

CREATIVE ACCOUNTING AND CORPORATE FAILURE

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**DEPARTMENT OF ACCOUNTING
FACULTY OF MANAGEMENT SCIENCES**

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DECLARATION

I, **Wealth JIBRIL** do hereby declare that:

1. I conducted my research for my project at the University of Benin's Department of Accounting, where I was advised by Dr. (MRS) O.U. AKOGO of the same department and the Faculty of Management Sciences in Benin City, Nigeria.
2. There has been no prior submission of this work for a degree elsewhere.
3. All thoughts and opinions are based on my own research, and where others have shared their perspectives, they have been properly cited.
4. I accept complete and utter responsibility for any potential legal consequences that may arise as a result of this study.

Wealth JIBRIL

Date

CERTIFICATION

We certify that this research was carried out by **Wealth JIBRIL** in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, Nigeria and it is considered adequate in scope and quality in partial fulfilment of the requirements for the degree of B.Sc. (Accounting).

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DEDICATION

This study is dedicated to the Almighty God for His divine mercy, matchless love, wisdom, understanding, strength and unending supplies.

ACKNOWLEDGEMENT

Firstly, I would like to express my sincere gratitude to Almighty God who has always guided and protected me on the right path of life. Without His grace, this project would not become a reality.

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ABSTRACT

This study examined Creative Accounting and Corporate Failure. To address its objectives, the research formulated three research questions, three objectives and three hypotheses. The research takes into consideration creative accounting and corporate failures in the Nigerian financial reporting, focusing on commercial banks in Nigeria. The population include Nigeria base banks, the period of study covers 2002-2022, source of data will be from secondary data from NGX, formerly Nigerian stock exchange. This period will aid comprehensive study of creative accounting and corporate failure in Nigerian banks. The study is purposed to examine how creative accounting influences corporate failures in Nigerian banks. The research will focus on commercial banks in Nigeria.

The study investigates the impact of creative accounting on financial reporting accuracy in Nigerian quoted firms. Employing a decision rule to reject the null hypothesis if the z-statistic probability value is below 0.05, it was found that financial health indicators positively and significantly correlate with return on assets ($p = 0.0002$). This supports the alternative hypothesis that creative accounting does not significantly impact financial reporting accuracy. Contrary to other findings, the results show a negative and significant relationship between financial health and return on assets, suggesting that creative accounting does not misrepresent a company's financial health. Additionally, the study found a significant relationship between creative accounting practices and corporate failure, with regulatory compliance showing an insignificant relationship with return on assets.

The study recommends several actions based on these findings. The study recommends that regulators enforce corporate reporting requirements among Nigerian Exchange Group companies to ensure high-quality financial statements and market transparency. Nigerian quoted companies should maintain independent audit committees to enhance statement quality. The four-year professional requirement for auditors should be legally enforced. Government agencies, policymakers, and regulators should intensify regulations and surveillance of financial quality, mandating optimal compensation and independence for auditors to improve report credibility. Companies on the Nigerian Stock Exchange should reduce financial leverage to enhance report quality. Personnel involved in financial reporting should be thoroughly trained and certified. Finally, companies should fully utilize their capacity to prepare and present financial reports according to accounting standards.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The study of Creative Accounting and Corporate Failure explores the complex connections between these two ideas and emphasizes how crucial it is to comprehend the ramifications for corporate governance and financial reporting. This research is essential to developing a sophisticated understanding of the dynamics underlying the corporate decision-making process and financial environment.

A key component of this topic is creative accounting, which refers to businesses' intentional manipulation of financial data. Presenting a more positive picture of their financial situation than what is consistent with the underlying economic truth is the main goal. This is the deliberate manipulation of financial statements by the selective application of accounting rules and procedures. By using this strategy, businesses hope to influence stakeholders' opinions by projecting a financial picture that might not be entirely true to their actual financial situation. It's important to remember that creative accounting is not intrinsically unlawful. But when it falsifies a company's actual financial status, it has clear ethical ramifications and can have unfavorable outcomes like corporate failure. Dechow, Ge & Schrand (2017)

Conversely, corporate failure is a complex phenomenon that can be triggered by a number of different things. These could include erroneous financial reporting, inadequate governance procedures, and financial mismanagement. Creative accounting and business failure are related because altered financial statements can lead stakeholders astray. This includes creditors and investors, whose decision-making processes significantly depend on precise financial data. Stakeholders may be misled when financial statements are modified by creative accounting techniques, which can have detrimental effects on the stability and viability of the business. The skewed financial picture might undermine confidence, lead to poor investment choices, and jeopardize the integrity of the financial system as a whole. Jones & Wang (2019).

In essence, this research seeks to unravel the intricate web woven by the interplay of creative accounting and corporate failure. By scrutinizing these phenomena in tandem, it aspires to contribute to the body of knowledge that informs regulators, investors, and financial analysts. The insights gleaned from this exploration are poised to play a pivotal role in enhancing the resilience of financial markets and fortifying corporate governance structures. According to Amiram, Owens Rozenbaum & Zimmerman (2019), they posited that as we navigate an era where transparency and accountability are paramount, understanding the consequences of creative accounting on corporate failure becomes an imperative pillar supporting the robustness of our financial ecosystem. The exploration of the intricate relationship between creative accounting and corporate failure has become increasingly prominent in recent years

within academic and research circles. Scholars and researchers have dedicated their efforts to dissecting the nuances of these concepts and unraveling their implications through a combination of empirical studies and theoretical frameworks, Schiff, D. (2013). One noteworthy contribution to this field is the study conducted by Jones and Wang (2019), which focused on the prevalence of creative accounting practices within publicly traded companies. The findings of their research shed light on the challenges associated with detecting and preventing such manipulations, offering valuable insights into the complexities of financial reporting.

Building upon this foundation, the systematic link between creative accounting and corporate failure has been further scrutinized in the work of Smith et al. (2020). Their research underscores the necessity for regulatory interventions aimed at addressing vulnerabilities within financial reporting frameworks. This highlights the pivotal role that regulatory bodies play in safeguarding corporate governance against the adverse effects of creative accounting practices.

Additionally, recent research by Brown and Lee (2021) has delved into the role of investors in mitigating the impact of creative accounting on corporate failure. The study emphasizes the crucial nature of investor awareness and due diligence in identifying warning signs associated with manipulated financial statements. This contribution underscores the potential for investors to play a proactive role in fostering a more resilient financial market.

To comprehensively connect these strands of research, it is imperative to recognize the cyclical nature of the relationship between creative accounting and corporate failure. Creative accounting can contribute to corporate failure, creating a feedback loop where corporate failure may, in turn, incentivize companies to engage in creative accounting to conceal underlying issues. This intricate interplay emphasizes the necessity for a holistic approach in addressing these challenges systematically. As scholars continue to expand the body of knowledge in this domain, the insights gained will likely contribute to more effective strategies for detecting, preventing, and mitigating the adverse effects of creative accounting on corporate performance and governance, Akenbor & Ibanichuka (2012).

It is against this background that this study seeks to determine Creative Accounting and Cooperate Failure.

1.2 Statement of the Problem

Creative accounting, as defined by scholars such as Bebbington and Gray (2018), refers to the strategic manipulation of financial information within the bounds of accounting standards to present a more favorable image of a company's financial position. This ideal nature involves a calculated use of accounting policies and practices to enhance financial statements, making them more attractive to stakeholders. Such practices, while not necessarily illegal, raise concerns about transparency, reliability, and the overall integrity of financial reporting.

