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CORPORATE FAILURE IN NIGERIA: A RESULTANT EFFECT OF CREATIVE ACCOUNTING

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ABSTRACT

This study examined the practice of creative accounting as it affects corporate entities in Nigeria. This is with the view to providing empirical evidence on whether or not creative accounting contributes to corporate failure in Nigeria. The primary source of data collection was employed in this study through a well-structured questionnaire administered to randomly select practising auditors in Nigeria and accounting instructors in tertiary institutions. Analysis of Variance (ANOVA) and chart analysis was used to analyse the data. The results showed that off-balance sheet financial transaction coupled with profit smoothening is the most used creative accounting techniques and that the desire to understate profits to reduce tax liability is the major reason for engaging in creative accounting in Nigeria. Also, it was observed that creative accounting has a significant impact on corporate failure in Nigeria. Based on the above findings, the study concludes that creative accounting is unethical and offers a formidable challenge to both the quality of financial reporting and the going concern status of corporate entities in Nigeria.

Keywords: Creative Accounting, Corporate Failure, Financial Reporting, Practicing Auditors, Tertiary institutions

1.0 INTRODUCTION

Over the years, there have been several cases of accounting and business scandals around the world which had attracted criticisms on the quality of the information provided by the corporate entities. Although, there are existing 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 want to affect the decisions of the users of financial statements in favour of their companies. (Haruna & Emmanuel, 2017) These manipulative behaviours of figures in accounting reporting are often called "creative accounting". In reality, financial accounting reports are produced to show the true and fair

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view of the financial positions of reporting entities in order to help stakeholders in making appropriate decisions, however, current accounting practices which allow different policies and professional judgments are being manipulated to boost the companies' present image at the expense of the information provided to the users and the future of the corporate entities.

In fact, "doctoring of financial information" has now become a severe menace globally and it is so endemic that it is gradually becoming a normal way of life. As a result of this, the initial decades of the new millennium has been marked by some highly publicized corporate failure and even more cases of financial fraud and deceit (Adrian, Lawrence & Cristal, 2009). The public has witnessed a number of well-known examples of accounting scandals and bankruptcy in both developed and developing countries involving large and prominent companies such as Sunbeam, Kmart, Enron, Global Crossing (USA), BCCI, Maxwell, Polly Peck (UK), HIH Insurance (Australia) PT Bank Bali, and Sinar Mas Group (Indonesia), Bangkok Bank of Commerce (Thailand), United Engineers Bhd (Malaysia), Samsung Electronics and Hyundai (Korea) etc. (ANIS, 2009)

Particularly in Nigeria, the cases of creative accounting are on the increase as more corporate bodies in Nigeria are being investigated. The change of board members in Cadbury Plc, Nigeria was a result of the doctoring of accounts to cover up certain inadequacies and unscrupulous deals perpetrated by the management. Likewise, the corporate failures of most Nigerian bank Chief Executive Officers and investigations into their activities by the Anti-graft agency, Economic and Financial Crimes Commission (EFCC) are largely due to fraudulent financial reporting (Ijeoma, 2014). In 2009, the Central bank of Nigeria (CBN) sacked five (5) Bank managing directors and Executive Directors for mismanagement and alleged fraud. This has affected the stability and growth of the Nigerian financial system since some of the said banks are no longer operational; Intercontinental Bank, Oceanic Bank, and Fin Bank. It is therefore arguable that the practice of creative accounting is inimical to the continual growth of the Nigerian financial system. In 2013, the House of Representatives Committee on Finance accused commercial banks in the country of sundry sharp practices, including tax evasion, non-remittance of government revenue and outright falsification of their accounts (Ijeoma, 2014). In a report released on the 25th of August 2013, the committee said it had uncovered a lot of discrepancies in the data submitted to it by the banks including the outright refusal to present documentary evidence of revenue remittances, blank violations of existing laws, self exemption from existing rules, false declaration and manipulation of financial information. Preliminary findings showed that the published audited accounts of some banks were at variance with the figures the banks submitted to the committee during an investigation (Ijeoma, 2014).

These events have certainly served to help erode the public's confidence in the financial reporting of corporate entities in Nigeria and raised the question of whether or not creative accounting has a higher probability to cause serious corporate failure. Hence, this study will examine the reasons for and effect of creative accounting practices on corporate entities in Nigeria. In light of the findings from this study, measures to curb such practice will be suggested.

