

Impact of Creative Accounting Techniques on Firm Financial Performance: A Study of Selected Firms in Nigeria

Okoye Emma I.

Professor of Accounting, Accountancy Department,
Nnamid Azikiwe University, Awka,
Anambra State, Nigeria
eik.okoye@unizik.edu.ng
+2348033837919

James Obioma N.

Accountancy Department,
Nnamid Azikiwe University,
Awka, Anambra State, Nigeria
jamoby87@gmail.com
+2348034162239

Abstract

This study empirically examined the impact of creative accounting techniques on firm financial performance. Creative accounting was measured by asset structure (Using Cookie Jar Reserves), capital structure (Creative Acquisition Accounting), deposit liabilities (Manipulating Inventory), loan structure (Abuse of Materiality Concept). Exposit facto research design was adopted. Data were collected from Nigeria Security and Exchange Commission on listed deposit money banks in Nigeria from 2008-2018. Descriptive analysis and ordinary least square were adopted for analysis. Findings from the analysis revealed asset structure and equity capital are negatively and insignificantly related to return on asset; Loans and advances is positively and insignificantly related to its returns on assets while Total deposit liabilities is positively and insignificantly related to return on assets. However, it can be concluded that banks asset structure and management in Nigeria has been poor and their assets have not been effectively used to enhance their profitability. Based on the findings, the study that there is need to employ statutory auditor in reducing the effect of creative accounting techniques on the reliability of financial reporting. Again active corporate governance principles can be used to control the practices of creative accounting by using independent non-executive directors.

1.1 Introduction

Financial statements, the outputs of the accounting process, are the mediums by which both the internal and external stakeholders can gain an understanding about the financial performance of a firm. Many of the important decisions given by these stakeholders are based on financial data extracted from the financial statements (Susmus & Demirhan, 2013). Therefore accuracy and reliability of them are crucial for these people in order to make appropriate decisions. This fact has become more important in recent years starting from 2001 by the collapse of Enron and its importance intensified with the recent financial crisis because of the bankruptcy of major financial institutions. To produce transparent, timely and reliable financial statements, accounting process should follow objective and consistent set of rules. Even if there exists strong accounting standards (GAAP and IAS) to guide financial accounting activities, sometimes it becomes impossible to prevent the manipulative behaviour of financial statement preparers, who wants to effect the decisions of the financial statement users in favour of their

companies. Complexity and unpredictability of constantly changing environment makes it difficult to consider all possible situations in advance when setting standards. Even if the accounting standards cannot prevent manipulative behaviour in advance, they can curb it afterwards (Wang, 2008).

Creative accounting and earnings management are euphemisms referring to accounting practices that should follow the letter of the rules of standard accounting practices, but certainly deviate from the spirit of these rules. According to Asuquo (2011), they are characterized by excessive complication and the use of novel ways of characterizing income, assets or liabilities and the intent to influence readers towards the interpretations desired by the authors. The terms “innovative” or “aggressive” are sometimes used. Financial statement is arguably the most useful and important to all users especially for the shareholders or investors in decision-making process. Based on the financial statement itself, they can obtain useful information about the effectiveness of the organization. However, inadequate or misleading income disclosure may result when income is deliberately and artificially smoothed (Ashari, Koh Tan & Wong, 1995). The effect of creative accounting may lead shareholders and investors to have inadequate information when evaluating the organization’s effectiveness. The Cadbury saga in Nigeria discovered a significant overstatement of its financial position over a number of years. The story is similar but also not palatable in the United States, where Enron which grew in just 15 years to be America’s seventh largest company went underground after it was discovered that the company has been fiddling with profit figure (Amatorio, 2005). There are many reports of price manipulation, profit overstatement, and accounts falsification by some dubious stewards which rendered the financial reporting ineffective. This represents the transformation of the accounting figures from what they are in accordance with the economic reality into what the managers want using the advantages of the existing regulations and/or ignoring some of them. Leyira and Okeoma (2017) put it in his so-called bible of the business world “Creative Accounting:” “It is the biggest con trick since the Trojan horse. They are of the opinion that Creative accounting is the root of numerous accounting scandals. But real world experience reveals that it is in most cases practiced in an undesirable way to attract investors by presenting an exaggerated financial report. Thus, two perspectives of this term may be identified. The first one recognizes genuine changes in the business accounting practices while the second one reflects undesirable window-dressing that tends to distort financial information. According to the creative accounting theories there is a connection between the use of creative accounting techniques and managers’ incompetence. A company that has reached an unstable situation will undoubtedly begin to use creative accounting techniques in order to artificially increase profit, and thus, the financial situation to be temporarily concealed. This theory according to Leyira and Okeoma (2017) is that incompetent managers try to hide the lack of performance by using creative accounting techniques, which leads to the idea that sometimes creative accounting may be associated with failure of the company and to postpone the "fatal" day. According to Gupta (2015), fast growing economies in recent decades had observed a high increase in corporate frauds, posing serious questions before academicians, researchers and professionals on the effectiveness of corporate governance mechanisms, government regulation mechanisms and the role of corporate and individual ethics. After every scam or fraud, the government and regulatory machinery had been strengthened to reduce the number of financial statement frauds that essentially imposed a check on the nexus between the company and professionals and between banks and administrators, which would have been achieved through more disclosures, by imposing and fixing responsibilities on each party involved.

