Backflush Accounting and Financial Reporting Reliability: Evidence from Nigerian NGX- Listed Manufacturing Firms under IFRS

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Abstract:

This study examined the effect of backflush accounting on financial reporting reliability among manufacturing firms listed on the Nigerian Exchange Group (NGX) under the International Financial Reporting Standards (IFRS) framework. Although IFRS adoption in Nigeria improved transparency, comparability, and disclosure quality, concerns persisted regarding the influence of internal accounting practices on reporting reliability. Backflush accounting, a simplified costing method associated with Just-In-Time (JIT) systems, enhanced operational efficiency by reducing detailed cost tracking; however, it raised concerns about the accuracy, traceability, and auditability of financial information. A qualitative research design was adopted, relying on a structured review and thematic synthesis of extant literature. The study was anchored on Agency Theory and Information Asymmetry Theory to explain the relationship between accounting practices and financial reporting quality. The findings indicated that the impact of backflush accounting on financial reporting reliability was conditional. While the method improved efficiency and timeliness, it compromised accuracy and verifiability in firms with weak internal controls and complex production processes. Conversely, in firms characterised by strong internal controls, stable operations, and effective cost management systems, backflush accounting supported reliable financial reporting consistent with IFRS requirements. The study concluded that financial reporting reliability depended not only on compliance with IFRS but also on the robustness of internal accounting systems. A balanced approach integrating efficient accounting practices with strong governance mechanisms was therefore recommended.

Keywords: *Backflush Accounting; Financial Reporting Reliability; IFRS; Nigerian Manufacturing Firms; Agency Theory; Information Asymmetry; Internal Controls*

Introduction

Financial reporting reliability remains a fundamental concern in accounting research and practice, particularly within emerging economies where institutional structures, regulatory enforcement, and corporate governance frameworks are still developing. Reliable financial reporting ensures that financial statements provide a faithful representation of a firm's economic activities, thereby enhancing the usefulness of accounting information for investors, regulators, and other stakeholders (IASB, 2018). The relevance of financial reporting reliability is further amplified in capital markets such as Nigeria, where information asymmetry and weak enforcement mechanisms can undermine investor confidence and market efficiency (Ofoegbu et al., 2020).

In Nigeria, the adoption of International Financial Reporting Standards (IFRS) marked a significant transition aimed at improving the transparency, comparability, and credibility of financial reports. Empirical evidence suggests that IFRS adoption has contributed to improvements in financial reporting quality; however, these improvements are not uniform across firms and sectors (Akeju and Babatunde, 2017; Iyoha and Faboyede, 2019). In particular, the manufacturing sector, which is characterised by complex cost structures and operational processes, presents unique challenges for financial reporting under IFRS. Within this context, the adoption of modern cost accounting techniques such as backflush accounting has become increasingly relevant. Backflush accounting, commonly associated with Just-In-Time (JIT) production systems, simplifies cost tracking by postponing the recording of costs until the completion of production (Horngren et al., 2021). While this approach enhances operational efficiency and reduces administrative burdens, it raises critical concerns regarding the accuracy, traceability, and auditability of financial information (Drury, 2018). These concerns are particularly pronounced in environments where internal control systems are weak and regulatory oversight is limited (Uwuigbe et al., 2021).

In Nigerian NGX-listed manufacturing firms, the simultaneous application of IFRS and simplified cost accounting systems creates a complex reporting environment. The interaction between these frameworks may either enhance or undermine financial reporting reliability depending on how effectively they are implemented. Given the growing demand for high-quality financial information in Nigeria's capital market, it is imperative to critically examine whether backflush accounting supports or compromises financial reporting reliability in this context.

A Review of Extant Literature

Financial reporting reliability remains a fundamental concern in accounting research and practice, particularly within emerging economies where institutional structures, regulatory enforcement, and corporate governance frameworks are still developing. Reliable financial reporting ensures that financial statements provide a faithful representation of a firm's economic activities, thereby enhancing the usefulness of accounting information for investors, regulators, and other stakeholders (IASB, 2018). The relevance of financial reporting reliability is further amplified in capital markets such as Nigeria, where information asymmetry and weak enforcement mechanisms can undermine investor confidence and market efficiency (Ofoegbu et al., 2020).

