International Journal of Web of Multidisciplinary Studies
(Peer-Reviewed, Open Access, Fully Refereed International Journal)
website: *http://ijwos.com*
Volume.03 Issue.01.
OPEN ACCESS
E-ISSN : 3049-2424
DOI: https://doi.org/10.71366/ijwos

DEFERRED TAXATION AND FINANCIAL PERFORMANCE OF LISTED INDUSTRIAL GOODS FIRMS IN NIGERIA

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Article Info

Article History:

Published:16 Jan 2026

Publication Issue:
Volume 3, Issue 01
January-2026

Page Number:
378-390

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Abstract:

This study examined the effect of deferred taxation on the financial performance of listed industrial goods firms in Nigeria. Data were collected from the audited annual reports of nine listed companies for the period 2015–2024 and analyzed using random-effects panel regression. The findings reveal that deferred tax assets have a negative but statistically insignificant impact on both return on assets (ROA) and return on equity (ROE), indicating that their accumulation does not significantly influence firm profitability. In contrast, deferred tax liabilities have a positive and significant effect on ROA, while their impact on ROE is positive but not statistically significant. Based on these results, the study recommends that firms strategically manage deferred tax liabilities, regulators provide clear reporting guidance, and investors consider deferred tax liabilities as an indicator of asset profitability. Future research should explore other factors interacting with deferred tax components to better understand their influence on firm performance.

Keywords: Deferred Taxation, Deferred Tax Assets, Deferred Tax Liabilities, Financial Performance, Return on Assets (ROA), Return on Equity (ROE), Industrial Goods Firms, Nigeria, Random-Effects Regression

1. INTRODUCTION

Financial performance is a critical measure of a firm's efficiency in utilizing resources to generate profit and create value for shareholders. It reflects the ability of a company to manage its assets, equity, and operations in a manner that maximizes returns while maintaining sustainability. For industrial goods firms, which form a vital part of Nigeria's manufacturing sector, maintaining strong financial performance is essential not only for shareholder wealth creation but also for contributing to economic growth and industrial development.

One factor that has received increasing attention in recent years is deferred taxation, which arises from temporary differences between accounting profit and taxable profit, resulting in deferred tax assets (DTA) or deferred tax liabilities (DTL). Deferred tax assets represent potential future tax savings, while deferred tax liabilities indicate taxes payable in the future due to current temporary differences.

The management of these tax components can influence firms' financial outcomes, yet empirical findings remain mixed. For instance, Ogiriki and Lue (2025) found that deferred tax liabilities positively and significantly affect earnings before interest and tax, while deferred tax obligations negatively impact net profit margin among Nigerian industrial goods firms. Conversely, Mustapha et al. (2024) reported that deferred taxation had an insignificant effect on profitability in multinational companies listed in Nigeria. Similarly, Ikechukwu (2023) and Ogbada and Jones (2022) observed that deferred tax assets and liabilities have weak or insignificant influence on return on assets, suggesting that deferred taxation may not consistently drive financial performance across firms.

Given the inconsistent findings and the strategic importance of taxation in financial decision-making, it becomes essential to examine the effect of deferred taxation on the financial performance of listed industrial goods firms in Nigeria. This study aims to address this gap by analyzing how deferred tax assets and deferred tax liabilities influence key performance indicators return on assets (ROA) and return on equity (ROE) while accounting for firm-specific characteristics such as size and age.

2. LITERATURE REVIEW

Concept of Deferred Taxation

Deferred Tax Assets

Deferred taxation describes the situation where the tax effect of a transaction is recorded at a different time in the financial statements than when it is recognized for tax purposes. In practice, this happens because accounting rules and tax laws do not always treat income and expenses in the same way or in the same period. As Ikechukwu (2023) points out, recognising deferred tax helps financial statements reflect the real economic activities of a firm, even if the tax cash flow will only occur in a later year. Mustapha et al. (2024) also highlight that deferred tax makes reported profit more meaningful by linking it to the tax consequences that arise from temporary differences between accounting and tax treatments

Deferred Tax Liabilities

Deferred tax liabilities arise when the profit reported in the financial statements is higher than the profit recognized for tax purposes, causing part of the tax to be pushed into the future. In simple terms, they represent tax amounts that the firm will have to settle later when those timing differences even out. Ogiriki and Lue (2025) note that these liabilities capture the tax that becomes payable once the underlying temporary differences reverse, making them essentially a future tax obligation. Adesoye et

al. (2025) further explain that deferred tax liabilities typically emerge from issues such as differences in depreciation methods, timing of revenue recognition, or asset revaluations.