The Securities and Exchange Commission (SEC) became more aggressive at pursuing Companies for financial statement fraud in the post-Enron environment. These frauds often crossed several reporting periods, thus creative accounting appears to be a mechanism for boosting reported earnings to appease financial analysts, investors and shareholders. The motivation for this ensured a rising stock price and thus increased executive remuneration. The continuous improper revenue recognition through recording of fictitious revenues or recording revenues prematurely remained the most preferred method for deception.

2.0 Literature Review

2.1 Conceptual Framework

The term creative accounting is considered as deceptive accounting, it is widely used to describe the accounting techniques that allow corporations to report inaccurate financial results of their business activities (Akenbor & Ibanichuka, 2012). Creative accounting refers to the use of accounting knowledge to influence the reported figures, whereas remaining within the jurisdiction of accounting rules and laws, so that instead of showing the actual performance or position of the company, they reflect what the management wants to tell the stakeholders (Yadav, 2014). (Bankole, Ukolobi and McDubus (2018) also defined Creative accounting as accounting practices that follows the letter or rules of standard accounting practices but certainly deviate from the spirit of those rules. Creative accounting practices are different from fraudulent practices and thus are not illegal but immoral in terms of misguiding investors.

Michael (2011) stated that the wider US definition sees creative accounting as including fraud whereas the UK definition sees creative accounting as using the flexibility within the accounting system, but excludes fraud. Conclusively, this thesis would therefore look at methods of applying creative accounting like increase income, decrease expenses, increased Assets, decreased liability, use of provisions accounting, inventory, increase in operating cash flow, and adjustments or being generous with bad debt to distort the information to be presented in the financial statements.

Creative accounting is as old as the accounting profession itself, although the accounting scholars have over the years carried out several researches to understand and address it, it is still considered as a problem, and it continues to be practiced by various corporations in the world (Kamau, Namusonge & Bichanga, 2016). The creative accounting appeared in the Anglo-Saxon literature in the 1970s, most often in the papers about the bankruptcy of enterprises and those written by Watts and Zimmerman (1978) which represent the foundation of the positive accounting theory. This research trend made the object of several empirical works trying to explain the accounting choices starting from the problem of the political costs that the enterprises are exposed to.

In a similar vein, Bankole, Ukolobi and McDubus (2018) argued that creative accounting concepts have become popular in the last two decades because there has always been a desire to manipulate the numbers among business people. Manipulating numbers to get a favourable impression has a long history. According to Balaciu and Vladu (2010), ambition of making figures more or less appealing is as old as 500 years and Lucas Paciolo had shaped the practices of creative accounting in his book *De Arithmetica*. Venetian traders at those times recorded the transactions between themselves by double-entry bookkeeping with ink and quill-pen in main and subsidiary books. If there arose any inconsistencies the inkwell was occasionally knocked over on these books in order to make entries illegible. This example shows that manipulative behaviour of trade or business people is not a new phenomenon and goes back to centuries ago (Susmus & Demirhan, 2013).

Brendan and O'Connell (2009) postulated that the current business environment and the economic recession had in recent times pushed the top management of many organizations into paying attention on how to make the financial statements of their organizations look better. This was perpetrated in order to attract investors by manipulating figures in their financial statements, either by increasing or by decreasing the figures depending on what they wanted to achieve at that moment using aggressive or creative accounting otherwise known as financial statement fraud. Richard, Yip and Johnson (2009) carried out investigations on high profile accounting scandals such as Enron and WorldCom (financial statement fraud) committed by management which had shown different figures so as to compete with other companies and there after collapsed.

