

**CREATIVE ACCOUNTING AND CORPORATE FAILURE IN
NIGERIA**



**Caro OLETU
MGS2104638**

**DEPARTMENT OF ACCOUNTING
FACULTY OF MANAGEMENT SCIENCES
UNIVERSITY OF BENIN
BENIN CITY**

NOVEMBER, 2025

**CREATIVE ACCOUNTING AND CORPORATE FAILURE IN
NIGERIA**



**Caro OLETU
MGS2104638**

**BEING A RESEARCH PROJECT SUBMITTED TO THE
DEPARTMENT OF ACCOUNTING, FACULTY OF MANAGEMENT
SCIENCES, UNIVERSITY OF BENIN, BENIN CITY, IN PARTIAL
FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF
DEGREE OF BACHELOR OF SCIENCE (B.SC) DEGREE IN
ACCOUNTING**

NOVEMBER, 2025

DECLARATION

I hereby declare that:

1. This project work is based on a study undertaken by me in the Department of Accounting, University of Benin under the supervision of Mrs. Imonitie.
2. This research work has not been previously submitted for the award of degree elsewhere.
3. All ideas and views are products of my personal research and where the views of others have been used and expressed they were duly acknowledged.

OLETU CARO

Date

CERTIFICATION

We the undersigned certify that this research work was carried out **by OLETU CARO** with matriculation number **MGS2104638** of the department of Accounting, Faculty of Management sciences, University of Benin, Benin City. For the partial fulfilment of the requirements for the award of B.SC. in Accounting.

**MRS. O.M IMONITIE
GODSTIME**
*(Project Supervisor
Coordinator)*

DR. IKHU-OMOREGBE
(Project

Date

Date

PROF. OSASU OBARETIN
(Head of Department)

Date

DEDICATION

This research project is dedicated to God Almighty whose grace shielded, strengthened and inspired me throughout my research work. I want to specially dedicate this project to my family and friends, who have been my support system. I will always love you.

ACKNOWLEDGEMENTS

I wish to express my profound gratitude to all who supported me in the course of completing this research project and particularly, my B.Sc. programme, there were several people whose undying love and support ensured my ultimate success. I wish to use this opportunity to express my gratitude and appreciation to them.

First and foremost, I give thanks to God Almighty for his love, kindness, strength, mercies, grace and guidance over me, who has also made the completion of my B.Sc programme and the project successful.

Special thanks go to my project supervisor, Mrs. Imonitie for her immense support and guidance. Ma, your love and support in this research work is highly appreciated. God bless you ma.

I also want to thank all my lecturers for efforts on making my study of accounting a memorable and valuable experience. God bless you for your time and everything.

My deepest appreciation goes to my special family, my Mum, Mrs. Victoria Oletu, Mr. Prince Oletu, Miss Oghenerume Oletu and all my lovely siblings. Your support in diverse ways is well appreciated. Also to my friends, Mr. Freeborn, Great, Precious, Jeremiah, Possible, and Chiebere. You are the best.

TABLE OF CONTENTS

Title page	-	-	-	-	-	-	-	-	-	-
i										
Declaration	-	-	-	-	-	-	-	-	-	-
ii										
Certification	-	-	-	-	-	-	-	-	-	-
iii										
Dedication	-	-	-	-	-	-	-	-	-	-
iv										
Acknowledgements	-	-	-	-	-	-	-	-	-	-
v										
Table of contents	-	-	-	-	-	-	-	-	-	-
vi										
Abstract	-	-	-	-	-	-	-	-	-	-
ix										

CHAPTER ONE: INTRODUCTION

1.1	Background to the study	-	-	-	-	-	-	-	-	-
-----	-------------------------	---	---	---	---	---	---	---	---	---

1.2	Statement of research problem	-	-	-	-	-	-	-
	2							
1.3	Objectives of the study	-	-	-	-	-	-	-
	4							
1.4	Research questions	-	-	-	-	-	-	-
	5							
1.5	Research hypothesis	-	-	-	-	-	-	-
	5							
1.6	Scope of the study	-	-	-	-	-	-	6
1.7	Significance of the study	-	-	-	-	-	-	-
	7							

CHAPTER TWO: LITERATURE REVIEW

2.1	Introduction	-	-	-	-	-	-	-
	9							
2.2	Conceptual review	-	-	-	-	-	9	
2.2.1	Concept of corporate failure	-	-	-	-	-	9	
2.2.2	Concept of creative accounting	-	-	-	-	-	-	-10
2.2.3	Concept of financial reporting quality	-	-	-	-	-	-	-11
2.3	Accounting policy choice and corporate failure	-	-	-	-	-	-	-

2.4	The role of internal and external auditors	-	-	-	-	-	-	-	-
	-16								
2.5	Regulatory bodies in minimizing creative accounting in Nigeria	-	-						
	19								
2.6	Return on equity (ROE)	-	-	-	-	-	-	-	-
	-21								
2.7	Return on assets (ROA)	-	-	-	-	-	-	-	-
	23								
2.8	Implications of corporate failure in Nigeria	-	-	-	-	-	-	-	-
	-24								
2.9	Relationship between creative accounting and corporate failure	-	-	-	-	-	-	-	-
	26								
2.10	How creative accounting contribute to corporate failure	-	-	-	-	-	-	-	-
	27								
2.11	Systematic weakness within organisations and regulatory frameworks that facilitate the prevalence of creative accounting	-	-	-	-	-	-	-	-
	- 29								
2.12	Theoretical framework	-	-	-	-	-	-	-	-
	31								
2.12.1	Agency theory	-	-	-	-	-	-	-	-
	32								
2.12.2	Stakeholder theory	-	-	-	-	-	-	-	-
	33								
2.13	Empirical review	-	-	-	-	-	-	-	-
	34								

CHAPTER THREE: METHODOLOGY

3.1 Introduction - - - - - 37

3.2 Research design - - - - - 37

3.3 Population and sampling - - - - - 37

3.4 Sources of data collection - - - - - 37

3.5 Method of data analysis - - - - - 37

3.6 Model specification - - - - - 38

CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS -

4.1 Introduction - - - - - 43

4.2 Presentation of results - - - - - 43

4.3 Hypothesis testing - - - - - 52

4.4 Discussion on finding - - - - - 54

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction - - - - - 59

5.2	Summary of findings	-	-	-	-	-	-	59
5.3	Conclusion	-	-	-	-	-	-	61
5.4	Recommendations	-	-	-	-	-	-	61
	Bibliography	-	-	-	-	-	-	-
								63
	Appendix	-	-	-	-	-	-	-
								68

Abstract

The study examines the effect of firm characteristics and financial reporting quality in Nigerian quoted companies. Financial reporting quality is to provide high-quality of financial reporting information concerning economic entities, primarily financial in nature, useful for economic decision making.

