ESUT Journal of Accountancy 153
ISSN: 2251-032X Volume 13, Issue 2, Pages 153 - 163: 2024
CREATIVE ACCOUNTING PRACTICES AND SHAREHOLDERS WEALTH IN NIGERIA

Creative Accounting Practices and Shareholders Wealth in Nigeria

Ogbolu, Lucky Mmamefune (PhD)[1]; Ashibogwu, Nze Kingsley (PhD)[2]; Isoso, Monday Chukwugeku (PhD)[3]; Okonye, Onyemazuwa[4].

[1 & 2] *Department of Accounting, Delta State University of Science and Technology, Ozoro, Delta State, Nigeria.*

[3] *Department of Accounting, Faculty of Management Sciences, Dennis Osadebay University, Anwai-Asaba Delta State, Nigeria.*

[4] *Department of Accounting, Novena University, Ogume, Delta State, Nigeria.*

[1] *ogbolulucky@yahoo.com*; [2] *ashibogwukings@gmail.com*; [3] *isochuks@yahoo.com*

Abstract

Research Purpose: In light of the pervasive issue of creative accounting among Nigerian firms, this study investigates its impact on shareholders' wealth, despite the silence of accounting regulators on the matter.

Methodology: The study employed a probit regression model to analyze the relationship between creative accounting practices and shareholders' wealth in Nigeria.

Findings: Results indicate a negative relationship between creative accounting and shareholders' wealth. Specifically, a 1% increase in cost of depreciation, research and development, and overstated assets leads to declines in stock prices (9.7%, 8.7%, and 8.2%), earnings per share (7.3%, 5.0%, and 3.4%), and dividend payout (1.5%, 5.7%, and 2.2%), respectively.

Conclusion: The study concludes that creative accounting practices significantly harm shareholders' wealth in Nigeria, highlighting the need for effective measures to curb such practices.

Recommendations: To mitigate the adverse effects of creative accounting, firms should implement robust internal controls to prevent such practices, thereby safeguarding and enhancing shareholders' wealth.

Key words: *Creative Accounting, Accounting Practices, Shareholders' wealth.*

1.0 Introduction

The collapse of Enron corporation, Worldon, Tyco as well as Adelphia in 2001 arising from financial statement manipulation have not only cost shareholders billions of dollars but have caused severe damage to the accounting profession (Maria & Spathis, 2012). Similarly, the global financial crisis of 2008 and the world's landslide bankruptcy that rocked key financial institutions in 2010 have brought to limelight the loopholes in existing accounting standard like the generally accepted accounting practice (GAAP) and international accounting standard board (IASB) in guiding accurate and reliable financial statement (Afolabi & Oluseye,2013).

In Nigeria, though the regulator of the accounting profession is silent on the problems of creative accounting, yet it is widespread among firms in Nigeria as the practice of creative accounting led to 52 failed banks in Nigeria as its presence distorts the true and fair view of the financial positions of these banks. This corporate failure among firms in Nigeria occurred because many of these firms show different depreciation methods, life of assets, and residual value of assets to send wrong signals to the stock market and fluctuate the earnings (Akenbor, & Ibanichuka, 2012). This mostly reduces the firms' financial statements to mere estimates as it creates business uncertainties.

Thus, despite that creative accounting became more pronounced two decades ago, it is as old as the desire by financial – businesspersons to manipulate their financial position to make financial figures more appealing as situation demands (Ramadan, 2015). Thus, taking undue advantage of loopholes in accounting rules by management to showcase appealing financial performance is not a new phenomenon in the accounting profession. Therefore, creative accounting which is quite different from fraudulent accounting follow to the letter the laid down accounting rules and standard but diverges from the spirit of these rules which are legal but immoral as they misguide intending investors by manipulating the books of account as well as influencing them to take decision along their window dresses accounting statement. Consequently, creative accounting practices are fundamental to many accounting scandals yet not much has been done to unravel this problem especially in developing countries. It is in a bid to fill this void and contribute to the body of knowledge in this field that this paper investigated Creative accounting practices and shareholders wealth. Following the introduction, the rest of this paper is structured thus: Section 2 reviews relevant extant studies, Section 3 outlines the methodology employed in the study, Section 4, deals with discussions of the results while Section 5 encompasses the conclusion and policy implications of the findings.

