Navigating the Financial Landscape: Unravelling the Interplay Between Current Liabilities and Profitability in Nigerian Consumer Goods Sector

ABSTRACT

The study evaluated the effect of current liabilities on profitability of consumer goods firms in Nigeria. The specific objectives of the study were to assess the effects of accounts payable, income tax payable and dividend payable on profit for the year of firms in the consumer goods industry in Nigeria. Data were collected from annual reports and accounts of sampled firms within the industry to test the major null hypothesis that selected current liabilities do not affect profit for the year significantly. Multiple regression was the tool of analysis using panel data set covering 30 observations from three firms in the consumer goods industry. The findings revealed that Accounts Payable (AP) has a negative (Coefficient -0.106881) but significant effect (p-value 0.0004) on Profit for the Year (PFY), Income Tax (IT) has a positive (Coefficient 2.103591) and significant effect (p-value 0.0000) on Profit for the Year, while Dividend payable (DP) has negative (Coefficient -0.302978) and non-significant (p-value 0.2772) effect on Profit for the Year in consumer goods firms in Nigeria. The implication of the findings is that the effect of current liabilities on profit for the year in the industry depends on factors of environment, credit policies, nature of products, distribution channels and corporate governance mechanisms. The study concluded that trade creditors and dividend payables should be reduced while income tax be allowed to flow in tandem with the accounting profit for the year. The study recommended that firms should reduce the list and amount of trade creditors, government should judiciously invest tax revenues in infrastructural development and firms' growth should be pursued through retained earnings.

Keywords: Current Liabilities, Profitability, Consumer Goods Firms, Nigeria, Accounts Payable, Income Tax Payable, Dividend Payable.

1. INTRODUCTION

1.1 Background of the Study

In the world of business, current liabilities, also known as short-term liabilities, represent a web of financial commitments and debts that are due within a year or the normal operational cycle of a company. These short-term obligations play a vital role in financing a company's activities, offering a low-cost source of funds (Hovakimian et al., 2002). Current liabilities are often settled using current assets, which are resources expected to be used up within a year. Understanding the interplay between these liabilities and a company's financing decisions is essential in decoding how organizations sustain and enhance their operations.

However, the theoretical landscape remains enigmatic, as Baum et al. (2007) emphasize that the relationship between liability maturity structure, conversion cycles, and profitability lacks

a definitive prediction. While a heavier reliance on short-term liabilities can enhance profitability for firms with substantial short-term debt, its effect is more nuanced for those with lower dependence on such liabilities. The intricacies of firm-specific characteristics and the financial ecosystem shape the complex dynamics of liability maturity structure and conversion cycles on profitability.

In the realm of capital market development, interest rate determination, and regulatory challenges faced by private firms, decisions reverberate through capital structures, corporate governance, and overall company development, as postulated by Kolapo and Adaramola (2012). As knowledge about capital structures often stems from data derived from developed economies, such insights may not fully encompass the diverse intricacies of emerging markets. The capital structure choice between debts (both long and short-term liabilities), equity, and retained earnings is a strategic maneuver in financing long-term investments. This choice holds two pivotal benefits, one being the tax shield arising from interest payments that remain non-taxable, ultimately bolstering a firm's value. Moreover, debts, whether short or long-term, discipline managers, as highlighted by Jensen (1986), counteracting the temptation to squander excess free cash inflows.

Current liabilities, or debts, are woven into this narrative, influenced by factors like interest rates, taxes, financial distress risks, and market imperfections, as examined by Hovakimian et al. (2002). The intricacies of this financial dance unveil a balancing act between the desire for low-cost debt and the risks posed by high leverage. In the shadows of this dynamic, short-term finance offers a quick infusion of funds for immediate operational needs, while long-term finance emerges as the foundation for enduring investment and expansion endeavors (Pandey, 2005).

Profitability is often used to gauge a company's productivity and performance. Profit is critical; higher profits represent improved and efficient resource management, while lower profits can slow a company's progress and cause some commitments or goals to be missed resulting in opportunity costs. Profitability determinants, especially in the manufacturing sector, are critical as a primary strategy for economic growth for any country pursuing an export-oriented industrialization strategy in an open economy.