The research design adopted in this study falls within the paradigm of robust panel data design type which is the combination of both cross-sectional and time series design properties, the study uses archival data in the form of companies' annual reports and analyzed using Ordinary Least Square (OLS) method regression, was the statistical tool used for the data analysis and test of hypotheses, using a sample of 30 companies listed in Nigerian Stock Exchange.

The results indicate that profitability was positively and significantly associated with financial reporting quality proxy by discretionary accrual. It was also found that negative and insignificant relationship exists between financial leverage and financial reporting quality proxy by discretionary in Nigerian quoted companies. The study therefore, recommends that companies listed on the Nigerian Stock Exchange to reduce their financial leverage as this may tends toward financial reporting quality in Nigerian firms.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Financial statements serve as a vital tool for reflecting an organisation's financial performance. They supply stakeholders with essential information about the stability and long-term viability of a business, enabling them to make informed investment decisions based on the expectation that these reports are accurate, transparent, and dependable. However, the practice of creative accounting also known as window dressing refers to the manipulation of financial figures to present a more favourable image of an organisation. According to Balaciu and Vladu (2019), this involves adjusting figures to appear more attractive or less damaging. Although often viewed as a modern challenge, Susmus (2023) notes that creative accounting has existed for over five centuries, tracing its roots to the

work of Luca Paciolo in *De Arithmetica*, where such manipulative tendencies in trade were already evident. The term “creative accounting” was later popularised by Mel Brooks’ 1968 film *The Producers* and further referenced by Lee (2013).

The growth and survival of any enterprise largely depend on its ability to remain competitive within a rapidly evolving business landscape (Jones, Smith, Johnson & William, 2023; Smith & Johnson, 2021; Adeniran, Afonja & Olaitan, 2021). In such conditions, investors are naturally attracted to firms that exhibit strong performance and promising returns. The desire to secure investors, maintain a positive reputation, and foster long-term development has pushed some organisations toward creative accounting practices methods that may be legally permissible but ethically questionable. Despite their short-term advantages, extensive research shows that these practices often cause significant long-term damage, contributing to organisational instability and eventual corporate collapse.

In Nigeria, creative accounting has gained prominence, with some viewing it as an acceptable strategy for enhancing corporate credibility. Nevertheless, this trend has been linked to major financial crises and the downfall of well-known organisations such as Intercontinental Bank Plc, Oceanic Bank Plc, and Cadbury Plc. Its rising prevalence is frequently associated with weaknesses in corporate governance, where responsibility is shared among managers, accountants, auditors, and other professionals involved in manipulating financial outcomes. Considering the dual capacity of creative accounting to

both enhance and harm corporate operations, it becomes crucial to investigate its implications for the financial health, sustainability, and overall performance of Nigerian firms.

This study therefore examines the influence of creative accounting on corporate failure in Nigeria. It aims to provide insight for future accountants, managers, and business owners who play a key role in safeguarding financial integrity within the corporate sector. Gaining a deeper understanding of the drivers, warning signs, and consequences of creative accounting as well as adopting effective preventive practices is essential for curbing financial misrepresentation and reducing the incidence of corporate collapse.

1.2 Statement of Research Problem

Corporate failure has become a major challenge confronting businesses worldwide, and Nigeria is no exception. Numerous accounting scandals have revealed that management teams often manipulate financial statements to present weaker results as a means of evading taxes. In other cases, organisations inflate their performance to secure bonuses, overvalue assets, or maintain an artificial pattern of profitability. Such distortions can mislead financial institutions into granting undeserved loans, attract unsuspecting investors, and create a false perception of financial stability and growth among stakeholders. Although Nigeria has regulatory frameworks such as the Companies and Allied Matters Act (CAMA), the Financial Reporting Council of Nigeria (FRCN), and

the Nigerian Stock Exchange (NSE) rules, companies still engage in manipulative reporting under the label of creative accounting. These practices have produced damaging consequences including diminished investor trust, job losses, business collapse, and in some cases criminal investigations.

Completely eliminating creative accounting is unlikely. While the adoption of International Financial Reporting Standards (IFRS) has helped reduce opportunities for misuse of financial information, it has not eradicated the potential for manipulation. The complexity and evolving nature of business operations have made accounting flexible, particularly in the application of valuation methods—an element that opens the door to various forms of financial misrepresentation. In Nigeria, evidence shows that creative accounting thrives when firms exploit such flexibility to create financial illusions that do not reflect their true economic position. Although creative accounting may be used for legitimate purposes, its misuse often leads to organisational decline and corporate failure. Like a tool, its impact depends largely on the intent and integrity of those who wield it.

Several scholars have examined creative accounting across different sectors. Ibanichuka and Ihendinihu (2022) investigated the banking and insurance industries; Moses et al. (2020), Ojomolade and Adejowon (2020), and Essien (2021) explored its connection to corporate failure in the aviation and banking sectors; Nangih (2017) focused on oil servicing companies; Maria and Hina (2016) examined the manufacturing industry; while

Sanusi and Izedomi (2013) studied Nigerian commercial banks, and Efiok and Eton (2012) analysed firms listed on the Nigerian Stock Exchange.

Despite these contributions, many stakeholders still lack a clear understanding of the exact extent to which creative accounting drives corporate failure and how future professionals and business leaders can mitigate its risks. Addressing the existing gap between accounting theory and actual business practice is therefore essential.

1.3 Research Objectives

The main objective of this study is to examine creative accounting and corporate failure in Nigeria

The specific objectives are to:

1. To examine the relationship between Non-Performing Loans (NPL) and corporate failure in Nigerian banks.
2. To evaluate the effect of Loan Loss Provision (LLP) on corporate failure in Nigerian banks.
3. To determine the impact of Loans and Advances (LA) on corporate failure in Nigerian banks.

4. To assess the relationship between Capital Adequacy (CA) and corporate failure in Nigerian banks.

1.4 Research Questions

Four research question were raised to guide this study

1. To what extent does Non-Performing Loans (NPL) influence corporate failure in Nigerian banks?
2. What is the effect of Loan Loss Provision (LLP) on corporate failure in Nigerian banks?
3. How do Loans and Advances (LA) impact the likelihood of corporate failure in Nigerian banks?
4. What is the relationship between Capital Adequacy (CA) and corporate failure in Nigerian banks?

