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I. Title page
II. Abstract (150-250 words)
III. Keywords (3-5)
IV. Introduction
V. Literature Review
VI. Methodology
VII. Results and Discussion
VIII. Conclusion and Recommendations
IX. References (APA 7th Edition)
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EFFECT OF INTERNATIONAL ACCOUNTING STANADARDS TWO (IAS 2) – INVENTORY ON FIRM PERFORMANCE OF LISTED CONSUMER GOODS MANUFACTURING COMPANIES IN NIGERIA

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ABSTRACT

Despite the adoption of International Accounting Standards (IAS), many listed consumer goods manufacturing companies in Nigeria continue to face challenges in financial performance due to ineffective inventory management. Specifically, the impact of IAS 2, which governs inventory measurement, recognition, and disclosure, on firm performance remains underexplored. This study examined the effect of IAS 2 inventory practices on the performance of listed consumer goods manufacturing companies in Nigeria. The study adopted a positivist research philosophy within a quantitative framework using an ex post facto research design. The population comprised 21 listed consumer goods companies in Nigeria. The study used a purposive sampling technique to select 18 listed consumer goods companies in Nigeria. Secondary data spanning 2012 to 2022 were obtained from audited annual reports and financial statements. Descriptive statistics, correlation analysis, and multiple regression analysis were conducted using STATA version 15. Findings revealed that IAS 2 Inventory Measurement and Inventory Recognition have a statistically significant negative effect on firm performance ($p < 0.05$), while IAS 2 Inventory Disclosure exerts a positive and significant effect. The study concludes that adherence to IAS 2 significantly influences firm performance of listed consumer goods companies in Nigeria. The study recommends firms to invest in advanced inventory systems, conduct regular compliance audits, and adopt transparent inventory disclosure policies to enhance the performance of listed consumer goods companies in Nigeria.

***Keywords**: IAS 2, Inventory Measurement, Inventory Recognition, Inventory Disclosure and Firm Performance*

1.0 INTRODUCTION

In the global context, the International Financial Reporting Standards (IFRS) have been widely adopted to ensure uniformity and transparency in financial reporting. This adoption is critical in creating a common language for financial statements, enabling stakeholders to compare financial performance across different jurisdictions effectively. One pivotal standard within IFRS is IAS 2, which specifically addresses inventory management: a crucial area for manufacturing firms. IAS 2 sets forth principles for determining the cost of inventories, recognizing inventory in financial statements, and providing necessary disclosures. These principles are designed to give stakeholders a clear and comprehensive understanding of a company's inventory and its impact on financial performance. The effective implementation of IAS 2 is essential as it helps firms maintain accurate inventory records, which are vital for making informed decisions and ensuring financial stability (IASB, 2023; Olaide & Omodero, 2023; Kolawole *et al*., 2019).

In Africa, the adoption of IFRS, including IAS 2, has been progressively embraced by various countries to improve financial reporting practices and attract international investments. The continent's

manufacturing sector, particularly in consumer goods, relies heavily on effective inventory management to optimize production costs and enhance profitability. Adherence to IAS 2 is instrumental in achieving these objectives, as it ensures accurate inventory measurement, proper recognition, and comprehensive disclosure. As a result, African companies that effectively implement IAS 2 can achieve better operational efficiency and financial health. This, in turn, makes them more competitive on the global stage, attracting more investors and fostering economic growth (Bodunde & Anisere-Hameed, 2021; Mwangi, 2016; Prempeh, 2016).

In Nigeria, the manufacturing sector is a significant contributor to the economy, with consumer goods companies playing a vital role. However, the sector faces numerous challenges, such as inefficiencies in inventory management, which can negatively affect firm performance. The application of IAS 2 in this context becomes crucial. IAS 2 Inventory Measurement helps firms determine the cost of inventories accurately, preventing over- or under-valuation that can distort financial statements. Accurate inventory measurement impacts the cost of goods sold and overall profitability. This standard ensures that inventory costs reflect their true economic value, thereby providing a more accurate picture of the company's financial health (Olaide & Omodero, 2023; Kolawole *et al*., 2019; Sonko & Akinlabi, 2020). IAS 2 Inventory Recognition is essential for Nigerian consumer goods companies as it ensures that inventories are recognized as assets at the right time. Proper recognition affects the financial statements' accuracy, reflecting the true financial position and performance of the firm (Sonko & Akinlabi, 2020; Bodunde & Anisere-Hameed, 2021; Mwangi, 2016). IAS 2 Inventory Disclosure requires firms to provide sufficient information about their inventories in the financial statements. For Nigerian consumer goods manufacturing companies, comprehensive disclosure under IAS 2 builds investor confidence and supports the firm's reputation by demonstrating a commitment to high standards of financial reporting and governance. Such transparency is crucial in attracting and retaining investors, as well as maintaining a positive relationship with regulators and other stakeholders (Aseoluwa & Jelil, 2017; Prempeh, 2016; George, 2019). In conclusion, the effective implementation of IAS 2 (encompassing inventory measurement, recognition, and disclosure) is critical for the performance of listed consumer goods companies in Nigeria.

The implementation of IAS 2 - Inventory standards play a critical role in ensuring accurate and transparent inventory measurement, recognition, and disclosure, which can significantly impact the performance of firms. While previous studies have extensively explored various aspects of inventory management and its influence on profitability, there remains a significant gap in the literature concerning the specific impact of IAS 2 standards on the performance of listed consumer goods manufacturing companies in Nigeria. Existing research, such as that by Olaide and Omodero (2023), Bodunde and Anisere-Hameed (2021) and Adekoya and Olumayokun (2020) have investigated the effects of inventory management on various profitability metrics but do not delve into the specific impact of IAS 2 inventory recognition standards. Additionally, previous research has not sufficiently addressed the role of IAS 2 inventory disclosure in influencing firm performance. For example, while Kolawole *et al*., (2019) explored the relationship between inventory management and profitability, they did not focus on the disclosure aspect as mandated by IAS 2. This creates a conceptual gap, as the effects of transparent and standardized inventory disclosure on investor confidence, financial reporting quality, and overall firm performance remain unexplored. The current study aims to evaluate the effect of IAS 2 inventory measurement, recognition, and disclosure on the performance of listed consumer goods manufacturing companies in Nigeria. The specific objectives are to:

i. examine the effect of IAS 2 inventory measurement on the firm performance of listed consumer goods manufacturing companies in Nigeria;

ii. investigate the effect of IAS 2 inventory recognition on the firm performance of listed consumer goods manufacturing companies in Nigeria; and

iii. assess the effect of IAS 2 inventory disclosure on the firm performance of listed consumer goods manufacturing companies in Nigeria.