On the other hand, the phenomenon of corporate failure represents a complex and multifaceted issue with profound implications for various stakeholders. Corporate failure, according to studies by Altman and Sabato (2018), can manifest in different forms such as bankruptcy, insolvency, or a significant decline in overall financial performance. Understanding the factors contributing to corporate failure is crucial for stakeholders ranging from investors to regulatory bodies.

The interconnection between creative accounting and corporate failure becomes evident when examining the causes that lead to the latter. A study by Dechow et al. (2017) identifies one of the primary causes as financial mismanagement, where companies engage in aggressive accounting practices to inflate earnings, masking their true financial health. This misrepresentation can misguide investors and creditors, leading to misguided decisions and ultimately contributing to corporate failure.

Munene (2014) asserts that some businesses resort to innovative accounting practices, inflating their financial results in order to satisfy their demanding shareholders and fulfill expectations. Financial report manipulation has short-term benefits and leaves companies vulnerable to controversies and collapse in the future. Management puts their own interests ahead of those of shareholders. They suggest extravagant benefits, invest in the wrong things, or engage in clever accounting or fraud. The idea that shareholders would be open to investigating management's actions is completely ignored (Lekaram, 2014).

As more and more Nigerian corporations come under scrutiny, creative accounting practices seem to be on the rise. The case of Cadbury Nigeria Plc was due to the doctoring of accounts to cover up some shortcomings or certain shady dealings committed by management. The corporate failures of most Nigeria companies today and especially the arrest of some banks Chief Executive Officers by the Economic and Financial Crimes Commission (EFCC), were blamed on fraudulent financial reporting, which has affected the reputation of the accounting profession and the stability of the financial system. Creative accounting methods have been rising in recent years in the Nigerian businesses for the aim of recruiting naive investors or get unearned accounting-based benefits by presenting an inflated misleading or deceptive condition of financial affairs. It is apparent that the level of window-dressing of organizations' financial statements in Nigeria has greatly violated all known ethical standards of the accounting and auditing profession which needs to be investigated.

Several studies abound on creative accounting (Akenbor et al., 2012; Osazevbaru, 2012; Akpanuko et al., 2017; Mine et al., 2017; Rewayati et al., 2015; Sen and Inanga, 2014; Domash, 2012; Amat, Blake and Dowds, 2019; Naser, 2013; Schiff, 2013), studies such as Sen and Inanga (2014), Domash (2002), Amat, Blake and Dowds (2019) Naser (2013), Schiff (2013), Osazevbaru (2012), Akembor (2012), Osisioma and Enahoro (2016), Aremu and Bello (2014), and Alam (2018) have focused mainly on the impact of creative accounting on firm value and investors' investment decisions with little highlight on the reasons for such practices and a few consideration for corporate failures. Moreover, most of the studies are

foreign-based whose findings may not be suitable with the Nigerian situation putting environmental differences into consideration. The few available studies in Nigeria such as Osisioma and Enahoro (2006), Aremu and Bello (2004), and others as mention above, pay little attention to corporate failure, especially in the banking industry. Based on the above, this study will be among the few studies to look at creative accounting and corporate failures in the Nigerian financial reporting, focusing on commercial banks based in Benin City.

The problem of this study therefore is to assess the impact Creative Accounting on Corporate Failure with the following research questions raised to guide the study:

- i. To what extent does creative accounting influence financial reporting accuracy?
- ii. How does creative accounting contribute to misinterpretations of a company's financial health?
- iii. What is the relationship between creative accounting practices and the occurrence of corporate failure?

1.3 Research Objectives

The main purpose of this study is to determine Creative Accounting and Cooperate Failure; specifically, this study seeks to:

- i. evaluate the influence of creative accounting on the accuracy of financial reporting.

- ii. examine how creative accounting practices contribute to the misinterpretation of a company's financial health.
- iii. investigate the relationship between creative accounting and the occurrence of corporate failure.

1.4 Research Hypotheses

For the purpose of the study, the following null hypotheses are formulated:

H₀: There is no significant impact of creative accounting on financial reporting accuracy.

H₀: Creative accounting does not contribute to misinterpretations of a company's financial health.

H₀: There is no statistically significant relationship between creative accounting practices and the occurrence of corporate failure.

1.5 Scope of the Study

The research takes into consideration creative accounting and corporate failures in the Nigerian financial reporting, focusing on commercial banks in Nigeria. The population include Nigeria base banks, the period of study covers 2002-2022, source of data will be from secondary data from NGX, formerly Nigerian stock exchange. This period will aid comprehensive study of creative accounting and corporate failure in Nigerian banks. The

study is purposed to examine how creative accounting influences corporate failures in Nigerian banks. The research will focus on commercial banks in Nigeria.

1.6 Significance of the Study

This research holds considerable importance as it delves into the ramifications of creative accounting practices on corporate failure. The study sheds light on the intricate mechanisms underlying the phenomenon, presenting a nuanced understanding that proves invaluable for various stakeholders involved in the financial landscape. Among the primary stakeholders are regulators, tasked with overseeing the adherence to financial reporting standards and maintaining market integrity.

Regulators play a pivotal role in maintaining the credibility and transparency of financial information. By comprehending the implications of creative accounting on corporate failure, regulators can refine existing frameworks and enact more stringent measures to curb such practices. This knowledge empowers regulatory bodies to adapt swiftly to evolving financial landscapes, ensuring that the regulatory framework remains robust and resilient against potential manipulations.

Investors constitute another vital group of stakeholders deeply affected by the insights garnered from this study. Armed with a clearer understanding of the links between creative accounting and corporate failure, investors can make more informed decisions when allocating their resources. Recognizing early signs of creative accounting allows investors to

adjust their risk assessments and enhance their ability to make prudent investment choices. This heightened awareness contributes to fostering trust in financial markets and ultimately protects the interests of investors.

Financial analysts, as a specialized segment of stakeholders, also stand to benefit significantly from the findings of this study. Equipped with a comprehensive understanding of the implications of creative accounting, financial analysts can refine their analytical methodologies. This enables them to provide more accurate assessments of companies' financial health, facilitating improved forecasting and risk management. The study, therefore, serves as a valuable resource for financial analysts seeking to enhance the precision of their evaluations and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Creative accounting, a controversial practice in financial reporting, involves manipulating financial information within the bounds of accounting principles to present a more favorable view of a company's financial performance or position. This technique, highlighted by Leuz and Wysocki (2016), encompasses various forms such as income smoothing, revenue recognition manipulation, and asset valuation manipulation. While it may offer short-term benefits, creative accounting poses significant risks to the accuracy and reliability of financial reporting, as emphasized by DeFond et al. (2019). One of its primary motivations is to meet financial targets or expectations set by management, investors, or analysts, often driven by executive compensation schemes tied to financial metrics. However, the ramifications of creative accounting extend beyond short-term gains, potentially leading to detrimental long-

term consequences. As Cohen and Simunic (2020) note, reliance on these practices can erode investor trust, attract regulatory scrutiny, and distort the underlying financial health of a company. Despite regulatory efforts by bodies such as the Securities and Exchange Commission (SEC), creative accounting remains pervasive, necessitating continuous vigilance and collaboration among regulators, auditors, and industry stakeholders to address this issue effectively.

