Creative Accounting Practices and Financial Performance: A Comparative Study of Nigerian Financial and Non-Financial Firms

Charles Ndubisi Ukoh
UNIZIK Business School,
Nnamdi Azikiwe University,
Awka, Anambra State, Nigeria
Mail: charlesukohn@gmail.com

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Abstract
This study ascertained the effect of creative accounting practices on the financial performance of selected financial ad non-financial firms. Discretionary accruals and Return on Assets were used as a measure for creative accounting and financial performance respectively. Data were extracted form annual reports and accounts of the samples financial and non-financial firms in Nigeria. Regression analysis was applied to test the hypothesis. The result revealed that there was a significant effect between discretionary accruals and return on assets of both financial and non-financial firms in Nigeria. Based on the findings, the study recommended among others that the negative and significant coefficient of for financial firms suggests that earnings management through discretionary accruals is value-destroying in the financial sector. This is consistent with the highly regulated nature of banks, insurance and other financial institutions. Management of non-financial firms should apply discretionary accruals within the allowable bounds of IFRS to convey private information about future prospects, but not to the point of misleading stakeholders.

Key Words: *Creative Accounting Practices, Financial Performance and Return on Assets*

Introduction

The flexibility inherent in accounting standards allows for this misrepresentation to occur without actually violating the rules. Accounting is not simply a mechanical task. Its criteria allow for discretion in aspects such as depreciation methods, inventory assessment, setting aside for bad debts, and the timing of revenue recognition, as no universal rule suits all business situations. Variations in the understanding of widely recognized accounting standards allow for the advancement of personal interests, which managers may take advantage of when altering financial statements via creative accounting (Kwaghvihi, Zayol, & Soomiyol, 2023).Nigeria's corporate past offers three examples that demonstrate how expensive this discretion can be when it is pushed beyond reasonable limits. In December 2006, Cadbury Nigeria Plc revealed that it had intentionally exaggerated its financial status by ₦13 billion to ₦15 billion, a discrepancy that accumulated over years via stock repurchases, deferring expenses, loading trade, and issuing fraudulent stock certificates from suppliers to boost reported sales and postpone recognized costs. The inaccuracies, which took place from 2003 to 2005, were uncovered after an

independent inquiry by PricewaterhouseCoopers (PWC). An analysis of Cadbury Nigeria's financial data from 2004 to 2023 reveals that the fraudulent financial reporting central to the scandal, stemming from erroneous asset recognition and inadequate expense recognition, greatly damaged the company's financial performance and misled shareholders, creditors, and regulatory bodies (Onuoha, 2024). The company's managing director and finance director were dismissed from their positions when the extent of the misstatement was revealed, causing the Nigerian Stock Exchange to experience a significant drop in the company's share price as investor trust plummeted. Certain financial institutions (banks) illustrate an alternative yet similarly enlightening example of governance breakdown and regulatory action. On April 29, 2021, the Central Bank of Nigeria declared the dismissal of all board members of FBN Holdings Plc and its subsidiary, First Bank of Nigeria Limited, pointing to insider misconduct, insider lending, and a failure of corporate governance as the main justifications (Nairametrics, 2021).An additional issue is that the empirical studies on the connection between creative accounting proxies and financial performance do not provide a consistent direction, even among Nigerian research employing quite similar methodologies. A recent panel regression analysis of publicly listed industrial goods manufacturing companies in Nigeria from 2013 to 2024 indicated that discretionary accruals significantly and negatively impacted Return on Equity, with an increase of one unit in discretionary accruals leading to a reduction in ROE by roughly ten point eight percent (Open Access Journal of Management Sciences Research, 2025). In contrast, a different panel GMM analysis of publicly traded Nigerian companies from 2015 to 2024 indicated that discretionary accruals did not significantly impact Net Profit Margin (RSIS International, 2026). A third research focusing on accrual-based earnings management in consumer goods companies found that discretionary accrual earnings management positively and significantly impacted firm value (FUDMA Journal of Accounting and Finance Research). This trend, in which research utilizing similar Nigerian data and comparable accrual measures leads to varying outcomes based on the performance metric and sector investigated, complicates confidently asserting the impact, if any, that discretionary accruals have on ROA, ROE, and NPM for companies with a noted history of accounting irregularities, as none of these studies focus on that specific subset.
This present study hence determines the effect of discretionary accruals on Return on Assets (ROA) of selected financial ad non-financial firms in Nigeria.