Creative accounting according to Okoye, Adeniyi and Inyang (2019) is the root cause of a number of accounting scandals and many proposals for accounting reform are focusing on removing such practices. Financial statement is the result of the financial accounting process that accumulates, records, analyses, classifies, summarizes, verifies, reports, and interprets the financial data of a business firm, which reflect the financial position, performance and change in financial position of an enterprise (Elliott, 2005). To produce transparent, timely and reliable FS(s), accounting process should follow "objective" and "consistent" set of rules. Recent unpleasant events in the economy, coupled with frequent scandals, have raised questions about the effectiveness of transparency and disclosure practices, especially in the global corporate sector. Collapses of large number of high-profile companies due to widespread and frequent abuse of Creative Accounting practices across the world have left a dirty smear on the effectiveness of the Corporate Governance system, the quality and transparency of the financial reports, and credibility of the audit functions. As a result, the Corporate Governance structures evolve that help in mitigating these agency conflicts (Bankole, Ukolobi & McDubus, 2018). Earning management and income smoothing consider as the most form of creative accounting. We can define them as follow:

1. Income smoothing is a conscious behavior which reduces periodic income fluctuations. One of the income smoothing goals is to increase the return (Garizi, Homayoun & Firouzi, 2011).

1. Income smoothing refers to a conscious behavior which occurs for the purpose of decreasing fluctuations of income cycles (Venouss, Karami, & Tajik, 2006).
2. Earnings management may be defined as reasonable and legal management decision-making and reporting intended to achieve stable and predictable financial results (Rahman, Moniruzzaman, & Sharif, 2013). Kelly (2011) illustrates that the factors that affect the flow of earnings management are pattern of earning management, good earning management, bad earning management, motivations of earning management, and accounting implication.

2.2 Creative Accounting Techniques

- ❖ **Getting Creative with the Income Statement:** It includes the practice of communicating a different level of earning power using the format of the income statement rather than through the manner in which transactions are recorded. For example, companies may report a non-recurring gain as other revenue, a recurring revenue caption, or a recurring expense might be labeled as non-recurring. This will result in higher apparent levels of recurring earnings without altering total net income.
- ❖ **Manipulating Inventory:** Firms may engage in inventory manipulation by either manipulating the quantity of the inventory or by valuing it. In years when profits need to be increased the quantity can be manipulated by doing a particularly rigorous stock-take. Provisions for absolute and slow-moving inventory and changing the actual

method of inventory valuation are the practices of manipulating inventory values (Jones, 2011).

- ❖ **Creative Acquisition Accounting:** IFRS 3 provides extensive guidelines on how the purchase price of business acquisitions should be distributed. Yet it leaves room for manipulation of amortizing levels.
- ❖ **Lack of regulation:** there are lack of regulation in some areas in every domain. In most countries accounting regulation is limited in some areas, for example in Nigeria there are standards yet for recognition and measurement of financial instruments.
- ❖ **Regulatory Flexibility:** Generally, accounting regulations often allow a choice of policy; for example, in respect of assets valuation (International Accounting Standards permit a choice between recording non-current assets at either depreciated historical cost or revalued amounts). The management may decide the change of the policies, and these shifts are difficult to be identified a few years later (Schipper, 1989).
- ❖ **Abuse of Materiality Concept:** It includes misusing the concept of materiality by intentionally recording errors within a defined percentage ceiling. Firms indulging in this practice try to find an excuse for it by arguing that the effect on the net income is too small to matter.
- ❖ **Big Bath Charges:** In this technique, instead of showing losses for a couple of years, a big loss is shown for a single year by charging all expenses in that year. This may be done if there are apparent reasons for poor profitability in that year and the management feels that by lumping all expenses in one bad year, they can start showing better profits in following years.
- ❖ **Using Cookie Jar Reserves:** this refers to over-provisioning for accrued expenses when revenues are high, in order to bring profits down to a level that is safe to sustain in the future.” It also includes failure to provide all the accrued expenses to show larger profits during tougher times when needed (Shah & Butt, 2011).