2.0 Literature Review

2.1 Theoretical Review

i. Agency Theory

Agency theory developed by Adams by (1994) is a prominent theory that underpins creative accounting. This is because in most corporate firms, there is a separation of ownership from the management of these firms. Thus, while the owners are the shareholders that hire managers (directors) as their agent to manage their investment, conflict of interest usually arises between these shareholders and management in sharing the proceeds of the firms. This usually provides a platform for directors or managers to engage in opportunistic behavior by manipulating accounting statements. The fundamental tenet of agency theory is that managers typically act in their own self-interest, pursuing personal gain at the expense of the interests of shareholders and the maximization of shareholder value.

Since managers have greater access to information than shareholders, agency relationships give rise to information asymmetry issues. Because of this, management is motivated to falsify the company's financial statements in order to get bonuses that could be linked to its profits (performance-related compensation). Managers can use their discretion over accruals as a result of this activity, creating an information asymmetry that lowers the value and dependability of accounting statements.

ii. Signaling Theory

The signaling theory developed by Spence (1973) argues that the existence of information asymmetry can be a reason for firms to use window dressed financial statements to send signals to the market. This manipulated financial statement made appealing by the managers forms the basis for shareholders/investors to interpret and make decisions.

Empirically, several studies have studied signaling influence on creative accounting (Balaciu & Vladu, 2009, Akenbor & Ibanichuka, 2012, Adetayo & Ayiga, 2017). The creative accounting literature identifies several variables as a proxy for signaling theory including delaying sales, increasing research and development as well as overstating asset write – offs. The theory argues that directors who are driven by selfish interest can manipulate financial statements to make it appealing and signal this to shareholders to attract more investments. Directors may do this in a sort of creative accounting without violating any accounting standard and rules that is required by regulations.

2.2 Empirical Literature

The impact of innovative accounting techniques on financial reporting in Nigerian deposit money institutions was examined by Egolum and Onodi (2021). Using descriptive statistics, the study discovered that innovative accounting techniques have an impact on the selection of accounting policies as well as the manipulation of financial statements at money deposit banks in Nigeria. Additionally, innovative accounting methods play a significant role in Nigeria's bank turmoil. Based on these conclusions, the report suggested that, in order to guarantee professionalism, independent external auditors of deposit money banks should be subject to oversight.

Okoye and James (2020) looked into how creative accounting methods affected the bottom line of banks. Using ordinary least squares and descriptive statistics, the study discovered that while loans and advances have a positive relationship with returns on assets, asset structure and equity capital have a negative relationship. Based on these results, the study suggested using statutory auditors to lessen the impact of innovative accounting methods on the dependability of financial statements in Nigerian banks.

Isoso and Okee (2022) investigated the relationship between creative accounting practices and shareholder's wealth of deposit money banks (DMBs) in Nigeria within the period of 2008-2020. The cross-sectional survey research design was adopted for the study; the population of the study was all the 14 DMBs listed in Nigerian Exchange as at December 2021. Using purposive sampling technique, 5 deposit money banks were sampled and 74 respondents comprising accountants, auditors and compliance officers across the selected DMBs were used. Copies of the questionnaire were used for data gathering. Univariate and Bivariate analysis was done. Regression analysis and model Statistics was used for data analysis and testing of hypotheses with the aid of SPSS. The result of their study shows that creative accounting dimensions of income smoothing and inventory manipulation have strong, positive and significant relationships with shareholder's wealth measured in terms of return on equity (ROE). The study concluded that creative accounting affects shareholder's wealth thus the need to checkmate the practice so that shareholders would actually know the true worth of their investment not that which is coated that ends up giving them false hope in the long run. The study recommended that: Bank regulators should evaluate the adequacy of policies around inventory and assets valuation and at the same time, financial analysts and shareholders should note the application and consistency of accounting policies on inventory and assets. This way where inventory records have been manipulated can be discovered.