1.5 Research Hypotheses

The following hypothesis is Written a null form and in the form suitable for quantitative studies with a dependent variable—Z-Score.)

Hypothesis One

H₀₁: There is no significant relationship between Non-Performing Loans (NPL) and corporate failure in Nigerian banks.

Hypothesis Two

H₀₂: There is no significant relationship between Loan Loss Provision (LLP) and corporate failure in Nigerian banks.

Hypothesis Three

H0₃: Loans and Advances (LA) have no significant effect on corporate failure in Nigerian banks.

Hypothesis Four

H0₄: Capital Adequacy (CA) has no significant relationship with corporate failure in Nigerian banks.

1.6 Scope of the Study

the geographically delimited to Nigerian firms, with a focus on companies operating both in the public and private sector, particularly those that have experienced financial distress or failure in the last 15-20 years. The research draws on documented cases of corporate collapse and analyzes the accounting methods that contributed to their failure in Benin City Edo state. It covers various sectors, including banking, manufacturing, insurance, Nigeria stock exchange, and telecommunications. It is challenging to absolve accounting professionals from responsibility in corporate failures, as several scholars argue that financial misconduct particularly the manipulation and misrepresentation of financial statements—could not occur without the deliberate collaboration between company managers and external auditors.

1.7 Significance of the Study

It is difficult to fully absolve accounting professionals from the blame for corporate failures, as numerous scholars contend that financial misconduct especially the

manipulation and falsification of financial statements would be unlikely to occur without the intentional cooperation of management and external auditors.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter offers an extensive review of existing literature on the link between creative accounting and corporate failure, with particular emphasis on Nigerian organisations. The review is organised into three major components: the conceptual review, which clarifies key terms and concepts relevant to the study; the theoretical review, which discusses the underpinning theories that support the research; and the empirical review, which evaluates previous studies and scholarly findings on creative accounting and corporate collapse. Through a critical examination of these sources, the chapter seeks to provide a

strong scholarly foundation for understanding how various creative accounting techniques influence corporate survival within Nigeria's economic environment.

2.2 CONCEPTUAL REVIEW

2.2.1 Concept of Corporate Failure

Corporate failure occurs when an organisation can no longer continue its operations or meet its financial responsibilities, often resulting in insolvency, bankruptcy, or eventual closure (Altman, 2020). Although frequently understood as the complete collapse of a company, corporate failure can take different forms. One notable form is the shutdown of business activities caused by financial distress, where the firm struggles to remain operational and profitable (Rachdi et al., 2021). Another manifestation is when a company consistently records low or negative financial returns over an extended period, indicating deep-rooted financial instability (González et al., 2022). Regardless of how it appears, corporate failure adversely affects investors, employees, and the wider economy. It may trigger significant job losses, diminish investor confidence, and weaken trust in the business environment (Garcia & Martínez, 2020; Taylor et al., 2023; Vuletich & Seitani, 2021). These repercussions often spread across economic sectors, intensifying instability and impacting multiple stakeholders.

2.2.2 Concept of Creative Accounting

Creative accounting refers to the application of legally permitted but potentially misleading accounting methods that present a company's financial position more favourably than its actual performance. This practice often exploits gaps, ambiguities, or flexibility within accounting standards to manipulate financial outcomes. In essence, creative accounting involves altering financial figures within the boundaries of accounting rules, but in ways that contradict their intended purpose in order to project an overly positive image of the organisation. The outcome is a distorted presentation of a firm's financial health meant to influence stakeholder perceptions and decisions.

According to Iredele et al. (2022), creative accounting may either comply or fail to comply with accounting principles, yet it departs from the true intent of those standards to create a preferred impression of the company. Paul, Francis, and Ben-Caleb (2020) criticised this view, arguing that creative accounting emerges primarily from the desire to deceive investors or gain undue advantage. They note that management often engages in such manipulations for personal gain, typically at the expense of other stakeholders, a behaviour that has contributed to the bankruptcy of many firms. Their study further suggests that creative accounting—alongside weak corporate governance, ineffective regulation, and non-enforcement of standards—has played a significant role in the collapse of major companies globally.

Similarly, Oshodin and Iyafekhe (2022) describe creative accounting as an undesirable practice linked to several corporate failures, asserting that it is a key factor in the collapse

of numerous organisations. Iredele et al. (2022) also conclude that creative accounting undermines the integrity of financial reporting, which is expected to be credible, reliable, and useful in guiding stakeholder decisions. By eroding reporting quality, creative accounting weakens the decision-making process and increases the risk of business failure.

2.2.3 Concept of Financial Reporting Quality

Ilaboya (2021) defines financial reports as the final outcome of accounting activities and economic events, providing both qualitative and quantitative information that assists users in assessing and predicting a firm's performance. Financial statements, therefore, summarise a company's yearly activities and typically include the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows, and accompanying notes that outline accounting policies and provide necessary explanations. Ensuring the quality of financial statements is crucial for maintaining their credibility and reliability. High-quality reporting helps constrain management's opportunistic behaviour arising from the separation of ownership and control.

The primary purpose of high-quality financial reporting is to provide decision-useful information that benefits investors and other resource providers. Investors, in particular, depend heavily on financial statements because they cannot always access internal

information from the company. Since they also provide risk capital, financial statements must meet most of their informational needs.

Financial information is considered relevant when it can influence users' decisions by enabling them to make predictions about past, present, or future events (Ahmed, 2020). For financial reports to remain reliable and relevant, they must be timely, possess predictive and feedback value, and offer faithful representation. Financial reports should present information that is comparable, neutral, understandable, and free from material error. Although estimates and assumptions are often unavoidable, a reasonable degree of accuracy and neutrality is required for financial statements to be useful. Reliability reflects the extent to which users can depend on financial information to represent economic events accurately. It incorporates qualities such as representational faithfulness, neutrality, and verifiability. Verifiability implies that different independent measurers can reach a consensus that reported information faithfully represents what it claims to portray (Johnson, 2022). Furthermore, for users to understand financial statements easily, the presentation must be clear, non-misleading, and in line with International Accounting Standard (IAS) 1.