2.3 Financial Performance

Profit is one of the major reasons for venturing into business. Profitability therefore, means a state of producing a profit or the degree to which a business is profitable. Profitability is the primary goal of all business ventures [22]. Without profitability the business will not survive in the long run. Conversely, a business that is highly profitable has the ability reward its owners with a large return on their investment. According to [23], achieving acceptable financial result is crucial. Achieving acceptable financial performance is a must, otherwise the organization’s financial standing can alarm creditors and shareholders, impair its ability to fund needed initiatives and perhaps even put its very survival at risk. This makes measuring current and past profitability and projecting future profitability a very important issue. Profitability is therefore identified as criteria for organizational effectiveness. It may be expressed in terms of net income and earnings per share or return on investment [24]. A variety of profitability ratios can be used to assess the financial viability

2.4 Creative Accounting and Firm Performance

Financial reports are produced to show the true and fair state of affairs of business entities so that stakeholders and other users of such information can make informed decisions. However, Bankole, Ukolobi and McDubus (2018) noted that certain loopholes in the accounting standards provide avenues for the use of Creative Accounting practices, such as the flexibility in the International Financial Reporting Standards (IFRS) that allow companies to choose method and rate of depreciation of assets and inventory valuation method. According to Osioma and Enahoro (2006) accounting processes and choice of policies resulting from many

judgments at the same time are capable of manipulations which have resulted in creative accounting.

Much has been written on creative accounting. Anglo-Saxon is the first person, who wrote about creative accounting in his literature in 1970s (Watts and Zimmerman, 1990). In general, the management's objective is to achieve the highest profit and earning and if some circumstances prevail to reach this objective then the management of the firm maybe changes its accounting method, deferring or accelerating expense or revenue transactions, or use any policy which fraud in financial statements and reporting to show the earnings at a certain level in financial reporting standards.

Shah, Butt and Tariq, (2011) assert that creative accounting is a weapon which is used in a critical situation of a firm. They also conclude that creative accounting is not that bad if firm shows some flexibility in its accounting regulations. It also depends on the ethical environment of any firm that how and why management is using creative accounting techniques as a weapon. Some analyst shows the dark side of creative accounting practices. They think that mostly setbacks happen because of unethical conduct of creative accounting for example Enron and WorldCom etc. As Gherai and Balaciu (2011) predict in their literature, they said that enterprise stake is at risk when it indulges in practices of creative accounting. Because these practices give a firm only short term benefits. At the end enterprise would be surrounded with scandals. So there is really a need of close governance of financial reporting. It also concludes that management should try to find out all those causes which may provoke practices of creative accounting.

Managers and auditors play an important role in any firm. At the end manager gets rewards from the company's performance. Auditor's close supervision may reduce the chances of applying creative accounting. Yadav (2013) finds that involvement of outside director may reduce the practices of creative accounting. And more the outside users, less creative accounting practices. He says that involvement of professionals in financials decision can build a trust of stakeholders on enterprise. So, qualified accountants can help companies about the use of creative accounting techniques. The study also suggests that corporate governance is a best way to reduce these practices. Kassem (2012) argues that the ethical practices of creative accounting are there basically to help the external auditors to increase their efficiency and accuracy in finding any fraudulent act. It is difficult for people to differentiate between earning management and fraud. For an external auditor it is necessary to be able to differentiate the minor hair line difference between the two. External auditors can do the job of finding out whether it was a fraud or a financial error which resulted in the loss and in order to stop the future fraud he should be able to find out the methodology of the fraudulent person and to have the external auditors work at their best the regulators should provide them with the best guidance information and help them as much as they can. Yadav, Kumar and Bhatia (2014) also find the ways that help to reduce the effect of creative accounting on balance sheet. They present quite positive picture of creative accounting practices. According to them creative accounting practices may arise because of agency problem. As Diana and Beatrice (2010) describe the manipulative behaviors of users and also talk about that how could the creative accounting practices be beneficial for the users as well as lead them into crisis. Yet, creative accounting practices are a name of deception and unwanted practices. Largay (2002); Mulford and Comiskey (2002) stated that six principle which show the maximum use of creative accounting practices. For example flexibility in regulation, a dearth of regulations, assumptions about future, use of artificial transaction, timing, reclassification and presentation of financial number games.