Bankole, Ukolobi, and McDubus (2018) investigated how creative accounting affected the wealth of shareholders. Through the use of logistic regression, the study discovered that the wealth of shareholders is impacted by regular adjustments to depreciation policy and inventory valuation. Furthermore, the regular manipulation of the aging schedule to determine the provision for bad and dubious debts had no appreciable impact on the wealth of shareholders. Based on these results, the study suggested more stringent oversight of organizations to guarantee complete disclosures of modifications to accounting standards in order to prevent unethical actions.

Ugilwabo and Mulyunagi (2018) investigated how creative accounting affected the value of shareholders in Rwandan listed companies. Using multiple regression analysis, the study discovered a strong and positive correlation between Rwandan shareholders' wealth proxies and innovative accounting indicators. The study made the recommendation to limit creative accounting practice based on this.

Al-Dalabih (2017) looked into the banking industry in Jordan and the use of creative accounting. Regression analysis was used in the study to find that there is a substantial correlation between the size of Jordanian commercial banks and their profitability as well as their practice of creative accounting. The study concluded that a preventative measure against creative accounting methods in Jordanian commercial banks was necessary in light of these findings.

In order to investigate the impact of creative accounting on business performance, Brijesh (2014) looked at creative accounting from a professional perspective. The research concluded that creative accounting has no bearing on the company's success after investigating descriptive data. In light of this, the study suggested using caution when engaging in creative accounting.

Nigerian commercial banks and innovative accounting techniques were investigated by Sanusi and Izedonmi (2014). By using logistic regression, the study discovered that increasing the market value of shares is the primary driver of creative accounting in Nigerian commercial banks. Furthermore, those that employ inventive accounting techniques to make investing judgments suffer as a result.This conclusion led the paper to advocate that accounting principles and regulations be streamlined in order to minimize creative accounting methods by reducing the diversity of expert judgment in financial reporting.

Osemene, Muritala, and Olawale (2014) investigated how Nigerian firm performance was impacted by creative accounting. Using panel least square analysis, the study discovered that while gearing ratio and net income before taxes have a negative relationship with both return on equity and dividend pay-out, non-performing loans had a positive relationship with both. The report suggested implementing policies that will stop excessive creative accounting in Nigeria in light of these findings.

Osisioma and Enahoro (2006) investigated the private sector's knowledge of creative accounting in Lagos, Nigeria. The study, which made use of descriptive statistics, discovered that the private sector's usage of financial statements has been negatively impacted by creative accounting. In light of this discovery, the article suggested streamlining accounting foundations, tenets, and procedures in order to lessen the diversity of human opinions on accounting-related matters.

Despite that almost extant reviewed literature on creative accounting practices are of the opinion that it is deceptive and misrepresenting, there is paucity of empirical research linking creative accounting practices to shareholders' wealth especially in developing countries.

3.0 Methodology

Research design

Survey research is the type of research design used in this work. The selection of this particular research design stems from its capacity to identify a fundamental aspect of formal research, which entails gathering primary data or firsthand information. When scientific sampling techniques are used, this form of research design further eliminates the researcher's sentiment or prejudice. It is also an appropriate method for gathering relevant data that would analyze unadulterated facts from a sizable community on a specific phenomenon. Additionally, the meticulous methods used in survey research design allow for the generalization of research findings, particularly when a suitable representative sample is chosen.The type of information that design offers will enable the researcher to delve deeply into innovative accounting techniques and the wealth of shareholders. Above all, it is crucial to gauge respondents' attitudes, beliefs, and understanding of how Nigerian shareholders' wealth is affected by creative accounting.

Population and Sampling

The study's target audience consists of 164,000 companies that are listed on the Nigerian stock exchange. For the actual field study, however, a random sample of 399 respondents was chosen in order to make the survey practicable and effective. Owing to the intricacy of the research population, a multi-phase sampling method was employed to encompass the chosen participants. The following Yamane formulas for determining sample size are the foundation of the paper's sampling size and procedures:

$$n = \frac{N}{1+N(e)2}$$

Where n =sample size, N = Total population, e = level of significance $(0.05)^2$

$$n = \frac{164{,}000}{1+164{,}000(0.05)2} = \frac{164{,}000}{1+410} = \frac{164{,}000}{411} = 399.02 \sim 399$$

Sources of data

Structured questionnaires containing simple closed-ended questions formulated in line with the research objectives were used to elicit information from the respondents. It was sub-divided into two parts: Part I was on the profile of respondents while part II was on the main research concerns.