2.0 LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Firm Performance

Firm performance is often measured using financial metrics such as profitability, return on assets (ROA), net profit margin, and return on equity (ROE). These metrics provide insights into how well a company utilizes its resources to generate profits and maintain financial stability. Profitability, as measured by metrics like profit after tax (PAT), reflects the company's ability to generate earnings relative to its revenue, operational costs, and equity (Bodunde & Anisere-Hameed, 2021). Return on assets indicates how efficiently a firm is using its assets to produce profit, while net profit margin provides the percentage of revenue that remains as profit after all expenses. These measures are critical for assessing the overall

health and performance of a firm, influencing decisions by investors, management, and other stakeholders (Olaide & Omodero, 2023; Adekoya & Olumayokun, 2020). This study adopts ROA as a measure for financial performance. ROA measures a company's profitability relative to its total assets, providing insight into how efficiently a firm utilizes its assets to generate earnings. Specifically, ROA is calculated by dividing net income by total assets, reflecting the firm's ability to convert investments into profit. This metric is essential for manufacturing firms, where asset utilization is crucial for maintaining competitive advantage and financial health. According to studies by Olaide and Omodero (2023) and Bodunde and Anisere-Hameed (2021), ROA is a reliable indicator of overall firm performance, making it a valuable measure in evaluating the impact of inventory practices.

2.1.2 IAS 2 Inventory Measurement

IAS 2 Inventory Measurement provides guidelines for determining the cost of inventories, which is critical for accurate financial reporting. The standard mandates that inventories be measured at the lower of cost and net realizable value. This approach ensures that inventories are not overstated on the balance sheet, thereby providing a realistic view of a company's financial health. Accurate measurement of inventory cost helps in correctly calculating the cost of goods sold, which directly impacts gross profit and, consequently, net profit. This principle is vital for manufacturing firms as it ensures that inventory costs reflect the actual economic value, preventing financial distortions (IASB, 2023; Olaide &Omodero, 2023; Kolawole et al., 2019).

IAS 2 Inventory Measurement is focused on the accurate valuation of closing inventory in relation to current assets. This is measured by the ratio of closing inventory to current assets, which provides insight into a firm's efficiency in managing its inventory and liquidity. Proper inventory measurement is crucial as it ensures that financial statements reflect the true value of inventory, avoiding over- or underestimation of assets. Effective inventory measurement practices contribute to financial stability and transparency, which are essential for stakeholder confidence and informed decision-making. As highlighted by IASB (2023) and Kolawole et al. (2019), accurate inventory measurement directly influences a firm's balance sheet and overall financial health, making it a key variable in assessing inventory management effectiveness.

2.1.3 IAS 2 Inventory Recognition

IAS 2 Inventory Recognition focuses on the conditions under which inventories are recognized as assets in the financial statements. This standard ensures that inventories are included as assets when they are available for sale or use in production, and it mandates their removal when they are sold or otherwise disposed of. Proper recognition of inventory is crucial for reflecting the true financial position of a company. In the manufacturing sector, where inventory turnover is high, timely recognition can significantly affect financial outcomes. Ensuring accurate recognition helps in better financial planning and resource allocation, leading to improved firm performance (Sonko & Akinlabi, 2020; Bodunde & Anisere-Hameed, 2021; Mwangi, 2016).

IAS 2 Inventory Recognition which deals with the conditions and timing under which inventory costs are recognized as expenses. This variable is measured by the ratio of cost of sales recognized to revenue, indicating how effectively a firm aligns its inventory costs with revenue generation. Proper recognition practices are vital for ensuring that expenses related to inventory are recorded accurately, reflecting the true cost of goods sold and providing a realistic view of profitability. Efficient inventory recognition aligns costs with revenue, enhancing the accuracy of financial performance reports. Studies by Sonko and Akinlabi (2020) and Bodunde and Anisere-Hameed (2021) emphasize that effective inventory recognition is essential for maintaining the integrity of financial reporting and operational efficiency.

2.1.4 IAS 2 Inventory Disclosure

IAS 2 Inventory Disclosure requires companies to provide detailed information about their inventories in the financial statements. This includes disclosing the total carrying number of inventories, the carrying amount in classifications appropriate to the entity, and the number of inventories recognized as an expense during the period. Effective disclosure practices enhance transparency and allow stakeholders to understand the impact of inventory on a company's financial position and performance. For consumer goods manufacturing companies, comprehensive disclosure builds investor confidence and supports the firm's reputation by demonstrating a commitment to high standards of financial reporting and governance (Aseoluwa & Jelil, 2017; Prempeh, 2016; George, 2019).

IAS 2 Inventory Disclosure requires firms to disclose their inventory valuation methods, such as FIFO (First-In, First-Out). This disclosure is measured binary, with firms assigned a value of 1 if they disclose their inventory valuation method as FIFO and 0 otherwise. Transparent disclosure practices are crucial for stakeholders to understand the inventory valuation methods used, as these methods can significantly impact financial results. Effective disclosure enhances the credibility of financial statements, aiding investors and other stakeholders in making informed decisions. Studies by Aseoluwa and Jelil (2017) and Prempeh (2016) underline that transparent disclosure builds trust and improves a

firm's reputation, thereby fostering better investor relations and market confidence.

2.2 Empirical Studies Review

2.2.1 IAS 2 Inventory Measurement and Firm Performance

Olaide and Omodero (2023) determine the impact of inventory management on the profitability of two (2) industrial goods firms listed on the Nigerian Stock Exchange. The independent variable (Inventory Management) was measured using opening inventory, closing inventory and average inventory. The dependent variable (Firm Profitability) was measured using Profit After Tax gathered for the study for a period of 5 years (2015-2019), was analysed using descriptive statistics, correlation analysis and ordinary least square method. The results of the study showed that inventory management had a significant effect on Profit After Tax. The study focuses on inventory management using opening, closing, and average inventory, but does not specifically address how IAS 2 inventory measurement standards impact firm profitability. This omission leaves a gap in understanding the specific mechanisms by which IAS 2 influences inventory practices and overall firm performance. Moreover, the study's reliance on basic inventory metrics might overlook the nuances and detailed guidelines provided by IAS 2. This gap highlights the need for research that explicitly links IAS 2 standards to firm performance in the consumer goods sector.