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Research Problem

While IFRS adoption in Nigeria was intended to improve financial reporting quality, the increasing use of simplified accounting techniques such as backflush accounting introduces potential challenges. Existing studies largely focus on IFRS compliance and reporting quality without considering how internal accounting practices influence these outcomes (Ofoegbu et al., 2020).

Moreover, the literature on backflush accounting primarily emphasises efficiency benefits, with limited attention to its implications for financial reporting reliability. This creates a significant gap, as the simplification of cost tracking may conflict with the detailed disclosure requirements of IFRS. In the Nigerian manufacturing sector, where firms operate under varying levels of technological advancement and internal control systems, the interaction between backflush accounting and IFRS reporting remains underexplored. This study therefore seeks to address this gap by examining whether the adoption of backflush accounting enhances or undermines financial reporting reliability among NGX-listed manufacturing firms.

Objective of the Study and Hypotheses

The main objective of this study is to examine the impact of backflush accounting on financial reporting reliability among Nigerian NGX-listed manufacturing firms under IFRS.

Specific objectives include:

i. To assess the extent of backflush accounting adoption among manufacturing firms in Nigeria.
ii. To examine the effect of backflush accounting on financial reporting reliability.
iii. To evaluate whether IFRS moderates the relationship between backflush accounting and reporting reliability.

Based on these objectives, the following hypotheses are formulated:
H1: Backflush accounting has a significant effect on financial reporting reliability among NGX- listed manufacturing firms in Nigeria.

H2: IFRS adoption significantly moderates the relationship between backflush accounting and financial reporting reliability.

Theoretical Consideration

This study is anchored on Agency Theory and Information Asymmetry Theory, both of which provide a strong conceptual foundation for examining the relationship between accounting practices and financial reporting reliability. These theoretical perspectives are particularly relevant in understanding how simplified accounting techniques such as backflush accounting may influence the quality, transparency, and usefulness of financial information within firms operating under IFRS frameworks.

Agency theory explains the relationship between principals (shareholders) and agents (managers), emphasising that conflicts naturally arise due to differences in interests and unequal access to information (Jensen and Meckling, 1976). In modern corporations, managers are entrusted with decision-making authority, but their objectives may not always align with those of shareholders. This divergence creates agency problems, which are often intensified by information asymmetry between managers and investors. As a result, reliable financial reporting becomes a critical mechanism for reducing these conflicts by providing accurate, transparent, and verifiable information about the firm's financial performance and position (Jensen and Meckling, 1976).

From this perspective, financial reporting reliability serves as a governance tool that enhances accountability and reduces managerial opportunism. However, the adoption of simplified accounting methods such as backflush accounting introduces potential limitations. While backflush accounting improves efficiency by reducing the need for detailed cost tracking, it may also limit the precision and traceability of cost information. This reduction in detail can weaken the monitoring function of financial statements, thereby increasing the likelihood of agency conflicts if stakeholders are unable to fully assess managerial actions. Consequently, the effectiveness of financial reporting in mitigating agency problems depends not only on adherence to IFRS but also on the robustness of underlying accounting practices (IASB, 2018; Jensen and Meckling, 1976).

Information asymmetry theory further complements this analysis by explaining how disparities in information distribution affect economic decision-making. Akerlof (1970) posits that when one party possesses more or better information than another, it leads to inefficiencies in the market, as less informed parties are unable to make optimal decisions. In financial reporting, information asymmetry arises when disclosed financial information does not fully capture the economic reality of the firm, thereby reducing the reliability and usefulness of financial statements (Akerlof, 1970).

Within this context, the use of backflush accounting has important implications for information asymmetry. Although it simplifies accounting processes and aligns with modern manufacturing systems, it may obscure critical cost information if not properly implemented. This lack of detailed cost visibility can increase the information gap between managers and external stakeholders, thereby reducing transparency and potentially undermining investor confidence. As such, simplified accounting techniques may inadvertently exacerbate information asymmetry if they compromise the completeness and verifiability of financial information (Drury, 2018; Horngren et al., 2021).