Other sections of this paper include the literature review, methodology, data analysis and findings, conclusion and recommendations.

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2.0 LITERATURE REVIEW

2.1 Conceptual Review

2.2 Concept of Creative Accounting

Different authors have expressed their views about what creative accounting means to them. According to Haruna & Emmanuel (2017), Creative accounting is also known as "Earning management" and could be referred to in accounting practices as the acts that follow the letter of rules of standard accounting practices but certainly deviate from the spirit of those rules. Creative accounting practices are different from fraudulent accounting practices and thus are not illegal but immoral in terms of misguiding investors. The practices, which are followed in manipulating the books, are duly authorized by the accounting system and thus cannot be considered as a violation of any rule or regulations. It is characterized by excessive compliance and the use of novel ways of characterizing income, assets, or liabilities and the intent to influence readers towards the interpretations of desired results.

Jaward & Xia (2015) defined creative accounting as "the process through which the accounting specialists use their knowledge in order to manipulate the figures included in the annual accounts." In other words, Ijeoma & Aronu (2013) referred to it as the aggressive use of choices available under accounting rules, to present the most fattening view of a company possibly in its financial statement. According to them, it involves the pushing of accounting principles to the limits of their flexibility or even beyond so as to improve their annual statements. Also, it refers to accounting techniques in which financial information is distorted and manipulated in order to present a better financial picture by either increasing or decreasing the profit as the case may be, by giving a misleading appearance of the capital size or structure and by concealing relevant information from existing and potential investors (Idris, Kehinde, Ajemunigbohun & Gabriel, 2012).

Ali, Butt & Tariq (2011) explained Creative Accounting as the use of accounting knowledge to influence the reported figures while 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. According to Griffiths, creative accounting represents the means by which management manipulate accounting figures to achieve a deviation in accounts of a financial statement, which are nothing other than approximations, which have their bases in the transactions and events of the year under review and the original starting point (Belkaoui, 2004). Shah (1998) explained it, as the active exploitation of gaps or ambiguities in accounting rules by management in order to portray their own preferred picture of financial performance.

In an academic sense, Naser (1993) defined it as the process of transforming financial accounting numbers to the figures desired by the preparers from what they actually represent by taking advantage of the existing rules, while ignoring other accounting rules. On his part, Alam (1988) associates creative accounting with any or a combination of the following actions: the creation of data, dressing up of documents, cooking up of accounts.

2.2 Techniques of Creative Accounting Practice

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i. Window Dressing

This involves the adjustment of the financial statements of a company to achieve the maximum effect on the financial position at a particular date. This adjustment could be on any item on the statement of financial position or profit and loss account. For example, a company may decide to inflate its sales by selling to its related company. This provision usually cushions the impact of such an item on the profit when it actually takes effect.

ii. 'Off-balance sheet' finance:

This occurs when transactions are deliberately arranged so as to enable an entity to keep significant assets and particularly liabilities out of the statement of financial position ('off-balance sheet'). This improves gearing and return on capital employed. Examples include sale and repurchase agreements and some forms of leasing.

iii. Changes to accounting policies or accounting estimates:

Under this, an entity can revalue assets (change from the cost model to the revaluation model) to improve gearing or change the way in which it depreciates assets to improve profits.

iv. Capitalising expenses:

This is done by recognising 'assets' that do not meet the definition in the IASB Conceptual Framework or the recognition criteria. Examples include: human resources, advertising expenditure and internally generated brand names.

v. Profit smoothing

This is a way of manipulating reported profits by recognising (usually) artificial assets or liabilities and releasing them to profit or loss as required. In other words, it is the process of deflating the reported profits of a business in a good period and deferring them to loss-making periods in an effort to portray a "stable income steam" over the years. This is possible because of the flexibility of the matching concept, and investors prefer it as it purports a stable, strong and growing business.

3.0 THEORETICAL FRAMEWORK

The need to anchor the concepts of creative accounting in Nigerian entities within the framework of certain theory cannot be overemphasized. The theory upon which this study was anchored was restricted to "Ethical theory".