Method of Data Analysis

The socio-demographic profile of the respondents would be measured using nominal scales while the effect of creative accounting on shareholders' wealth was achieved using probit regression model. This is found because judging by the magnitude and signs of the coefficient of the explanatory variables (how different indicators of creative accounting) affects the dependent variable (indicators of shareholders' wealth).

4. 0 Presentation and Discussions of Results

To ascertain the inter – relationship among the variables employed in the estimation, correlation coefficient matrix was conducted, and the result presented on table 1

Table 1. Correlation coefficient Matrix Result

Variable	Dividend payout	Cost of depreciation	Overstating assets and write off

Dividend payout	1.00		
Cost of depreciation	0.09**	1.00	
Overstating asset and write off	0.01	0.080	1.00

*Source: Authors' Computation, 2024 Note * =1% and ** = 5% level of significance*

The correlation matrix was employed to ascertain if a significant relationship exists among the variables of interest to the study at 1% and 5% level of significance respectively. The result indicated that all the indicators of capital structure are significant and are negatively related to shareholders' wealth proxied by dividend payout with highest degree of association observed between cost of depreciation and dividend payout.

To evaluate the effect of creative accounting practices on shareholders' wealth in Nigeria, probit regression was employed, and the result presented on table 2

Table 2 Result of the probit regression

dependent var	Stock prices	Earnings per share	Dividend payout
Increasing the cost of depreciation	-0.097**	-0.087*	-0.082**
	(8,532)	(5,321)	(4,782)
Increasing Rand D expenditure	-0,073*	-0.0,498***	- 0.034***
	(6,784)	(908)	(0.0057)
Overstating asset and write off	-0.0,147**	- 0.0573***	-0.0224**
	(4,477)	(425)	(4038)
Constant	-350,340**	-11,651	-12.7***
	(169,638)	(40,897)	(0.52)
Observations	123	123	123

*Source: STATA output 2024. Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1*

The results of Table 2 on the effect of creative accounting practices measured by cost of depreciation, increasing research and development and overstating asset and write off on shareholders' wealth measured by stock prices, earnings per share and dividend payouts showed a negative relationship between creative accounting practices and shareholders' wealth in Nigeria. That is, the increase in creative accounting practices indicators are associated with decline in shareholders' wealth in Nigeria. In terms of the magnitude of the decline, the findings indicate that a 1% increase in cost of depreciation, increasing research and development and overstating asset and write off used as proxies for creative accounting practices will bring about (9.7%, 8.7% and 8.2%), (7.3% ,5.0% and 3.4%) and (1.5%, 5.7% and 2.2%) decline in stock prices, earnings per share and dividend payout used as proxies for shareholders' wealth respectively. These results corroborate those of Okoye and James (2020) as well as Sanusi and Izedonmi (2014), who discovered a negative relationship between return on asset and equity capital and asset structure. The results, however, run counter to those of Ugiliwabo and Mulyunaji (2018) and Ugiliwabo and Mulyunagi (2018), who discovered a substantial and positive correlation between creative accounting measures and proxies for shareholders' wealth in Rwanda.

To test how fit is the set of the independent variables in explaining the changes in the dependent variable, the paper conducted a likelihood ratio test on proxies of creative accounting and shareholders' wealth in Nigeria. The result is presented on table 3.