Furthermore, the integration of backflush accounting within IFRS-based reporting systems introduces additional complexity. IFRS emphasises the principles of faithful representation, completeness, and transparency in financial reporting (IASB, 2018). However, the simplification inherent in backflush accounting may conflict with these principles if it leads to less detailed or less verifiable financial information. Therefore, the extent to which backflush accounting affects information asymmetry depends on the strength of internal controls, the quality of implementation, and the degree of compliance with IFRS requirements (Uwuigbe et al., 2021; IASB, 2018).

Methodology

The study adopts a qualitative research design, aligned with an interpretivist orientation, which focuses on developing in-depth understanding through the critical analysis of existing literature rather than numerical measurement (Creswell, 2014; Saunders et al., 2019). This approach is appropriate given the exploratory nature of the study, which seeks to examine the implications of backflush accounting on financial reporting reliability by synthesising insights from prior empirical and theoretical works. Unlike quantitative studies that rely on statistical testing, this study draws on established literature to provide conceptual clarity and critical evaluation of the subject matter.

The scope of the study centres on manufacturing firms listed on the Nigerian Exchange Group (NGX), with emphasis on their accounting practices under IFRS. Although primary data are not collected, the study contextualises its analysis within the Nigerian manufacturing sector by reviewing relevant studies that examine financial reporting practices, IFRS adoption, and cost

accounting systems in similar environments (Ofoegbu et al., 2020; Iyoha and Faboyede, 2019). This ensures that the discussion remains grounded in the realities of emerging markets where institutional and operational factors influence reporting outcomes.

Data for the study are derived from secondary sources, particularly peer-reviewed journal articles, academic publications, and authoritative accounting literature. These sources provide empirical and theoretical evidence on key variables such as financial reporting reliability, earnings quality, accrual quality, and cost accounting practices. The study adopts a structured literature review approach, critically analysing and synthesising findings from prior studies to identify patterns, inconsistencies, and emerging themes (Tranfield et al., 2003). In doing so, it draws on established frameworks such as the earnings quality model proposed by Dechow et al. (2010) to assess how reliability has been conceptualised and measured in existing research.

Backflush accounting is examined through insights provided in cost accounting and management accounting literature, particularly with respect to its application in lean manufacturing systems and its implications for cost accuracy and financial transparency (Drury, 2018; Horngren et al., 2021). The analysis focuses on how these practices are discussed in the literature and how they interact with IFRS requirements, rather than measuring their effects empirically.

The analytical approach involves a critical review and thematic synthesis of existing studies. This includes comparing findings across different contexts, identifying areas of agreement and divergence, and evaluating the implications of these findings for financial reporting reliability. By systematically reviewing prior research, the study is able to highlight gaps in the literature and provide a well-informed discussion on the potential effects of backflush accounting within IFRS- based reporting systems.

Data Presentation and Analysis

A qualitative robustness analysis of extant literature reveals that the relationship between backflush accounting and financial reporting reliability is inherently complex, conditional, and context-dependent. The reviewed studies collectively indicate that financial reporting reliability is shaped by both **external reporting frameworks**, such as IFRS, and **internal accounting practices**, including cost allocation systems and inventory valuation techniques (IASB, 2018; Ofoegbu et al., 2020). While IFRS adoption has been

widely associated with improvements in transparency, comparability, and disclosure quality, these improvements are not automatic and are significantly influenced by firm-level practices and institutional environments (Akeju and Babatunde, 2017; Iyoha and Faboyede, 2019).

From the IFRS perspective, empirical evidence in Nigeria suggests that the transition to IFRS has enhanced disclosure quality and reduced information asymmetry, thereby improving financial reporting reliability (Ofoegbu et al., 2020). However, other studies argue that IFRS alone cannot guarantee reporting quality in environments characterised by weak enforcement and governance structures (Iyoha and Faboyede, 2019). This implies that the effectiveness of IFRS in improving reliability depends largely on how firms implement internal accounting systems and maintain compliance with reporting standards.