Bodunde and Anisere-Hameed (2021) investigated the effect of inventory management on the profitability of Nigerian manufacturing organisations. The study used an ex-post factor analysis and spanned five (5) years, from 2015 to 2019. The goal of this study was to analyse data using descriptive and analytical methodologies. The study's aims are to investigate the influence of inventory management on the return on assets (ROA), investment, net operating margin, and net earnings of targeted manufacturing enterprises. Inventory management has a substantial impact on the return on assets, investment, net operating margin, and net earnings of manufacturing enterprises in Nigeria, the study indicates. While the study investigates inventory management's effect on various profitability metrics, it does not delve into how IAS 2 inventory measurement standards specifically impact these metrics. This conceptual gap means that the relationship between standardized inventory measurement practices and firm performance remains unexplored. The study's broad approach to inventory management misses the opportunity to examine the detailed requirements and implications of IAS 2. Therefore, current research is on the conceptual connection between IAS 2 compliance and firm profitability in consumer goods manufacturing.

Golas (2020) studied the effect of inventory management on profitability and focused on the Polish food industry. The study was conducted to verify the causative link between inventory management, and this was carried out using panel data methodology. The research covered a period of thirteen (13) years 2005-2017. The study discovered that as the days in inventory proportion for materials and completed goods decreases, the day sales of inventory for total goods tend to become shorter. The study revealed a significant but negative relationship exists between inventory management efficiency and financial performance. The study reveals a negative relationship between inventory management efficiency and financial performance in the Polish food industry but does not consider the role of IAS 2 inventory measurement standards. This gap suggests that the specific accounting practices mandated by IAS 2 and their effects on financial outcomes are not addressed. As a result, the conceptual understanding of how standardized inventory measurement affects profitability across different contexts remains incomplete. This research incorporates IAS 2 standards to provide a clearer conceptual framework for inventory management's impact on firm performance.

Usman, *et al*., (2020) studied how inventory management had an impact on the profitability of listed Nigerian pharmaceutical firms. Historical panel data analysis was carried out for the focal purpose of this research, and the applied research design used was the ex-post factor design. Secondary sources of data were mainly obtained from the yearly reports and circulated accounts of the publicly registered firms for a time frame of ten (10) years from 2009-2018 and the fact book of the national stock exchange. Tools of analysis utilized in this study include descriptive statistics, Pearson correlation as well as multivariate regression procedures. The study brought to light the knowledge that inventory management has a major impact on Nigerian Pharmacological enterprises profitability. The research examines inventory management's impact on profitability in Nigerian pharmaceutical firms using historical panel data but does not extend its findings to the consumer goods sector. This empirical gap suggests that different industry contexts might yield different results due to varying operational and market dynamics. Furthermore, the study does not explicitly analyze the effects of IAS 2 inventory measurement, leaving a gap in empirical evidence regarding its impact. Addressing this gap current study focuses on consumer goods manufacturing firms and the specific role of IAS 2 standards.

Mamoor and Raana (2020) investigated the implications of inventory management on the

profitability of Bangladeshi local companies. The research covered a period of ten (10) years. The research used a regression analysis framework with the assistance of SPSS Version 22. The study made use of primary data which involved a total of 112 participants located in the capital city of Dakar, Bangladesh. The findings of the study discovered that inventory management of small businesses has a positive and relevant relationship with profitability of small businesses. This study investigates inventory management's impact on profitability in Bangladeshi local companies, focusing on small businesses and using primary data. The empirical findings might not be applicable to larger, publicly traded consumer goods firms in Nigeria due to differences in business scale and economic environments. Additionally, the study does not consider IAS 2 inventory measurement standards, leaving an empirical gap in understanding how these standards affect profitability. Current study empirically targeted larger firms and explicitly include IAS 2 standards to provide relevant insights for the Nigerian context. Therefore, the study proposes the following hypothesis:

H_{01}: IAS 2 inventory measurement has no significant effect on the firm performance of listed consumer goods manufacturing companies in Nigeria;

2.2.2 IAS 2 Inventory Recognition and Firm Performance

Jonah, *et al*., (2023) determine the relationship between inventory management and financial performance of listed industrial goods companies in Nigeria. The predictor variable proxies used include inventory turnover and inventory conversion period while the referents for the criterion variables used for the study were net profit margin and return on assets. The study adopted the use of an ex-post facto research design. Secondary data were used in the study, which was collected from ten listed industrial goods companies in Nigeria for the 2018 to 2020 financial year. The statistical tools used for the study were descriptive statistics, regression analysis and Pearson's product-moment correlation coefficient. The result of the finding shows that there is a significant positive relation between inventory turnover, inventory conversion period and net profit margin as well as return on assets of listed industrial goods companies in Nigeria. The study explored the relationship between inventory management and financial performance in listed industrial goods companies, but it does not specifically address IAS 2 inventory recognition standards. This leaves a conceptual gap in understanding how standardized inventory recognition practices under IAS 2 directly affect firm performance metrics such as net profit margin and return on assets. By focusing solely on general inventory management practices like turnover and conversion period, the study misses the nuanced impact of IAS 2 compliance. This research bridges this gap by examining how IAS 2 inventory recognition influences financial performance specifically in the consumer goods sector.

Boruah (2020) decided to examine the affiliation between inventory management and profitability of Numaligarh Refinery limited in Assam, in India. This research covered a period of 4 years 2009-2010 and 2015-2016. The basis of this research is secondary information which was ultimately sourced from the yearly reports of the company. The data was analysed using co-efficient correlation and ANOVA technique. The findings of the author of the study when concluded revealed that proper maintenance of smaller inventory conversion days eventually supports in improving the profitability of the business. The Research focus on inventory management and profitability in an Indian refinery context which does not consider the specific impact of IAS 2 inventory recognition standards. This creates a conceptual gap, as it does not explore how adhering to international accounting standards like IAS 2 can affect inventory practices and profitability. The focus on general inventory conversion days does not account for the detailed requirements and potential benefits of standardized recognition practices. Addressing this gap would provide a clearer understanding of the role of IAS 2 in inventory management and financial performance.