Concept of Financial Performance

Financial performance refers to how efficiently and effectively a firm generates returns from its operations and resources. It commonly reflects profitability, operational strength, and the ability to maximize shareholder value. According to Ikechukwu (2023), financial performance is a central indicator of how well a firm converts income-generating activities into measurable outcomes. Mustapha et al. (2024) emphasize that financial performance in corporate studies often focuses on profitability ratios because they capture the core outcome of managerial and operational decisions. For industrial goods firms, financial performance demonstrates how successfully firms manage production costs, taxation effects, and asset utilization.

Return on Assets (ROA)

Return on Assets (ROA) measures how efficiently a company uses its total assets to generate profit. It expresses the relationship between profit after tax and the total assets employed in generating that profit. As noted by Ogbada and Jones (2022), ROA is widely used because it reflects the combined effects of investment decisions, operational efficiency, and resource utilization. Since deferred tax items arise from timing differences related to assets, ROA is an appropriate measure for studies evaluating deferred taxation.

Return on Equity (ROE)

Return on Equity (ROE) evaluates a firm's ability to generate profit from shareholders' funds. It shows how effectively managers use owners' equity to create earnings. Mustapha et al. (2024) identify ROE as a key measure of value creation because it focuses directly on returns attributable to shareholders. ROE is influenced by profit after tax, making it relevant in examining how tax-related adjustments including deferred tax assets and liabilities affect overall financial performance.

Review of Empirical Studies

Studies on deferred Taxation and financial performance report mixed findings. This may be due difference in the country of study, domain in which the study was conducted and the methodology used. This study reviewed related literature on impact of deferred Taxation and financial performance.

Ogiriki and Lue (2025) investigated how deferred taxation influences the financial position and earnings management of industrial goods firms in Nigeria using an ex-post facto design based on

audited financial statements (2019–2023) and panel regression analysis. Deferred taxation was proxy by deferred tax liabilities and current tax while financial position and earnings management proxy by net profit margin and earnings before interest and tax. The finding shows that deferred tax obligation has negative and significant effect on net profit margin and positive and significant positive and significant effect on earnings before interest and tax.

Mustapha et al. (2024) examined the effect of deferred taxation on the profitability of selected multinational companies listed in Nigeria using an ex-post facto design on audited statements of 15 sampled firms, analyzed through regression, t-test, and F-ratio. Their findings indicated that deferred taxation had a very small and statistically insignificant effect on profitability, with each tax component showing mixed but insignificant effects. Overall, the study found that deferred tax assets, deferred tax liabilities, current tax assets, and current tax liabilities do not significantly influence profitability among multinational companies.

Salim and Yuniarwati (2024) investigated the impact of current taxes, deferred taxes, and deferred tax assets on earnings management using a quantitative design and multiple regression analysis on secondary data from 20 industrial-sector firms (2020–2022). Their results revealed that current taxes significantly increased earnings management, while deferred taxes and deferred tax assets showed no significant effect. The study concluded that companies respond to higher tax burdens by managing earnings, but deferred tax components do not meaningfully encourage manipulation.

Ikechukwu (2023) examined the effect of deferred taxation on the financial performance of Nigerian manufacturing firms using an ex-post facto design based on secondary financial data. The results showed that both deferred tax assets and deferred tax liabilities had positive but statistically insignificant effects on return on assets. The study concluded that deferred taxation does not meaningfully influence profitability within the manufacturing sector, as its financial effects remain weak and insignificant.

Adesoye et al. (2025) analyzed the relationship between tax payment percentage, deferred tax liability, and tax compliance among listed multinational corporations in Nigeria using a cross-sectional design and regression analysis. Their findings revealed that tax payment percentage had a positive but insignificant effect on total taxes paid, while deferred tax liabilities had a negative and significant effect. The study concluded that higher deferred tax liabilities reduce timely tax compliance, whereas changes in tax payment percentage do not substantially influence overall tax remittances.