On the other hand, the literature on backflush accounting highlights its operational advantages, particularly in lean manufacturing environments. Backflush accounting simplifies cost tracking by eliminating detailed work-in-progress accounting and allocating costs at the completion stage of production (Drury, 2018). This approach enhances efficiency and reduces administrative burden, especially in firms with short production cycles and minimal inventory levels (Horngren et al., 2021). However, the same literature also raises concerns about its implications for financial reporting reliability. Specifically, the absence of detailed cost tracking reduces traceability and auditability, which are essential components of reliable financial reporting (Kaplan and Atkinson, 2015).

Further evidence suggests that the effectiveness of backflush accounting depends on certain operational conditions. Where firms operate under stable production processes, accurate standard costing systems, and strong internal controls, backflush accounting may produce results that approximate those of traditional costing systems (Drury, 2018). Conversely, in environments with volatile production processes, high inventory levels, or weak control systems, the use of backflush accounting may lead to cost misstatements and reduced reporting reliability (Uwuigbe et al., 2021).

A critical insight from the reviewed literature is that most empirical studies on backflush accounting focus on its impact on **operational efficiency and firm performance**, rather than its implications for financial reporting reliability. For instance, studies in emerging markets have found that backflush accounting is associated with improved cost efficiency and profitability, particularly in

manufacturing firms (Amahalu et al., 2019). However, these studies do not directly address whether the resulting financial statements meet the qualitative characteristics of reliability as defined by IFRS. This highlights a significant gap in the literature, as efficiency gains do not necessarily translate into improved financial reporting quality.

Moreover, the interaction between backflush accounting and IFRS introduces an additional layer of complexity. IFRS requires financial statements to exhibit faithful representation, completeness, and neutrality (IASB, 2018). While backflush accounting simplifies internal processes, it may conflict with these requirements if it leads to incomplete or less verifiable information. Therefore, the extent to which backflush accounting affects financial reporting reliability depends on how well it is integrated within the IFRS framework and supported by strong internal control systems.

Overall, the qualitative robustness analysis suggests that backflush accounting has a **mixed impact** on financial reporting reliability. While it enhances efficiency and timeliness, it may compromise accuracy and verifiability if not properly implemented. The findings also indicate that IFRS adoption improves reporting quality, but its effectiveness is contingent on firm-level practices. This reinforces the argument that financial reporting reliability is not solely determined by external standards but is also shaped by internal accounting systems and organisational capabilities.

Table: Summary of Reviewed Empirical and Theoretical Studies

Author(s) & Year	**Study Focus**	**Method/Context**	**Key Findings**	**Relevance to Current Study**
IASB (2018)	Conceptual framework for financial reporting	Global accounting standard	Reliability depends on faithful representation, completeness, and verifiability	Provides benchmark for evaluating financial reporting reliability

Ofoegbu et al. (2020)	IFRS adoption and reporting quality in Nigeria	Empirical study	IFRS improves disclosure quality and transparency	Supports role of IFRS in enhancing reporting reliability
Akeju and Babatunde (2017)	IFRS and earnings quality in Nigeria	Quantitative study	IFRS reduces earnings management	Indicates positive effect of IFRS on reporting quality
Author(s) & Year	**Study Focus**	**Method/Context**	**Key Findings**	**Relevance to Current Study**
			and improves comparability	
Iyoha and Faboyede (2019)	IFRS adoption in Nigeria	Review/empirical	IFRS effectiveness limited by weak enforcement	Highlights institutional constraints
Drury (2018)	Backflush accounting in lean systems	Conceptual/technical	Backflush improves efficiency but depends on stable processes	Explains operational conditions for reliability

Horngren et al. (2021)	Cost accounting systems	Textbook/empirical insights	Backflush reduces complexity but may reduce cost accuracy	Highlights trade-off between efficiency and accuracy
Kaplan and Atkinson (2015)	Management accounting systems	Conceptual	Simplified accounting may introduce measurement errors	Supports concern on reduced reliability