Usman, *et al*., (2020) studied how inventory management had an impact on the profitability of listed Nigerian pharmaceutical firms. Historical panel data analysis was carried out for the focal purpose of this research, and the applied research design used was the ex-post factor design. Secondary sources of data were mainly obtained from the yearly reports and circulated accounts of the publicly registered firms for a time frame of ten (10) years from 2009-2018 and the fact book of the national stock exchange. Tools of analysis utilized in this study include descriptive statistics, Pearson correlation as well as multivariate regression procedures. The study brought to light the knowledge that inventory management has a major impact on Nigerian Pharmacological enterprises profitability. The analysis on the impact of inventory management on the profitability of Nigerian pharmaceutical firms does not specifically examine the role of IAS 2 inventory recognition standards. This oversight creates a conceptual gap, as it leaves the influence of standardized inventory recognition on profitability unexplored. The general approach to inventory management lacks the specificity needed to understand the implications of IAS 2 compliance. Current research fills this gap by focusing on the effects of IAS 2 inventory recognition on firm performance in different sectors.

Sonko and Akinlabi (2020) evaluated the influence that inventory management had on the profitability

of food and beverage manufacturing enterprises In Lagos State, in Nigeria. The researcher utilised a cross-sectional survey strategy. to examine the population sample of 2027 food industry managers. The study employed a stratified random sampling technique. The study collected primary data using a structured questionnaire. The conclusions show that Inventory management does have a substantial influence on the earnings of selected food and beverage manufacturing enterprises in Lagos State. While the study Evaluate the influence of inventory management on the profitability of food and beverage manufacturing enterprises in Lagos State, Nigeria, using primary data from managers but does not empirically investigate the impact of IAS 2 inventory recognition standards. This empirical gap means the findings may not capture the specific effects of standardized inventory recognition practices on profitability. This study empirically examines how IAS 2 compliance impacts firm performance in the consumer goods sector, using a broader range of data sources.

Kolawole, *et al*., (2019) conducted research on the existent relationship between inventory management and profitability in Nigerian manufacturing enterprises. The case study for this research was International Breweries Plc. Secondary data was gathered from thecompany'sregulatory filings for a time frame of ten (10) years. To establish the correlation between the variables, a simple linear regression model was utilized. The study's findings which indicated that the selected company has an efficient inventory management system, which in turn has a significant impact on the firm's profitability. Findings from this study indicated that good inventory management contributed significantly to manufacturing firms' profitability and recommended that manufacturing firms enhance their inventory management system by further implementing an appropriate tactic for employing inventory items. The Research was on the relationship between inventory management and profitability in Nigerian manufacturing enterprises, focusing on International Breweries Plc, however, it does not empirically analyze the effects of IAS 2 inventory recognition standards. This gap suggests that the research may not fully account for the impact of standardized inventory practices on profitability. To address this gap, current empirical was conducted on how IAS 2 inventory recognition specifically influences financial outcomes in the consumer goods manufacturing sector. Therefore, the study proposes the following hypothesis:

H_{02}: IAS 2 inventory recognition has no significant effect on the firm performance of listed consumer goods manufacturing companies in Nigeria; and

2.2.3 IAS 2 Inventory Disclosures and Firm Performance

Olaide and Omodero (2023) determine the impact of inventory management on the profitability of two (2) industrial goods firms listed on the Nigerian Stock Exchange. The independent variable (Inventory Management) was measured using opening inventory, closing inventory and average inventory. The dependent variable (Firm Profitability) was measured using Profit After Tax gathered for the study for a period of 5 years (2015-2019), was analysed using descriptive statistics, correlation analysis and ordinary least square method. The results of the study showed that inventory management had a significant effect on Profit After Tax. The study focuses on the general impact of inventory management on profitability using variables like opening inventory, closing inventory, and average inventory. However, it does not specifically address how IAS 2 inventory disclosure practices influence firm performance. This leaves a conceptual gap regarding the importance of standardized disclosure under IAS 2 and its direct impact on financial outcomes. This research examines how the transparency and accuracy of IAS 2 inventory disclosures affect profitability and other performance metrics in consumer goods manufacturing companies.

Bodunde and Anisere-Hameed (2021) investigated the effect of inventory management on the profitability of Nigerian manufacturing organisations. The study used an ex-post factor analysis and spanned five (5) years, from 2015 to 2019. The goal of this study was to analyse data using descriptive and analytical methodologies. The study's aims are toinvestigate the influence of inventory management on the return on assets (ROA), investment, net operating margin, and net earnings of targeted manufacturing enterprises. Inventory management has a substantial impact on the return on assets, investment, net operating margin, and net earnings of manufacturing enterprises in Nigeria, the study indicates. The research investigates inventory management's effect on profitability metrics such as ROA, investment, and net operating margin, but it does not consider the role of IAS 2 inventory disclosures. This creates a conceptual gap, as the specific effects of standardized disclosure practices on these financial metrics remain unexplored. A focus on IAS 2 could reveal how comprehensive inventory disclosure enhances financial performance and stakeholder confidence. Addressing this gap would provide a more detailed understanding of the financial implications of adhering to IAS 2 standards.

Adekoya and Olumayokun (2020) studied inventory management and profitability of listed hospitality companies in Nigeria. The analyzed data covered a period of ten (10) years 2008-2017. Statistical investigation of the data was done using the descriptive statistics; the hypotheses were tested using Pearson's moment correlation co-efficient and

multiple regression analysis of ordinary least square techniques. Findings of this study discovered that there is an affiliation between inventory management and profitability of the listed hospitality companies located in Nigeria selected for the research, and that a substantial relationship exists between inventory management and EPS and that there is a significant positive effect of inventory management on dividend per share. The study analyzes the relationship between inventory management and profitability in the hospitality industry, without focusing on IAS 2 inventory disclosure standards. This creates a conceptual gap in understanding the specific role of IAS 2 disclosures in improving profitability through better transparency and accountability. By not addressing how these disclosures impact investor confidence and financial reporting quality, the study misses critical insights relevant to listed consumer goods manufacturing companies. Current research explores this dimension to provide a comprehensive view of inventory management's financial impact under IAS 2.

