



Deferred Tax Accounting Mechanism and Financial Performance of Listed Industrial Goods Manufacturing Firms In Nigeria

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Abstract

Original Research Article

To properly account for the tax effects of all transactions occurring within a period, a deferred tax provision is necessary to comply with matching concept. The study examined the effect of deferred tax accounting mechanism on financial performance of listed industrial goods manufacturing firms in Nigeria. The population of the study is 21 listed Industrial goods manufacturing firms in Nigeria; Purposive sampling techniques was adopted to select ten (10) firms with relevant complete data. Ex-post facto research design was used in obtaining data from Annual financial statements of the selected sample for the period 2015 to 2024. Simple regression model was used to analyse data. The findings revealed that deferred Tax Liabilities is statistically insignificant on Earning per Share and Return on Asset ($t = 0.0797$, $p = 0.9366$) ($t = -1.494$, $p = 0.1384$). While deferred Tax Liabilities have a significant negative effect on Return on Equity ($t = -2.270$, $p = 0.0254$), this suggests that higher value of deferred tax obligation will significantly reduce equity performance. The study recommends that firms should adopt proactive deferred tax planning strategies to prevent excessive accumulation of deferred tax liabilities which may erode shareholders' returns; improve the clarity and depth of deferred tax disclosures in financial statements to ensures shareholders and analysts have better understanding of earnings and the potential equity implications and management should incorporate deferred tax liabilities into broader capital structure and performance evaluation frameworks.

Keywords: Deferred Tax Liability, Financial Performance, Earning Per Share, Return on Asset Return on Equity.

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1.0 Introduction

In accordance with provisions of the Income-tax Act, 1961. An entity is required to determine the amount of taxable income and tax thereon. Such taxes on income are accounted for in financial statements that

include current tax, deferred tax assets, and deferred tax liability in respect of an accounting period. Deferred tax accounting was introduced for the first time in Nigerian corporate firms accounting in the early1990s, it became popular as result of the



adoption of International Financial Reporting Standards in Nigeria issued by International Accounting Standard Board (IASB) (Ogundayo & Onakoya, 2016). The international Accounting Standard (IAS) 12 defines a deferred tax liability as being the amount of income tax payable in future periods in respect of taxable temporary differences. So, in simple terms, deferred tax is tax that is payable in the future (Technical, 2009)

According to PricewaterhouseCoopers Tax Academy (2011) to properly account for the tax effects of all transactions occurring within a period, a deferred tax provision is necessary to comply with matching concept. The international Accounting Standard (IAS) 12 Specifies how deferred tax is to be treated in manufacturing companies which often operate with heaving industrial assets that requires tax planning and timing difference adjustment. Deferred Tax Liabilities (DTL) are to be recognised when tax depreciation is treated before accounting depreciation. Conversely, Deferred Tax Assets (DTA) are to be recognised when accounting depreciation is treated before tax depreciation. (IASB, 2021). One of the major benefits of Deferred Tax Accounting is that it helps firms to present the true value of future tax obligation in the current year statement of financial position.

Deferred tax accounting is an interesting concept that scholars all over the world are interesting in. Especially in determining the effect it has on firm's profitability. In corporate financial reporting, one of the bases for measuring firm's performance is its ability to manage tax and other liabilities. The difference between accounting Profit and taxable income of any corporate firm including the manufacturing companies are cause by temporary time difference arising from treatment of tax. Deferred tax is the impact of income tax in the future that needs to be recognized, calculated, presented, and disclosed in financial reports, both balance sheets and profit and loss. (Apriliyanni et al., 2016).

Furthermore, because of the adoption in Nigeria, it is now mandatory for Companies to prepare financial statement using International Financial Reporting Standards (IFRS) to show the value of deferred tax in the statement of financial position. The primary

focus is to make adjustment regarding the influence of due income tax on the financial performance of corporate organisation. Deferred tax is a tax that a corporation will owe on its income but has not yet been assessed in its financial statements (Halim et al., 2015). Pwc's Tax Academy (2011) asserts that the amount of tax payable in any period does not necessarily bear a direct relationship to the amount of profit or loss shown on the income statement for that period. This is since the tax laws provide for the computation of taxable income for a period based on rules different from the generally accepted accounting principles followed while preparing the financial statements. To properly account for the tax effects of all transactions occurring within a period, a deferred tax provision and its implications on the corporate performance of firms is necessary.

This paper therefore evaluates deferred tax accounting mechanism and financial performance of listed industrial goods manufacturing firms in Nigeria. Financial performance is proxy with return on assets, return on equity and earnings per share.