Author(s) & Year	**Study Focus**	**Method/Context**	**Key Findings**	**Relevance to Current Study**
Uwuigbe et al. (2021)	Accounting practices in developing economies	Empirical	Weak internal controls increase reporting risks	Relevant to Nigerian context
Amahalu et al. (2019)	Backflush accounting and firm performance	Empirical (Nigeria)	Backflush improves efficiency and profitability	Shows gap between performance and reliability

Synthesis of Robustness Analysis

The robustness of the findings across the reviewed literature suggests three key conclusions. First, IFRS adoption generally improves financial reporting reliability, but its effectiveness depends on enforcement and firm-level implementation. Second, backflush accounting enhances operational efficiency but introduces potential risks to accuracy and verifiability. Third, the interaction between these two systems is conditional, meaning that backflush accounting can either support or undermine financial reporting reliability depending on the strength of internal controls and compliance with IFRS requirements. Importantly, the literature demonstrates consistency in identifying the trade-off between efficiency and reliability, which remains a central issue in accounting practice. While there is agreement on the benefits of IFRS and the efficiency of backflush accounting, there is divergence regarding their combined effect on financial reporting quality. This divergence underscores the need for further empirical investigation, particularly within the Nigerian manufacturing sector.

Findings and Implications

The qualitative review of extant literature reveals several practical findings regarding the relationship between backflush accounting and financial reporting reliability among Nigerian NGX-listed manufacturing firms operating under IFRS.

First, the study finds that while IFRS adoption has generally improved financial reporting practices, such improvements are not uniform across firms. Evidence indicates that IFRS enhances disclosure quality, comparability, and transparency; however, its effectiveness is significantly influenced by firm-level factors such as internal controls, managerial competence, and enforcement mechanisms (Ofoegbu et al., 2020; Iyoha and Faboyede, 2019). This suggests that compliance with IFRS alone is insufficient to guarantee reliable financial reporting.

Second, the findings show that backflush accounting contributes positively to operational efficiency, particularly in manufacturing environments characterised by Just-In-Time (JIT) systems, low inventory levels, and standardised production processes (Drury, 2018; Horngren et al., 2021). Firms adopting backflush accounting benefit from reduced administrative burden, simplified cost tracking, and improved timeliness of financial information.

However, the study also finds that backflush accounting presents potential

risks to financial reporting reliability. The simplification of cost allocation reduces the level of detail available in financial records, thereby limiting traceability and auditability. This can lead to inaccuracies in cost measurement, particularly in firms with complex production processes or weak internal control systems (Kaplan and Atkinson, 2015; Uwuigbe et al., 2021).

Furthermore, the findings reveal that the impact of backflush accounting on financial reporting reliability is conditional rather than absolute. Where firms operate with strong internal controls, accurate standard costing systems, and stable production environments, backflush accounting can produce reliable financial information that aligns with IFRS requirements (Drury, 2018). Conversely, in firms with inadequate control systems, volatile production processes, or inconsistent cost data, backflush accounting is more likely to undermine reporting reliability.

Another important finding is that most existing empirical studies focus on performance outcomes rather than reporting quality. While studies such as Amahalu et al. (2019) demonstrate that backflush accounting improves profitability and operational efficiency, they do not provide sufficient evidence on whether these improvements translate into more reliable financial reporting. This highlights a disconnect between operational benefits and reporting quality in the existing literature.

Implications of the Findings

The findings of this study have important implications for regulators, firms, investors, and future research.

From a regulatory perspective, the study underscores the need for stronger oversight of internal accounting practices in addition to compliance with IFRS. Regulators such as the Financial Reporting Council of Nigeria (FRCN) should develop specific guidelines on the application of simplified accounting techniques like backflush accounting within IFRS frameworks. This will ensure that efficiency-driven practices do not compromise the qualitative characteristics of financial reporting, particularly faithful representation and verifiability (IASB, 2018).

For manufacturing firms, the findings highlight the importance of balancing operational efficiency with financial reporting accuracy. While backflush accounting offers significant cost and efficiency benefits, firms must ensure that its implementation is supported by robust internal control systems, accurate cost data, and regular reconciliation processes. Firms should also invest in accounting systems and staff training to ensure that simplified costing methods do not lead to material misstatements in financial reports (Horngren et al., 2021; Uwuigbe et al., 2021).