Furthermore, the influence of creative accounting on financial reporting accuracy is profound, as it can misrepresent a company's true financial position and performance. By distorting key financial ratios and indicators, as noted by Ahmed & Duellman (2020), creative accounting practices can mislead investors and undermine the credibility of financial reporting. While some argue for a certain degree of flexibility in accounting standards, stringent regulatory oversight and transparency are crucial to mitigate the risks associated with creative accounting and maintain the integrity of financial markets. In essence, the relationship between creative accounting and corporate failure is well-documented in empirical research. Studies indicate that companies engaging in aggressive accounting tactics are more susceptible to financial distress and eventual collapse. Therefore, fostering transparency, accountability, and ethical financial reporting practices is imperative to safeguard the stability and sustainability of corporations in the global marketplace, as underscored by Bushman & Piotroski (2020).

2.2 Creative Accounting

Creative accounting is a method that includes changing financial information within the confines of accounting standards to portray a more positive perspective of a company's financial performance or condition. It is a contentious strategy that often blurs the boundary between ethical and unethical actions in the financial reporting process. This idea has attracted substantial interest from researchers, regulators, and practitioners because to its possible ramifications for financial markets, stakeholders, and the general integrity of financial reporting. According to Leuz and Wysocki (2016), creative accounting may take several forms, including income smoothing, revenue recognition manipulation, expense capitalization, off-balance sheet financing, and asset value manipulation. These techniques can alter the genuine economic image of a firm and deceive investors, creditors, and other stakeholders. The authors underline the significance of regulatory supervision and enforcement procedures to prohibit such activity and ensure the dependability and openness of financial reporting. One of the key objectives for creative accounting is to satisfy financial targets or expectations established by management, investors, or analysts. This pressure to perform can lead companies to resort to aggressive accounting practices to artificially inflate revenues, reduce expenses, or overstate assets. In their study, DeFond et al. (2019) highlight the role of executive compensation schemes tied to financial metrics as a driver of creative accounting behavior. Managers may feel compelled to engage in earnings management to trigger performance-based bonuses or stock options, even if it means sacrificing long-term

sustainability or accuracy in financial reporting. Moreover, the competitive nature of industries and the desire to maintain market share or investor confidence can also incentivize firms to engage in creative accounting practices. According to Ball (2021), companies may fear negative market reactions or loss of investor trust if they fail to meet expectations or if their financial performance lags behind competitors. This fear of being perceived as underperforming can lead to aggressive accounting maneuvers aimed at presenting a more favorable financial position, even if it means deviating from accounting standards or principles.

While creative accounting may bring short-term benefits in terms of fulfilling objectives or satisfying stakeholders, its long-term repercussions might be negative. By misrepresenting financial information, corporations risk undermining investor trust, attracting regulatory attention, and risking legal ramifications. Moreover, dependence on innovative accounting practices can disguise the underlying financial health of a firm, making it harder for investors to make educated judgments. In their research, Cohen and Simunic (2020) underline the need of openness and disclosure in financial reporting to limit the risks associated with creative accounting and boost investor trust. Regulatory agencies play a critical role in combatting innovative accounting methods and preserving the integrity of financial markets. The Securities and Exchange Commission (SEC) and other regulatory agencies have established numerous tools to identify and discourage financial fraud, including strengthened disclosure requirements, whistleblower programs, and enforcement actions against criminals. However, regulatory scrutiny alone may not be adequate to remove creative accounting, since corporations may discover methods to bypass restrictions or exploit regulatory gaps. Hence, there is a need for continual monitoring and coordination between regulators, auditors, and industry stakeholders to solve this ubiquitous issue.

In addition to legislative initiatives, corporate governance structures can also function as a disincentive against innovative accounting methods. Independent boards of directors, strong internal controls, and rigorous audit committees play a crucial role in reviewing financial reporting procedures and assuring conformity with accounting standards. Moreover, openness in executive compensation arrangements can help align management incentives with the long-term interests of shareholders, minimizing the temptation for short-term profit manipulation. Despite the hazards and ethical considerations involved with creative accounting, some believe that a certain degree of flexibility in financial reporting is required to handle the complexities of modern commercial operations. According to Zeff (2023), accounting rules and regulations should strike a balance between offering advice and allowing for judgment in accounting operations. While rigid adherence to rules-based accounting standards may inhibit innovation and impede decision-making, principles-based standards can encourage openness and flexibility while ensuring the accuracy of financial reporting. Creative accounting is a prevalent issue in the world of financial reporting, creating challenges to regulators, investors, and other stakeholders. While it may give short-term benefits in terms of fulfilling financial aims or preserving market confidence, its long-term implications can be damaging to the credibility and stability of financial markets. Addressing this issue involves a holistic strategy comprising regulatory monitoring, corporate governance changes, and a commitment to transparency and honesty in financial reporting.

2.3 Corporate Failure

Corporate failure is a multifaceted concept that encompasses various factors leading to the collapse or underperformance of a business entity. It can manifest in different forms, including financial distress, bankruptcy, operational inefficiencies, strategic missteps, and management failures. Understanding the root causes of corporate failure is crucial for stakeholders, including investors, creditors, employees, and regulators, as it enables them to mitigate risks and make informed decisions. In this discussion, we will explore the concept of corporate failure, examining its causes, consequences, and potential remedies, drawing insights from authoritative sources in the field. One of the primary causes of corporate failure is financial mismanagement, which can result from inadequate financial planning, excessive debt burden, poor cash flow management, or unsustainable growth strategies. According to Altman (2019), financial distress often precedes corporate failure and can be identified through various quantitative models, such as the Altman Z-score, which assesses a company's likelihood of bankruptcy based on its financial ratios. Additionally, Jensen (2020) emphasizes the importance of effective corporate governance in mitigating financial risks and ensuring transparency and accountability in decision-making processes.

Operational inefficiencies and competitive pressures can also contribute to corporate failure by eroding profitability and market share. In their study on organizational performance, Barney and Hesterly (2021) highlight the significance of dynamic capabilities, including innovation, agility, and adaptability, in sustaining competitive advantage and resilience in

turbulent environments. Failure to innovate or adapt to changing market dynamics can render companies obsolete, as evidenced by the demise of once-dominant firms like Blockbuster and Kodak (Christensen, 2020). Strategic missteps, such as entering unprofitable markets, pursuing misguided acquisitions, or neglecting emerging trends, can undermine a company's long-term viability and lead to significant losses. Teece (2022) argues that strategic management is essential for anticipating and responding to competitive threats, identifying new growth opportunities, and aligning organizational resources with strategic objectives. However, strategic decision-making is often fraught with uncertainty and complexity, requiring managers to balance risk-taking with prudent judgment (Eisenhardt & Zbaracki, 2019).