Ogbada and Jones (2022) investigated whether deferred tax assets and liabilities relate to financial performance of listed consumer-goods manufacturing firms in Nigeria using panel regression on data

from 19 firms. Their results showed that deferred tax assets had positive but non-significant effects on ROA, leverage, and EPS, while deferred tax liabilities showed positive non-significant effects on ROA but negative non-significant effects on leverage and EPS. The study concluded that deferred tax accounting does not exert strong influence on financial performance, with deferred tax assets providing weak benefits and deferred tax liabilities producing mixed outcomes.

Tumba et al. (2025) examined firm characteristics influencing deferred taxation among SSA-listed manufacturing firms using panel data (2012–2022) and econometric modeling. Their results indicated that firm size positively affected deferred tax assets but negatively affected net deferred tax positions; leverage increased both deferred tax assets and liabilities; asset tangibility increased deferred tax liabilities; and profitability raised deferred tax liabilities while reducing deferred tax assets. The study concluded that deferred taxation patterns across SSA manufacturing firms are driven primarily by structural characteristics such as size, leverage, asset tangibility, and profitability, with governance factors showing limited influence.

Oyewobi and Shittu (2024) assessed the effect of taxation management on financial performance of listed consumer-goods firms in Nigeria through an ex-post facto design using panel data from 15 companies. Their regression results showed that tax expense had a positive and significant effect on return on assets, deferred tax liabilities had a negative and significant effect, and revenue had a negative but non-significant effect. The study concluded that efficient tax expense management enhances profitability, whereas rising deferred tax liabilities weaken financial performance, and revenue levels do not significantly affect ROA.

Theoretical Framework

Over the years, a number of theories have been developed and applied by researchers to explain how accounting choices, taxation policies, and firm characteristics influence financial outcomes in corporate settings (Ogiriki & Lue, 2025; Mustapha et al., 2024; Ikechukwu, 2023; Ogbada & Jones, 2022; Tumba et al., 2025). In line with the nature of this study, three theories were adopted to provide a conceptual basis for understanding the relationship between deferred taxation and financial performance. These theories are the Agency Theory, the Signaling Theory, and the Accrual Accounting Theory.

Agency Theory was developed by Jensen and Meckling (1976) to explain conflicts of interest that arise between firm owners and managers. The theory argues that managers may pursue actions that enhance personal benefits even when such actions do not align with shareholder interests. Deferred tax assets and liabilities provide room for this conflict because they require managerial discretion, especially

when estimating temporary differences and future taxable income. Studies such as Mustapha et al. (2024) and Ikechukwu (2023) show that deferred tax components often do not significantly influence profitability, implying that managerial judgment rather than actual performance may drive these tax-related accruals. Similarly, Ogiriki and Lue (2025) observed that deferred tax obligations can significantly affect firm outcomes, further suggesting that managerial decisions surrounding tax reporting may reflect agency-related incentives. This theory therefore supports the notion that deferred taxation items may not always reflect the true economic performance of firms.

Signaling Theory (Spence, 1973) explains how firms communicate information to external users through financial reports. Under this theory, deferred tax liabilities and assets act as signals of future performance because they reflect expectations about future taxable profits or future tax savings. A firm with high deferred tax liabilities, for example, signals strong current profitability that will lead to taxable amounts in future periods. This aligns with findings by Ogiriki and Lue (2025), who reported that deferred tax liabilities significantly influence financial indicators, and with Ogbada and Jones (2022), who noted that deferred tax balances carry informational content for investors. The theory therefore provides a basis for understanding why deferred tax liabilities may show a stronger link to performance than deferred tax assets, which investors might interpret more cautiously due to their reliance on management expectations.

Accrual Accounting Theory explains that financial statements should recognize economic events as they occur, regardless of when cash flows happen. Deferred taxation arises directly from this principle because it captures differences between accounting profit and taxable profit. The theory supports the idea that deferred tax assets and liabilities enhance the completeness and relevance of financial reporting by reflecting future tax implications of current transactions. However, empirical evidence shows mixed outcomes regarding their usefulness. Mustapha et al. (2024) and Ikechukwu (2023) found that deferred tax items generally do not significantly influence profitability, suggesting that the accruals may be sensitive to estimation errors. Meanwhile, Tumba et al. (2025) showed that firm characteristics such as profitability, leverage, and asset structure shape deferred tax balances. These findings reinforce the idea that while accrual accounting provides the foundation for deferred taxation, the reliability of these accruals depends heavily on firm-specific accounting practices.