2.0 Review of Related Literature

2.1 Deferred Tax Accounting

According to IAS 12 deferred tax is the tax consequences of the future recovery/settlement of the carrying amount of assets/liabilities in a company's balance sheet if it is probable that recovery or settlement of that carrying amount will make future tax payments larger/smaller than they would be if such recovery or settlement were to have no tax consequences. In simple terms deferred tax is the future tax effects of differences between items in the financial statements and their equivalent values for tax purposes. Deferred tax is the tax (liability or asset) attributable to timing differences (SAS 19)

The importance of deferred tax accounting in the manufacturing sector cannot be over emphasized because of the peculiar nature of operation that involve temporal timing difference caused by tax depreciation and adjustments. **Ikechukwu (2023)** States that deferred tax accounting enhances the reliability of financial statements by linking accounting profit with future tax payments,

providing a truer picture of corporate financial health. Deferred tax accounting disclosures represents a true and realistic state of financial affairs which helps investors to understand firm's future tax obligation and tax planning arrangement. According to **IAS 12 – Income Taxes**, entities must recognise deferred tax for all taxable and deductible temporary differences, except in certain specific cases such as goodwill or the initial recognition of an asset (International Accounting Standards Board [IASB], 2022).

Deferred taxes play a critical role in bridging the gap between the accounting and tax balance sheets. They arise from timing differences in recognizing business transactions for financial reporting and tax purposes. Deferred tax liabilities occur when future tax obligations exceed the tax burden recognized in the current income statement. (Jochen, 2024). **According to PwC (2023)** deferred tax liability represents future tax payable arising from temporary differences that will result in taxable amounts when the carrying amount differences.

2.2 Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenue; consequently, several aspects that may or may not be interrelated make up the internal structure of the idea of financial performance (Adebayo et al, 2024). The term is also used as a general measure of a firm's overall financial health over a given period. There are many stakeholders in a company, including trade creditors, bondholders, investors, employees, and management. Each group has an interest in tracking the financial performance of a company. The financial performance identifies how well a company generates revenues and manages its assets, liabilities, and the financial interests of its stakeholders and stockholders. A company's financial performance tells investors about its general well-being. Firm financial performance is used as a tool measuring an organization's current development and potential growth. Although there are many indicators estimating financial performance, **(Return on Assets (ROA), Return on Equity (ROE), Earnings**

per Share (EPS) and Net Profit Margin (NPM)) the choice of appropriate ratios depends on the characteristics of studied objects and study purposes (Nhunge Daphne & Huyen, 2021). According to Fatihudin, Jusni and Mochklas (2018) financial performance is the company's financial condition over a certain period that includes the collection and use of funds measured by several indicators of capital adequacy ratio, liquidity, leverage, solvency, and profitability. Financial performance is the company's ability to manage and control its resources.

2.2.1 Financial Performance Measurement

2.2.1.1 Return on Asset (ROA):

ROA demonstrates the capacity of your business to produce profits utilizing its assets. (Panigrahi & Vachhani, 2021). It shows how effective managers can use firm's resources to generate more wealth. The term return on assets (ROA) refers to a financial ratio that illustrates how profitable a company contrasts with its total assets (Hargrave, 2022). ROA may be used by corporate management, analysts, and investors to assess how successfully a company uses its assets to generate a profit. The metric is often stated as a percentage using a company's net income and average assets. According to Hargrave (2022), a bigger ROA implies that a company is more successful and productive at managing its balance sheet to generate profits, but a lower ROA signifies that there is potential for expansion. ROA is a powerful metrics used to determine the efficiency of operation by comparing the asset owned by firms in relation to the amount of profit generated.

2.2.1.2 Return on Equity (ROE):

ROE indicates how much profit may be made for every unit invested in a business. (Panigrahi & Vachhani, 2021). It helps to determine how well equity capital can be managed to generate net income. Also, Return on Equity (ROE) is a financial ratio used to analysis and measure the company's profitability in generating profits from the shareholders' own capital. It is the ability to generate profit from shareholders, capital (Piani, 2023). According to Hanaffy, (2024), "Return on Equity

(ROE) is a profitability ratio that describes the company's ability to provide profits for ordinary shareholders by showing the percentage of net income available for shareholders' capital that the company has used. A high ROE reflects that the company is successful in generating profits from its own capital."

2.2.1.3 Earnings per Share:

This helps us to understand how many units of company's profit is allocated to each outstanding ordinary shares. It is an important indicator for assessing financial performance of a business organisation. According to Oshim, Nnajeze, and Igwe (2023), earnings per share (EPS) refers to the amount of net profit attributable to each outstanding ordinary share of a company, typically calculated as the net profit divided by the number of ordinary shares outstanding.