Ethical theory as it were, is a build-up on the concept of ethics in general. The term ethics comes from the Greek ethos. Ethics deals with issues such as what individuals are confronted with in their decision-making. Ethics is also the study of morality in order to explain specific rules and principles that determine right and wrong for any given situation. Morality is more concerned with norms, values and beliefs that are part of a social process, which define right and wrong. Morality in a sense precedes ethics and both individuals and organizations

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possess morality to a certain point. Ethics is a concept which does not lend itself to a broad and generally accepted definition, but there exists a consensus about the concept. Arguably, it relates to what is good or not good, what is morally right or wrong, what is acceptable in a given environment and what is not (Adeyanju, 2014). Ethics can be defined as the branches of philosophy concerned with value regarding human behaviour pertaining to the rightness and wrongness of actions and to the goodness and badness of the intent and consequences of such actions (Smith & Lee, 2009). Ethics has also been broadly defined as a set of moral principles or values. Each of us has such a set of values, although we may or may not have considered them explicitly. Philosophers, religious organizations and other groups have defined in various ways ideal sets of moral principles or values. Examples of prescribed sets of moral principles or values at the implementation level include laws and regulations, religious doctrine, codes of business ethics for professional and industry groups, and codes of conduct within individual organizations (Kabir, 2009). It can also be regarded as acceptable standards of behaviour or unwritten regulations or moral principles that guide an individual, an organization, a discipline or society in their dealings with one another. A profession is formed and founded on the following premises: a generally accepted body of knowledge, a widely recognized standard of attainment and an enforceable code of ethic.

Hence, one of the major cardinal thrusts of ethical theory is utilitarianism. It implies, as widely cited from the popular work of Jeremy Bentham by Schofield (2006) that ethical theory sometimes focuses not on actions but majorly on consequences. The name utilitarianism is derived from the Latin "Utilis" meaning "useful". Therefore, in utilitarianism, the consequences of actions are measured against values. These values can be happiness, welfare, high productivity, expansion etc. By way of emphasis, the cardinal point in this theory is that it is essential to give the greatest happiness to the greatest number of people. Considering the position taken by Ruland (1984) and compare it to Ravine's analysis, it will be noted that Ruland distinguishes between the deontological view, whereby moral rules apply to actual actions and the teleological view that an action should be judged on the basis of the moral worth of the outcome. Revsine (1991) appears to take a teleological view of accounting in the private sector, allowing managers to choose between the alternatives permitted in "loose" standards to achieve their desired end but to make a deontological view of accounting in the public sector where he calls for tighter standards to prevent such manipulation. It could be asked whether the presence or absence of market discipline justifies such as ethical inconsistency. Ruland (1984) also discusses the distinction between a 'positive' responsibility, which here would be the duty to present unbiased accounts and a negative responsibility, where managers would be responsible for states of affairs they fail to prevent. Thus, Ruland gives priority to the positive.

Therefore, the relevance of this theory to this study is that for all the stakeholders' interest to be protected, the practical application of utilitarianism is a core requirement. That is, even though creative accounting is seen as not illegal but the moral side of it should be considered. The utility of the shareholders and other stakeholders should be paramount in the minds of the corporate managers and not just their own self-interest. The agents should make all efforts to ensure that principals have satisfactory values with regards to their investment without misleading the other parties who have an economic interest in the entities.

In a nutshell, it should be known that the actions of the agents will be adjudged morally right in the process of running the corporations if the interest of all the stakeholders is well-taken care-off whereas it will be adjudged wrong if their actions inflict pain on the interest of any of the stakeholder.

4.0 EMPIRICAL REVIEW

The inquisitiveness to proffer lasting panacea to the ever-skyrocketing corporate scandals and provision of misleading information to users has given a spur to increasing the debate on whether or not creative accounting contributes to corporate failure in Nigeria. This is viewed from the perspectives of developed and developing countries.