Sonko and Akinlabi (2020) evaluated the influence that inventory management had on the profitability of food and beverage manufacturing enterprises In Lagos State, in Nigeria. The researcher utilized a cross-sectional survey strategy. to examine the population sample of 2027 food industry managers. The study employed a stratified random sampling technique. The study collected primary data using a structured questionnaire. The conclusions show that Inventory management does have a substantial influence on the earnings of selected food and beverage manufacturing enterprises in Lagos State. The study uses a cross-sectional survey to evaluate inventory management's influence on profitability in Lagos State's food and beverage industry, but it does not empirically investigate the impact of IAS 2 inventory disclosures. This empirical gap means the findings may not reflect the specific effects of standardized inventory disclosure practices on profitability. This study focus is to empirically examine how IAS 2 compliance impacts financial performance in consumer goods manufacturing, using longitudinal data to capture the full effect of disclosure practices. Also, the study focus on Lagos State's food and beverage industry does not address the broader Nigerian context or the role of IAS 2 inventory disclosures. This geographical gap suggests that the findings may not be applicable to consumer goods manufacturers across Nigeria or capture the effects of standardized disclosure practices. Future research should examine the impact of IAS 2 inventory disclosures on firm performance in different regions of Nigeria to provide a more comprehensive understanding.

Kolawole, *et al*., (2019) conducted research on the existent relationship between inventory management and profitability in Nigerian manufacturing enterprises. The case study for this research was International Breweries Plc. Secondary data was gathered from the company's regulatory filings for a time frame of ten (10) years. To establish the correlation between the variables, a simple linear regression model was utilized. The study's findings which indicated that the selected company has an efficient inventory management system, which in turn has a significant impact on the firm's profitability. Findings from this study indicated that good inventory management contributed significantly to manufacturing firms' profitability and recommended that manufacturing firms enhance their inventory management system by further implementing an appropriate tactic for employing inventory items. The Research focus on the relationship between inventory management and profitability in Nigerian manufacturing enterprises but does not empirically analyze the effects of IAS 2 inventory disclosures. This gap suggests that the research may not fully account for the impact of standardized disclosure practices on profitability. To address this gap, current study conducts empirical research on how IAS 2 inventory disclosure specifically influences financial outcomes in the consumer goods manufacturing sector. Therefore, the study proposes the following hypothesis:

H_{03}: IAS 2 inventory disclosure has no significant effect on the firm performance of listed consumer goods manufacturing companies in Nigeria.

2.3 Theoretical Framework

To underpin this study on the effect of IAS 2 Inventory on firm performance of listed consumer goods manufacturing companies in Nigeria, two relevant theories are the Resource-Based View (RBV) and Agency Theory. Both theories provide a robust foundation for understanding how inventory management practices, guided by IAS 2, influence firm performance.

2.3.1 Resource-Based View (RBV)

The Resource-Based View (RBV) theory, proposed by Jay Barney in 1991, posits that a firm's sustainable competitive advantage is derived from its ability to acquire and manage valuable, rare, inimitable, and non-substitutable (VRIN) resources. This perspective suggests that firms can achieve superior performance by leveraging their unique resources and capabilities that competitors cannot easily replicate. In the context of inventory management, RBV suggests that efficient inventory practices can be a strategic resource that significantly enhances firm performance. Effective inventory management under IAS 2 ensures accurate measurement, recognition, and disclosure of inventory, contributing to financial stability and

operational efficiency (Kolawole et al., 2019). The adherence to IAS 2 standards helps firms maintain detailed and accurate inventory records, which are essential for informed decision-making and maintaining competitive advantage (Barney, 1991). Implementing sophisticated inventory management systems that comply with IAS 2 standards can be a complex and resource-intensive process, involving the integration of advanced technologies and rigorous procedural adherence. Firms that successfully implement such systems may enjoy a competitive edge that is difficult for competitors to replicate (Bodunde and Anisere-Hameed, 2021).

2.3.2 Agency Theory

Agency Theory, proposed by Michael Jensen and William Meckling in 1976, focuses on the relationship between principals (shareholders) and agents (managers), highlighting the conflicts that arise due to differing interests and information asymmetry. In a corporate setting, managers are tasked with operating the firm on behalf of shareholders, but their personal incentives may not always align with the shareholders' best interests. This misalignment can lead to agency problems, where managers might engage in opportunistic behavior, such as manipulating financial reports to achieve short-term performance targets (Jensen & Meckling, 1976). Such manipulation can misrepresent the firm's actual financial position, impacting stakeholders' decision-making and eroding trust.

In the context of inventory management, Agency Theory is particularly pertinent as it underscores the potential for managers to distort inventory figures to improve apparent financial health. IAS 2 standards help mitigate this risk by enforcing stringent inventory measurement, recognition, and disclosure requirements, thereby promoting transparency and accountability (Aseoluwa& Jelil, 2017). By adhering to IAS 2, firms are required to disclose the methods used for inventory valuation, such as FIFO (First-In, First-Out), which reduces information asymmetry and provides shareholders with a more accurate picture of the firm's financial status. This transparency is crucial in ensuring that managers do not inflate inventory values to enhance perceived profitability (Prempeh, 2016).

3.0 METHODOLOGY

3.1 Research Design

This study employed a quantitative research approach with ex post facto research design to explore the effect of IAS 2 inventory practices on firm performance among listed consumer goods manufacturing companies in Nigeria. The research philosophy guiding this study is deeply entrenched in a quantitative approach that stems from the positivist paradigm. Positivism, as defined by Saunders (2009), places significant emphasis on rationality, objectivity, prediction, and control, which serve as foundational principles driving the methodology and execution of this research. The population for this study comprises 21 listed consumer goods companies in Nigeria, the study employed a purposive sampling technique to sampled 18 listed consumer goods manufacturing companies in Nigeria. The data for this study were collected from secondary sources, specifically from the annual reports and financial statements of listed consumer goods manufacturing companies in Nigeria. The data analysis for this study employed a combination of descriptive statistics, correlation analysis, and multiple regression analysis.