Fraudulent financial reporting has resulted in big corporate failures as in the cases of Enron scandal (2001), WorldCom (2002) which led to introduction of Sarbanes-Oxley Act in USA, Saytam Computer Services Limited (2009) in India and American Insurance Group (2005). Also in Nigeria, Akintola Williams and Deloitte were indicted for facilitating the falsification of accounts of Afribank Plc. (Main Stream Bank PLC) and for deliberately overstating the profits of Cadbury Nigeria PLC. It has reported that between 1990 and 1994, Nigeria lost more than N6 billion (\$42.9million) within the banking sector alone (Oluwagbuyi & Olowolaju, 2013). This has not only led to loss of investment and jobs but has also made users of financial statement of companies doubt the truth and fairness of the accounting information and the accounting profession as a whole.

Schiff (1993) warn investors in general that, taking a company's financial statements at face value can be a recipe for disaster. Earnings per Share (EPS), the only number to which investors regularly go wrong by paying too much attention, can be increased by the stroke of an accountant's creative pen. Schiff mentioned six of the many ways companies can manipulate their earnings: (1) hidden pension liabilities, (ii) capitalizing expenses instead of writing them off, (iii) receivables or inventories growing faster than sales, (iv) negative cash flow, (v) consolidating owned subsidiary's income and net worth, with the impossibility of receiving the same, and (vi) following seemingly conservative practice in a situation of reverse direction (for example, if layers of lower priced LIFO (last-in, first-out)-cost of inventory are inflated and sold at current prices, current earnings power is overstated) (Akenbor & Ibanichuka, 2012).

Kamau, Mutiso and Ngui (2012) are of the opinion that tax avoidance and evasion is a motivator of the practice of creative accounting for the purposes of evading and avoiding tax among companies in Kenya. Their study found out that creative accounting is widely practiced among companies in Kenya. The study established that the tax avoidance and evasion is a major motivation that drives practice of creative accounting. Since tax is calculated on the basis of income, it is highly likely that the companies may understate their income so as to reduce the tax burden. Mangers have role to shows fluctuating profits which puts firms into financial crisis after showing profits and growth in beginning year then they collapsed. To exclude creative accounting from balance sheet auditors and management have to play a big role and provide true and fair view by financial reporting. It is not possible to eliminate creative accounting completely. Sanusi and Izadonmi (2014) observed that the reason behind the creative accounting in Nigerian commercial banks is to boost the market value of share.

2.5 Theoretical Framework

Agency relationship occurs when owners of a business (principal) engage other individual (s) as worker (agent or steward) to execute tasks on their behalf. This relationship requires delegation of decision-making authority to the steward by the principal and the resulting division of labour is advantageous in enhancing an efficient and productive economic activity. However, such delegation also implies that the principal requires placing trust in an agent to act in the principal's best interests (Umobong & Ironkwe, 2017). Sometimes agents in the exercise of its responsibilities deviate from the goal of the principal and pursue self-interest. The extent of uncertainty about the agents desire to embark on self-interest motives rather than conform with the expectations of the contract represents an agent risk (which leads to agency cost) for an investor (Fiet, 1995). The principals will be desirous of knowing if agent actions yield profit or not. A simplistic agency model proposes that, as a consequence of information asymmetries and self- interest, principals lack reasons to trust their agents and will seek to resolve these concerns by putting in place mechanisms to align the interests of agents with principals and thus reduce the extent of information asymmetries and opportunistic behaviour.

Agents probably will have different motives from that of the principal. They may be motivated by factors such as financial rewards, employment opportunities, and relationships with other parties that are not directly relevant to the interest of the principals. This probably results in a tendency for agents to be more optimistic about the economic performance of an entity or their performance under a contract than the reality would suggest. Agents may also be more risk averse than principals. As a result of these disparities of interests agents may have an incentive to bias information flows. Principals may resent information asymmetries where agents are in possession of superior information to which principals do not access. These conflicts of interest may produce creative accounting practices or manipulation of financial statements with the resultant effect of bankruptcy of firms. Opportunistic behaviour by agents may be aimed at fulfilling debt covenants, increasing wage compensation, smoothing income and mitigating political costs. It is an important postulation by agency theory that accounting has a significant role in providing information; the so called stewardship function of accounting where agents report on the activities of the entity to the principal. According to Revsine (1991) agency theory give managers the laxity to search for existing gaps in financial reporting and to adjust accounting figures to the extent possible to meet their aims.