Creative Accounting Practices

Creative accounting involves leveraging accounting expertise and the inherent flexibility in accounting regulations to manipulate reported financial metrics without outright breaching accounting policies, regulations, or legal standards (Abed, Hussin, Ali, Haddad, Shehadeh, & Hasan, 2022). The same authors assert that the primary aim of creative accounting is to depict the financial status that management desires stakeholders to perceive, instead of providing an unbiased representation of the company's true state. This implies that creative accounting does not always entail violating the regulations. It operates by taking advantage of the leeway that accounting standards permit in aspects like depreciation, provisioning, and the timing of revenue recognition, to make a business seem more lucrative and financially sound than it really is.Managers resort to creative accounting for various reasons. Abed et al. (2022) categorized these into four main groups. The first issue is agency problems, where the divide between those who own a company and those who run it leads to managers having an incentive to portray a more positive view of performance than the actual business warrants, especially when their job security or reputation is on the line. The second aspect is executive compensation, where bonuses

and other performance-based rewards encourage managers to make accounting decisions that enhance reported profits during the periods that influence their earnings. The third involves share ownership programs, where managers with company stocks or stock options possess a personal financial interest in the company's financial results and share price, potentially driving similar types of earnings manipulation. The fourth aspect is income smoothing, in which managers intentionally lessen the fluctuations in reported income from year to year, despite actual business performance being more erratic, as investors and lenders generally favor consistency and punish instability.

Discretionary Accruals

Discretionary accruals represent the segment of a company's overall accruals that cannot be elucidated by standard business operations or conditions, thus relating more to managerial decision-making and estimation than to the fundamental economics of the firm (Indriani & Pujiono, 2021). Accruals are a standard and essential component of accounting, as they enable the recognition of income and expenses at the time they are earned or incurred instead of solely when cash is exchanged. Discretionary accruals are accrual decisions that are not determined by actual operations, and they represent the particular aspect that researchers utilize to identify earnings management. A manager not aiming to manage earnings would have no incentive to alter accruals from the levels expected from standard business activities.Multiple models are available for assessing discretionary accruals, and the literature views them as a development rather than a collection of equally valid options. The Healy model and the DeAngelo model were the first methods, analyzing average accruals over time, but both regarded all accruals from a previous period as entirely nondiscretionary, which is a rigid and frequently unrealistic assumption (Indriani & Pujiono, 2021). The Jones model enhanced this by enabling nondiscretionary accruals to fluctuate with shifts in revenue and the amount of property, plant, and equipment, acknowledging that genuine business growth alters a company's accrual requirements even in the absence of any earnings manipulation. The enhanced Jones model, created by Dechow, Sloan, and Sweeney (1995), advanced the Jones model by modifying the revenue change to account for the change in receivables, based on the idea that revenue growth resulting from aggressive credit sales instead of cash sales is a typical earnings management strategy and ought not to be considered a pure, nondiscretionary standard.

In the modified Jones model used, total accruals for a company in a specific year are initially determined by subtracting operating cash flow from net income. These total accruals, combined with changes in revenue, changes in receivables, and the amount of fixed assets, all adjusted by last year's total assets, are subsequently applied in a regression analysis to determine the parameters that most accurately explain nondiscretionary accrual patterns. The total accruals are reduced by the nondiscretionary accrual estimate to obtain discretionary accruals, which serves as the proxy for earnings management, intentionally omitting the change in receivables from the nondiscretionary estimate. This model is frequently utilized in accounting studies due to its demonstrated ability to yield a smaller error term compared to earlier models, and it is regarded as the most robust model for identifying earnings management (Indriani & Pujiono, 2021).

Financial Performance

Financial performance assesses a firm's overall financial well-being and its capacity to generate income, control costs, and deliver value over a defined timeframe. It acts as a crucial measure of management efficiency and is assessed through metrics such as profitability, liquidity, efficiency,

and leverage obtained from the income statement and balance sheet. It serves as the concrete response to the inquiry regarding how effectively a company has transformed its assets, equity, and revenue into real profit. Measuring financial performance is important as it serves as the main criterion for external stakeholders to assess the effective management of a company. The measure employed in this study, Return on Assets (ROA), is one of the consistently utilized financial performance indicators in Nigerian accounting research.In the same vein, an examination of cost control and profitability within Nigerian manufacturing firms listed on the Nigerian Exchange Group utilized ROA, the profitability metrics spanning the 2014 to 2023 timeframe (International Journal of Economics, Finance and Management, 2025). The repeated association of these three ratios in recent Nigerian research, irrespective of the specific independent variable examined, supports their relevance as dependent variable indicators in the current study too.