Financial disclosure has remained a critical global issue for decades. The statement of financial performance is especially significant because it reflects the operating results of a firm. Higher transparency and quality in the income statement increase its usefulness to existing and potential investors (Akintola & Chris, 2020). Additionally, increased

disclosure enhances transparency and contributes to high-quality financial reporting. The overall purpose of financial reporting is therefore to promote accountability, improve transparency, and deliver comprehensive and reliable information to stakeholders (Akintola & Chris, 2020).

2.3 Accounting Policy Choice and Corporate Failure

Corporate failure continues to be a major global challenge, undermining investor trust and weakening national economies. Contemporary research highlights that one of the critical factors influencing financial distress is the choice of accounting policies adopted by firms (Tokoni & Paul, 2023; Wilson-Oshilim, Odubuasi & Omoye, 2024). The flexibility inherent in accounting standards allows managers to select reporting methods that can either enhance transparency or obscure underlying financial weaknesses.

Accounting policy choice refers to the discretion management exercises in selecting from several acceptable accounting methods—such as inventory valuation approaches, depreciation techniques, or revenue recognition rules—under the relevant standards. Positive Accounting Theory (PAT) explains that managers often make these choices to maximise personal benefits, such as achieving performance-based incentives, satisfying debt covenants, or reducing tax liabilities, rather than to faithfully represent the firm’s economic reality (Watts & Zimmerman, 1990; Tokoni & Paul, 2023). While such

discretion is legally permissible, it can create information asymmetry and enable aggressive reporting practices that increase the likelihood of corporate collapse.

Empirical evidence reinforces the relationship between accounting policy choice and organisational outcomes. Tokoni and Paul (2023) observed that managers in Nigerian manufacturing firms widely believe that accounting policy decisions significantly influence corporate failure. Similarly, Wilson-Oshilim et al. (2024) identified a strong association between corporate failure and accounting practices such as earnings manipulation, discretionary policy choice, and income smoothing among listed firms in Nigeria. International findings align with these results; Braunsberger and Aschauer (2025) reported that accounting policy indicators are now frequently incorporated into corporate failure prediction models, especially in emerging markets where regulatory oversight is often weaker. Collectively, these studies suggest that accounting policies not only shape perceived organisational performance but may also conceal financial vulnerabilities that could evolve into distress.

Several pathways explain how discretion in accounting policy selection increases the risk of corporate failure:

- **Aggressive Reporting Practices:** Companies may adopt overly liberal policies—such as postponing expenses or using lax depreciation methods—to artificially

inflate short-term profits. Such approaches can mask declining performance and delay corrective action (Wilson-Oshilim et al., 2024).

- **Distortion of Financial Signals:** When financial statements are manipulated through policy choices, lenders and investors may underestimate a firm's risk profile, leading to over-borrowing, misallocation of capital, and increased financial exposure (Tokoni & Paul, 2023).
- **Regulatory and Covenant Impacts:** Policy adjustments can alter the value of assets or liabilities, affecting compliance with loan covenants or regulatory thresholds. Firms with weak governance mechanisms may exploit this flexibility, increasing the probability of default or regulatory sanctions (Braunsberger & Aschauer, 2025).

2.4 The Role of Internal and External Auditors

Internal and external auditors perform distinct but complementary roles in strengthening accountability, transparency, and sound governance within organisations. Both serve as essential components of the corporate control system that ensures the accuracy of financial reporting and compliance with regulatory requirements. The Institute of Internal Auditors (IIA, 2022) defines internal auditing as an independent and objective assurance and advisory activity designed to add value and enhance an organisation's operations. External auditors, according to the International Federation of Accountants (IFAC, 2020), provide an independent and professional opinion on whether an organisation's financial

statements present a true and fair reflection of its financial condition and performance. Collectively, these audit functions foster stakeholder trust and reinforce corporate responsibility.

Internal auditors focus primarily on evaluating and strengthening internal controls, governance structures, and risk management processes. Their work is continuous and occurs within the organisation, forming part of its internal oversight system. Alzeban and Gwilliam (2020) highlight that internal auditors assess the quality of control systems, review compliance with policies, and recommend improvements that enhance operational effectiveness. They help ensure the reliability of financial and operational information, safeguard assets, and support management in achieving strategic objectives. By identifying control weaknesses and inefficiencies, internal auditors play a major role in preventing fraud, error, and mismanagement.

External auditors, in contrast, operate independently of the organisation they examine. Their central responsibility is to express an opinion on the fairness and accuracy of the financial statements prepared by management. As Hayes et al. (2021) note, external auditors assess financial statements using applicable auditing standards such as the International Standards on Auditing (ISA) to ensure they are free from material misstatement, whether caused by fraud or error. Their independence is essential for maintaining objectivity and public confidence in the audit process. By verifying the

integrity of financial statements, external auditors strengthen the credibility of information relied upon by shareholders, regulators, creditors, and other stakeholders.

Although they differ in objectives and scope, internal and external auditors' functions intersect in meaningful ways. Both contribute to improved governance, accountability, and transparency. Effective collaboration between them enhances audit quality, reduces duplication of effort, and improves organisational risk coverage. Gramling et al. (2021) observe that external auditors often rely on the work of internal auditors to gain insight into the internal control environment and assess the nature and extent of risks. When coordinated properly, such collaboration leads to more efficient and comprehensive audit outcomes, provided both parties maintain their independence and professional scepticism.

The roles of auditors have expanded in response to increasing corporate complexity and growing regulatory demands. Internal auditors now undertake risk-based audits, governance reviews, and advisory functions that support strategic planning. External auditors have come under heightened scrutiny, requiring stronger ethical standards and professional scepticism. Lenz and Hahn (2023) emphasise that as corporate risks evolve, the integration of internal and external audit work has become pivotal to securing robust governance frameworks. Together, internal and external auditors ensure that financial information is reliable, controls are effective, and organisations comply with legal and ethical expectations.

2.5 Regulatory Bodies in Minimizing Creative Accounting in Nigeria

Regulatory institutions are central to promoting transparency and reliability in financial reporting by upholding ethical and professional standards in the accounting profession. In Nigeria, the prevalence of creative accounting often reflected in the manipulation of financial statements to distort an organization's true performance has made the role of these bodies even more critical (Okoye & Ofoegbu, 2020). These agencies are tasked with developing reporting standards, enforcing compliance, and applying sanctions to discourage unethical accounting practices.