The inability of managers to correctly ascertain the extent to which profitability is determined by current liabilities prompted this research. Ordinarily, growth in current liabilities should cause more than a corresponding growth in profitability if the proceed of the liabilities are

properly invested to increase assets.However, this is no longer the trend because cash conversion cycle has become sluggish, debtors are no longer credible, creditors are becoming selfish and highly unreasonable with their credit policies, collateral security even for short term loan is a bigger concern, the securities are becoming increasingly unmarketable, banks are also tightening up on issuance of soft loans to firms in the consumer goods sector because of risks and uncertainties.

Consequently, there is need to situate the place of current liabilities on financial performance/profitability of firms properly and appropriatelyThis will help company managements to maintain current liabilities at an optimal level. This study attempts to give managers and investors an insight on factors that determine financial performance by examining the effect of current liabilities on profitability of consumer goods manufacturing firms in Nigeria. In making this attempt, account payables, income tax payable, and dividend payables were adopted as proxies for current liabilities while profit for the year was chosen as proxy for profitability.The remaining portions of this research paper are systematically organized into four sections, strategically designed to enhance clarity and deepen comprehension. Section 2 offers an extensive exploration of pertinent existing literature, closely linked to the study's objectives. In Section 3, the study's chosen methodology is expounded, alongside a rationale that justifies the research approach. Section 4 presents an exhaustive analysis of empirical findings, beginning with the presentation of collected data and subsequently delving into detailed interpretation. Concluding the paper in Section 5, a concise synthesis of findings is presented, followed by comprehensive recommendations supported by implications drawn from the empirical results. This section culminates in a final conclusion that encapsulates the broader significance of the study's outcomes.

2. LITERATURE REVIEW

2.1.1 Current Liabilities

Current liabilities are a company's short-term financial obligations that are due within one year or within a normal operating cycle. An operating cycle, also referred to as the cash conversion cycle is the time it takes a company to purchase inventory and convert it to cash from sales. An example of a current liability is money owed to suppliers in the form of accounts payable.

2.1.2 Account Payables

Needles, et al (2013), states that "accounts payable is money owed by a business to its suppliers shown as a liability on a company's balance sheet. It is distinct from notes payable liabilities, which are debts created by formal legal instrument documents. An account payable is recorded in the Account Payable (AP) sub-ledger at the time an invoice is vouched for payment".

2.1.3 Income Tax

Akrani (2010) defined "tax as a compulsory payment levied by government on individuals and corporate bodies to meet the expenditure which is required for public welfare". Omotoso (2001) opines that "tax is a compulsory levy imposed by a public authority on the income and properties of individuals and companies as stipulated by government decree, acts or laws irrespective of the exact amount of services received by the payer in return". Okpe (2000) submits that "tax payment is not for the direct exchange of goods and/or services but a transfer of resources and income from the private sector to the public sector in order to achieve some of the nation's economic and social goals".

2.1.4 Dividend Payable

"Dividend is a taxable payment declared by a company and it is given to shareholder out of the company's current or retained earnings. It could also be viewed as the share of profit of a firm by the stockholders on a pro rata basis that is determined by number of shares held by each shareholder" (Inyiama, Okwo&Inyiama, 2015). The dividend policy remains one of the most important financial policies not only from the viewpoint of the bank, but also from that of the shareholders, the consumers, employees, regulatory bodies and the government.

2.1.5 Organizational Performance

"Performance is the ability of an organization to gain and manage the resources in several difference ways to develop a competitive advantage. Literature usually distinguishes between two types of performance, financial or economic performance and innovative performance. This study concentrated on financial performance" Watkins (2007). Watkins (2007) defined "performance as valuable results, accomplishment, or contributions of an individual or an organization, regardless of preferred or mandated process".