Gurung and Subedi (2024) defined Earnings per share (EPS) as a fundamental financial metric that significantly influences the market price of a company's stock. It serves as a crucial indicator of a company's profitability, reflecting its ability to generate net income for shareholders. Also, Feriadi et al (2024), explained Earning Per Share as *the amount of profit earned for each share of common stock*, serving as a measure of corporate performance available to shareholders. Earnings per Share (EPS) information is also very helpful for investors because it can describe the earning prospects (net income that is ready to be distributed to shareholders) of a company in the future. (Hanaffy, 2024).

2.3 Theoretical Framework

Compliance Theory

According to Fiene (2024) regulatory compliance refers to the process by which individuals, organizations, or entities adhere to and fulfill the requirements set forth by relevant laws, regulations, and industry standards. It involves ensuring that policies, procedures, and practices align with the specific legal and regulatory frameworks applicable to a particular industry or jurisdiction. Compliance

involves actively identifying and understanding the relevant regulations, establishing internal controls and processes to meet those requirements, and consistently monitoring and reviewing operations to ensure ongoing adherence. It encompasses various aspects, such as legal, financial, operational, and ethical considerations, and aims to ensure that organizations operate within the boundaries of the law, maintain ethical standards, and fulfill their responsibilities to stakeholders, customers, and the public.

The theory of regulatory compliance provides a framework for understanding the underlying principles and concepts that guide the compliance process. Compliance theory, as articulated by Robert (1984), delves into factors influencing individuals' and businesses' decisions to comply with tax laws.

2.4. Empirical review

A related study carried out by Tonye and Goodnews (2025) on deferred taxation and Its influence on corporate financial position and earnings management. Findings revealed that deferred tax obligations had a significant negative effect on net profit margin while deferred tax had a significant positive effect on earnings before interest and tax which are also part of measurement variables of financial performance. Similarly, a study carried out by Gerasimos (2024) from 2018 to 2022 , using correlation and panel data analysis on the impact of taxation on firm performance and risk: Evidence from Greece, which include variables such as deferred tax liability and deferred tax assets revealed that ; deferred tax liability bears a positive influence on financial performance while deferred tax asset is found to affect financial performance in a negative fashion.

Zimmermann (2024) investigated *the value relevance of deferred tax assets: An empirical analysis of German HDAX-listed companies*. Using an Ordinary Least Squares (OLS) regression model, the study examines the relationship between deferred tax assets and the market value of equity. The results demonstrate that deferred tax assets have a negligible impact on the market value of companies, with no statistically significant effect detected. Adebimpe

and Dahiru (2024) examined the *effect of taxation management on financial performance of listed consumer goods in Nigeria*, using ROA as a proxy, tax expense and deferred tax liabilities were used as proxies to measure tax management. The study found that tax expenses had a positive and statistically significant effect on the return on assets. The study also found a statistically significant but negative effect of deferred tax liabilities on the financial performance of sample firms.

Okafor.(2023) investigated the effect of deferred tax accounting on financial performance of listed manufacturing companies in Nigeria using data from 19 out of 56 listed manufacturing companies. The study adopts the Vector Error Correction Model (VECM). Findings reveal that, deferred tax asset and liability have a positive but insignificant effect on profitability of listed manufacturing companies in Nigeria. Similarly, Ikwa and Ebieri(2022) carried out a study on deferred tax accounting and financial performance of listed consumer goods 'manufacturing companies in Nigeria using secondary data from 19 listed companies with the adoption of panel data analysis and observed that deferred tax asset has positive non-significant relationships with return on asset(ROA) and Earning per share(EPS) while deferred tax liabilities has a negative non-significant relationship with return on asset(ROA) and Earning per share.

Dita (2022) investigated the effect of deferred tax and tax to book ratio on financial performance of food and be beverages 'manufacturing companies in Indonesia (2017-2021) using purposive sampling of 12 companies from listed 26 companies and multiple regression analysis. Findings revealed that deferred taxes influence the financial performance of food and beverages sub-sector manufacturing companies while Tax to book ratio has no effect on the financial performance of manufacturing companies in the food and beverages subsector. Iormbagah et al (2021) concluded in their findings that tax mix has a positive insignificant effect on the net income of listed manufacturing firms in Nigeria while deferred tax has a negative insignificant effect on the net income of listed firms in Nigeria .After the study carried out on the effect of corporate tax mix on the financial performance of listed manufacturing firms in Nigeria

using both the Pearson correlation and multiple linear regression in analyzing the data