One of the major regulatory agencies is the Financial Reporting Council of Nigeria (FRCN). Established under the Financial Reporting Council of Nigeria Act of 2011, the FRCN ensures sound corporate governance, enhances the credibility of financial statements, and supervises the activities of accountants and auditors (FRCN, 2011). It issues and enforces accounting and auditing standards aligned with the International Financial Reporting Standards (IFRS), investigates financial reporting violations, and penalizes defaulting professionals or organizations (Odia & Ogiedu, 2021). Through these functions, the FRCN helps reduce the incidence of creative accounting among Nigerian firms.

The Institute of Chartered Accountants of Nigeria (ICAN) also plays a key role. Formed under the 1965 Act of Parliament, ICAN regulates the accounting profession by ensuring

its members maintain high ethical and professional standards. Its disciplinary tribunal investigates professional misconduct and sanctions members involved in fraudulent or misleading reporting (Ofoegbu & Ekwueme, 2021). ICAN also provides continuous training and professional development to promote integrity and ethical conduct among accountants.

The **Association of National Accountants of Nigeria (ANAN)** contributes by ensuring that its members comply with ethical codes and national and international reporting standards. It collaborates with other regulatory agencies to strengthen corporate governance and improve transparency in financial reporting (Eze & Okoye, 2020).

The Securities and Exchange Commission (SEC) oversees listed companies in Nigeria's capital market, ensuring that their financial disclosures comply with statutory requirements. The SEC sanctions companies involved in financial misrepresentation or insider trading, practices that often accompany creative accounting (Olojede & Erin, 2022). This oversight strengthens investor confidence and supports market integrity.

The **Central Bank of Nigeria (CBN)** regulates financial institutions, enforcing detailed reporting requirements and auditing banks to ensure accurate disclosures. By penalizing misleading reporting, the CBN promotes financial stability and discourages creative accounting within the banking sector (Uwuigbe et al., 2022).

Additionally, the **Corporate Affairs Commission (CAC)** ensures that registered companies adhere to the reporting obligations outlined in the Companies and Allied Matters Act (CAMA). The Commission mandates timely and accurate annual financial filings, and non-compliance attracts legal consequences (Akinbuli, 2020). This further reduces opportunities for financial manipulation.

Collectively, these regulatory bodies form a robust institutional framework that reduces creative accounting practices and strengthens financial reporting credibility in Nigeria.

2.6 Return on Equity (ROE)

Return on Equity (ROE) is a widely used measure of profitability that evaluates how effectively a company converts shareholders' equity into net earnings. As explained by Brigham and Ehrhardt (2022), ROE is obtained by dividing net income by shareholders' equity and reflects the rate of return generated on investors' capital. Firms with high ROE are generally considered efficient in utilizing shareholders' funds, whereas a low ROE often signals poor profitability or managerial inefficiency.

ROE is particularly important because it integrates profitability, operational performance, and financial leverage. Gitman and Zutter (2021) highlight that ROE can be decomposed

using the DuPont model into three components—profit margin, asset turnover, and financial leverage—allowing organizations to identify the specific drivers of performance. Although leverage can increase ROE, excessive reliance on debt may artificially inflate the ratio while exposing the company to higher financial risk.

Investors regard ROE as a key performance indicator because it reflects management's ability to create value for shareholders. According to Pandey (2021), firms that consistently improve their ROE tend to have strong corporate governance, effective strategic planning, and sound reinvestment policies. Conversely, irregular or declining ROE may raise concerns about inefficiency or competitive weaknesses.

However, ROE should be interpreted cautiously. Highly leveraged firms may report attractive ROE figures even when their financial stability is weak (Ross et al., 2022). Moreover, variations in accounting policies and external conditions may distort comparisons between firms. As a result, ROE is often analyzed alongside other indicators such as Return on Assets (ROA) and Earnings per Share (EPS) to obtain a more accurate assessment of performance.

2.7 Return on Assets (ROA)

Return on Assets (ROA) is a crucial indicator of profitability that measures how efficiently a company utilizes its assets to generate earnings. ROA is calculated by dividing net income by total assets, providing insight into how well management converts

invested resources into profit (Brigham & Houston, 2020). A higher ROA indicates effective asset utilization and strong operational performance, whereas a lower ROA suggests inefficiencies or excessive investment in assets relative to returns.

ROA is useful for comparing companies within the same industry, as it highlights differences in asset efficiency among firms with similar operational structures (Gitman & Zutter, 2021). For example, in the manufacturing industry, a higher ROA reflects better performance relative to competitors. However, ROA interpretations must account for industry characteristics; capital-intensive sectors naturally record lower ROA values compared to service-oriented industries.

From a managerial perspective, ROA guides strategic decision-making. A declining ROA may signal operational weaknesses or poor asset management, prompting managers to cut costs, improve efficiency, or reassess investment strategies (Ross et al., 2022). Analysts often complement ROA with other profitability metrics, including ROE and Return on Investment (ROI), to obtain a comprehensive view of a company's financial status.

2.8 Implications of Corporate Failure in Nigeria

Corporate failure defined as a company's inability to sustain operations due to insolvency, poor governance, or loss of stakeholder confidence has significant consequences for both the organization and the broader Nigerian economy (Odia & Ogiedu, 2020). In Nigeria, such failures are frequently linked to unethical financial practices, creative accounting,

weak governance systems, and inadequate regulatory oversight (Okoye & Ofoegbu, 2020).

A major consequence of corporate failure is the decline in investor confidence. When firms collapse as a result of financial misconduct or misrepresentation, investors lose trust in the credibility of financial statements and the integrity of the capital market. This distrust discourages foreign and domestic investment, limiting the flow of capital required for national economic development (Eze & Okoye, 2021). Well-publicized failures such as Cadbury Nigeria Plc and Oceanic Bank illustrate how financial irregularities can undermine the investment climate.

Corporate failure also leads to unemployment and economic hardship. The collapse of a firm often results in job losses, reduced household income, and increased poverty levels—effects that are particularly severe in a developing economy with limited employment opportunities (Akinbuli, 2020). Creditors and suppliers also experience financial distress because they are unable to recover funds owed by the failed company.

Additionally, corporate failure threatens the stability of financial institutions. When companies default on loans due to inaccurate financial reporting, banks accumulate non-performing loans, which jeopardizes their liquidity and financial health (Ojo, 2022). This restricts the availability of credit to other businesses, thereby slowing economic growth.

Finally, corporate failure reduces government revenue. When once-profitable companies become insolvent, the tax base shrinks, limiting government expenditure on infrastructure, education, healthcare, and other essential services (Uwuigbe et al., 2020). This reduction further constrains economic development and social welfare.