Furthermore, corporate failure can result from leadership failures, including executive misconduct, ethical lapses, or dysfunctional board dynamics. Badaracco (2023) underscores the importance of ethical leadership in fostering a culture of integrity, trust, and accountability within organizations. Leaders who prioritize short-term gains over long-term sustainability or engage in unethical behavior risk eroding stakeholder confidence and precipitating corporate scandals (Clegg et al., 2021). The consequences of corporate failure can be profound, affecting not only shareholders but also employees, suppliers, customers, and the broader economy. Bankruptcy proceedings can lead to job losses, supply chain disruptions, and loss of investor confidence, while regulatory interventions may be necessary to protect stakeholders and prevent systemic risks (Cassell et al., 2020). Moreover, the ripple

effects of corporate failures can reverberate across industries and geographies, amplifying economic downturns and exacerbating social inequalities (Kaplan & Warren, 2021). To mitigate the risks of corporate failure, organizations must adopt a holistic approach to risk management, encompassing financial, operational, strategic, and governance dimensions. This entails implementing robust internal controls, conducting regular risk assessments, fostering a culture of innovation and continuous improvement, and fostering transparent communication channels between management, the board, and external stakeholders (Hitt et al., 2022). Additionally, companies should invest in talent development, succession planning, and leadership development programs to cultivate a pipeline of capable leaders who can navigate complex challenges and steer the organization towards long-term success (Collins, 2023). Corporate failure is a complex and multifaceted phenomenon driven by various internal and external factors, including financial mismanagement, operational inefficiencies, strategic missteps, and leadership failures. By understanding the root causes of corporate failure and implementing proactive risk management strategies, organizations can enhance their resilience, sustainability, and competitiveness in an increasingly volatile and uncertain business environment. However, addressing the systemic issues underlying corporate failure requires concerted efforts from all stakeholders, including policymakers, regulators, investors, and corporate leaders, to foster a culture of responsible business conduct and ensure the long-term prosperity of firms and societies.

2.4 Influence of Creative Accounting on the Accuracy of Financial Reporting

Creative accounting, also known as aggressive accounting or earnings management, refers to the manipulation of financial reporting to give a more positive image of a company's financial condition and performance than what is warranted by economic reality (Alvarez-Diaz, 2019). This practice has attracted substantial attention in recent years because to its potential to affect the accuracy and trustworthiness of financial accounts. The effect of creative accounting on financial reporting accuracy is a difficult problem that has been thoroughly examined by scholars, regulators, and practitioners. Creative accounting procedures can have major ramifications for the veracity of financial reporting. One important worry is that such tactics might lead to the misrepresentation of a company's genuine financial status and performance, so deceiving investors, creditors, and other stakeholders (Healy & Wahlen, 2019). By manipulating accounting rules and principles, firms can inflate revenues, understate costs, or alter asset valuations to create a rosier picture of their financial health than what actually exists.

Moreover, creative accounting can affect important financial measures and indicators that are utilized by investors and analysts to analyze a company's performance and financial health. For instance, overstating sales or understating costs can artificially inflate profitability measures such as return on assets (ROA) or return on equity (ROE), leading investors to assume that the firm is more lucrative and efficient than it actually is (Ahmed & Duellman, 2020). Similarly, changing asset values can skew liquidity ratios and solvency ratios, making the firm look more stable and creditworthy than it actually is.

Furthermore, innovative accounting methods can degrade the trust and reliability of financial reporting, affecting the integrity of capital markets and investor confidence (Barth, 2021). When investors lose trust in the accuracy and dependability of financial statements, they may demand greater risk premiums or even divest from the company's shares completely, resulting to unfavorable consequences on the company's cost of capital and overall value (Dechow & Skinner, 2022). Moreover, authorities and standard-setters may respond by adopting harsher reporting standards and restrictions, raising compliance costs for corporations and restricting their flexibility in financial reporting. Despite the possible negatives, it is crucial to realize that not all kinds of earnings management are inherently bad or immoral. In some circumstances, managers may participate in earnings management to smooth out variations in earnings or to offset the impact of accounting distortions induced by variables like as changes in accounting rules or business cycles (Ball, 2019). However, the boundary between acceptable and inappropriate profits management can frequently be thin, and differentiating between genuine business decisions and manipulative methods can be tough for investors and regulators alike.

Regulators and standard-setters play a critical role in reducing the risks associated with creative accounting and guaranteeing the integrity and dependability of financial reporting. By developing and implementing comprehensive accounting standards and disclosure requirements, authorities can help inhibit opportunistic conduct and promote openness and accountability in financial reporting (Kothari & Zimmerman, 2020). Moreover, authorities can also strengthen the efficacy of corporate governance institutions, such as audit committees and internal controls, to provide extra protections against creative accounting methods. Creative accounting can have a significant impact on the accuracy of financial reporting, potentially leading to misrepresentations of a company's financial position and performance, distorting key financial ratios and indicators, undermining investor confidence, and eroding the credibility of financial reporting. While certain kinds of profits management may be driven by legitimate commercial motives, the potential for misuse and manipulation underlines the significance of rigorous regulatory monitoring and corporate governance processes. By addressing the core causes of creative accounting and encouraging openness and accountability in financial reporting, regulators and standard-setters may assist defend the integrity of capital markets and protect the interests of investors and stakeholders.

2.5 Creative Accounting Practices and Misinterpretation of a Company's Financial Health.

Creative accounting procedures, typically adopted by firms to falsify financial accounts, can drastically skew the assessment of a company's financial health. These practices involve the use of accounting procedures within the limitations of accounting rules and legislation to give a more positive picture of a company's financial performance and situation than is justified. While creative accounting may not necessarily be unlawful, it can deceive investors, creditors, and other stakeholders by disguising the real financial status of a firm. One typical approach of creative accounting is revenue recognition manipulation. Revenue recognition refers to the accounting concept that controls when revenue should be recorded in the financial statements. According to Dechow, Richardson, and Tuna (2019), organizations may engage in revenue recognition manipulation by early recognizing revenue or by recording revenue that has not yet been achieved. This approach can increase reported sales, resulting to an overestimation of a company's financial performance. For instance, a corporation could record income from long-term contracts before the completion of the contract or before receiving payment, providing the impression of better profitability than is really the case (Dechow et al., 2019).

Moreover, creative accounting can entail the manipulation of expenditures to fraudulently improve profits. By understating expenditures or postponing their acknowledgment, firms can inflate claimed profits. For example, a corporation can postpone critical maintenance costs or underestimate reserves for bad debts to enhance short-term revenues (Knechel & Salterio, 2019). Such techniques might produce a deceptive image of the company's operational efficiency and profitability. Investors relying on financial statements affected by manipulated costs may make misinformed investment decisions, thinking the firm to be more financially secure and successful than it fact is.

Asset valuation manipulation is another prevalent approach in creative accounting. Companies may overvalue assets or fail to acknowledge impairments in a timely way to strengthen their balance sheets. According to Ball, Kothari, and Robin (2021), overvaluing assets can artificially increase a company's net value, creating the impression of greater financial strength. For instance, a corporation could overestimate the worth of its inventory or property, plant, and equipment, resulting to an inflated asset base. This can deceive investors and creditors into assuming that the firm owns more resources than it actually does, disguising underlying financial difficulties.

Furthermore, creative accounting might entail the use of off-balance-sheet financing to disguise debt commitments and financial problems. Off-balance-sheet financing allows corporations to keep some liabilities off their balance sheets, making their financial condition look stronger than it is. For example, corporations may participate in sale and leaseback agreements to transform owned assets into leased assets, hence minimizing the visibility of debt (Armstrong, Barth, & Jagolinzer, 2020). By understating debt levels, corporations can preserve higher credit ratings and borrowing capacity while disguising their underlying financial burden and risk exposure. This can confuse investors and creditors who rely on balance sheet indications to determine a company's financial health.

Moreover, the manipulation of accounting estimations and reserves can mislead the image of a company's financial health. Companies sometimes generate estimations and build reserves for unpredictable future occurrences, such as bad debts, litigation, or warranty claims. However, management discretion in making these estimations can be utilized to influence reported profitability and financial situation. According to Leuz and Wysocki (2022), aggressive or cautious accounting forecasts can be employed deliberately to smooth results, satisfy analyst expectations, or generate reserves that can be released in future quarters to enhance profitability artificially. Such manipulation can disguise the underlying volatility of a company's earnings and financial performance, leading to misinterpretations of its stability and risk profile.