2.1.5.1 Profit for the Year (PFY)

Profit for the year is a measure of how competent a company is with regards to converting its revenue into profits, it is also used in margin analysis to compare companies within the same

industry. According to Aldridge (2015), “it helps investors determine how much a company actually earns and can also help determine whether a company needs to control its costs. The profit for the year margin is closely watched by investors to see if the income generating ability of a firm is changing over time”.

2.2 Theoretical Framework

The study has an enlarged theoretical underpinning the Ability to Pay Theory by M. Slade Kendrick (1939), and Bird-In-Hand Theory by Gordon (1959).

2.2.1 Ability to Pay Theory (Kendrick, 1939)

The most popular and commonly accepted principle of equity or justice in taxation is that citizens of a country should pay taxes to the government in accordance with their ability to pay. It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual. For instance, if the taxable capacity of a person A is greater than the person B, the former should be asked to pay more taxes than the latter.

2.2.2The Bird-in-Hand Theory (Gordon and Lintner, 1959)

The bird in hand is a theory that states that investors prefer dividends from stock investment to potential capital gains because of the inherent uncertainty associated with capital gains. Based on the adage, "a bird in the hand is worth two in the bush," the bird-in-hand theory states that investors prefer the certainty of dividend payments to the possibility of substantially higher future capital gains. Myron Gordon and John Lintner developed the bird-in-hand theory as a counterpoint to the Modigliani-Miller dividend irrelevance theory.

2.3 Empirical Review

Adegbite and Fakile (2011) concentrated “on the Company Income Tax and Nigeria Economic Development relationship. Using Chi-square and Multiple Linear Regression analysis in analyzing the primary and secondary data respectively they concluded that there is a significant relationship between company income tax and Nigerian economic development. And that tax evasion and avoidance are major hindrances to revenue generation”.

Okafor (2012) explored “the impact of company income tax revenue on the government capital expenditure. The ordinary least square (OLS) regression analysis was adopted to explore the effect exerted on Total Capital Expenditure (the dependent variable) by federal government income tax revenue over the period 1981-2007. A simple hypothesis was formulated in the null form which states that company income tax has no significant effect on

government capital expenditure in Nigeria. The regression result indicated a very positive and significant effect".

Onuorah and Chigbu (2013) used "the Ordinary Least Square (OLS) technique to examine the impact of corporate taxation on company's reserves and dividends in Nigeria. The study made use of secondary data covering the period of 2000 to 2011. The result of the study indicated that corporate taxes do not affect companies reserve or payment of dividend. The study therefore suggested appropriate tax restructuring that will not affect regular dividend payment to encourage the investing public and expand businesses".

Duru (2014) examined "the impact of working capital management on the profitability of Nigerian quoted Manufacturing firms. Data were sourced from a sample of 22 manufacturing firms for the period 2000-2011. Generalized least square multiple regressions were used to test the five Hypotheses formulated for the study. Results show that, accounts payable ratio had negative relationship with the industries' profitability".

Chude and Chude (2015) studied "the impact of company income taxation on the profitability of companies in Nigeria using Brewery Industry as a case study. The research employed secondary data on all the variables. The dependent variable was the earning per share (EPS) while the explanatory variable was the company income tax (CIT). The Augmented Dickey-Fuller (ADF) unit-root test was carried out to test the effect of CIT on EPS at 5% level of significance. The result indicated the existence of a long-run equilibrium relationship and a positive significant impact of CIT on the EPS (P-Value 0.000 < 0.05)".

Hasan et al., (2015) examined "the relationship between dividend payout ratio and firm's profitability of Fuel and Energy Industry and Textile Industry of Pakistan. Earnings per share and return on asset was used to measure profitability. Using multiple regression techniques, the study revealed a negative relationship between dividend payout and profitability".

Inyiama et al., (2015) investigated "dividend payout policy determinants of selected listed Brewery Firms in Nigeria. With multiple regression techniques, it was revealed that earnings per share (EPS) and market price of equity shares (MPS) have positive and significant effect on dividend per share, while net asset exert a negative but significant effect on dividend per share (DPS)".