2.9 Relationship Between Creative Accounting and Corporate Failure

The connection between creative accounting and corporate collapse is both strong and widely supported in existing literature. Firms that manipulate financial information often become financially unstable once the true state of their operations is eventually exposed (Jones, 2021). High-profile global failures such as Enron and WorldCom demonstrate how accounting manipulation can result in substantial financial losses, reputational damage, and ultimately bankruptcy. In Nigeria, several corporate breakdowns—particularly in the banking and petroleum sectors have been attributed to creative accounting practices, where managers alter or misreport financial information to mask poor performance or mismanagement (Owolabi, 2021). These unethical practices create a deceptive appearance of profitability while underlying financial problems continue to deteriorate.

Additionally, creative accounting diminishes the reliability of financial reporting and erodes investor confidence within the capital market. When financial statements fail to present an accurate economic picture, stakeholders are likely to make misinformed

investment decisions (Naser & Pendlebury, 2020). Such misinformation disrupts efficient resource allocation and heightens the likelihood of financial distress. Corporate failures driven by accounting manipulation often lead to stricter regulatory measures, reduced corporate credibility, and increased compliance costs across the industry. Thus, creative accounting not only jeopardizes individual firms but also poses broader systemic risks to the financial system.

Overall, creative accounting significantly contributes to corporate failure by obscuring inefficiencies and misleading stakeholders. Long-term business sustainability relies on ethical reporting and transparent disclosure practices. Enhancing internal audit structures, enforcing regulatory frameworks, and strengthening ethical awareness among accounting professionals can reduce the occurrence of creative accounting and its negative consequences (Olowokure et al., 2020). Through improved accountability, firms can better maintain investor trust, safeguard profitability, and support economic stability.

2.10 How Creative Accounting Contributes to Corporate Failure

Creative accounting compromises the trustworthiness of financial reports, thereby limiting stakeholders' ability to evaluate a company's true financial health (Patel, 2022). Manipulated financial figures often conceal early signs of distress, such as declining liquidity, rising debt, or poor profitability (Wilson-Oshilim et al., 2024). This concealment prevents timely intervention by managers or regulators and accelerates the

likelihood of business collapse. Empirical findings from Nigeria consistently reveal a strong link between creative accounting practices and higher chances of corporate failure (Olayinka & Adekola, 2021; Tokoni & Paul, 2023).

Weak governance structures and institutional deficiencies intensify these risks by lowering the chances of detecting or discouraging manipulation. Firms that engage in creative accounting tend to fail more frequently, and their collapse often occurs abruptly with minimal external warning because financial reports have masked the underlying distress.

The relationship between creative accounting and corporate failure in Nigeria is both direct and shaped by contextual factors. Creative accounting distorts financial transparency, misleads investors, and conceals financial problems. Weak regulatory oversight, poor ethical culture, ineffective governance, and pressure from stakeholders further support the persistence of such practices. Consequently, companies that manipulate financial reports face increased failure risk, either because the manipulation triggers collapse or because it hides warning signals until intervention becomes ineffective (Wilson-Oshilim et al., 2024; Tokoni & Paul, 2023; Olayinka & Adekola, 2021).

2.11 Systemic Weaknesses within Organizations and Regulatory Frameworks That Enable Creative Accounting

Systemic weaknesses within corporate structures and regulatory environments are major contributors to the spread of creative accounting. Many organizations operate with ineffective internal controls, weak governance mechanisms, and poor ethical standards, creating fertile ground for financial manipulation (Amat & Gowthorpe, 2020). When internal monitoring systems are inadequate, managers may engage in earnings management, profit manipulation, or deliberate misstatements to meet short-term objectives. These vulnerabilities are often worsened by poor oversight from boards of directors, insufficient separation of duties, and ineffective internal audit functions. Such deficiencies weaken accountability and transparency, allowing unethical practices to persist undetected.

Furthermore, shortcomings within the regulatory environment significantly reinforce creative accounting. In countries like Nigeria, key regulatory institutions—including the Financial Reporting Council (FRC), Securities and Exchange Commission (SEC), and the Institute of Chartered Accountants of Nigeria (ICAN)—often struggle with limited enforcement capacity, political influence, and resource constraints (Owolabi, 2020). Weak enforcement makes it difficult to identify and penalize violators, encouraging firms to exploit loopholes in accounting standards and audit processes. The absence of stringent sanctions further emboldens repeated manipulation across different sectors.

External auditors also contribute to these systemic shortcomings when they fail to maintain professional skepticism or independence. In some cases, auditors prioritize

client retention over ethical responsibilities, compromising the integrity of financial reporting (Jones, 2021). Instances of auditor-management collusion in Nigeria have been linked to major corporate collapses in sectors such as banking and manufacturing. This highlights the urgent need for stronger audit regulations, improved auditor independence, and greater transparency in corporate reporting.

In essence, the widespread practice of creative accounting results largely from organizational and regulatory weaknesses. Strengthening internal control systems, enforcing robust reporting standards, and promoting professional ethics among auditors and accountants are essential for reducing manipulation (Olowokure et al., 2020). Regulatory bodies must also be adequately empowered to supervise, enforce compliance, and impose penalties without interference. Addressing these systemic flaws can enhance financial transparency, rebuild investor confidence, and lower the risk of corporate failure associated with unethical accounting.

2.12 Theoretical Framework

The use of theory is essential for explaining how creative accounting influences corporate outcomes. Theoretical perspectives provide a structured understanding of how accounting manipulations—such as income smoothing, earnings management, window dressing, related-party transactions, and manipulation of revenue and expense recognition—affect firm performance, shareholder wealth, and long-term sustainability. They also clarify

how ownership structures shape resource allocation, dividend policies, and agency costs within organizations. The value of theoretical frameworks lies in their ability to explain the fundamental mechanisms that link creative accounting practices with corporate survival or failure.

This review focuses on three key theories that illuminate the relationship between creative accounting and corporate collapse: **Agency Theory**, **Ethical Accounting Theory**, and **Stakeholder Theory**. Agency Theory explains how the separation of ownership and control, coupled with weak monitoring and regulatory gaps, creates incentives for managers to manipulate financial information, ultimately contributing to corporate failure. Ethical Accounting Theory and Stakeholder Theory provide complementary explanations by highlighting how firms respond to ethical expectations, stakeholder pressures, and broader societal norms. Together, these theories offer a comprehensive lens for understanding how creative accounting evolves and the consequences it imposes on corporate sustainability.