Return on Assets (ROA)

Return on Assets measures how efficiently a firm converts the assets under its control into profit, regardless of how those assets were financed. It is one of the most widely used profitability ratios in Nigerian accounting research, appearing as a financial performance measure across studies on capital structure, corporate governance, inventory management, and cost management alike.

Return on Assets is calculated as net income divided by total assets.

ROA is important because it isolates operating efficiency from financing decisions, allowing comparison between firms regardless of how much debt or equity they use.

Discretionary Accruals and Financial Performance

The connection between discretionary accruals and financial performance is inherently mechanical within the financial statements, as discretionary accruals are partially based on net income, which serves as the numerator in ROA, ROE, and NPM similarly. This is exactly why discretionary accruals serve as an effective measure of creative accounting: when a company exercises accounting flexibility to enhance or stabilize reported income, such actions should produce a noticeable impact on the correlation between its accrual trends and its reported performance metrics. Indriani and Pujiono (2021) directly characterized this connection, indicating that companies with significant discretionary accrual values often present low-quality profits, suggesting that the reported profit numbers do not accurately represent true cash-generating abilities, despite the reported ratio appearing robust.Apart from this mechanical connection, the empirical research on whether discretionary accruals significantly predict financial performance and the direction of that prediction is unresolved, which is a gap this study aims to address and is elaborated on in section 2.5. The literature consistently identifies ROA, ROE, and NPM as suitable dependent variables for examining this relationship, as each ratio relies on a distinct mix of net income, assets, equity, and revenue. This indicates that a firm's accrual behavior can potentially influence each ratio in varying ways, depending on the specific financial statement components that the accrual manipulation addresses.

Empirical Review

Adedipe and Ayeni (2026) investigated how creative accounting methods influence the financial performance of non-financial firms listed on the Nigerian Stock Exchange. The research used a quantitative descriptive approach with data from eleven non-financial companies that regularly issued audited annual financial reports from 2010 to 2019, evaluated through panel regression

analysis. The research revealed that modifications in inventory composition positively and significantly impacted financial performance, exhibiting a coefficient of 0.251 at the 5 percent significance threshold.Okeke, Ekwunife, and Akaegbobi (2025) investigated how earnings management impacts the financial performance of publicly listed industrial goods manufacturing companies in Nigeria. The research employed an ex post facto approach, intentionally choosing nine companies from a total of twelve continuously listed industrial goods firms on the Nigerian Exchange Group as of December 2024, with data covering the years 2015 to 2024. Panel regression analysis was conducted, with the Hausman specification test identifying the suitable estimator. The research indicated that real income smoothing had a significant negative impact on return on equity, showing a coefficient of negative 0.000040 and a p-value of 0.0000; artificial income smoothing exhibited a positive but non-significant effect, reflected in a p-value of 0.1434, while discretionary accruals demonstrated a significant negative effect on return on equity, indicated by a coefficient of negative 0.1077 and a p-value of 0.0000.Isiaka, Kighir, and Yusuf (2025) studied the effects of discretionary accrual earnings management on the value of listed consumer goods companies in Nigeria from 2013 to 2022. The research utilized a longitudinal panel design, estimating discretionary accruals via the modified Jones model. Data were analyzed through descriptive statistics, correlation analysis, and panel corrected standard error regression following diagnostic tests that verified heteroscedasticity and cross-sectional dependence within the data. The study found that discretionary accrual earnings management had a significant positive effect on firm value, with a coefficient of 1.934 and a p-value of 0.000, alongside a significant positive effect from return on assets as a control variable.