2.6 Empirical Review of Studies

Tassadaq and Malik (2015) investigated the issue of creative accounting in financial reporting. Data has been collected through structured questionnaire from industrial sector. Descriptive and inferential statistics were used to generalize the results and conclude the findings. The study concluded that a company is involved in frauds or scandals because of several factors like unethical behaviors, agency problem and non-professional attitude. Creative accounting is neither an illegal nor legal only the maximum use of it pushes a company in scandals. Creative accounting plays significant role in financial reporting but has been negatively correlated that means more managers involved in it may decrease the value of financial information. Government regulation/international standards have positive and significant role if it is flexible in financial reporting. As auditor's comment also plays positive and significant role in financial reporting. Ethics plays an important and positive role in financial reporting. The more ethical values mean lesser manipulative behaviors. So the manipulative behaviors only destroy the image of any company.

Al-Dalabih (2017) tried to identify the practice of creative accounting on the Jordanian banking sector. The sample of this study comprised 150 selected from three banks in the northern region of Jordan. A questionnaire survey was designed and distributed to them. A total of 121 questionnaires were retrieved that are valid for statistical analysis formed about 80.7% of overall distributed questionnaires; and the questionnaires have been analyzed using SPSS statistical software. The results of the study indicate that there is a statistical significant relationship between the practice of creative accounting and both the profitability and the size of the Jordanian commercial banks.

Leyira and Okeoma (2017) use survey data and financial reports on fourteen manufacturing firms over five year period to find out whether creative accounting and organizational effectiveness has any significant relationship. Using correlation statistics, all the hypotheses were found to be statistically significant and positively correlated. However, we found weak evidence of a positive correlation between income smoothing, artificial transaction and market share. These results are sensitive to our apriori expectation but we believe they may not be consistent over time. The study concludes that many manufacturing firms in Nigeria underperform but practice creative accounting to appear legitimate.

Umobong and Ironkwe (2017) examined creative accounting and firm's financial performance using secondary data obtained from Nigeria Stock Exchange and tries to ascertain whether food and beverage firms in Nigeria manage income using seasonal trading reports. Seasonal trading report (STR) was subjected to Hausmann test for selection of appropriate model and regressed against performance variables return on assets, returns on equity and earnings per share. Test of causality was conducted to determine whether there is causal relationship amongst the variables of study. Result showed STR has no significant relationship with ROA, ROE and EPS and not used to manipulate ROA, ROE and EPS. STR has negative relationships with performance variables and we conclude that an increase in STR decreases performance.

Bankole, Ukolobi and McDubus (2018) carried out a study to establish the effect of creative accounting on shareholders' wealth. Inventory valuation, depreciation policy and debtors ageing schedule were used as proxies for creative accounting. The study reviewed the theories and techniques of creative accounting as well as the determinants of shareholders wealth. Empirical studies on creative accounting were reviewed. So were the scandals caused globally by creative accounting? The study found that frequent changes in inventory valuation and in depreciation policy affect shareholders wealth. It found that frequent manipulation of ageing schedule for the purpose of determining bad and doubtful debts provision had no significant effects on shareholders wealth.

From the foregoing, it is obvious there several studies have been carried out on the relationship between creative accounting and organizational financial performance. However, one can also observe that various methods have been adopted by researchers which include the use of questionnaires, theoretical review of past studies and financial report analysis. More recently, the CBN reported that more than half of the deposit money banks are facing liquidity challenges which resulted in the apex bank pumping more money into the banks thus creating an avenue for more investigation on creative accounting since these banks have been declaring profits over the past five years while the case of Diamond Bank which was once considered the darling and envy of deposit money banks only to merge with a less glamorous and less popular Access Bank suggesting that there is more to the problem of creative accounting in Nigeria. This shows that there is still gap in literature on how to effectively measure the impact of creative accounting on firm's financial performance of deposit money banks, a bridge this present study seeks to fill.

3.0 METHODOLOGY

3.1 Research Design

The study uses ex-post facto design because it relies on past data derived from financial statements.

3.2 Sources of Data

The secondary data was mainly used in this study. Secondary source used was financial report of deposit money banks listed on the Nigeria Stock Exchange. The need to focus on banks is the challenge they continue face with their financial report suggesting they are healthy yet continue to face liquidity problem. The data include reports on return on assets, assets structure, equity capital structure, loan structure and deposit liabilities.