Table .3. Likelihood Ratio Tests on proxies of creative accounting and shareholders' wealth in Nigeria

	Model Fitting Criteria	Likelihood Ratio Tests		
Effect	-2 Log Likelihood of Reduced Model	Chi-Square	Df	Sig.
Intercept	-73.325[a]	.000	0	.0.00
Depreciation and stock prices	73.432	.107	1	.744
R&D and earnings per share	73.615	.290	1	.590
Overstating asset and dividend payout	73.978	.653	1	.419

*Source: Author's Computation, 2024 *** p<0.01, ** p<0.05, * p<0.1*

Above all, all the variables are important in contributing to the drop in Nigerian stock prices, as Table 3. indicates, with the coefficient of intercept having a negative value. It also demonstrates how well the model fits.

To test the hypothesis, Analysis of Variance (ANOVA) was utilizes and the result is presented on table 4 below

Table 4 ANOVA result for the test of hypothesis

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	29537953187 385.254	4	7384488296 846.313	38.58	.010[b]
	Residual	1090128463 89576.480	54	20187564146 21.787		
	Total	13855079957 6961.730	58			

At the 5% level of significance, the computed F-statistics and F-critical values were compared. We accept the alternative hypothesis that innovative accounting techniques have an impact on shareholders' wealth in Nigeria and reject the null hypothesis based on the decision rule since the F-statistics (39) is more than the F-critical (12) for 4 and 54 degrees of freedom.

5.0 Conclusion and recommendations

Based on the findings, the paper concludes that most firms in Nigeria engage in creative accounting practices rather than reporting fair and true value of their financial statement. Also, the paper concludes that a negative relationship between creative accounting practices and shareholders' wealth in Nigeria. On this basis, the paper recommended the need for proper internal systems to prevent creative accounting practices among the directors of firms that usually results in poor Shareholders wealth in Nigeria.

References

Afolabi, A. & Oluseye, M. (2013). Effect of Financial Reporting on Investment Decision Making of Manufacturing Firms in Nigeria. *European Journal of Humanities and Social Sciences*, 22(1), 1127-1142.

Ahmed, Y. A. I. (2017) The Impact of Creative Accounting Techniques on the Reliability of Financial Reporting in Saudi Auditors and Academics: *International Journal of Economics and Financial, 7*(2),2146-4138

Akenbor, C. O. & Ibanichuka, E. A. L. (2012). Creative Accounting Practices in Nigerian Banks. *African Research Review- International Multidisciplinary Journal, Ethiopia,* 6(3), 26 – 34

Bankole, K.O., Ukolobi, I.O., & McDubus, O.F. (2018). Creative accounting practices and shareholders" wealth. *Accounting and Taxation Review, 2(4), 58-74*

Brijesh, Y. (2014). Creative Accounting: An Empirical Study from Professional Prospective *International Journal of Management and Social Sciences Research (IJMSSR) 3(1), 2319-4421*

Egolum, P. U., Okoye, E. I., & Eze, M. N. (2019). Effect of Fraud Pentagon Model on Fraud Assessment in the Deposit Money Banks in Nigeria, *Journal of Global Accounting Department of Accountancy; 6(3),1118-6828*

Isoso, M. C & Okee C. F (2022) Creative Accounting Practices and Shareholders Wealth: Evidence from Deposit Money Banks in Nigeria. *Journal of Accounting and Financial Management, 8*(7)

Maria T. & Spathis, C. (2012). "Earnings management and the role of auditors in an unusual IFRS context: The case of Greece", *Journal of International Accounting, Auditing and Taxation*, 21(3).62-78.

Okoye, E. I., & James, O. N. (2020). Impact of Creative Accounting Techniques on Firm Financial Performance: A Study of Selected Firms in Nigeria: *Journal of Accounting and Financial Management* 6 (2), 2695-2211.

Osemene, O. F., Muritala, T. A. & Olawale, A. A. (2014). Creative accounting and bank performance - Evidence from Nigerian banking sector. *Fountain Journal of Management and Social Sciences,* 3(2) 23 -33

Ramadan, I. Z. (2015). Earnings Quality Determinants of the Jordanian Manufacturing Listed Companies. *International Journal of Economics and Finance, 7(5), 140 – 146*

Sanusi, B, & Izedonmi,P. F. (2014). Nigerian Commercial Banks and Creative Accounting Practices. *Journal of Mathematical Finance*, (14) 4, 75-83