NIGERIA.**

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**CERTIFICATION**

This is to certify that PINHEIRO Jadesola Abosede carried out this research work under my supervision in the Department of Management and Accounting, Faculty of Administration, ObafemiAwolowo University, Ile-Ife, Nigeria.

.....  
Prof. R. O. Salawu

Supervisor

.....  
Date.....  
Prof. A. A. Agboola

Head of Department

.....  
Date

## DEDICATION

This work is dedicated to Almighty God the Author and Finisher of our life.

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## ABSTRACT

The study evaluated the extent of environmental practice among manufacturing companies in Nigeria from 2006-2014; analysed the determinants of environmental accounting disclosure in financial reports of quoted manufacturing companies during the study period; and examined the effect of environmental accounting disclosures on financial reporting quality of the companies during the study period in Nigeria. These were with a view to providing information on the impact of Environmental Disclosure on the quality of financial report

The study utilized secondary data, covering the period from 2006 to 2014. The data were sourced from the various Annual Reports and Statements of Accounts published by quoted manufacturing companies in Nigeria. The population of the study consisted of 162 manufacturing companies listed on the Nigerian Stock Exchange. A sample of 50 quoted companies was collected using purposive sampling technique. Data were analysed using percentage and logit regression technique.

The results showed that the overall grand average of the extent of disclosure of environmental practices and non-disclosure of environmental practices in the financial statement of the selected listed manufacturing firms in Nigeria were 76.78 5% and 21.96% respectively. The results of  $\log_{it}$  model revealed that only the environmental research and development ( $t=5.597$ ,  $p<0.10$ ) and return on capital employed ( $t=-1.5065$ ,  $p<0.10$ ) had significant impact on environmental disclosure in the financial report of manufacturing companies. Also, it is revealed that only environmental disclosure (EC) had significant influence on LFRQL while other explanatory variables had insignificant effect. One percent increase in EC ( $t=3.6773$ ,  $p<0.05$ ) would significantly increase LFRQL by 33 percent.



The study concluded that environmental disclosure (EC) had significant positive influence on the financial reporting quality (LFRQL).

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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the Study

Environment is the condition of a particular geographical area especially as affected by various human activities. It is the status (positive or negative) stands of the social, economic and health of the host community in which the economic activity of manufacturing or production takes place. Environmental issues are harmful effects of human activities on the bio-physical environment. These harmful effects or key environmental issues affecting business include; industrial waste; sustainable development of raw materials; water and air emissions. However, the earth environment is a rich heritage handed over to us by previous generations. The present civilization has involved us in varied activities. Many of the activities generate waste with potential constituents. The ultimate disposal of the waste leads to environmental pollution in many parts of the world; the magnitude of pollution of the environment has already reached an alarming level (Pramanil and Shiland Das, 2007). Since Late eighties, due to growing public concern about the alarming impact of industrial activities on nature, companies are under pressure from both government and society to reduce adverse impacts of their activities on the environment.

The performance of an organization is now being judged not only on the basis of its financial results, but also with regards to its contribution to protect and improve the environment. Thus, environmental Disclosure have become an important variable in the models used by the investors and creditors to determine the risk associated with their investment. As a result, accounting for environmental issues and the disclosure of such issues with their

associated cost in the annual reports or by other medium has become an important part of corporate accounting and reporting system.

Corner and Gordon (2001), says when a company becomes more visible and accountable to the public and therefore more accountable with respect to environment issues such company's disclosure of Environmental Disclosure reduces its public pressure. Financial or annual report has been the primary means of corporate reporting and it is the fundamental source of environmental reporting. The usage of financial report has grown over the years. Environmental information was reported as one of the sections in the report and later as a separate section. Subsequently, the practice grew with the introduction of "Stand alone" environmental reports (O' Donovan 1999). In 1998, the United Nations released an interim statement of best practice guidance entitled "Environmental Financial Accounting and Reporting at the corporate level"; The first part of the paper "Accounting and Reporting for environmental liabilities and cost within the existing financial reporting framework" aimed to aid the determination of what is considered best practice in Accounting for environmental transactions and events in the financial statement and associated notes. The second part considered "Linking Environmental and Financial performance : A survey of Best Practice Techniques went on to identify key environmental performance indicators (EPI's) and examined their relation to financial performance recommending improvement in the disclosure of Environmental performance indicators.

Thus, accountants as the basic custodian and light bearer of economic development can no longer shut their eyes to the effect of environmental issues on business management, accounting, audit and disclosure system. Protection of the environment and the potential involvement of the accountant is becoming a common subject of discussion among the



accountants all over the world. Nowadays, accountants are expected to take a pro-active role in the environmental protection processes. With the advent of liberalization, removal of trade barriers makes it logical that the cost of environmental degradation due to industrial activities should be internalized in corporate accounts to the maximum extent possible which is why environmental accounting and reporting is of paramount importance today. This brief overview is sufficient to suggest that pursuit of economic growth, industrialization and privatization process should not be at the expense of the environment and that environmental protection and monitoring is vital for Nigeria and the future of its citizens. Since Nigeria's accounting for medium sized and big companies is based on International Financial Reporting Standard/International Accounting Standards (IFRS/IAS) environmental accounting has not gained any considerable ground in Nigeria Corporate Financial reporting. Though, the Nigeria Accountants have been struggling with IFRS/IAS implementation, this area of environmental accounting that has been unfairly neglected for years and would soon see the light, becoming a corporate practice. Although there are several bodies stipulated for environment issues in Nigeria but it is not mandatory, disclosure is voluntary.

Hence, this study will focus only on the environmental information presented by the selected quoted manufacturing companies operating in different sectors in Nigeria using their annual reports. The study will ascertain the extent of disclosure (mandatory or voluntary) of information in annual reports of such manufacturing companies to assess the need for specific regulatory framework (including accounting guidelines, principles and standards) in the area of Environmental Accounting Reporting (EAR).

For more information, please contact [ir-help@oauife.edu.ng](mailto:ir-help@oauife.edu.ng)