Ciocan (2017) in his aim to establish the boundaries of creative accounting and the reasons invoked by professionals, concluded that regardless of the reasons given by the entity's management, creative accounting techniques should not be used under the auspices of "purpose excuse the means" as they reduce the reliability of accounting information. Also, Asifu, Juniad, Oo & Rafiqu (2016) conducted research on the empirical data collected from the auditors and the accountants of the listed companies of Bangladesh to determine the popularity of Creative Accounting application among accountants and auditors in Bangladesh. The paper discusses the various findings from the research which shows that at least some evidence of expense association and that there is any gap in the perception between the auditors and accountants regarding techniques and methods of creative accounting. The technique may be used to increase or decrease income in order to show a higher or lower profit, to turn expenses into assets so as to increase profitability or to manoeuvre the net worth of the business.

Khamangy & Sadeeg (2015) joined other researchers to conclude that the aim of financial information manipulation is to mislead the users of financial reporting by providing information that affects their decisions. More so, the findings of Gabar (2015) supported the claims of those researches who concluded that creative accounting technique has an effect on the reliability of financial statements. Beaudoin, Cianci & Tsakumi (2015) in their work mentioned the relation between the use of discretionary accruals and impacts on income with manager's incentives. When managers have incentives to defer earnings, discretionary accruals tend to be income decreasing, whereas when the incentives are to accelerate earnings, discretionary accruals tend to be income increasing.

Alomery & Alameen (2014) exclaimed that there is a negative effect of creative accounting techniques on the quality of financial reporting, especially with regard to profit manipulation. At the same time, Beshiru & Prince (2014) clarified that creative accounting practices have a significant effect on commercial banks distress in Nigeria and by implication adversely affect users of accounting information. While Yadav (2013) found that the involvement of outside directors could reduce the practices of creative accounting. And the more, outside users, the less creative accounting practices. He further stated that the involvement of professionals in the financial decision can build the trust of stakeholders in the enterprise. Finally concluded that qualified accountants could help companies in the use of creative accounting techniques effectively. It also suggested that corporate governance is the best way to reduce these practices. Kassem (2012) argued that the ethical practices of creative accounting in existence 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 creative accounting and fraud but not to an external auditor, it is necessary to be able to differentiate the minor hairline differences between the two. External auditors could do the job to investigate whether it is a fraud or financial error resulting in losses.

Osaze & Henry (2012) noted that the statistical evidence revealed that creative accounting positively affects a firm's value, this being the case, it implies that most investors are not able to see through the financial illusion of creative accounting. As Efiok & Eton, (2012) deeply explained about the macro manipulation effect. According to them, manipulation of accounts may affect the price of the share and its capital market environment as a firm. Macro manipulation increases the risk of the investor which may cause loss. They suggested that the company should fill the loophole of the regulatory and management decisions, they must be based on the actual financial report. Corporate governance plays a pivotal role in any firm's financial decision making. Corporate governance works like top management that manages and controls company performance. Corporate governance evaluates things like "An Eye." The work of Parviz (2012) titled "The relationship between income smoothing, income tax and profitability ratios in Iran stock" is as well of brilliant findings. His work is an empirical paper that shows the relationship between income tax and income smoothing practices. The hypothesis testing in his paper proved that there is a significant relationship between the two, which is the taxable income and income smoothing followers comparable to that of non-followers of income smoothing and it is also concluded by Parvez that there is a significant relationship existing between profitability ratio and income smoothing.

Gherai & Balaciu (2011) asserted in their literature, they submitted that enterprise stake is at risk when it indulges in practices of creative accounting. Because these practices give a firm only short term benefits. In the end, enterprises are bound to be surrounded by scandals. So there is really a need for close governance to financial reporting and finally concluded that management should try to find out, all those causes which may provoke practices of creative accounting.

In a study carried out by Osisioma & Enahoro (2006), it was discovered that creative accounting has definitely affected information users in their decisions due to the dwindling financial reporting quality. Hence, in Nigeria, it is believed that the practice of creative accounting is constructive to the benefit of the manipulator of accounts. Also, the authors found out that the genuinely positive aspect of the corporation is presented to the fullest proportion to the public, while the area of weakness is played down reporting in anticipation of correcting the weakness. Still in a study carried out by Sen & Inagnga (2005), titled "Creative Accounting in Bangladesh and global perspectives" found that creative accounting includes: conceal financial risk, circumvent borrowing restrictions, escape shareholder control, boost, reported profits/ minimize reported losses, manipulate key ratios used in market analysis, enhance management performance and gain access to finance, would otherwise be impossible to raise. They also found out that if creative accounting is practised by any organization there is plenty of scope of manoeuvring and manipulation of accounting information such manipulation might leave the shareholder, public, the government and any interested party absolutely confused as to what is and what is not real and true in connection with a published set of accounting statements.