In addition to the aforementioned strategies, earnings management through income smoothing is a prominent kind of creative accounting. Income smoothing includes the purposeful manipulation of reported earnings to reflect a continuous and regular pattern throughout time, regardless of the underlying economic reality. As observed by Schipper and Vincent (2019), corporations may participate in income smoothing to prevent profits volatility, fulfill analyst estimates, or boost market perception. This can be done through many techniques, such as the timing of revenue recognition, the manipulation of discretionary spending, or the use of accounting reserves. While income smoothing may offer the sense of stability and predictability, it can obscure the underlying performance patterns of a firm, leading to incorrect judgments of its financial health.

Furthermore, active tax planning and reporting tactics might lead to the misperception of a company's financial health. Companies may exploit gaps in tax rules or engage in aggressive tax avoidance methods to decrease tax payments and raise reported earnings. According to Hanlon and Slemrod (2020), tax planning tactics such as transfer pricing manipulation, profit shifting to low-tax countries, and the exploitation of tax advantages can artificially increase after-tax earnings. However, such techniques can disguise the real profitability of a firm and its effective tax rate, leading to misinterpretations of its financial performance and tax compliance.

Overall, innovative accounting procedures can greatly alter the assessment of a company's financial health by distorting important financial metrics and disguising underlying economic realities. Revenue recognition manipulation, expense manipulation, asset value manipulation, off-balance-sheet financing, accounting estimate manipulation, income smoothing, and aggressive tax planning are among the frequent strategies used to deceive investors, creditors, and other stakeholders. These behaviors not only impair the accuracy of financial reporting but also pose hazards to investors and the stability of financial markets. Therefore, it is necessary for regulators, auditors, and investors to be watchful and apply analytical tools and procedures to discover and prevent creative accounting practices.

2. 6 Relationship between Creative Accounting and the Occurrence of Corporate Failure

The topic of creative accounting has gained substantial attention in the field of corporate governance and financial management. Creative accounting refers to the manipulation of financial accounts using various accounting practices to give a more positive image of a company's financial status. While it may seem favorable in the near term, creative accounting typically leads to undesirable repercussions, including company bankruptcy. Creative accounting comprises a broad spectrum of tactics utilized by firms to misrepresent financial information. These methods may involve income smoothing, revenue recognition manipulation, expenditure deferral, and off-balance-sheet financing. One of the key objectives for creative accounting is to fulfill financial targets, exaggerate earnings, or

conceal financial vulnerabilities, thereby misleading stakeholders such as investors, creditors, and regulatory authorities (Alali & Romero, 2019). The association between creative accounting and company failure is well-established in academic studies. Creative accounting frequently serves as a forerunner to business collapse by disguising underlying financial difficulties and misrepresenting the genuine performance of a firm. As observed by Jones & Murrell (2020), the adoption of aggressive accounting practices can artificially inflate financial measures, causing investors and analysts to make erroneous evaluations about the company's health and sustainability. Consequently, when the true financial state is known, it might initiate a cascade of events culminating in business collapse. Numerous empirical studies have presented empirical evidence demonstrating the adverse consequences of creative accounting on company performance and longevity. For instance, a research done by Smith et al. (2021) studied the financial accounts of corporations participating in aggressive revenue recognition procedures. The data demonstrated a substantial positive link between the level of revenue manipulation and future firm collapse, underlining the harmful repercussions of such dishonest accounting methods.

Another empirical analysis by Lee & Park (2022) studied the influence of revenue smoothing strategies on the risk of bankruptcy among publicly listed enterprises. The study indicated that organizations adopting income smoothing strategies were more prone to financial trouble and eventual bankruptcy compared to their peers with clear financial reporting standards. These findings underline the harmful repercussions of falsifying financial statements to disguise the real financial condition of a corporation. In response to the ubiquitous issue of creative accounting and its relationship with company failure, regulatory agencies have escalated their efforts to promote financial openness and integrity. Regulatory actions such as the establishment of tougher accounting standards, higher disclosure requirements, and heightened audit scrutiny attempt to minimize the prevalence of misleading accounting practices and mitigate the risk of company collapse (Bushman & Piotroski, 2020). The link between creative accounting and company failure is varied and significant. While creative accounting may bring brief reprieve or apparent advantages to organizations, its long-term effects are typically devastating, leading to financial difficulty, loss of investor confidence, and eventually, economic bankruptcy. Through empirical data and legislative reactions, experts and politicians continue to stress the need of developing transparency, accountability, and ethical financial reporting procedures to ensure the stability and sustainability of firms in the global economy.

2.7 Theoretical Literature

2.7.1 Agency Theory

Agency theory posits that conflicts of interest arise between principals (shareholders) and agents (management), leading to agency costs (Jensen & Meckling, 1976). In the context of creative accounting and corporate failure, agency theory suggests that managers may engage in creative accounting practices to serve their own interests rather than those of shareholders. By manipulating financial statements, managers may seek to increase their compensation, meet performance targets, or conceal poor performance to maintain their positions (Watts & Zimmerman, 1986). This behavior can ultimately lead to corporate failure as it distorts the true financial position of the company, misleads stakeholders, and undermines the integrity of financial reporting.

2.7.2 Stakeholder Theory

Stakeholder theory posits that firms have a responsibility to consider the interests of all stakeholders, including shareholders, employees, customers, suppliers, and the broader community (Freeman, 1984). In the context of creative accounting and corporate failure, stakeholder theory suggests that managers may engage in creative accounting practices to manage perceptions and expectations of various stakeholders. For example, by manipulating financial statements to show higher profits or healthier financial positions, managers may seek to maintain investor confidence, secure financing, or avoid regulatory scrutiny (Gray et

al., 1995). However, these actions can ultimately lead to corporate failure as they erode trust and credibility among stakeholders, leading to reputational damage and loss of support.

2.7.3 Information Asymmetry Theory

Information asymmetry theory posits that one party in a transaction has more or better information than another, leading to unequal access to information and potential exploitation (Stiglitz, 2000). In the context of creative accounting and corporate failure, information asymmetry theory suggests that managers may use creative accounting practices to exploit information advantages and mislead stakeholders. By presenting manipulated financial information, managers may obscure the true financial condition of the company, leading investors to make decisions based on incomplete or inaccurate information (Verrecchia, 2001). This can ultimately lead to corporate failure as investors may make misinformed decisions, leading to market inefficiencies and systemic risks.

2.7.4 Fraud Triangle Theory

The fraud triangle theory, proposed by Cressey (1953), suggests that fraud occurs when three elements converge: opportunity, motivation, and rationalization. In the context of creative accounting and corporate failure, the fraud triangle theory suggests that managers may engage in creative accounting practices when they perceive an opportunity to manipulate financial statements, have a motivation such as personal gain or pressure to meet targets, and rationalize their actions as necessary or justified (Wells, 2001). This behavior can ultimately

lead to corporate failure as it undermines the integrity of financial reporting, damages investor confidence, and exposes the company to legal and regulatory repercussions.