For investors and stakeholders, the study provides critical insights into the interpretation of financial statements. Investors should be cautious when analysing financial reports of firms that adopt simplified accounting techniques, as these methods may affect the level of detail and reliability of reported information. This highlights the need for greater scrutiny of accounting policies and disclosures in financial statements.

In terms of policy implications, the findings suggest that improving financial reporting reliability in Nigeria requires a holistic approach that integrates external standards with internal accounting practices. While IFRS provides a strong framework for reporting, its effectiveness depends on the quality of implementation at the firm level. Therefore, policies aimed at improving reporting quality should focus not only on standard adoption but also on strengthening internal accounting systems and corporate governance structures.

Finally, for academic research, the study highlights a significant gap in the literature regarding the direct relationship between backflush accounting and financial reporting reliability. Future studies should adopt empirical approaches to examine this relationship using firm-level data, particularly in emerging markets. There is also a need to explore the moderating role of factors such as corporate governance, technological adoption, and audit quality in shaping the impact of backflush accounting on financial reporting reliability.

Conclusion

This study concludes that the adoption of backflush accounting in Nigerian NGX-listed manufacturing firms presents both opportunities and challenges for financial reporting reliability under IFRS. While backflush accounting enhances operational efficiency by simplifying cost tracking and reducing administrative burden, its implications for financial reporting are not uniformly positive. The evidence suggests that the reliability of financial reports is not determined solely by compliance with IFRS but is significantly influenced by the quality of internal accounting practices and control systems within firms (IASB, 2018; Ofoegbu et al., 2020).

In practical terms, backflush accounting can support reliable financial reporting when it is implemented within a well-structured operational environment characterised by stable production processes, accurate standard costing systems, and strong internal controls (Drury, 2018; Horngren et al., 2021). Under such conditions, the simplification of accounting processes does not materially distort financial information and may even improve the timeliness and efficiency of reporting. However, in firms where these conditions are absent, the use of backflush accounting may compromise the accuracy, traceability, and verifiability of financial data, thereby undermining the reliability of financial reports (Kaplan and Atkinson, 2015; Uwuigbe et al., 2021).

The study therefore highlights that backflush accounting should not be viewed as a universally applicable solution but rather as a context-dependent accounting technique. Its effectiveness in supporting financial reporting reliability depends on the extent to which firms align its application with IFRS requirements and maintain robust internal control mechanisms.

Overall, the study reinforces the practical insight that achieving reliable financial reporting in Nigeria requires a balanced integration of international reporting standards and sound internal accounting systems. Firms must ensure that efficiency-driven accounting practices do not compromise the qualitative characteristics of financial information, particularly faithful representation and verifiability, which are essential for informed decision-making and investor confidence (IASB, 2018).

Recommendations

Based on the findings of this study, several practical recommendations are

proposed to enhance the effectiveness of backflush accounting while maintaining financial reporting reliability among Nigerian NGX-listed manufacturing firms.

First, manufacturing firms should adopt backflush accounting selectively rather than applying it universally. It is most suitable for firms with stable production processes, low inventory levels, and standardised operations. Firms with complex or fluctuating production systems should consider combining it with other costing methods to ensure accurate financial reporting.

Second, firms must strengthen their internal control systems to support the use of simplified accounting techniques. Effective controls over inventory, production, and cost allocation are essential to prevent errors and ensure the accuracy of financial information. Regular reconciliations, stock checks, and internal audits should be implemented to improve traceability and reliability.

Third, organisations should ensure that backflush accounting is properly aligned with IFRS requirements. Even though the method simplifies accounting processes, firms must ensure that financial statements remain complete, transparent, and reflective of the true financial position. Where necessary, additional disclosures should be provided to enhance clarity.

Fourth, there is a need for continuous training and development of accounting personnel. Staff should be equipped with the skills required to apply backflush accounting correctly and ensure that it does not compromise the quality of financial reporting.

Fifth, regulatory bodies should develop clear and practical guidelines on the use of backflush accounting within the Nigerian context. These guidelines should outline when the method is appropriate and the minimum standards required to maintain reliable financial reporting.