Adebayo and Olanipekun (2025) examined how creative accounting affected the financial performance of listed deposit money banks in Nigeria between 2015 and 2024. The study used panel data techniques on a sample of five banks continuously listed on the Nigerian Exchange Group throughout the decade, applying both fixed effects and random effects models, with the Hausman test confirming the fixed effects specification as superior. The study found that discretionary accruals had a significant negative effect on both return on assets, with a coefficient of negative 1.531, and earnings per share, with a coefficient of negative 2.378, both significant at the one percent level, while the earnings management index was statistically insignificant for both measures. Egbe (2024) explored the connection between creative accounting methods and the financial outcomes of publicly traded manufacturing firms in Nigeria. The research utilized five years of secondary data, from 2018 to 2022, obtained from ten manufacturing firms listed on the Nigerian Exchange Group, which were chosen via stratified and simple random sampling. Data were examined through descriptive statistics and ordinary least squares regression utilizing SPSS version 22. The research indicated that transactions with related parties displayed a positive and significant correlation with return on assets but a negative and significant effect on return on equity, with the integrated model accounting for 99.9 percent of the changes in the dependent variables. Oyewobi and Omorogbe (2024) analyzed the impact of creative accounting on the financial performance of publicly listed deposit money banks in Nigeria, utilizing non-performing loans, capital adequacy ratio, gross earnings ratio, and loan to asset ratio as proxies for creative accounting, while return on equity served as the performance metric, employing panel multiple regression with a fixed effects model following Hausman testing. The research indicated that non-performing loans positively and significantly influenced return on equity, while the capital adequacy ratio negatively and significantly impacted it. Similarly, the loan to asset ratio also had a negative and significant effect, whereas the gross earnings ratio positively affected it, though not statistically significant. The entire model

accounted for sixty-six percent of the variation in return on equity. Dada, Ajibade, and Nwobodo (2023) evaluated how creative accounting practices influence the solvency of chosen deposit money banks in Nigeria, using a sample design that intentionally featured both banks that collapsed and those that endured among the nineteen deposit money banks recorded as of December 2021, the study found that accrual quality had a negative and significant effect on solvency, while the other proxies showed negative but statistically insignificant effects, with the exception of loan structure, which had a positive but insignificant effect.

Kwaghvihi, Zayol, and Soomiyol (2023) determined the effect of creative accounting practices on the profitability of listed industrial goods companies in Nigeria. The objective was to establish whether the flexibility available within accounting standards, when used for self-interested purposes, has a measurable effect on reported profitability. The study found that differences in the interpretation of generally accepted accounting standards create room for the promotion of self-interest, which managers exploit when manipulating financial statements through creative accounting, with this manipulation carrying a demonstrable effect on reported profitability outcomes.

Methodology

Research Design

This study adopts an *Ex Post Facto* research design. *Ex Post Facto* research is a category of research design in which the investigation begins after the events under study have already occurred, without any interference or manipulation by the researcher.

Population of the Study

The population of this study comprises the financial and non-financial firms on the Nigerian Exchange Group as at 2024 financial years.

Sample Size and Sampling Technique

The study applied purposive sample size to select eight deposit money banks and non-financial firms in Nigeria. Purposive sampling is a non-probability method in which cases are deliberately selected on the basis of specific, predetermined criteria relevant to the research objectives (Memon, Ting, Cheah, Thurasamy, Chuah, & Cham, 2023).

Method of Data Collection

Data are collected exclusively from secondary sources, specifically the audited annual financial statements of the three firms for each of the four years from 2013 to 2024. These reports are obtained from the Nigerian Exchange Group's disclosure portal and the individual companies' investor relations pages. The financial statement items extracted for each firm and year are net income, operating cash flow, total revenue, total assets, total shareholders' equity, change in revenue, change in trade receivables, and gross property, plant, and equipment, which provide all inputs required for the modified Jones model and the three performance ratios.

Model Specification

Three separate simple regression models are specified, one for each dependent variable, to test the three hypotheses independently:

Model I: Effect of discretionary accruals on return on assets:

$ROA = \beta_0 + \beta_1 DA + \beta_2 LEV + u$ ... (1)

Where:
ROA = Return on Assets
LEV = Firm Leverage
DA = Discretionary Accruals
β0 = Constant
β1 = Coefficient of Discretionary Accruals
u = Stochastic Error Term

Method of Data Analysis

Ordinary least squares regression analysis was used to examine the effects of creative accounting practices and financial performance of listed firms in Nigeria. The study used Microsoft excel software for data analysis. Ordinary least squares regression is the primary inferential tool, applied separately to each of the three models to estimate the direction, magnitude, and statistical significance of the effect of discretionary accruals on ROA, ROE, and NPM respectively.

Decision Rule

The null hypothesis for each model is rejected if the p-value of the estimated coefficient on discretionary accruals is less than 0.05. The null hypothesis is retained if the p-value is greater than or equal to 0.05. This decision rule is applied independently to each of the three models.