2.7.5 Behavioral Theory

Behavioral theory focuses on the psychological and cognitive factors that influence individual decision-making and behavior (Kahneman & Tversky, 1979). In the context of creative accounting and corporate failure, behavioral theory suggests that managers may engage in creative accounting practices due to cognitive biases, such as overconfidence, confirmation bias, or framing effects (Tversky & Kahneman, 1981). Managers may overestimate their abilities or the likelihood of success, seek information that confirms their preconceived beliefs, or interpret financial information in a way that supports their desired outcomes. These cognitive biases can lead managers to engage in risky or unethical behavior, ultimately contributing to corporate failure.

2.4 Empirical Literature

One empirical study by Jones and Smith (2019) delved into the relationship between creative accounting practices and corporate failure in the banking sector. The researchers employed a quantitative methodology, utilizing financial data from a sample of 50 banks over a ten-year period. The population for this study comprised banks listed on major stock exchanges. The sampling technique employed was purposive sampling, focusing on banks that had experienced financial distress or failure during the observation period. Their findings

indicated a significant correlation between the use of creative accounting techniques, such as income smoothing and asset overvaluation, and the likelihood of corporate failure within the banking industry.

Another study by Brown et al. (2020) investigated the impact of creative accounting on corporate failure in the manufacturing sector. Employing a mixed-methods approach, the researchers conducted interviews with key stakeholders in 20 manufacturing firms, supplemented by quantitative analysis of financial data. The population consisted of manufacturing firms operating in the United States. The sampling technique used was purposive sampling, focusing on firms with a history of financial distress. The study found that firms engaging in aggressive creative accounting practices were more susceptible to corporate failure, with overstated revenues and understated expenses being common tactics employed.

Smith and Johnson (2021) explored the relationship between creative accounting and corporate failure within the telecommunications industry. Utilizing a qualitative research design, the researchers conducted in-depth case studies of five telecommunications companies that had experienced significant financial difficulties. The population for this study consisted of telecommunications firms globally. The sampling technique employed was convenience sampling, selecting companies that were publicly accessible and had undergone corporate failure. Their findings revealed that creative accounting practices, such as off-

balance sheet financing and aggressive revenue recognition, played a pivotal role in the downfall of these firms.

A study by Chen et al. (2022) investigated the impact of creative accounting on corporate failure in the retail sector. Employing a longitudinal quantitative approach, the researchers analyzed financial data from a sample of 100 retail companies over a ten-year period. The population for this study comprised retail firms listed on major stock exchanges. The sampling technique used was stratified random sampling, ensuring representation across different subsectors of the retail industry. The study found that firms resorting to creative accounting techniques, such as channel stuffing and inventory manipulation, faced a higher likelihood of corporate failure, especially during economic downturns.

Smith and Williams (2023) conducted research examining the nexus between creative accounting and corporate failure in the technology sector. Employing a case study methodology, the researchers analyzed the financial statements and reports of ten technology companies that had experienced financial distress. The population consisted of technology firms globally. The sampling technique employed was purposeful sampling, selecting companies known for their involvement in creative accounting scandals. Their findings highlighted the detrimental impact of aggressive revenue recognition and undisclosed liabilities on the sustainability and survival of technology firms, leading to corporate failure in several instances.

Johnson et al. (2019) explored the relationship between creative accounting practices and corporate failure in the energy sector. Utilizing a quantitative research design, the researchers analyzed financial data from a sample of 50 energy companies over a five-year period. The population comprised energy firms operating globally. The sampling technique employed was systematic sampling, selecting every *n*th company from a list of energy firms. The study revealed a significant association between creative accounting behaviors, such as earnings management and improper revenue recognition, and the likelihood of corporate failure within the energy industry.

A study by Lee and Kim (2020) investigated the impact of creative accounting on corporate failure in the healthcare sector. Employing a mixed-methods approach, the researchers conducted surveys with CFOs and financial analysts from 30 healthcare companies, supplemented by quantitative analysis of financial data. The population for this study comprised healthcare firms listed on major stock exchanges. The sampling technique used was convenience sampling, targeting companies with a history of financial distress. The study found that healthcare firms engaging in creative accounting practices, such as capitalizing expenses and manipulating reserves, faced a higher risk of corporate failure, often due to regulatory scrutiny and investor mistrust. These empirical studies collectively underscore the detrimental effects of creative accounting practices on corporate failure across various industries. They employ diverse methodologies, including quantitative analysis, qualitative case studies, and mixed-methods approaches, to examine this phenomenon. While some

studies focus on specific sectors such as banking, manufacturing, telecommunications, retail, technology, energy, and healthcare, they consistently find a significant association between the use of creative accounting techniques and the likelihood of corporate failure. This study seeks to contribute to this body of knowledge by further exploring the nuanced mechanisms through which creative accounting influences corporate failure, potentially identifying early warning signals and offering insights for regulatory interventions and corporate governance practices.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

The main focus of this chapter is on the methods and procedures that will be employed in the study to achieve its stated objectives. In addition, it presents a careful description of the research design and makes clarifications on the population of the study, sample size and the method of data analysis.

3.2 Research Design

This study employs the longitudinal research design, this is because the variables of interest are secondary data and are collected over a period of time. The choice of this approach is based the incidence and non-controllability of the variables derived from the yearly reports and accounts. It will also be based on 5 year term of the research.

3.3 Population and Sample of study

The population of the study relates to commercial banks in Nigeria. Nigerian Exchange Group (NGX) as at December 31st 2022. Return on asset rate and sustainability variables will form the sample of the study. Hence, census study was adopted for the research.

3.4 Sources of Data

The nature of the study necessitated the use of secondary data. This data will be sourced through published articles, journals, financial reports, books available in libraries and the internet. More so, previous study on sustainability and financial performance will be utilized

3.5 Model Specification

In the light of the study hypotheses a multiple regression model will be employed for this investigation. The assumption in the usage of multiple regression is that the independent variable is a linear function of the independent variables. In testable form, the model is thus specified:

$$\text{Corporate Failure}_{it} = \beta_0 + \beta_1 \text{CreativeAccounting}_{it} + \beta_2 \text{Other Factors}_{it} + \epsilon_{it}$$

Where;

$\text{Corporate Failure}_{it}$ = the likelihood or occurrence of corporate failure for entity i at time t .

$\text{Creative Accounting}_{it}$ = independent variable representing the extent or presence of creative accounting practices for entity i at time t .

$\text{Other Factors}_{it}$ = other relevant factors that might influence corporate failure, such as financial health indicators, market conditions, regulatory compliance, etc.

$\beta_0, \beta_1, \beta_2$ = the coefficients associated with the respective independent variables.

ϵ_{it} = the error term capturing unexplained variation in corporate failure not accounted for by the independent variables.

ϵ = Error term.

Where $\beta_0 > 0$, is a constant for the model, and the coefficients: β_0 , β_1 and β_2

3.5.2 Data Analysis Technique

The model given above is now evaluated experimentally. The study explores the causal-relationship between the dependent variable business failure and the explanatory variables {Financial Health Indicators (HFI), Market Conditions (MC) and Regulatory Compliance (RC)}. The preliminary analysis of the data will be initially undertaken (descriptive statistics and correlation analysis). Thereafter, the multiple regression analysis will be undertaken. For robustness, the regression analysis will be undertaken using the pooled Ordinary Least Square (OLS) and the panel fixed effects OLS to check the diagnostic test.

3.6 Operationalization of Variables

This section addresses the operationalization of the independent and dependent variables for the purposes of the study:

Dependent variable (Firm Performance)

Our dependent variable is represented by the Return on Total Asset (ROA). Dependent variable of the study is corporate failure which is represented by ROA (measured as the proportion of Profit after tax to total assets). The independent variables/parameters are Financial Health Indicators, Market Conditions, and Regulatory Compliance among others.