Kajola et al., (2015) examined "the determinants of dividend policy decisions of twenty-five non-financial firms listed on the Nigerian Stock Exchange between 1997 and 2011. Panel data methodology was employed, while fixed and random effects models were used as

estimation techniques. Result reveals that profitability, firm size, leverage and changes in the dividend payout are significant factors that affect dividend policy decisions of the sampled firms during the period of the study".

Kiboi (2015) examined "the relationship between earnings per share and dividends per share of companies listed on the Nairobi Securities Exchange. Using correlation analysis and multiple regression model the study found that EPS had a positive and significant effect on DPS while leverage, liquidity, and retained earnings had negative but insignificant effects on DPS".

Mohsin et al., (2021) examined "the effects of working capital management i.e. inventory management, receivable management and payable management, on the performance of the non-financial firms in Pakistan. Panel data of 280 nonfinancial firms enlisted in Pakistan Stock Exchange have been analyzed from 2000 to 2016. Firms' profitability was proximate with return on assets and return on equity; whereas for growth i.e. sales growth and asset growth were used. Results suggest inventory management does influence the firms' growth and Payable management significantly affects the firms' profitability. However, only receivable management influences both profitability and growth".

Olaoye et al., (2021) examined "the impact of working capital management on profitability of selected quoted Nigeria manufacturing companies from 2006-2015. Secondary panel data was used for the study. The results showed that Account collection period (ACP), Account payment period (APP), and Inventory Turnover in Days (ITID) have negative effect on the Net Operating Profitability of quoted manufacturing companies in Nigeria".

2.4 Gap in Empirical Review

The researchers observed that most of the studies conducted in related areas have become outdated and the outcome, might have been lost relevance because of passage of time, technological advancement, and pursuit of sustainable development goals by most countries. The studies however need to be updated, re-analyzed with current data, and tested with more critical current liability variables. The study therefore introduced more variables, concentrated on consumer goods sector, updated the existing research, and applied a meta-analysis to evaluate the effect of current liability variables on profitability of the firms under the sector.

3. METHODOLOGY

The study employed an ex post facto research design, utilizing existing data from the annual report and accounts of consumer goods firms in Nigeria. This design was chosen due to its reliance on pre-existing data, aligning with the nature of the study's objectives.

The research focused on the consumer goods industry within the manufacturing sector of Nigeria's economy. The investigation was conducted using secondary data extracted from the annual report and accounts of selected consumer goods firms. This panel data covered the period from 2013 to 2022, offering a comprehensive perspective on the variables under study.

The population for the study comprised the 26 consumer goods manufacturing firms listed on the Nigerian Exchange Group (NGX) as of December 31, 2022. To ensure a focused analysis, the sample included actively participating firms with consistent, relevant, and complete data in their annual reports. Notably, the selected firms were Guinness Nigeria Plc, Unilever Nigeria Plc, and Nigerian Breweries Plc. These considerations ensured a robust and relevant dataset for the research analysis.

Multiple regression model was adopted and specified as follows:

$PFY_{ti} = \beta_o + \beta_1 AP_t + \beta_2 ITt + \beta_3 DP_t + \mathcal{E}_t$ - - [Equation (1)]

Where;

PFY = Profit for the year

AP = Accounts payable

IT = Income tax payable

DP = Dividend payable

$\mathcal{E}$ = Stochastic disturbance (Error) Term

β_o = Coefficient (constant) to be estimated

$\beta_1 - \beta_3$ = Parameters of the independent variables to be estimated

t = Current period

4. RESULTS

Table 1 Descriptive Statistics

	PFY	AP	IT	DP
Mean	15054908	46459597	7840834.	4963357.
Median	10062810	32198805	3518523.	4607932.
Maximum	43080349	1.28E+08	24086538	12676038