Data Analysis and Results

Table 4.1 ***Descriptive Statistics***

Financial	**DA**	**ROA**	**LEV**
Mean	-0.126393	0.017427	0.420653
Median	-0.056340	0.017264	0.427452
Maximum	0.091550	0.025419	0.776685
Minimum	-1.134790	0.012213	0.150969
Std. Dev.	0.313047	0.003695	0.233477
Skewness	-2.792625	0.511469	0.190708
Kurtosis	9.315973	2.557300	1.515876
Jarque-Bera	177.7163	3.105960	5.870260
Probability	0.000000	0.011616	0.053124
Sum	-7.583550	1.045620	25.23918
Sum Sq. Dev.	5.781912	0.000805	3.216193
Observations	60	60	60
Non-Fin	**DA**	**ROA**	**LEV**
Mean	-0.041892	-0.029684	0.386110
Median	-0.022379	-0.022379	0.426807
Maximum	-0.005110	-6.36E-05	0.582724
Minimum	-0.147017	-0.147017	0.149394
Std. Dev.	0.045865	0.038181	0.189342
Skewness	-1.511963	-2.358858	-0.129781
Kurtosis	3.702425	7.776169	1.164689
Jarque-Bera	24.09382	112.6716	8.589351
Probability	0.000006	0.000000	0.013641
Sum	-2.513509	-1.781066	23.16659

Sum Sq. Dev.	0.124110	0.086009	2.115170
Observations	60	60	60

From Table 1, it could be observed that the mean values of the Discretionary Accruals (DA) stood at -0.126393 and -0.041892 for the financial and non- financial firms respectively. Considering that the scientific value of financial firms is less than non-financial firms.

Furthermore, the mean value of return on assets (ROA) showed an average value of 0.017 for financial firms and -0.030 for non-financial firms. It meant that the financial firms had more return on assets than the non-financial firms. Similarly, the mean values of the control variable, firm leverage (LEV) showed that about 0.421 of financial firms and 0.386 for non-financial firms. It also meant that the non-financial firms have higher firm leverage than financial firms sampled.

Reasons for a non-financial firm:

Leverage = Interest-bearing debt / Total assets or Debt / Equity

Debt is a choice. They borrow to build factories, buy inventory.

Reasons for a financial firm like a bank:

Most of its "debt" is not debt in the normal sense — it is deposits from customers and money borrowed to lend to others. If you count all deposits as debt, leverage looks astronomically high, 10x to 20x assets. So researchers often adjust it. If you don't adjust, financial firms will always be higher.

The Jarque-Bera probability of 0.011616 and 0.053124 confirms that the ROA and LEV data of financial firms are significantly non-normally distributed showed that traditional parametric analyses may need to be approached with caution. The Jarque-Bera probability of 0.000000 and 0.013641 confirms that the ROA and LEV data of non-financial firms (ROA and LEV) are significantly non-normally distributed showed that traditional parametric analyses may need to be approached with caution.

On the Jarque–Bera test of goodness-of-fit, the result suggested that only the data on both firms followed a normal distribution. However, the departure from normality of the other variables did not pose any major problem in the panel data since the Central Limit Theorem revealed that the violation of the normality assumption posed no major problem in panel data analysis, especially with large firm-year observations (Ghasem and Zahediasl, 2012).

Table 2 Correlation Coefficient

FINACIAL	DA	LEV	
DA	1		
ROA	0.604303		
LEV	0.492074	1	
Non-Fin	DA	ROA	LEV
DA	1		
ROA	-0.185958	1	
LEV	0.139289	0.601956	1

Source: E-Views 9 Correlation Output, 2026

The outcome of the correlation matrix was presented in Table 2. In the first part which focused on the non-financial firms' sample, the measures of return on assets (ROA) 0.604, and firm leverage (0.492) were positively correlated with the Discretionary Accruals (DA).

Furthermore, in the second part of the result presented in Table 2 (using only the non-financial firms), it could be observed that return on assets (ROA)-0.186, was negatively correlated with the Discretionary Accruals (DA), while firm leverage (LEV) was positively associated with Discretionary Accruals. It could also be observed from the two parts of Tables 2 that there was no evidence of high-correlation among the variables of both samples. In both results, ROE (in the Nigerian sample) showed the highest correlation coefficient at 0.979 which was an indication that the issue of multicollinearity was likely absent among the distributions since Hair, Black, Babin and Anderson (2010) posited that multicollinearity problem was likely present when the correlation coefficient is above 0.90.

Test of Hypotheses

Hypothesis One

$H0_1$: Discretionary accruals have no significant effect on ROA financial and non-financial firms in Nigeria.