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In another study carried out by Amat, Blake & Dowds (1999), titled "The Ethics of creative accounting", showed that accountants who accept the ethical challenge that creative accounting raises need to be aware of the scope for both cases of abuse of accounting policy choice and manipulation of transactions. Also, the findings of Beneish (1997) suggested that there was a high probability of accounting manipulation in Enron's financial statements for several years preceding its bankruptcy. It also stated that the manipulation covered-up the considerable evidence existing that could have led analysts, sophisticated investors, and regulators to question Enron's financial results and soaring stock price.
All the above studies provide a solid base and give an idea regarding the effect of creative accounting on corporate entities in Nigeria. Also, they provide the results and conclusions of those researches already conducted in the same area for different countries and the environment from different aspects.

Therefore, from the review of this related literature, it can be summarized that while over the years researchers have concentrated their studies on developed and developing sub-Saharan African economies, few studies have been conducted on whether creative accounting is responsible or contribute to corporate failure in Nigerian corporate entities. This is leaving a serious scientific gap on what emphasis is placed and what emphasis should have been placed to curtail corporate failure in Nigeria.

5.0 METHODOLOGY

This study is exploratory in nature and built on the analysis of discourses within the range of archival evidence, experiences of other countries and examination of major publications and documentary materials. Also, primary data were gathered through the use of a questionnaire to capture the view of intellectuals about the subject matter.

One hundred copies of the questionnaire were administered to randomly selected practising auditors and accounting instructors in tertiary institutions. The questions were on the five-point Likert-type questions, with a choice of strongly agree to strongly disagree. Furthermore, the reliability test of the research instrument was carried out through the use of Cronbach's alpha. Twenty copies of the questionnaire were distributed for this process and the result indicated that the instrument is reliable since the Cronbach's alpha of the scales ranged from 0.703 to 0.928. Analysis of Variance (ANOVA) and chart analysis was used to analyse the data.

6.0 DATA ANALYSIS AND FINDINGS

Section A: Demographic Data

Fig. 1: Area of Specialty

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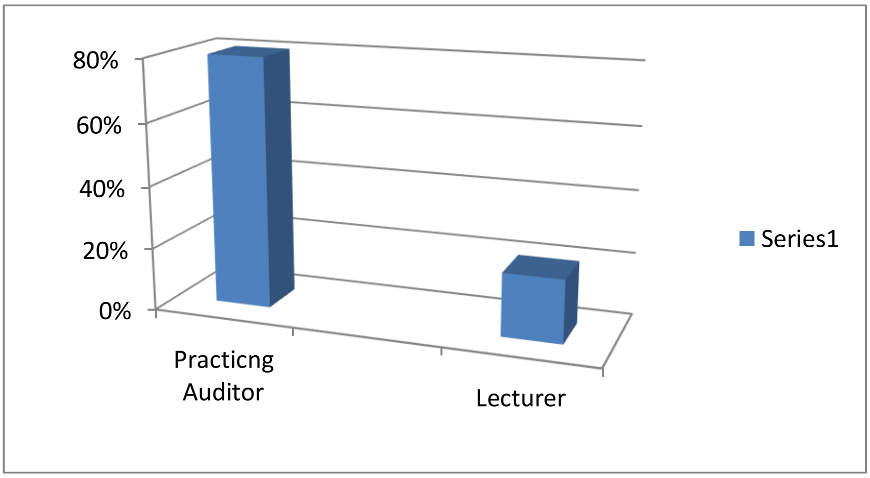
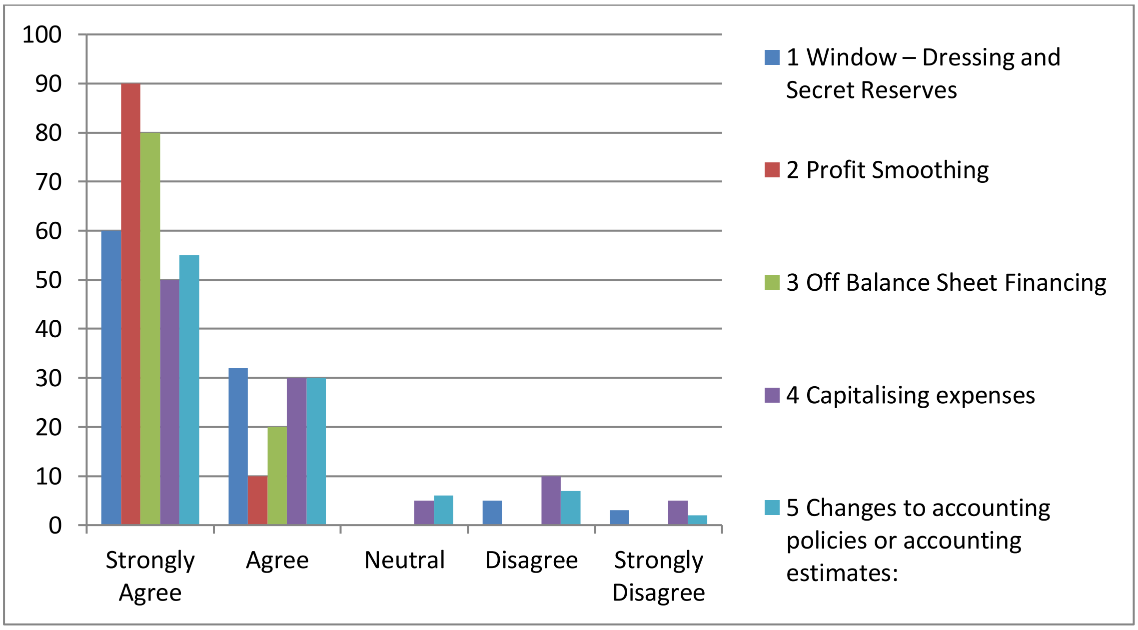