2.12.1 Agency Theory

Agency Theory, developed by Jensen and Meckling (1976), explains that firms often experience a separation between ownership and management control, with shareholders entrusting decision-making authority to managers. The theory assumes that managers, acting as agents, may pursue self-interest rather than the best interests of shareholders,

creating agency conflicts such as opportunistic behavior, information asymmetry, and moral hazard. In accounting, creative accounting is frequently interpreted as an outcome of these agency problems. Managers may manipulate financial data to achieve personal gains, including meeting earnings targets, securing bonuses, or safeguarding their positions (Olayinka & Adekola, 2021).

This theory provides a useful framework for understanding how misaligned incentives, coupled with weak governance and inadequate regulatory oversight, can encourage creative accounting and increase the likelihood of corporate failure. It highlights the necessity of robust governance mechanisms—such as active boards, independent audit committees, and effective regulatory enforcement—to align managerial interests with shareholder objectives and reduce opportunistic reporting.

In Nigeria, the agency problem is particularly acute due to dispersed shareholding, lax regulatory enforcement, and limited board vigilance (Ohiokha & Yesufu, 2023). These conditions create opportunities for managers to engage in creative accounting practices—such as discretionary accruals, income smoothing, or artificial transactions—to present a more favorable financial position than is justified. From an agency perspective, these actions represent opportunistic behavior that distorts the firm’s actual performance, misleads shareholders and stakeholders, undermines governance, and can ultimately precipitate corporate failure (Olayinka & Adekola, 2021; Wilson-Oshilim, Odubuasi & Omoye, 2024). Therefore, agency theory frames creative accounting as both a

symptom and a driver of agency conflict, particularly where governance, monitoring, and regulatory systems are weak.

2.12.2 Stakeholder Theory

Stakeholder Theory asserts that firms have responsibilities beyond shareholders, extending to employees, customers, creditors, regulators, and the wider community (Freeman, 1984). Within corporate accounting in Nigeria, this theory emphasizes the ethical duty of managers and accountants to maintain transparency, fairness, and accountability in financial reporting. Reliable financial information allows stakeholders to make informed decisions regarding investments, employment, and policy formulation. However, creative accounting or financial misrepresentation breaches stakeholder trust and undermines the integrity of the financial system. Manipulating accounts for personal or organizational gain disregards the interests of non-shareholding stakeholders and weakens the social contract between business and society.

Several corporate failures in Nigeria's banking, manufacturing, and oil sectors can be analyzed through the lens of Stakeholder Theory. When management focuses solely on short-term shareholder gains at the expense of broader ethical obligations, financial instability often follows, culminating in corporate collapse (Owolabi, 2020). Weak transparency and insufficient regulatory oversight allow unethical accounting practices to thrive, resulting in diminished investor confidence, job losses, and negative economic

impacts. Consequently, Stakeholder Theory underscores the need for ethical standards, effective regulation, and inclusive stakeholder engagement to prevent corporate failures and promote sustainable corporate governance.

2.13 Empirical Review

Olayinka and Adekola (2021) conducted a study on corporate failure in Nigeria as influenced by creative accounting. Using a structured questionnaire, data were analyzed with ANOVA and chart analysis. The findings revealed that creative accounting significantly contributes to corporate failure. The study highlighted that such practices are unethical and compromise the integrity of financial reporting, threatening the continuity of corporate organizations in Nigeria.

Elaiwu et al. (2020) investigated creative accounting practices in Nigerian corporate organizations, focusing on commercial banks. Using survey methods and analyzing data with mean scores and Z-tests, the study found that creative accounting substantially affects corporate failure. It was noted that managers often use these practices to inflate share market value. The researchers recommended that creative accounting be criminalized and rigorously addressed by accounting bodies, judiciary, and government regulators to safeguard the reputation of the accounting profession, reduce corporate failures, and restore public confidence in financial reporting.

Akpanuko et al. (2018) observed that accounting creativity often results in misleading financial reports, with 90% of such practices motivated by greed to deceive investors, shareholders, and the public, thereby increasing the likelihood of corporate failures. However, the study also pointed out that weak enforcement of regulations inadvertently facilitates these manipulations, creating an environment for cosmetic reporting.

Osazevbaru (2017) examined the impact of creative accounting on firms' market value in Nigeria and found that such practices can temporarily increase a company's apparent value. This suggests that many investors are unable to detect financial deception, often making decisions based on flawed perceptions. According to Kahneman and Tversky's (1986) prospect theory, individuals rely on cognitive heuristics when evaluating uncertain outcomes, which explains why investors may be misled. Ultimately, when financial statements are manipulated, they not only fail to provide a fair representation but also undermine regulatory authority, allowing preparers to pursue self-serving objectives at the expense of stakeholders.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter outlines the methodology adopted for conducting the study. It presents the research design, population and sample, data sources, data collection methods, analytical techniques, and model specification used to examine the relationship between credit management and corporate failure in the Nigerian banking sector.

3.2 Research Design

The study employed an ex-post facto research design, as it investigates corporate failure and credit management in the banking sector based on historical data. This design is appropriate since the events under study had already occurred, allowing the researcher to analyze existing financial outcomes.

3.3 Population and Sampling

The population of the study consists of 16 listed deposit money banks and financial holding companies operating in Nigeria as of December 31, 2019. Given that the population is relatively small, a census approach was adopted, meaning all 16 banks were included in the study.

3.4 Data Sources

The study utilized secondary data, extracted from the annual reports and financial statements of the sampled banks. These sources provided relevant financial information required for the analysis.

3.5 Method of Data Analysis

Data were analyzed using the Ordinary Least Squares (OLS) regression technique. OLS was employed to estimate the relationships between the variables, providing minimum-

variance, unbiased estimators when the assumptions of classical linear regression are satisfied.

3.6 Model Specification

The study's model was adapted from the works of Awais, Hayat, Mehar, and Hassan (2015) and Ezejiofor, Nzewi, and Okoye (2014), who used the Altman Z-Score and Current Ratio to assess corporate financial failure or non-failure. The classical Altman (1968) Z-Score model is specified as follows:

$$[\text{Altman Z-Score}] = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E$$

Where:

- **A** = Working Capital / Total Assets
- **B** = Retained Earnings / Total Assets
- **C** = Earnings Before Interest and Taxes / Total Assets
- **D** = Market Value of Equity / Total Liabilities
- **E** = Sales / Total Assets

The Z-Score provides an indicator of bankruptcy risk by combining liquidity, profitability, leverage, solvency, and activity ratios. Higher scores indicate lower risk of financial distress, while lower scores suggest greater likelihood of corporate failure.