3.3 Population and Sample Size

The population of this study covers all deposit money banks listed on the Nigeria stock exchange. However the period covers 2008-2018 which thus forms a sample size of 11 years.

3.4 Data Analysis Technique and Model

In this study, variables are observed and correlation is performed to test the level of relationship between the economic events.

In explain creative accounting model, it is imperative to identify the variables that constitute creative accounting. Based on our literature, the focus of most manipulation is the asset structure (**Using Cookie Jar Reserves**), capital structure (**Creative Acquisition Accounting**), deposit liabilities (**Manipulating Inventory**), loan structure (**Abuse of Materiality Concept**)

H01: There is no significant relationship between asset structure and banks return on assets.

H02: There is no significant relationship between equity capital structures on banks return on assets.

H03: There is no significant relationship between loan structure and banks return on assets.

H03: There is no significant relationship between banks deposit liabilities and banks return on assets.

Return on assets = f (cash assets structure, equity capital structure, loan structure and deposit liabilities)

In evaluating the model,

$$ROA = F(ASET, EQT, LOANS, TDL)$$

The mathematical form of the model is constructed as

$$ROA = b_0 + b_1 ASET + b_2 EQT + b_3 LOANS + b_4 TDL + \mu$$

However, the variables will be converted into natural log

$$\text{Log}(ROA) = b_0 + b_1 \text{log}(ASET) + b_2 \text{Log}(EQT) + b_3 \text{log}(LOANS) + b_4 \text{log}(TDL) + \mu$$

Where; ROA= Return on assets

ASET= Assets structure

EQT= Equity capital

LOANS= Total loans

TDL= total savings and demand deposits

$b_1 b_2 b_3 b_4$ = parameter estimates of the variables

b_1 = estimate of the constant

μ = stochastic term or unexplained variable

log= natural log sequence

4.1 Data Analysis

Table 4.1: Stability and Normality of Variables Test

Date: 02/16/20

Time: 23:13

Sample: 2008 2018

	ROA	ASET	EQT	LOANS	TDL
Mean	0.015033	5024328.0	391048.3	1479790.	2328073.
Median	0.016200	5891410.0	397611.5	1465563.	2445200.
Maximum	0.025700	6790540.0	486087.0	1794037.	2570719.
Minimum	0.000100	1990910.0	254524.0	1144461.	1784490.
Std. Dev.	0.009381	2082605.0	84140.47	238230.3	303328.4
Skewness	-0.483161	-0.6072960	-0.515508	-0.022593	-1.055116
Kurtosis	2.086813	1.6163810	2.179152	1.875004	2.681018
Jarque-Bera	0.441923	0.8474090	0.434196	0.316914	1.138707
Probability	0.801748	0.6546171	0.804851	0.853459	0.565891

Sum	0.090200	30145970.	2346290.	8878742.	13968438
Sum Sq. Dev.	0.000440	2.17E+11	3.54E+10	2.84E+11	4.60E+11

Observations	11	11	11	11	11
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Source: E-View 8

The result shows that an average of 1.5% is made on return on assets annually while average asset value stands at ₦5024328.0m. Again equity capital for the firms stands at N391048.3m for the period under review which is about 20% of the total asset structure of the firms. Furthermore, total deposit liabilities stands at 2328073m which implies that it forms more than 60% of the banks liability structure. Loans structure also stand at an average of ₦1479790 which is higher than the banks' capital structure more than 65% of the deposits.

The Jarque-Bera statistics for all the series shows that ROA has a prob-value of 0.801748, CASH has a prob-value of 0.654617, EQT has a prob-value of 0.804851, LOANS has a prob-value of 0.853459, while TDL has a prob-value of 0.565891. It indicates that ROA, CASH, EQT, LOANS and TDL are not significant and normally distributed.