It could be observed from fig.1 above that 80% of the respondents are practising auditors while 20% are lecturers in tertiary institutions in Nigeria. These are chosen as respondents with the assumption that they are professionals in this area and should be able to provide unbiased information. More so, the higher percentage of the respondents are practising auditors because they are closer to the entities involved and should be able to provide useful information based on their work experiences and relationships with the entities.

Fig. 2: Most Used Creative Accounting Practice in Nigeria



The graphical expression in Fig. 2 showed that a greater percentage of the respondents with not less than 50% strongly agreed that; Window-dressing and Secret Reserves, Profit Smoothing, Off-Balance Sheet Financing, Capitalising expenses and Changes to accounting policies or accounting estimates are the methods of creative accounting practice in Nigeria.

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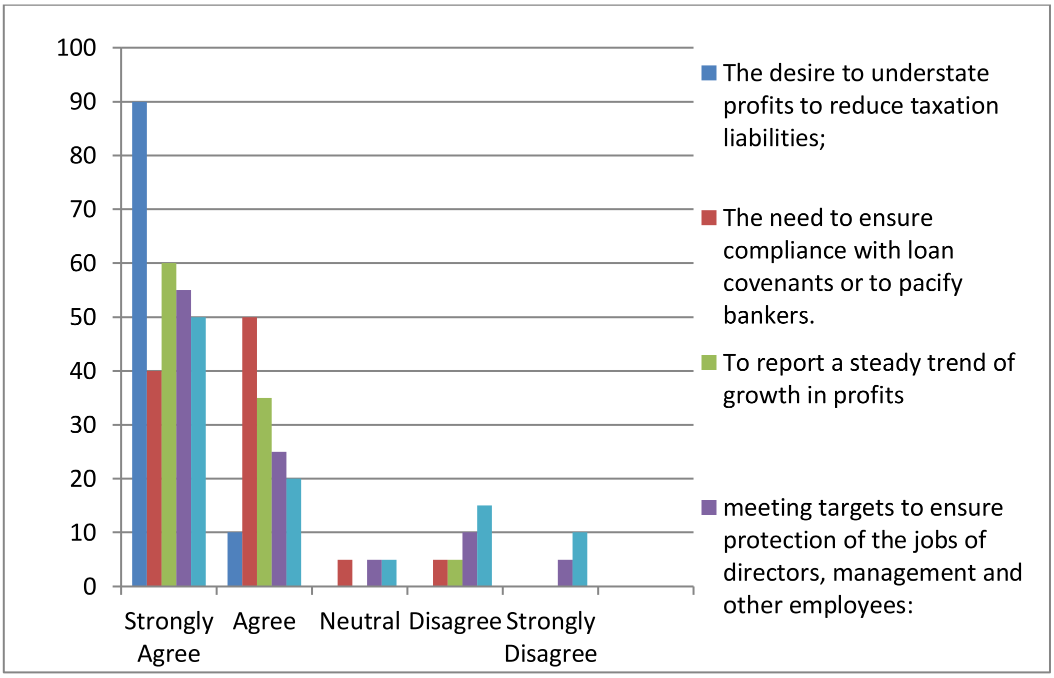
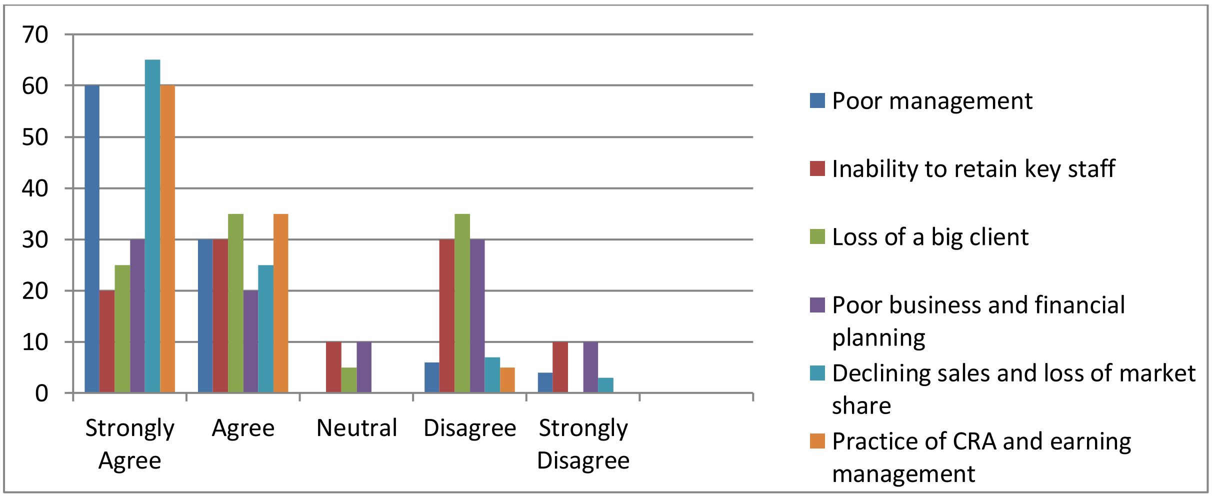
Fig. 3: Reasons for the Practice of Creative Accounting



It was observed that the majority of the respondents not less than 50% in Fig. 3 strongly agreed that the reasons for creative accounting practice are to: understate profits to reduce taxation liabilities, report a steady trend of growth in profits, meet targets to ensure the protection of the jobs of directors, management and other employees and comply with legal and regulatory requirements to meet specific financial thresholds or ratios. However, the major reason as stated by the respondents with 90% is to understate profits to reduce tax liabilities.