3. METHODOLOGY

Examining the impact of deferred tax on financial financial performance of listed industrial goods firms in Nigeria, this study utilises an ex-post facto research approach, which is appropriate for analysing historical financial data. For the years 2015–2024, this research relies on secondary data

extracted from the audited financial statement of listed industrial goods firms listed on the floor of Nigeria exchange group (NGX). All companies listed in the industrial goods industry make up the population. The adjusted population comprised of companies listed on the floor of the NGX while other firms in this sector were filtered out due to inability of the researchers to access their financial reports.

Variable	Measurement	Source
ROA	Return on assets is measured as profit after tax divide by total assets	Ikechukwu (2023)
ROE	Return on equity is measured as profit after tax divide by total equity.	
Independent Variables		
Deferred tax assets	Measured as log of temporary differences between accounting profit and taxable profit, resulting in future tax savings	Mustapha et al. (2024)
Deferred tax liability	Measured as log of amount payable due to taxable temporary differences between accounting profit and taxable profit.	Adesoye et al. (2025), Oyewobi and Shittu (2024)
Control variable		
Firm Size	Firm size is measured as the natural log of total assets	Tumba et al. (2025)
Fairm Age	Firm age measured as the number of years company existed since incorporation	

Table 3.1 Variable Measurement Source: Researchers' Compilation (2025)

Model Specification

The variables incorporated into the model of the study include: Deferred tax assets, Deferred tax liabilities on firm performance of listed industrial goods firms goods firms in Nigeria. Therefore, the multiple linear regression function is built for the model as follows:

Using multiple regression analysis, this is expressed further as:

$ROA_{it} = \beta_0 + \beta_1 DTA_{it} + \beta_2 DTL_{it} + \beta_3 FSIZE_{it} + \beta_4 FAGE_{it} + \epsilon_{it}$…….(i)

$ROE_{it} = \beta_0 + \beta_1 DTA_{it} + \beta_2 DTL_{it} + \beta_3 FSIZE_{it} + \beta_4 FAGE_{it} + \epsilon_{it}$…….(ii)

Where: ROA = Return on Assets

ROE= Return on Equity

DTA = Deferred Tax Assets

DTL= Deferred Tax Liability

FSIZE=Firmsize

FAGE= Firm Age

β0 = Intercept

β1 to β4 = Coefficients of the Independent variable

i = Industries

t = Time

e = Error term.

4. RESULT AND DISCUSSION

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
roa	90	0.096	0.140	-0.102	1.000
roe	90	0.186	0.319	-0.181	2.442
ln_dta	90	1.763	3.713	0.000	10.447
ln_dtl	90	5.050	4.633	0.000	11.101
fsize	90	10.019	1.404	6.635	12.716
Fage	90	46.322	11.371	28	78

Source: STATA V13, 2025

Table 2 above shows the descriptive statistics of the dependent variables and all the independents and control variables of the study. The number of observations of the study is 90. The financial performance which is proxy by ROA has a mean of 0.096, indicating that, on average, industrial goods firms generate about 9.6% return on every ₦1 of assets. The standard deviation (0.140) shows noticeable variation in performance among firms. The minimum value is –0.102, meaning some firms recorded slight losses, while the maximum value (1.00) shows that a few firms achieved unusually high asset profitability.

Additionally, return on equity has a mean of 0.186, suggesting an average 18.6% return to shareholders. The high standard deviation (0.319) shows substantial differences in shareholder returns across firms. ROE ranges from –0.181 (indicating negative returns for some firms) to 2.442, implying very strong performance for a few firms possibly due to leverage or exceptional profit years.

Also, the mean of 1.763 and standard deviation of 3.713 indicate that deferred tax assets vary widely across firms. Some firms recorded no deferred tax assets (minimum = 0), while others accumulated substantial amounts (maximum = 10.447 on the log scale). This spread suggests uneven application of temporary deductible differences among firms.