3.1.1 Model Specification

The following multiple regression model was specified to examine the impact of IAS 2 inventory practices on firm performance:

$$ROA_{it} = \beta_0 + \beta_1 IASINVMEAS_{it} + \beta_2 IASINVREC_{it} + \beta_3 IASINVDISC_{it} + \beta_4 FSZ_{it} + \beta_5 LEV_{it} + \varepsilon_{it}$$

where:

ROA= Return on Assets for firm, representing firm performance.
β_0= Intercept term. β_1 - β_5= Coefficients for the independent and control variables, IASINVMEAS = IAS 2 Inventory Measurement for firm, IASINVREC= IAS 2 Inventory Recognition for firm, IASINVDISC = IAS 2 Inventory Disclosure for firm, FSZ = Firm Size for firm, measured as the natural log of total assets, LEV= Leverage for firm, calculated as total debt divided by total equity and Ɛ = Error term.

Table 3.1: Summary of Variable Measurement

Variable	Code	Definition/ Measurement
Firm Performance	ROA	Return on asset
IAS 2 Inventory Measurement	IASINVMEAS	Closing inventory valued divided by current assets
IAS 2 Inventory Recognition	IASINVREC	Cost of sales recognised divided by revenue
IAS 2 Inventory Disclosure	IASINVDISC	1 if firm disclosed inventory valuation method to be FIFO, 0 otherwise
Firm Size	FSZ	Natural log of Total Assets
Leverage	LEV	Total Debt divided by Total Equity

Source: Author's Compilation (2025)

4.0 DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

The data for this study was derived from financial statements from 2012 to 2022 and the data is summarised in appendix I. The descriptive statistics for the data is presented below:

Table 4.1 Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min.	Max.
ROA	185	0.0608624	0.502915	-2.359907	6.174312
IASINVMEAS	185	0.3560681	0.1808223	0	0.8710955
IASINVREC	176	.7425663	.1631503	.0720987	1.501525
IASINVDISC	187	.2299465	.4219279	0	1
FSIZE	185	17.2106	2.225306	10.95583	20.31832
LEVG	185	3.347501	15.38577	-2.982845	202.9019

Source: STATA 15 version output, 2025

Return on Assets (ROA): The study included 185 observations for the return on assets (ROA), a measure of firm performance. The mean ROA is approximately 0.0608624, indicating that, on average, the firms in the sample generated a return of 6.1% on their assets. However, the standard deviation of 0.502915 suggests a high level of variability in ROA among the firms. The minimum value of -2.359907 and maximum of 6.174312 reveal a substantial range, indicating that while some firms experienced significant losses, others achieved remarkably high returns. This wide dispersion suggests diverse levels of profitability and efficiency in asset utilization within the sample.

IAS 2 Inventory Measurement (IASINVMEAS): For IAS 2 Inventory Measurement, the study also included 185 observations. The mean value is 0.3560681, indicating that, on average, closing inventory constitutes 35.6% of current assets. The standard deviation of 0.1808223 indicates moderate variability in the proportion of closing inventory to current assets among firms. The minimum value of 0 and maximum of 0.8710955 suggest that some firms have no closing inventory relative to current assets, while others have closing inventories making up nearly 87.1% of their current assets. This range highlights the differing inventory management strategies and operational scales of the firms.

IAS 2 Inventory Recognition (IASINVREC): The analysis included 176 observations for IAS 2 Inventory Recognition, with a mean value of 0.7425663. This means that, on average, the cost of sales recognized is 74.3% of the revenue, suggesting a significant portion of revenue is consumed by the cost of sales. The standard deviation of 0.1631503 indicates some variability in this ratio among the firms. The minimum value of 0.0720987 and maximum of 1.501525 highlight a considerable range, indicating that some firms manage to keep their cost of sales very low compared to revenue, while others even exceed 100%, possibly due to high operational costs or inefficiencies. This wide range underscores the differences in cost management and pricing strategies among the firms.

IAS 2 Inventory Disclosure (IASINVDISC): The study recorded 187 observations for IAS 2 Inventory Disclosure, a binary variable indicating whether a firm disclosed its inventory valuation method as FIFO (1 if disclosed, 0 otherwise). The mean value of 0.2299465 suggests that approximately 23% of the firms disclosed their inventory valuation method as FIFO. The standard deviation of 0.4219279 reflects a notable spread between firms that do and do not disclose this information. This indicates that while a significant portion of firms comply with disclosure requirements, a majority may still lack transparency in their inventory valuation methods, impacting stakeholder perceptions and decision-making.

Firm Size (FSIZE): For Firm Size, measured as the natural log of total assets, the study included 185 observations. The mean value is 17.2106, with a standard deviation of 2.225306, indicating moderate variability in firm sizes within the sample. The minimum value of 10.95583 and maximum of 20.31832 reveal a significant range, highlighting the differences in the scale of operations. Smaller firms with a log asset size of around 10.96 contrast sharply with larger firms reaching log asset sizes of about 20.32, reflecting diverse operational capacities and resource allocations among the firms.

Leverage (LEVG): The leverage variable included 185 observations, with a mean value of 3.347501. However, the standard deviation of 15.38577 indicates an extremely high variability in leverage ratios among the firms. The minimum value of -2.982845 suggests that some firms have negative equity, potentially indicating financial distress, while the maximum value of 202.9019 highlights highly leveraged firms. This wide range and high standard deviation underscore the varied capital structures and financial strategies employed by the firms, reflecting different levels of risk and financial stability within the sample.

4.2 Analyses and Results

Table 4.2 Correlation Matrix

	ROA	IASINVMEAS	IASINVREC	IASINVDISC	FSIZE	LEVG
ROA	1.0000					
IASINVMEAS	-0.1135	1.0000				
IASINVREC	-0.5907	0.1089	1.0000			
IASINVDISC	0.0995	0.3422	0.1557	1.0000		
FSIZE	0.1519	0.0352	-0.3123	0.0054	1.0000	
LEVG	-0.1382	-0.0791	0.1263	0.1379	-0.0578	1.0000

Source: STATA 15 version output, 2025

From Table 4.2, IAS 2 Inventory Measurement (IASINVMEAS) shows a weak negative correlation with ROA, indicated by a coefficient of -0.1135. This suggests that an increase in the proportion of closing inventory relative to current assets is associated with a slight decrease in firm performance. Although this relationship is not strong, it implies that firms holding higher levels of inventory relative to their current assets might experience lower efficiency in generating returns from their assets. This could be due to higher holding costs or potential obsolescence of inventory.