Fig. 4: Factors Responsible for Corporate Failure in Nigeria



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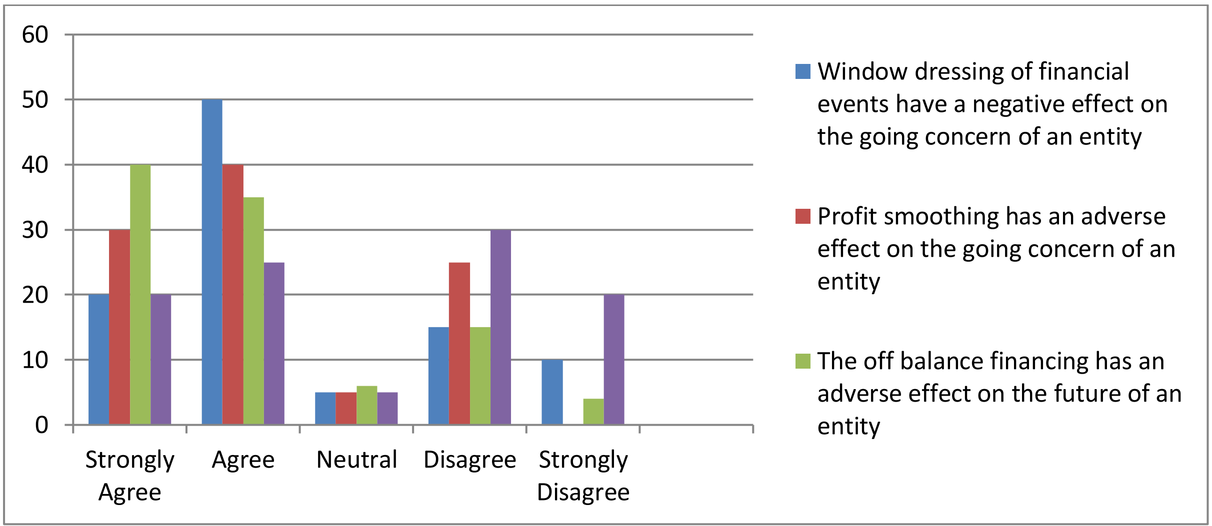
It became very clear from the studies that the major factors responsible for corporate failure in Nigeria are; declining sales and loss of market share, poor management, practice of creative accounting and earnings management.

Fig. 5: Effect of Creative Accounting and Earnings Management on Corporate Entities



It was revealed from the studies that the majority of the respondents agreed that different methods of creative accounting practiced by entities in Nigeria have effect on such entities. This implies that window dressing of financial events; profit smoothing, off-balance financing, usage of multiple accounting policies and estimates in the long-run contribute to the going concern threat of entities in Nigeria. The case of Cadbury and five (5) Bank managing directors and Executive Directors sacked by the Central bank of Nigeria (CBN) in 2009 for mismanagement and alleged fraud could attest to this. It is therefore arguable that the practice of creative accounting is inimical to the survival of corporate entities in Nigeria.

Table 1: ANOVA Analysis of the Effect of CRA & Earnings Management on Corporate Entities

Source of Variation	Sum of Square	DF	Mean of Square	F-Ratio	F-Critical
Btw Group	**2855.5**	**4**	**713.875**	**10.75**	**3.06**
Within Group	**996.5**	**15**	**66.4333**		

Source: Field Survey by Author

This part of the study examined the effect of creative accounting on corporate entities using ANOVA.

The result of the analysis in table 1 above revealed that creative accounting has a significant effect on corporate entities in Nigeria since F-calculated value of 10.75 is greater than the F-

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tabulated of 3.06. This implied that even though creative accounting is not out-rightly illegal but its practice has great implication on the going concern of the entities in the long run. This result is in conformity with the studies of Khamangy & Sadeeg (2015), Gabar (2015), Alomery & Alameen (2014), Beshiru & Prince (2014), Efiok & Eton (2012) and Gherai & Balaciu (2011), who concluded that there is a negative effect of creative accounting techniques on corporate entities in terms of their going concern and the quality of financial reporting, especially with regard to profit manipulation.

7.0 CONCLUSION AND RECOMMENDATIONS

From the indications acknowledged in the primary data analysis and empirical studies above, this study concludes that off-balance sheet finance coupled with profit smoothing is the most used creative accounting techniques and that the desire to understate profits to reduce tax liabilities is the major reason for engaging in creative accounting and earnings management in Nigeria.

Also, the study concludes that creative accounting and earnings management is unethical and offers a formidable challenge to both the quality of financial reporting and the going concerned of corporate entities in Nigeria. Therefore, creative accounting and earnings management have a significant impact on corporate failure in Nigeria.

Based on the above, this study recommends that:

- Accounting bodies and other regulatory authorities should adopt strict measures such as emphasizing more on ethical practices and duly punish the offenders;
- Accounting experts should adhere more to high ethical standards and maintain integrity in all their professional dealings.
- Practicing Accountants should give themselves to research and educational activities to update their knowledge and develop their inventiveness so as to be able to deal with challenging and growing business environment.
- Professional body should intensify more practice monitoring to enhance ethical practice.

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