Sixth, firms should invest in modern accounting systems and digital technologies that improve cost tracking and reporting accuracy. Advanced systems can help address the limitations of simplified accounting methods by enhancing data accuracy and real-time monitoring.

Finally, firms should recognise that achieving reliable financial reporting requires a balance between efficiency and accuracy. While backflush accounting offers operational benefits, it must be implemented carefully to ensure that it does not compromise the credibility and usefulness of financial information

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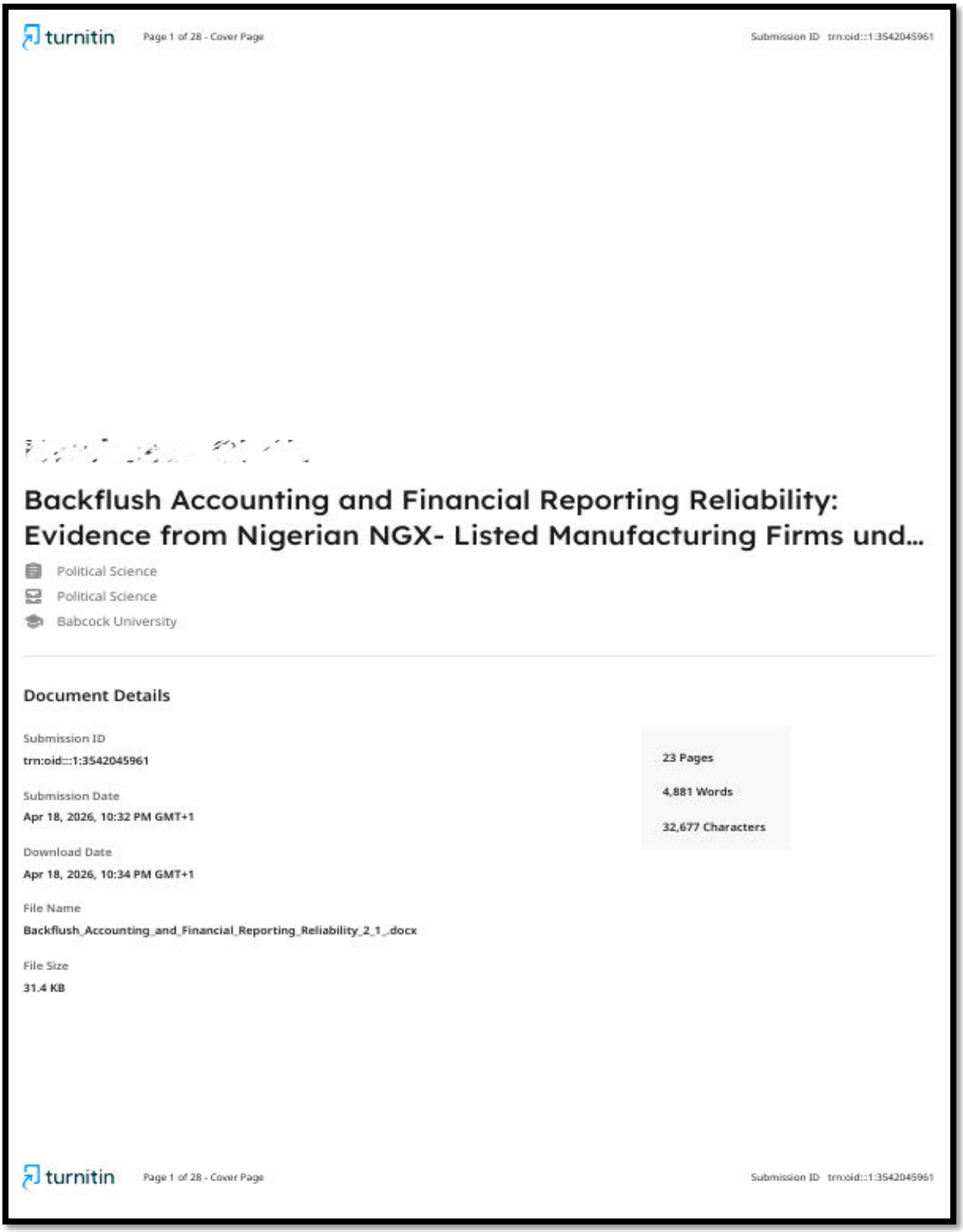