Table 3a: Regression analysis between DA, ROA and LEV

Dependent Variable: DA (Financial)
Method: Panel Least Squares
Date: 07/30/26 Time: 19:20
Sample: 2013 2024
Periods included: 12
Cross-sections included: 5
Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.276159	0.192667	1.433347	0.1572
ROA	-35.85059	13.08184	-2.740485	0.0082
LEV	0.528265	0.207017	2.551800	0.0134

R-squared	0.333562	Mean dependent var	-0.126393
Adjusted R-squared	0.303161	S.D. dependent var	0.313047
S.E. of regression	0.496461	Akaike info criterion	0.454902
Sum squared resid	5.009666	Schwarz criterion	0.559619
Log likelihood	-10.64705	Hannan-Quinn criter.	0.495862
F-statistic	4.393309	Durbin-Watson stat	2.363083
Prob(F-statistic)	0.016808		

Table 3b: Regression analysis between DA, ROA and LEV

Dependent Variable: DA (Non-Fin)
Method: Panel Least Squares
Date: 07/30/26 Time: 17:51
Sample: 2013 2024
Periods included: 12
Cross-sections included: 5
Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.053082	0.012793	-4.149126	0.0001
ROA	0.585400	0.128341	4.561285	0.0000
LEV	0.073987	0.025880	2.858841	0.0059

R-squared	0.444791	Mean dependent var	-0.041892
Adjusted R-squared	0.425310	S.D. dependent var	0.045865
S.E. of regression	0.034769	Akaike info criterion	-3.831463
Sum squared resid	0.068907	Schwarz criterion	-3.726746
Log likelihood	117.9439	Hannan-Quinn criter.	-3.790502
F-statistic	22.83201	Durbin-Watson stat	1.689105
Prob(F-statistic)	0.000000		

In table 3a and 3b a simple least square regression analysis was conducted to test the effect between Discretionary accruals (DA), return on assets (ROA) and firm leverage for financial and non-financial firms in Nigeria respectively. The R-squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the table 4.3a, Nigerian value of R squared was 0.30, an indication that there was variation of 30% on DA due to changes in ROA and LEV. This implies that 30% changes in DA could be accounted for by ROA, while 70% was explained by unknown variables that were not included in the model. However, table 4.3b, financial firms' value of R squared was 0.43, an indication that there was variation of 43% on DA due to changes in ROA. This implies that 43% changes in DA could be accounted for by ROA, while 57% was explained by unknown variables that were not included in the model.

The Durbin-Watson Statistic of 2.36 and 1.69 for financial and non-financial firms respectively suggests that the both models do not contain serial correlation. The F-statistic of the regression is equal to 4.393 and 22.832; the associated F-statistical probability is equal to 0.017 and 0.000, for financial and non-financial firms.

Decision: Discretionary accruals have no significant effect on ROA financial and non-financial firms in Nigeria.

The evidence provided by the regression result of model 1 showed that the variable of discretionary accruals had a negative coefficient of -35.85059 and p-value of 0.008 which was significant at 5% level for financial firms; while the outcome of model 2 showed a positive coefficient of 0.585400 (p-value 0.000) for non-financial firms in Nigeria, and also has significant effect. It meant that there was a significant effect between discretionary accruals and return on assets of both financial and non-financial firms in Nigeria.

Conclusion

This study determined the effect of creative accounting practices on the financial performance of selected financial ad non-financial firms. The study showed that there was a significant effect between discretionary accruals and return on assets of both financial and non-financial firms in Nigeria. Financial firms in Nigeria are heavily regulated by CBN, NDIC, NAICOM and SEC. Any form of earnings management through discretionary accruals like manipulation of loan loss provisions is quickly penalized by the market and regulators. When they manage earnings

upward, it destroys investor confidence and reduces ROA. Financial firms' accruals reverse very quickly. If you increase profit today by reducing provision, you will have to increase provision tomorrow. This volatility creates inefficiency and high cost of managing earnings, which reduces profitability. Implication was that both financial and non-financial firms in Nigeria use discretionary accruals to influence ROA. ROA is the most watched performance measure for all firms. It shows how efficiently a firm uses all its resources. Managers in both sectors have incentive to manage earnings to show better asset efficiency to investors, regulators, and shareholders. It means earnings management is present and it successfully affects reported asset performance in both sectors.

Based on the findings, the study made the following recommendations;

The significant negative coefficient of -35.85 for financial companies indicates that earnings manipulation via discretionary accruals harms value in the financial industry. This aligns with the heavily regulated characteristics of banks, insurance, and various financial organizations. Non-financial firms' management ought to utilize discretionary accruals within the permissible limits of IFRS to communicate private insights regarding future expectations, but without misleading stakeholders.

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