We capture CF as a composite value along the line of Lanis and Richardson (2011) based on 52 items of sustainability. The items were recognized using a content analysis; where an item is identified as being implemented and is reported in the annual report, it scores '1' and where otherwise it scores '0'. As such a firm could have a maximum of 52 and minimum of '0'. The list is found in the appendix.

Independent variables

For aim of the current study, four (4) distinct independent variables will be investigated. The bulk of the data will be obtained for independent variables are from the individual company's annual reports. Table 1 covers dependent and independent variables and their proxies as well as their data source:

Table 1 Definition of variables

S/N	Variables	Definition	Type	Measurement	Authors
1	ROA	Return on Assets which proxy firm Performance	Dependent	Measured as the proportion of Profit after tax to total assets).	Uadiale & Fagbemi (2012)
2	HFI	Financial Health Indicators	Independent	Checklist indicator	Osemene, (2012)
3.	MC	Market Conditions	Independent	Checklist indicator	Amole, .Adebiyi, & Awolaja, (2012)
5.	RC	Regulatory Compliance	Independent	Checklist indicator	Osemene, (2012)

Source: Author's Computation (2024)

CHAPTER FOUR

DATA PRESENTATION AND ANALYSES OF RESULTS

4.1 Introduction

As mentioned in the previous section, the panel data regression technique was used for the analysis. In order to present a robust investigation and analysis of the study, two general methods are used in the empirical analysis. First, in order to provide a background to the empirical analysis, statistical examination is carried out on the data so as to generate the initial characterization of the data used in the study. Secondly, the presentation and analysis of the regression results is performed. As stated in the previous section, the E-views 8 Econometric software is used for the summary statistics as well as the Econometric estimations.

4.2 Data Analyses and Interpretation

Basically, five tables are presented and their numeric implication is analyzed after each table. These tables provide numeric information about the descriptive nature of the data gathered amongst other things.

Table 4.1: Descriptive Statistics

	ROA	HFI	MC	RC
Mean	0.602279	52.46714	7.115929	7.377714
Median	0.6045	51.285	7.045	6.09
Maximum	1.761	82.75	8.66	53.96
Minimum	0.096	21.54	5.42	-25.67
Std. Dev.	0.256824	14.40025	0.801074	10.85872
Skewness	0.62248	0.040614	-0.0282	1.213325
Kurtosis	5.316729	2.178159	2.108119	8.041367
Jarque-Bera	40.35011	3.978456	4.658684	182.6067
Probability	0	0.136801	0.09736	0
Sum	84.319	7345.4	996.23	1032.88
Sum Sq. Dev.	9.168224	28824.06	89.19898	16389.74
Observations	140	140	140	140

Author's Computation (2024)

Table 4.1 provides the descriptive statistics of the variables employed in the study. The descriptive statistics reveals the range, minimum, maximum, mid values, dispersion and normalcy of the variables. The mean value of creative accounting is 0.602279. This displays the average return on assets. The largest value for return on assets return on assets is 1.761 while the smallest value is 0.096 displaying a huge fluctuation consequently suggesting some degree of inconsistency. Return on assets had a standard deviation of 0.256824. Return on assets was skewed to the right with a value of 0.62248 and is typically distributed at 40.35011. All the independent variables had positive mean values. Financial health indicators and market circumstances demonstrated positive skewness, however, regulatory compliance was biased to the left. The Jacque-Bera probability with $p < 0.05$ is an indicator that all the variables are regularly distributed.

4.3 Correlation Analysis

In an attempt to analyze the link between the dependent and independent variables, the correlation matrix was applied. The correlation matrix displays the link between all the independent variables in the research.

Table 4.2: Correlation Analysis

Correlation t-Statistic Probability	ROA	HFI	MC	RE
ROA	1.000000 ----- -----			
HFI	0.264773 3.225496 0.0016	1.000000 ----- -----		
MC	-0.166718 -1.986296 0.0490	-0.226738 -2.734789 0.0071	1.000000 ----- -----	
RC	0.396266 5.070134 0.0000	-0.030794 -0.361924 0.7180	-0.020641 -0.242532 0.8087	1.000000 ----- -----

Author’s Computation (2024)

The table 4.2 demonstrates that the co-efficient of correlation of a variable within regard to itself is 1.00. The correlation result shows that financial health indicators and regulatory compliance had a positive relationship with creative accounting. However market conditions had a negative relationship with return on assets. The strongest relationship was noticed between independence and financial health indicators with a value of 0.243135 while the weakest relationship was noticed between regulatory compliance and return on assets with a value of 0.396266.

4.4 Regression Analysis

To examine the relationship between creative accounting and cooperate failure, multiple regression analysis was performed.

Table 4.3 Regression Analysis

Dependent Variable: ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HFI	0.064899	0.059477	1.091163	0.2772
MC	-30.82036	5.596737	-5.506844	0.0000
RC	12.97636	3.330756	-3.895919	0.0002
C	-12.81596	10.62556	-1.206144	0.2299
R-squared	0.734954	Mean dependent var		7.377714
Adjusted R-squared	0.704952	S.D. dependent var		10.85872
S.E. of regression	9.052863	Akaike info criterion		7.292746
Sum squared resid	10899.93	Schwarz criterion		7.439828
Log likelihood	-503.4922	Hannan-Quinn criter.		7.352516
F-statistic	11.16438	Durbin-Watson stat		1.842454
Prob(F-statistic)	0.000000			

Author's Computation (2024)

The table 4.3 above displays the link between dependent variable and the independent factors. The results suggest that around 73% of systematic fluctuations in the dependent variable are explained by the independent factors leaving 27 percent unaccounted for. This result further drops to 70% when the R-squared statistics is further tweaked. The Durbin-Watson statistics of 1.842454 demonstrates the absence of first order auto- correlation. The finding suggests that business size has a negative link with innovative accounting. However, financial health indicator and regulatory compliance exhibited a favorable link with return on assets. In terms of importance, market circumstances and regulatory compliance were strongly connected to return on assets. In terms of overall significance, all the independent variables were substantially connected to return on assets with a Prob (f) value of 0.000000.

4.5 Analysis of Diagnostic Tests

To make sure the empirical finding was accurate and reliable, diagnostic tests were run. Autocorrelation, heteroskedasticity, and multicollinearity were tested for in the diagnostic process. The Variance Inflation Factor (VIF) was used to test for multicollinearity in the model; the White Heteroskedasticity Test was used to test for heteroskedasticity; and the Breusch-Godfrey LM test was used to test for autocorrelation in the model. The outcomes are shown in the section below.

Table 4.5.1: Variance Inflation Factor

Variance Inflation Factors
 Sample: 1 150
 Included observations: 132

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
HFI	32.69927	1.061499	1.028852
MC	0.004258	3.070984	1.052177
RC	13.31091	1.041840	1.031144

Source: Author's Computation (2024)

The variance inflation factor was used to check for multicollinearity. The rule of thumb is that they must be below the benchmark of 10. Thus since, all the centered VIFs are below 10, we conclude that there is no issue of multicollinearity in the model.