IAS 2 Inventory Recognition (IASINVREC) exhibits a moderate to strong negative correlation with ROA, with a coefficient of -0.5907. This indicates a significant inverse relationship between the cost of sales recognized relative to revenue and firm performance. Higher costs of sales relative to revenue imply lower profitability, as a greater portion of revenue is consumed by costs. Effective cost management is crucial; inefficient inventory management leading to high costs of sales can substantially lower the firm's return on assets.

IAS 2 Inventory Disclosure (IASINVDISC) has a weak positive correlation with ROA, with a coefficient of 0.0995. This suggests that firms disclosing their inventory valuation method (FIFO) tend to have slightly higher returns on assets. Transparency in inventory practices may enhance stakeholder confidence and potentially improve financial performance. This positive relationship, though weak, highlights the potential benefits of adopting and disclosing recognized inventory valuation methods.

Firm Size (FSIZE), measured by the natural log of total assets, shows a weak positive correlation with ROA (coefficient of 0.1519). This indicates that larger firms tend to have slightly better performance in terms of return on assets. Larger firms may benefit from economies of scale, better resource allocation, and greater market influence, contributing to higher efficiency in asset utilization and better financial outcomes.

Leverage (LEVG), which is the ratio of total debt to total equity, shows a weak negative correlation with ROA, with a coefficient of -0.1382. This relationship suggests that higher leverage is associated with lower firm performance. Higher debt levels increase financial risk and interest obligations, which can negatively impact profitability and overall returns on assets. Firms with higher leverage might face financial constraints that limit their operational efficiency and profitability.

Table 4.3 Heteroskedasticity Test

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity	
chi2(1)	3.07
Prob > chi2	0.0799

Source: STATA 15 version output, 2025

The result of the Breusch-Pagan / Cook-Weisberg test indicates that the variance of the errors in the regression model is constant, as the p-value is greater than 0.05. This implies that the assumption of homoscedasticity is met, enhancing the reliability of the regression coefficients and the overall model. This ensures that the standard errors are not biased, which is crucial for valid hypothesis testing and confidence intervals.

Table 4.4 Variance Inflation Factor (VIF) test of Multicollinearity

Variable	VIF	1/VIF
INVDISC	1.18	0.844800
IASINVMEAS	1.16	0.859159
IASINVREC	1.16	0.863186
FSIZE	1.12	0.896205
LEVG	1.05	0.949516
Mean VIF	**1.14**	

Source: STATA 15 version output, 2025

The VIF test results indicate that multicollinearity is not an issue in this model. All VIF values are below the threshold of 10, with a mean VIF of 1.14, suggesting that the independent variables are not highly correlated with each other. This means that the estimates of the regression coefficients are stable and not inflated due to multicollinearity. Consequently, the interpretation of the individual effect of each independent variable on the dependent variable (ROA) is reliable.

Overall, these diagnostic tests confirm the robustness of the regression model used in this study. The absence of heteroskedasticity and multicollinearity ensures that the regression results are credible and the inferences drawn from the model are valid.

Table 4.5 Pool Linear Regression Results

ROA	Coef.	Std. Err.	t-stat.	P>t
Cons	.3113069	.0782585	3.98	0.000
IASINVMEAS	-.0653284	.0284244	-2.30	0.023
IASINVREC	-.28675	.0499333	-5.74	0.000
IASINVDISC	.0458023	.011199	4.09	0.000
FSIZE	-.001767	.0029022	-0.61	0.534
LEVG	-.0005307	.0001671	-3.17	0.002
F. (5, 170)			14.23	
Prob > F			0.0000	

Source: STATA 11 version output, 2024

4.3 Test of Hypotheses

4.3.1 IAS 2 Inventory Measurement:

The coefficient estimate for IAS 2 Inventory Measurement (IASINVMEAS) is -0.0653284. This suggests that for every unit increase in inventory measurement relative to current assets, there is a corresponding decrease of approximately 0.065 in the Return on Assets (ROA). The t-statistic of -2.30 indicates that this coefficient is statistically significant at the 5% level, with a p-value of 0.023. Therefore, the findings suggest that IAS 2 Inventory Measurement significantly influences firm performance, specifically ROA, among listed consumer goods manufacturing companies in Nigeria.

4.3.2 IAS 2 Inventory Recognition:

The coefficient estimate for IAS 2 Inventory Recognition (IASINVREC) is -0.28675. This indicates that for every unit increase in the cost of sales recognized relative to revenue, there is a corresponding decrease of approximately 0.287 in the Return on Assets (ROA). The t-statistic of -5.74 indicates that this coefficient is highly statistically significant at the 1% level, with a p-value of 0.000. Therefore, the findings suggest that IAS 2 Inventory Recognition significantly influences firm performance, specifically ROA, among listed consumer goods manufacturing companies in Nigeria.

4.3.3 IAS 2 Inventory Disclosure:

The coefficient estimate for IAS 2 Inventory

Disclosure (IASINVDISC) is 0.0458023. This implies that for firms that disclose their inventory valuation method to be FIFO, there is a corresponding increase of approximately 0.046 in the Return on Assets (ROA) compared to firms that do not disclose. The t-statistic of 4.09 indicates that this coefficient is highly statistically significant at the 1% level, with a p-value of 0.000. Therefore, the findings suggest that IAS 2 Inventory Disclosure significantly influences firm performance, specifically ROA, among listed consumer goods manufacturing companies in Nigeria.

4.4 Discussion of Findings

4.4.1 IAS 2 Inventory Measurement

The finding revealed that IAS 2 Inventory Measurement has a significant negative effect on firm performance aligns with the study by Kolawole et al. (2019), which emphasized the sensitivity of financial outcomes to inventory valuation methods in manufacturing firms. Similarly, Olaide and Omodero (2023) found that poor inventory measurement practices often lead to inefficient asset utilization, resulting in lower profitability. These studies support the assertion that excessive or inaccurately measured closing inventory—when inflated relative to current assets—can reduce Return on Assets (ROA) by tying up capital and increasing holding costs. However, this finding contradicts the position of Bodunde and Anisere-Hameed (2021), who suggested that inventory, if well-managed and appropriately valued, can improve firm performance. The contradiction may stem from the methodological differences and the industries studied; while Bodunde and Anisere-Hameed examined a broader set of manufacturing firms, the current study focuses specifically on consumer goods companies, where inventory turnover cycles are relatively faster and more sensitive to valuation practices.