Minimum	-7419674.	11678176	88375.00	186388.0
Std. Dev.	14495761	32835813	8229381	2806519
Skewness	0.684464	1.193554	0.777510	0.974012
Kurtosis	2.206684	3.173713	1.970441	4.756099
Jarque-Bera	3.129142	7.160580	4.347596	8.598354
Probability	0.209178	0.027868	0.113745	0.013580
Sum	4.52E+08	1.39E+09	2.35E+08	1.49E+08
Sum Sq. Dev.	6.09E+15	3.13E+16	1.96E+15	2.28E+14
Observations	30	30	30	30

Source: Eviews 10.0 Statistical Software

Table 1 shows that the mean values of PFY, AP, IT and DP, stood at ₦15, 054,908, ₦46,459,597, ₦7,840,834 and ₦4,963,357 respectively. Many statistical analyses use the mean as a standard measure of the center of the distribution of the data. The Skewness Statistic for PFY and IT indicates a normal frequency distribution with figures 0.684464 and 0.777510 respectively. The figures are not significantly more than zero. This position is confirmed by the Kurtosis Statistic with figures 2.206684 and 1.970441 for PFY and IT which are not up to figure 3. The probability of Jarque-Bera (JB) Statistic also threw weight in support of the positions of Skewness and Kurtosis. The probability of 0.209178 and 0.113745 are insignificant thereby depicting normal frequency distribution.

TABLE.2 REGRESSION ANALYSIS RESULT

Dependent Variable: PFY

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AP	-0.106881	0.026250	-4.071655	0.0004
IT	2.103591	0.105461	19.94655	0.0000
DP	-0.302978	0.273002	-1.109800	0.2772
C	5030418.	1111935.	4.524021	0.0001

R-squared	0.966576	Mean dependent var	15054908
Adjusted R-squared	0.962720	S.D. dependent var	14495761
S.E. of regression	2798857.	Akaike info criterion	32.65089
Sum squared resid	2.04E+14	Schwarz criterion	32.83771
Log likelihood	-485.7633	Hannan-Quinn criter.	32.71065
F-statistic	250.6303	Durbin-Watson stat	1.685938
Prob(F-statistic)	0.000000		

Source: Eviews 10.0 Statistical Software

Table 2, indicates that a unit change in AP and DP will decrease PFY by -0.106881 and -0.302978 respectively. The effect of AP on PFY is significant and negative with a p-value of 0.0004, while DP has an insignificant negative effect on PFY with p-value of 0.2772. The p-value for IT is significant at 0.0000 and positive with coefficient of 2.103591in Nigeria consumer goods sector.

Coefficient of Determination (R^2)

The Adjusted R-squared is 0.962720. The adjusted R^2 reveals that about 96% of the variations in PFY (dependent variable) could be explained by the explanatory (independent) variables of AP, IT and DP as considered in the analysis. The remaining 4% could be explained by other factors capable of influencing PFY but not captured in this study; such as government regulation, training, advertisement, nature of product, distribution channel, demand, credit policies etc. and the error term.

Test of Hypotheses

Decision Rule: Reject H_0 if p-value is less than 5% (p-value ≤ 0.05) or t-statistic is ≥ 2 regardless of the sign (ie. positive or negative).

Hypothesis One states that Account payable (AP) does not significantly affect profit for the year of consumer goods manufacturing firms in Nigeria.

Decision: Table.2 reveals a p-value of 0.0004 which is far less than 0.05. Hence, H_0 is therefore rejected. Therefore, AP has a negative and significant effect on Profit for the Year (PFY) in consumer goods manufacturing firms in Nigeria. This is further confirmed by the t-statistics of -4.071655 which is significantly above the figure 2.00.

Hypothesis Two states that Profit for the year is not significantly affected by income tax of consumer goods manufacturing firms in Nigeria.

Decision: Table.2 reveals a p-value of 0.0000 which is less than p-value of 0.05. H_0 is therefore rejected. The t-statistics is 19.94655 which further confirms the rejection of the Null Hypothesis. Therefore, Income Tax has a positive and significant effect on Profit for the Year in consumer goods firms in Nigeria.

Hypothesis Three states that Dividend payable does not significantly affect profit for the year of consumer goods manufacturing firms in Nigeria.