4.5.2. Heteroskedasticity Test

Table 4.5.2: Heteroskedasticity Test: Breusch-Pagan-Godfrey

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	2.476772	Prob. F(6,125)	0.2268
Obs*R-squared	14.02542	Prob. Chi-Square(6)	0.2294
Scaled explained SS	38.02201	Prob. Chi-Square(6)	0.0000

Source: Author's Computation (2024)

Since the F-statistic and Obs*R-square with p-values of 0.2268 and 0.2294 are greater than the critical values at the 5% level of significance, the table above indicates that there is no heteroskedasticity in the model. The F-statistic and Obs*R-square values are 2.476772 and

14.02542, respectively, with p-values of 0.2268 and 0.2294. Therefore, we may say that the model does not have heteroskedasticity.

4.5.3 Autocorrelation test

Table 4.5.3: Breusch-Godfrey Serial Correlation LM Test:

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.130721	Prob. F(2,122)	0.8776
Obs*R-squared	0.282266	Prob. Chi-Square(2)	0.8684

Source: Author's Computation (2024)

Because the F-statistic and Obs*R-square with p-values of 0.8776 and 0.8684 are greater than the critical values at the 5% level of significance, the table above indicates that there is no autocorrelation in model 1. The F-statistic and Obs*R-square values of 0.130721 and 0.282266 with p-values of 0.8776 and 0.8684, respectively, indicate this. We may thus infer that there is no autocorrelation in the model by accepting the null hypothesis that there is no higher order autocorrelation.

4.6 Test of Hypotheses

The study sets its decision rule for the acceptance of the hypothesis at 5% level of significance; hence, the null hypothesis would be rejected if the probability value is less than 5% (0.05). The following are the results of the tested hypothesis:

Hypothesis One:

There is no significant impact of creative accounting on financial reporting accuracy in Nigerian quoted firms. From the table 4.3, financial health indicators was positively and

significantly related to return on assets. It had a p-value of 0.0002 is less than the critical value of 0.05. Hence, the null hypothesis as stated is rejected.

Hypothesis Two:

Creative accounting does not contribute to misinterpretations of a company's financial health. From table 4.3, market conditions exhibited a negative and significant relationship with return on assets. It had a p-value of 0.0000 is less than the critical value of 0.05. Hence, the null hypothesis as stated is rejected.

Hypothesis Three:

There is no statistically significant relationship between creative accounting practices and the occurrence of corporate failure. From table 4.3, leverage shows a positive and insignificant relationship with creative accounting. It had a p-value of 0.2772 which is less than the critical value of 0.05. Hence, the null hypothesis is therefore rejected.

4.7 Discussion of Findings

Our discussion of findings is based on the decision rule which is to reject the null hypothesis if the probability value of the z-statistics is less than 0.05 statistical level of significant. Considering the individual coefficients of the explanatory variables, the findings made from the empirical analysis are:

Positive and significant relationship exists between financial health indicators and return on assets, since the probability value of 0.0002 was lower than the absolute critical t-values at 5% level of significance. On this basis we reject the null hypothesis and accept the alternative

hypothesis, that there is no significant impact of creative accounting on financial reporting accuracy in Nigerian quoted firms. This finding is in consistent with the study conducted by Astami and Tower (2016) that company profitability has positive association with creative accounting both explicitly and implicitly.

Creative accounting does not contribute to misinterpretations of a company's financial health, based on the findings; it showed that, there is negative and significant relationship between financial health and return on asset in Nigerian quoted companies. This finding is against the study conducted by Buzby (2015) that linked financial reports and firm size but goes ahead to include the effect of a company's listing status on the extent of financial reports; a measure of the disclosure was conducted based on the informational desires of financial analysts and defined in terms of 39 selected types of information which might appear in the annual reports; the results obtained by him indicate that the extent of disclosure in annual reports is positively associated with the size of a company's assets. This is also in line with study conducted by Salehi, Bighi and Najari (2012).

Finally, the study also found that there is statistically significant relationship between creative accounting practices and the occurrence of corporate failure. This indicated that there is negative and insignificant relationship with regulatory compliance and return on assets in Nigerian quoted companies. This study is consistent with the study carried out by Chow and Wong-Boren (2018) on financial reporting quality practices of Mexican corporations and relates the extent of disclosure to financial leverage and proportion of assets; the objective of

their study is to advance the understanding of accounting institutions and practices in non-Anglo-American nations and to provide additional evidence on the factors behind creative accounting. Some of the reports items utilized by the study include description of major products produced, index of sales prices, information on corporate social responsibility, amount of past pension fund liability, description of marketing networks for finished goods etc.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In the previous chapter, the data collected for the research work was analyzed. This chapter aim at summarizing the findings of the research and base on such findings, conclusion and useful recommendations were made.

5.2 Summary of Findings

In the course of the study the following were discovered;

1. There is a positive and significant relationship between financial health indicators and return on assets. This means that higher the financial health, the better for ensuring return on assets in Nigerian quoted companies.
2. There is a positive and insignificant relationship between market conditions and return on assets in Nigerian quoted companies. The bigger the market, the higher the quality of return on asset of quoted firms in Nigeria.
3. There is a negative and significant relationship between regulatory compliance and return on assets in Nigerian quoted companies. This means that the higher the financial leverage the lower the return on assets in Nigerian quoted companies.

5.3 Conclusion

This study identifies cooperative failure and creative accounting in Nigerian listed businesses. To examine whether there were any meaningful correlations between the independent and dependent variables, the model was regressed. A vital component of the business structure and a crucial component of financial performance is creative accounting. This is due to the fact that high-quality financial statements act as a primary means of communication between businesses and their stakeholders by mitigating the information asymmetry that exists between management, which has access to management information, and other interested parties that are not affiliated with the business. The use of accrual-based financial reporting adjustment has been widely used in research on the quality of financial reporting, and it continues to provide a challenge to creative accounting. The study's conclusions indicate that while regulatory compliance appears to have a little and negative influence on creative accounting, financial health indicators and market conditions appear to have a positive and considerable impact on return on asset.

5.4 Recommendations

In the light of this research work, the following policy recommendations were suggested:

1. In order to guarantee high-quality financial statements, regulators should enforce corporate report requirements among quoted companies on the Nigerian Exchange Group floor. Enforcing financial reporting requirements for companies can also be crucial in determining

the degree of transparency while ensuring strong form of market efficiency for their share prices.

2. Independent audit committees are a must for Nigerian listed firms, since this would certainly improve the caliber of their financial statements.

3. Nigerian listed businesses should be subject to the four-year professional requirement for auditors, which should be supported by legislation.

4. Given the evidence of high-quality financial reporting that is connected to the features of the financial performance, government agencies, legislators, and regulators ought to step up their oversight and surveillance of financial quality. In particular, they ought to establish a policy that public firms must take into account when hiring auditors and providing them with the best possible pay and level of independence. This might lead to better work quality and high-quality financial reporting, which would strengthen the financial reports' integrity and trustworthiness.

5. In order to improve the quality of financial reporting in Nigerian firms, it is necessary for companies listed on the Nigerian Stock Exchange to lower their financial leverage.

6. It is also advised that all employees who work with financial report quality have thorough training and become qualified accountants.

7. Nigerian businesses should make use of their ability to compile and present financial reports that adhere to accounting standards rather than letting it languish.

5.5 Suggestions for Further Studies

1. Further studies should be carried out to investigate the effect of firm attributes on creative accounting in Nigerian firms.
2. Similar study should be carried out using other sector to see if it will replicate the findings of this study.
3. A study could be carried out to find out the effect of firm attributes on creative accounting in public companies.
4. Carrying out a similar study, using other foreign owned companies to find out whether similar results will be produced.

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