Table 4.2: Relationship between Creative Reporting and Financial Performance

Dependent Variable: LOG(ROA)

Method: Least Squares

Date: 02/16/20 Time: 23:05

Sample: 2011 2016

Included observations: 6

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-384.9073	94.34366	-4.079842	0.1530
LOG(CASH)	-10.22123	2.544060	-4.017685	0.1553
LOG(EQT)	-3.392171	3.431930	-0.988415	0.5037
LOG(LOANS)	19.50125	5.725264	3.406176	0.1818
LOG(TDL)	19.10366	8.078868	2.364646	0.2547
R-squared	0.965717	Mean dependent var	-4.932862	
Adjusted R-squared	0.828587	S.D. dependent var	2.126726	
S.E. of regression	0.880508	Akaike info criterion	2.458273	
Sum squared resid	0.775295	Schwarz criterion	2.284739	
Log likelihood	-2.374818	Hannan-Quinn criter.	1.763603	
F-statistic	7.042327	Durbin-Watson stat	2.054131	
Prob(F-statistic)	0.274560			

Source: E-View 8

Estimated model from the e-view shows that the model is linear and given as

$$\text{LOG(ROA)} = -384.9073 - 10.22123\text{LOG(ASET)} - 3.392171\text{LOG(EQT)} + 19.50125\text{LOG(LOANS)} + 19.10366\text{LOG(TDL)}$$

ASET is negatively related to ROA. This means that the higher the assets, the lower the return on asset which conforms to apriori expectation. The standard error of CASH is 2.544060 which is greater than its coefficient implying that asset structure is statistically significant on return on asset. The t-test shows a prob.value of 0.1553 thus indicating that there is no significant relationship between asset structure and banks return on assets.

EQT is negatively related to ROA. This means that the higher the equity capital, the lower the return on assets which does not conform to apriori expectation. The standard error of EQT is 3.431930 which is higher than its coefficient implying that equity capital is statistically insignificant on return on assets. The t-test shows a prob.value of 0.5037 thus indicating that there is no significant relationship between equity capitals structures on banks return on assets. LOANS is positively related to ROA. This means that the higher the loans and advances, the higher the return on assets which conform to apriori expectation. The t-test shows a prob.value of 0.1818 thus indicating that there is no significant relationship between loan structure and banks return on assets.

TDL is positively related to ROA. This means that the total deposits, the higher the return on assets which conforms to apriori expectation. The t-test shows a prob.value of 0.2547 thus indicating that there is no significant relationship between banks deposit liabilities and banks return on assets.

The coefficient of determination R^2 is 96.57%, indicating that the variables are perfectly fitted. The adjusted coefficient of determination is 82.86% implying that 82.86 percent of the total variation found in ROA is explained by the presence of CASH, EQT, LOANS and TDL while the remaining 3.43% is the presence of the unexplained variable.

The F-statistics shows that F-cal is 7.042327 with a prob-value of 0.274560 which implies that the overall regression is statistically significant and the variables jointly impact on return on assets.

5.1 Conclusion

Managers may falsify turnover figures to upswing performance and outperform competitors to create a positive signal or outlook that the firm is better than other firms or a downward swing with negative outlook to present a worse image of the firm. This is essentially such that a worse image currently will result in higher bonuses in future when performance improves. It could also imply that a worse image and reported losses is to avoid tax. The big bet method can also be deployed to boost the financial report of firms. The result of this study suggests that companies such as deposit money banks are always in dilemma on sweetening the quality of their assets or simply showing the true nature to avoid sanction which supports the earlier study of Nwude, Itiri, Agbadua, and Udeh (2016). Okpara (2009) had questioned banking returns in the face of high level liquidity problem. He concluded that banks declare unearned profit to please investors. Solomon (2016) also confirms this when he noted that banks non-performing loans were too high to provide any cover for their shareholders capital and earnings and are therefore having high level of toxic assets. The present findings in our study support all these assertions.

Securities and exchange commission (SEC) require that all quoted firms in Nigeria must publish audited financial statements on quarterly basis, this increases the possibility of detection of falsified trading reports and serve as a disincentive to falsify trading reports. The Nigerian stock exchange impose sanctions on that firms that present falsified trading and shares of defaulting firms are trading on the floor of the exchange. It is possible that firms being aware of the sanctions carefully avoid being penalized.

The empirical findings showed some interesting and questionable results. Banks return on assets has negative and weak relationship with equity capital. Findings from the study further showed a positive and insignificant relationship exist between loans and advances, deposits and return on assets. The result thus makes one to wonder how the banks got improved profitability over the years as shown in their financial reports when their returns on assets are depreciating.

There is need to employ statutory auditor in reducing the effect of creative accounting techniques on the reliability of financial reporting. Again active corporate governance principles can be used to control the practices of creative accounting by using independent non-executive directors.

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