Decision: Table.2 discloses a p-value of 0.2772 which is more than 0.05. The t-statistics is -1.109800 which is significantly less than the figure 2.00. H_0 is therefore rejected. This consequently implies that profit for the year of consumer goods firms in Nigeria is not significantly affected by dividend payable.

5. DISCUSSION

Hypotheses One: The finding from test of hypothesis one implies that as accounts payable increases in these firms, profit for the year decreases significantly. This is because accounts payable have negative and significant effect on profit for the year in Nigeria's consumer goods firms.Ezeabasili, and Alajekwu (2018) found a negative but insignificant effect of accounts payables on profit for the year. The findings of Duru (2014) reveal that accounts payable have negative and significant effect on profitability. The position of Olaoye et al., (2021), Pallavi and Vishal (2019) and Abdul-Khadir et al., (2022) are in tandem with the findings of this study. However, the outcome of the research done by Mohsin et al., (2021), Uguru et al., (2018) and Achode and Rotich (2016), negates the position of this study.

Hypotheses Two: The finding from the test of hypothesis two suggests that income tax has a significant positive effect on profit for the year of consumer goods firms in Nigeria. The outcome of earlier studies carried out on related title by Adegbite and Fakile (2011), Okafor (2012), Onuorah and Chigbu (2013), Ezeugwu and Akubo (2014), Chude and Chude (2015), Nekasa et al., (2017) and Nnubia and Okolo (2018), aligned with the researchers' findings in this study. Mayende (2013), Odia and Ogiedu (2013), Etale and Bingilar (2016), Pitulice et al. (2016) and Gallemore et al. (2017) carried out related studies and found outcomes that are contrary to the findings of this study. These contrary outcomes are possible when the research is carried out in different countries with different levels of development.

Hypotheses Three: The finding from test of hypothesis three implies that dividends payable affects profit for the year negatively and insignificantly. This is because when money which should have been ploughed back to expand the business is paid out as cash dividend, the company would be starved of free fund for investment and growth purposes. In the alternative, the company could retain the dividend payable and issue bonus shares to the ordinary shareholders. Hasan et al., (2015), Kajola et al., (2015), Maude et al., (2015),

Muiand Mustapha (2016), Khan and Ahmad (2017), Olabisi et al., (2017), Okoro et al., (2018), Sadia (2018) and Jaara et al., (2018), in their separate studies came up with research outcomes which are in tandem with the findings in this work.

However, Zayol et al., (2017), Ahmad (2019), Echchabia and Azouzi (2016) in their own studies threw up findings which are contrary to the position of this research. This could be factors of the environment or research tool deployed for the study.

6. CONCLUSION

The purpose of establishing a company is to make profits. Profit maximization is the primary motive of incorporating a company. To achieve this profitability goal, organizations try to invest in current and non-current assets so as to gain the subsequent returns. The amount of profit for the year attributable to current and non-current liabilities are still contemporary research area. Consequently, this study attempts to ascertain the effect of current liabilities on financial performance of consumer goods firms in Nigeria.

The study concludes that in consumer goods firms, trade creditors and dividend payables should be reduced to conserve money for growth, diversification and general development of the business while income tax flows in tandem with the accounting profit for the year. The Bird-in-hand shareholders are to be appeased through bonus shares and right issues.

The study's findings give rise to several insightful recommendations for consumer goods firms. It advises a cautious approach in managing trade creditors and accounts payable, urging companies to conserve resources and enhance annual profitability. Furthermore, by advocating the efficient utilization of tax revenue in critical infrastructure development, the study suggests that firms can reduce expenditures and thereby elevate profitability. Retaining resources, especially during growth phases, is also encouraged as a means to expand financial performance. The study contributes significantly to existing knowledge by employing a comprehensive data analysis approach that goes beyond conventional tests, offering a deeper understanding of the impact of current liabilities on the financial performance of consumer goods firms in Nigeria. The incorporation of Johansen Cointegration analysis further strengthens the findings, demonstrating their sustainability over the long term, even considering lagged tax revenue figures.

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