Nwaorgu et al (2019) studied the effect of deferred tax accounting on financial performance of listed agricultural firms in Nigeria. The analysis was carried out using simple linear regression across 7 years data from 4 quoted agricultural firms. Findings from the study revealed that deferred tax accounting has a positive and significant relationship with the profitability of the listed firms. Further findings revealed that deferred tax has no statistically significant effect on both the cash flow and earnings per share of the listed agricultural firms in Nigeria. Olaoye and Bamisaye (2018) examined deferred tax and financial performance of 10 listed firms in Nigeria, measuring secondary data spanning from 2007 to 2016 with panel-based estimation techniques for data analysis. Findings revealed that deferred tax liabilities and deferred tax asset exert negative impact on performance of firms using return on assts, earnings per share and return on equity as dependent variables.

3.0 Methodology

The study adopted ex-post facto research design, using data that already exists to examine the relationship between variables without changing or altering the independent variables (Abdul Kerim et al., 2026; Adebayo, 2025; Adebayo & Abdul Kerim, 2024; Adebayo & Lawal, 2024; Adebayo et al., 2024; Adebayo et al., 2025; Adebayo et al., 2026; Olopade et al., 2025; Udeh et al., 2024).The population of the study comprises of all the twelve (12) listed industrial goods' manufacturing companies on Nigerian stock Exchange Group. As at 1st November, 2025. Purposive sampling techniques was adopted to select ten (10) firms with relevant complete data for the study. Secondary data was sourced from Annual financial statements of the ten (10) selected industrial goods manufacturing companies for period between 2015 and 2024. The secondary data were analysed using simple regression analysis to evaluate the effect of Deferred Tax Liabilities (DTL) on the selected dependent variables; Return on Asset (ROA), Return on Equity (ROE), and Earning Per Share (EPS).

3.1 Model Specification

The model for this study was built around the broad objective while focusing on the specific objectives as shown below;

$$ROA_{it} = \beta_0 + \beta_1 DTL_{it} + \mu_{it} \dots \dots \dots (\text{Model 1})$$

$$ROE_{it} = \beta_0 + \beta_1 DTL_{it} + \mu_{it} \dots \dots \dots (\text{Model 2})$$

$$EPS_{it} = \beta_0 + \beta_1 DTL_{it} + \mu_{it} \dots \dots \dots (\text{Model 3})$$

Where:

ROA = Return on Assets of firm (Dependent Variable)

ROE = Return on Equity of firm (Dependent Variable)

EPS = Earnings per Share of firm (Dependent Variable)

DTL = Deferred Tax Liability of firm (Independent Variable)

β_0 = Constant term (intercept)

β_1 = Coefficient of Deferred Tax Liability (measures the effect of DTL on firm performance)

μ_{it} = Error term capturing all other variables not included in the model.

4.0 Result and Discussion

This section presents the empirical relationship between **Deferred Tax Liabilities (DTL)** on **Earnings Per Share (EPS)**, **Return on Assets (ROA)**, and **Return on Equity (ROE)**. The analysis is based on simple linear regressions

Table 1: Showing the effect of Deferred Tax Liabilities(DTL) on Earning Per Share(EPS)

SUMMARY OUTPUT								
<i>Regression Statistics</i>								
Multiple R	0.008050097							
R Square	6.48041E-05							
Adjusted R Square	-0.010138616							
Standard Error	65.52995977							
Observations	100							
ANOVA								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	1	27.27321	27.27321	0.006351	0.936643			

Residual	98	420829 .2	4294.1 76					
Total	99	420856 .5						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	- 3.875164125	7.483222	- 0.51785	0.605732	- 18.7254	10.97505	- 18.7254	10.97505
X Variable 1	0.036704468	0.460565	0.079694	0.936643	- 0.87727	0.95068	- 0.87727	0.95068

Table 2: Showing the effect of Deferred Tax Liabilities (DTL) on Return on Asset (ROA)

SUMMARY OUTPUT								
<i>Regression Statistics</i>								
Multiple R	0.14922							
R Square	0.022267							
Adjusted R Square	0.01229							
Standard Error	9.629824							
Observations	100							
ANOVA								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	1	206.9644	206.9644	2.231819	0.138408			
Residual	98	9087.88	92.7335					

		5	2					
Total	99	9294.849						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	9.674876	1.099682	8.797886	4.9E-14	7.492593	11.85716	7.492593	11.85716
X Variable 1	-0.10111	0.067681	-1.49393	0.138408	-0.23542	0.0332	-0.23542	0.0332