More also, deferred tax liabilities show a mean of 5.050 with a high standard deviation of 4.633, reflecting considerable variability. Some firms had no deferred tax liabilities, while others reported values as high as 11.101 (log scale). This variation indicates differences in timing of taxable income recognition and asset revaluations across firms.

Furthermore, firm size, measured as the natural logarithm of total assets, has a mean value of 10.019, with a moderate spread (SD = 1.404). The minimum (6.635) and maximum (12.716) show that while most firms are large, there is still a meaningful range in asset base among companies in the industrial goods sector.

Finally, firm age averages 46.32 years, meaning the sector is dominated by long-established firms. The minimum age is 28 years, and the oldest firm is 78 years, indicating that the industry consists mainly of mature companies with decades of operational experience.

Table 3 Correlation Matrix

	Roa	Roe	ln_dta	ln_dtl	Fsize	fage
roa	1.000					
roe	0.9813*	1.000				
	0.000					
ln_dta	-0.017	-0.093	1.000			
	0.876	0.384				
ln_dtl	0.3636*	0.2861*	0.024	1.000		
	0.000	0.006	0.821			
fsize	0.3238*	0.2646*	0.3950*	0.5133*	1.000	
	0.002	0.012	0.000	0.000		
fage	-0.148	-0.168	0.2637*	-0.148	-0.102	1.000
	0.163	0.114	0.012	0.163	0.338	

Source: STATA V13, 2025

The correlation matrix in Table 3 indicate that deferred tax assets have negative insignificant association with both ROA and ROE, suggesting that deductible temporary differences do not translate into improved profitability for industrial goods firms. In contrast, deferred tax liabilities show a moderate and significant positive relationship with both ROA and ROE, implying that firms recognizing higher taxable temporary differences tend to report stronger financial performance. Firm size is also positively associated with both performance measures, indicating that larger firms generally achieve better profitability. However, firm age exhibits no significant relationship with ROA or ROE, showing that being older does not necessarily enhance financial outcomes in this sector.

Table 3 also indicates the association of independent variables among themselves. The correlation coefficient among independent variables must not be above 0.80, otherwise it may be stated that there

is presence of multicollinearity among the independent variables. Thus, it can be seen from Table 3 that correlation coefficient among independent and control variables are all below 0.8 which indicates that there is no multicollinearity.

Table 4: Multicollinearity Test

Variable	VIF	1/VIF
Fsize	1.75	0.571994
ln_dtl	1.43	0.697658
ln_dta	1.39	0.720069
Fage	1.14	0.878652
Mean VIF	1.43	

Source: STATA V13 Output, 2025

Table 4 shows the result of Multicollinearity Test. The results show that all the variables were found less 10 for VIF and 1 for 1/VIF. Overall, the mean VIF of 1.43 confirms that the independent variables do not strongly overlap, so the regression results can be considered reliable.

The Breusch–Pagan/Cook–Weisberg test was conducted and the result shows a significant p-values, meaning the models is affected by heteroskedasticity. In view of these results ordinary least squares (OLS) may not be considered the best. Fixed and random were carried out and Hausman test was conducted to choose between fixed and random effect. The Hausman test shows no significant difference between fixed and random effects (p = 0.7676, for ROA and p=0.8827), indicating that the random-effects model is appropriate for both ROA and ROE model has shown in Table 5 below.

Table 5: Summary of Random effect Regression

	ROA			ROE		
Variables	**Coef.**	**Z**	**P>z**	**Coef.**	**z**	**P>z**
Dta	-0.00372	-0.85	0.396	-0.01505	-1.48	0.14
Dtl	0.007127	2	0.046	0.010468	1.26	0.207
Fsize	0.023456	1.8	0.071	0.056408	1.86	0.062
Fage	-0.00078	-0.6	0.547	-0.00207	-0.69	0.493
_cons	-0.13275	-0.93	0.351	-0.30952	-0.93	0.35
R^2	0.173			0.130		
Wald chi^2	17.78			13.59		
Prob > chi^2	0.0014			0.0087		
Hausman Chi^2	1.83			1.52		
P-Value>Chi^2	0.7676			0.8227		