From a theoretical standpoint, the Resource-Based View (RBV) theory helps explain this outcome. Inventory, as a strategic resource, must be efficiently managed to create value. When inventories are disproportionately high in relation to current assets, it suggests resource misallocation and underutilization, which erodes firm performance. The negative relationship found in this study reflects a situation where inventory fails to meet the VRIN criteria (valuable, rare, inimitable, and non-substitutable) as proposed by RBV, thereby not contributing to competitive advantage. Additionally, Agency Theory explains the negative impact as a consequence of managers potentially overstating inventory values to present favorable financial positions, thereby introducing agency costs that ultimately harm firm performance.

4.4.2 IAS 2 Inventory Recognition

The result indicated a significant negative relationship between IAS 2 Inventory Recognition and firm performance is consistent with findings by Jonah et al. (2023), who reported that high cost of sales, a key component of inventory recognition, diminishes net profitability and Return on Assets. The negative relationship suggests that as the proportion of cost of sales to revenue increases—possibly due to inefficient production or poor inventory turnover—profit margins shrink, leading to lower overall performance. In contrast, this finding diverges from the conclusions drawn by Sonko and Akinlabi (2020), who claimed that timely and proper inventory recognition enhances financial transparency and firm efficiency. The contradiction could be attributed to the difference in sample scope and measurement metrics, as Sonko and Akinlabi used survey-based primary data, while the current study employed secondary data drawn directly from audited financial statements.

Theoretically, the negative finding is reinforced by Agency Theory, which posits that managers may engage in opportunistic behavior by recognizing inventory costs in a manner that misrepresents operational efficiency. High cost of sales, if not effectively controlled, signals inefficient inventory and production management, which affects performance. Furthermore, under the RBV framework, such inefficiencies indicate a failure to leverage inventory as a productive and strategic resource. Instead of contributing to profitability, poorly managed or prematurely recognized inventory expenses become a liability that erodes returns, supporting the study's evidence of a negative association with ROA.

4.4.3 IAS 2 Inventory Disclosure

The finding showed that IAS 2 Inventory Disclosure positively influences firm performance aligns with the works of Aseoluwa and Jelil (2017) and Prempeh (2016), who emphasized that transparency in financial reporting—particularly in disclosing inventory valuation methods—boosts investor confidence and enhances firm credibility. Their studies show that when companies disclose their use of consistent and recognized valuation techniques like FIFO, it facilitates better decision-making among stakeholders and reflects a commitment to good governance, ultimately improving performance. This finding, however, contradicts earlier views such as those of Kolawole et al. (2019), who downplayed the role of disclosure, suggesting that operational practices have more direct effects on profitability than reporting details. The discrepancy may stem from a lack of emphasis on stakeholder perception in Kolawole et al.'s model, whereas the current study integrates both financial and governance perspectives.

Agency Theory offers a compelling explanation for the positive impact of disclosure. By reducing information asymmetry between management and

shareholders, comprehensive inventory disclosure mitigates agency conflicts and builds trust. Firms that voluntarily disclose inventory valuation methods demonstrate accountability, making it harder for managers to manipulate inventory figures. Additionally, the RBV theory supports this finding by recognizing transparency as an intangible strategic asset. The ability to signal adherence to international standards through disclosure serves as a differentiating capability that can enhance firm reputation, stakeholder loyalty, and eventually, financial performance, as reflected in the positive association with ROA.

5.0 CONCLUSION AND ECOMMENDATIONS

5.1 Conclusion

The study concluded that IAS 2 inventory practices significantly influence the performance of listed consumer goods manufacturing companies in Nigeria. Specifically, inventory measurement and recognition under IAS 2 were found to have negative effects on firm performance of listed consumer goods manufacturing companies in Nigeria, suggesting that excessive inventory levels and high cost of sales diminish profitability. Conversely, inventory disclosure had a positive effect on performance of listed consumer goods manufacturing companies in Nigeria, indicating that transparent reporting of inventory valuation methods enhances stakeholder confidence and improves financial outcomes. These highlight the critical role of effective inventory management and adherence to disclosure standards in driving firm performance within the consumer goods manufacturing sector.

5.2 Recommendations

i. Inventory Measurement (IASINVMEAS): Effective inventory measurement is crucial for informed decision-making and financial performance. To enhance inventory measurement practices, companies should invest in advanced inventory management systems capable of accurately measuring and monitoring inventory levels in real-time. These systems should incorporate technologies such as barcode scanning, RFID tracking, and automated data analytics to streamline inventory processes and minimize errors. Additionally, firms should prioritize staff training to ensure proper utilization of these systems and ongoing maintenance to optimize performance.

ii. Inventory Recognition (IASINVREC): Accurate inventory recognition is essential for financial transparency and regulatory compliance. To improve inventory recognition practices, companies should conduct regular audits of their inventory valuation methods and accounting processes to ensure compliance with International Accounting Standards (IAS) 2 standards. These audits should involve thorough reviews of inventory records, transaction documentation, and internal control procedures to identify any discrepancies or inefficiencies. In collaboration with professional accounting bodies such as the Institute of Chartered Accountants of Nigeria (ICAN), Association of National Accountants of Nigeria (ANAN) and Financial Reporting Council of Nigeria (FRCN) should develop audit frameworks and guidelines for assessing inventory recognition practices that aligns with the International Standards.

iii. Inventory Disclosure (IASINVDISC): Transparent inventory disclosure enhances investor confidence and stakeholder trust. To promote transparency in inventory disclosure, companies should adopt a policy of explicit disclosure of inventory valuation methods, such as first-in-first-out (FIFO) or weighted average cost, in their financial reports. This disclosure should be accompanied by clear explanations of the rationale behind the chosen valuation method and any potential implications for financial performance.

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