Table 3 showing the effect of Deferred Tax Liabilities (DTL) Return on Equity (ROE)

SUMMARY OUTPUT								
<i>Regression Statistics</i>								
Multiple R	0.223507							
R Square	0.049956							
Adjusted R Square	0.040261							
Standard Error	22.20577							
Observations	100							
<i>ANOVA</i>								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	1	2540.958	2540.958	5.153067	0.025396			
Residual	98	48323.43	493.0963					
Total	99	50864.39						

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	19.72416	2.535797	7.778285	7.52E-12	14.69195	24.75636	14.69195	24.75636
X Variable 1	-0.35428	0.156069	-2.27004	0.025396	-0.664	-0.04457	-0.664	-0.04457

Table 4: Summary of regression DTL-(EPS, ROA, and ROE)

Dependent Variable	DTL Coefficient	t-Statistic	P-Value	R Square
EPS	0.0367	0.0797	0.9366	0.000065
ROA	-0.1011	-1.494	0.1384	0.0223
ROE	-0.3543	-2.270	0.0254	0.04996

Discussion

The coefficient of 0.0367 suggests an insignificant positive relationship between DTL and EPS. The relationship is statistically insignificant ($t = 0.0797$, $p = 0.9366$). The model explains virtually none of the variation in EPS ($R^2 = 0.000065$). With the data from above, DTL does not have a significant effect on EPS in the sampled firms. This implies that the amount of deferred tax as an obligation to be settled in the future do not materially influence reported earnings per share. This result is in tandem with the studies of Okafor (2023); Ikwa and Ebieri (2022) but disagreed with the study of Tonye and Goodnews (2025).

The negative coefficient (-0.1011) suggests a potential inverse relationship between DTL and ROA. In addition, the effect is not statistically significant ($t = -1.494$, $p = 0.1384$). The variation explained by the model as indicated by the coefficient of determination is low ($R^2 = 0.0223$). This implies that deferred tax liabilities do not

significantly influence asset utilization efficiency in the sampled firms. The result agreed with the results of Okafor (2023); Ikwa and Ebieri (2022) but disagreed with the studies of Tonye and Goodnews (2025); Adebimpe and Dahiru (2024).

Based on the data in relating to Return on Equity (ROE), the model explains approximately 5% of the variation in ROE ($R^2 = 0.04996$). The negative coefficient (-0.3543) indicates that an increase in DTL is associated with a reduction in ROE. The effect is **statistically significant** at the 5% level ($t = -2.270$, $p = 0.0254$). This implies that **deferred tax liabilities have a measurable negative effect on Return on equity**, suggesting the importance of timely tax management, prudence, and compliance as the basis for corporate financial strategy. This is line with Olaoeye and Bamsaye (2018) findings.

Based of the above result, Deferred Tax Liabilities is statistically insignificant on Earning Per Share and Return on Asset. DTL does not materially affect EPS

or asset efficiency of the sample firms. This calls for the need to carry out annual tax planning and equipping the managers to understand the tax regulatory and compliance framework. This will help firms to avoid protecting reported earnings and operational efficiency from DTL obligations.

Since DTL has a significant negative effect on ROE, this suggests that higher value of deferred tax obligation will significantly reduce equity performance. In addition, an increased debt obligations raise the financial risk and cost of capital, thereby reducing returns available to equity holders, even if net earnings and asset returns remain unaffected in the short term.

From the above result, DTL does not significantly influence earnings per share or return on assets, it has a clear and significant negative impact on return on equity. This suggests that the leverage represented by DTL primarily affects the profitability from the shareholders' perspective rather than overall earnings or asset efficiency.

5.0 Conclusion and Recommendation

The empirical result showed that Deferred Tax Liabilities does not have a significant effect on Earnings Per Share and Return on assets in the sampled firms. While Deferred tax liabilities **have a measurable negative effect on Return on equity. The study therefore concludes that** deferred tax liabilities are not ordinary accounting adjustments but have meaningful implications for performance in the overall business operations; excessive accumulation of deferred tax liabilities may erode shareholders' returns. The study recommends that Effective management, transparent reporting, and strategic integration of deferred tax policies and compliance are essential to safeguard shareholder value. Firms should therefore adopt proactive deferred tax planning strategies. Firms should improve the clarity and depth of deferred tax disclosures in financial statements. Management should incorporate deferred tax liabilities into broader capital structure and performance evaluation frameworks. While operational efficiency appears unaffected, equity profitability is sensitive to deferred tax levels.

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