Source: STATA V13 Output, 2025

Table 5 Illustrate the coefficients, Z-statistics and probability values of random effects regression outcome. The model explains about 17.3% of the variation in ROA and 13% in ROE ($R^2 = 0.173$ and 0.130, respectively) can explained by the combined effect of deferred tax assets, deferred tax liability, firm size and firm age, while the remaining 82.7% and 87% can be explained by other variables not captured in the models. The Wald chi-square statistics are significant for both models, confirming that the independent variables jointly influence financial performance. The Hausman test results ($p > 0.76$ for ROA and $p > 0.82$ for ROE) indicate that the random-effects estimator is appropriate.

$$\mathbf{ROA_{it} = \beta_0 + \beta_1 DTA_{it} + \beta 2 DTLit + \beta 3 FSIZE_{it} + \beta 4 FAGE_{it} + \epsilon_{it}}$$

The random-effects regression results indicate that deferred tax assets have a negative but insignificant effect on ROA ($\beta = -0.00372$, $p = 0.396$). This suggests that the accumulation of deferred tax assets does not significantly influence firm profitability in the industrial goods firms. This further means that a unit increase in DTA will lead to a decrease in ROA of industrial goods firms in Nigeria by ₦0.003. This result is in line with the study of

However, this contradicts the finding of Ikechukwu (2023), Ogbada and Jones (2022) who found positive insignificant effect on return on assets.

The results obtained further means Deferred tax liabilities show a positive and significant effect on ROA ($\beta = 0.00713$, $p = 0.046$), implying that firms with higher deferred tax liabilities tend to report slightly better asset returns. This further means that a unit increase in DTL will lead to increase in ROA of industrial goods firms in Nigeria by ₦0.007. This supports the findings of Ogiriki and Lue (2025) who found positive and significant effect on financial performance.

$$\mathbf{ROEit = \beta_0 + \beta_1 DTA_{it} + \beta_2 DTL_{it} + \beta_3 FSIZE_{it} + \beta_4 FAGE_{it} + \epsilon_{it}}$$

Also, the random-effects regression results indicate that deferred tax assets have a negative but insignificant effect on ROE ($\beta = -0.01505$, $p = 0.14$). This suggests that the accumulation of deferred tax assets does not significantly influence firm profitability in the industrial goods firms. This further means that a unit increase in DTA will lead to a decrease in ROE of industrial goods firms in Nigeria by ₦0.02. This is in support of the finding of Mustapha et al. (2024) who found insignificant effect of deferred tax on profitability.

The results obtained further means Deferred tax liabilities show a positive insignificant effect on ROE ($\beta = 0.010468$, $p = 0.207$), implying that firms with higher deferred tax liabilities tend to report slightly better asset returns. This further means that a unit increase in DTL will lead to increase in ROE of industrial goods firms in Nigeria by ₦0.007. This is not in line with the finding of Adesoye et al.

(2025), Oyewobi and Shittu (2024) who found negative and significant effect of deferred tax liabilities on profitability

5. CONCLUSIONS

The study focused on the effect of deferred taxation on financial performance of listed industrial goods firms in Nigeria. Therefore, the study used the data extracted from the annual report of the studied companies. The data collected were analyzed using the random effect regression. Based on the findings, this concludes that deferred tax assets do not significantly influence the financial performance of listed industrial goods firms in Nigeria. Specifically, their effect on both ROA and ROE is negative and statistically insignificant, suggesting that the accumulation of deferred tax assets is not a driver of either asset profitability or shareholder returns. In contrast, deferred tax liabilities are more impactful, particularly on ROA. The positive and significant effect of deferred tax liabilities on asset profitability indicates that managing these obligations can enhance firm performance in terms of assets. However, their effect on ROE is positive but not statistically significant, showing that deferred tax liabilities have a limited influence on shareholder returns.

Based on the conclusion drawn above, the study recommends that:

RECOMMENDATIONS

i. Firms should prioritize the strategic management of deferred tax liabilities to enhance asset profitability.
ii. Regulatory authorities should provide clear guidance on the recognition and reporting of deferred tax assets and liabilities to ensure transparency and comparability among firms.
iii. Investors should consider deferred tax liabilities as a potential indicator of asset profitability, while acknowledging that deferred tax assets are not reliable predictors of financial performance.
iv. Future studies could examine factors that may interact with deferred tax assets and liabilities, such as leverage, operational efficiency, and tax planning strategies, to better understand their influence on both ROA and ROE.

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