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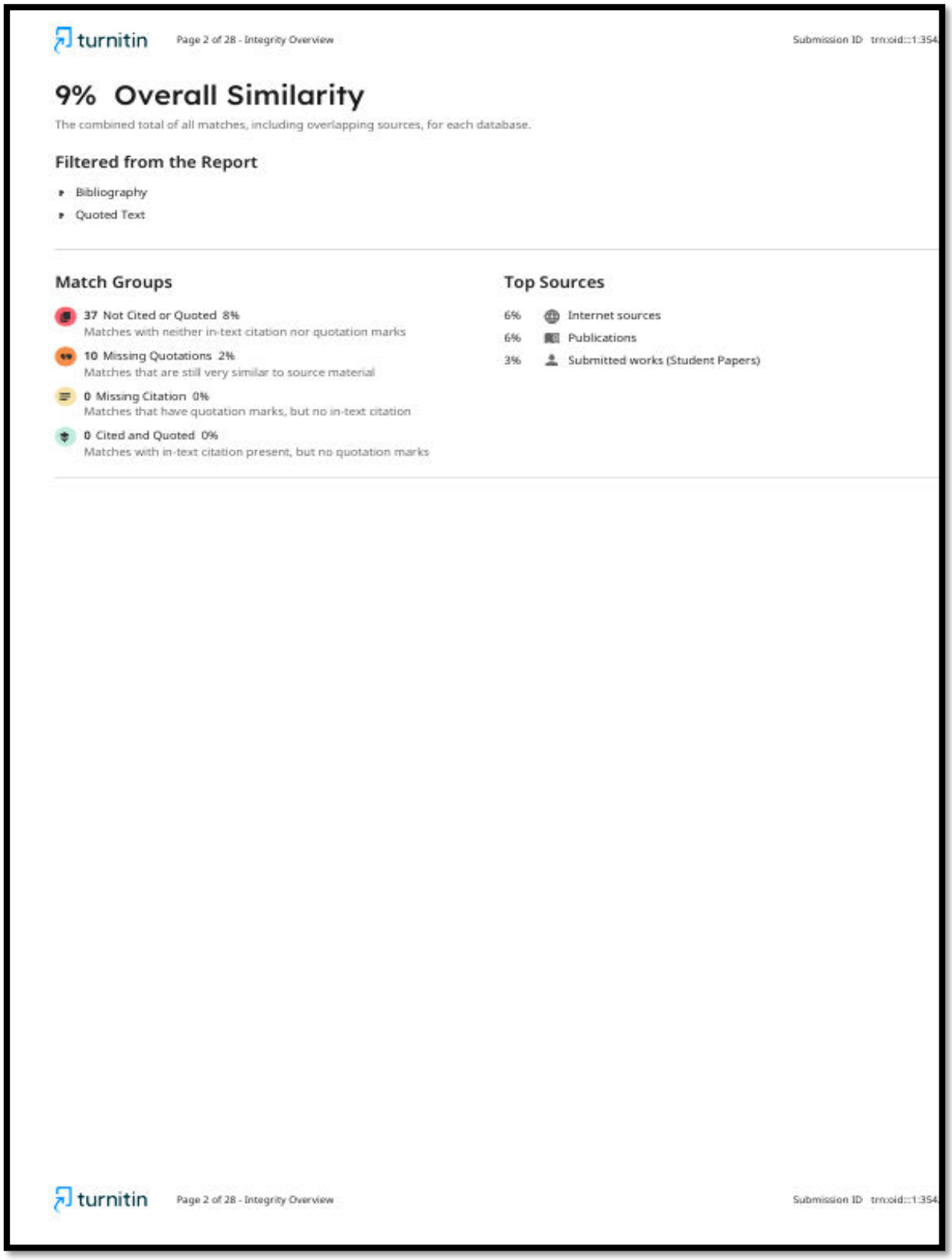

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