Modified Model for Banking Sector

To tailor the Altman model for banks, bank-specific variables such as credit risk, asset quality, and capital adequacy were incorporated. The modified model is specified as:

$$\text{Z-Score}_{it} = \beta_0 + \beta_1 \text{NPL}_{it} + \beta_2 \text{LLP}_{it} + \beta_3 \text{LA}_{it} + \beta_4 \text{CA}_{it} + \mu_t$$

Where:

Dependent Variable:

- **Z-Score:** Measures corporate bankruptcy risk and assesses the financial failure or non-failure of the sampled banks, based on the modified Altman Z-Score.

Independent Variables:

- **NPL (Non-Performing Loans):** Represents the proportion of loans that are in default or nearing default. Higher NPLs indicate poor asset quality and increased bankruptcy risk.
- **LLP (Loan Loss Provision):** Denotes funds set aside to cover expected loan losses. Higher LLPs reflect greater credit risk and anticipated future losses.
- **LA (Loans and Advances):** Total value of loans extended to customers, capturing the size of the bank's lending portfolio. Rapid or excessive loan growth can elevate credit risk.

- **CA (Capital Adequacy):** Represents the regulatory capital ratio. Higher capital adequacy enhances solvency and reduces the likelihood of financial distress.

Interpretation of the Model

- **β_1 :** Expected to be negative because higher NPLs increase financial distress → reduce Z-Score.
- **β_2 :** Expected to be negative because high LLPs indicate greater loan impairment → higher failure risk.
- **β_3 :** Could be positive or negative depending on whether loan growth improves earnings or increases risk.
- **β_4 :** Expected to be positive because higher capital adequacy strengthens solvency → raises Z-Score.

Purpose of the Model Modification

This modification allows the study to:

- Tailor the Z-Score bankruptcy prediction framework to the banking sector, where Altman's original variables may not fully capture credit risk;
- Integrate key bank-specific indicators (NPL, LLP, LA, CA) that better explain financial distress within banks;

- Provide a more robust empirical measure of bank failure likelihood in the context of the study.

Table showing prior studies with their variables and measurement

Summary of variables and Sources of variables				
No	Variables	Meaning	Measurement	Source
1.	Z-Score	Corporate Bankruptcy (Corporate failure)	Z- Score adopted	Altman (1968) Z-Score and Mabe & Lin (2018)
2.	LLP	Loan loss provision	Provisioning system, non-discretionary LLP are mainly related to non-performing loans. As good indicators of the expected loss identified by banks for their loan portfolio	Ahmed <i>et al.</i> (1999), Amos, L. M. Sharon, S. & Anita, M. (2016)
3.	NPL	Nonperforming loan	Non-performing loan = $\frac{\text{Non performing loan}}{\text{Total Loan}}$	Singh, Basuki and Setiawan (2021); Alton and Hazen(2001)

4.	LA	Loan and Advance	Loan Advances measures the composition of due but uncollected interest in the total income from Loans and Advances	Wagle and Campus (2010)
5.	CP	Capital Adequacy	Risk based capital to average total assets	Utah, S. (2011)

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter focuses on the analysis and interpretation of the empirical findings derived from the review of annual reports of Nigerian banks. The study examines the variables Loan Loss Provision (LLP), Non-Performing Loans (NPL), Loans and Advances (LA), and Capital Adequacy (CA). These variables were analyzed using descriptive statistics, panel data techniques, Pearson's correlation, and Ordinary Least Squares (OLS) regression. The estimation of the model was performed with the support of SPSS version 24.

4.2 Presentation of Results

Table 1: Descriptives Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
ZSCORE	74	11.60	55.20	31.6432	10.86872
NPL	74	8453.00	73987012.00	13785219.6400	18378025.57000
LA	75	23667.00	7480233.00	3717622.9330	1832245.79400
LLP	75	40431.00	94308165.00	9022361.1720	20617120.39000
CA	71	41134698.00	900342761.00	215082547.2000	228044604.60000
Valid N (listwise)	69				

Source: Researcher, 2025

Table 1 presents the summary statistics for the variables used in the study, including the Z-Score (a measure of corporate financial health), Non-Performing Loans (NPL), Loans and Advances (LA), Loan Loss Provision (LLP), and Capital Adequacy (CA). These descriptive results provide an initial understanding of the distribution, central tendencies, and variability of the financial indicators used to assess bank stability.

The Z-Score, with 74 observations, ranges from 11.60 to 55.20, with a mean value of 31.64 and a standard deviation of 10.87. This average Z-Score suggests that the banks generally exhibit moderate financial stability, as the scores lie comfortably above the distress threshold in the Altman model. Nevertheless, the wide range and high variability indicate that financial health varies significantly across banks. While some institutions appear highly stable, others are much closer to the zone associated with heightened failure risk.

Non-Performing Loans (NPL), also based on 74 observations, show a very wide range spanning from 8,453 to 73,987,012 and a mean of 13,785,219.64. The standard deviation (18,378,025.57) exceeds the mean, highlighting substantial dispersion in credit risk across banks. This suggests that some banks carry disproportionately high levels of non-performing assets, indicating weaker loan quality and risk management practices compared to more stable institutions.

Similarly, Loans and Advances (LA), with 75 observations, range from 23,667 to 7,480,233 and have a mean of 3,717,622.93. The sizable standard deviation of 1,832,245.79 points to significant variation in the size of loan portfolios among banks.

This variability reflects differences in market engagement, aggressiveness in lending, balance sheet size, or strategic focus across institutions.

Loan Loss Provision (LLP), which also has 75 observations, displays the highest variability relative to its mean. The values range from 40,431 to 94,308,165, with a mean of 9,022,361.17 and a large standard deviation of 20,617,120.39. This wide dispersion suggests considerable inconsistency in provisioning policies among banks. Some institutions set aside substantial amounts to cover impaired loans likely due to poor asset quality or conservative accounting policies while others set aside much less, indicating stronger loan performance or different risk management approaches.

Capital Adequacy (CA), based on 71 observations, also shows substantial variability. With a minimum value of 41,134,698 and a maximum of 900,342,761, the mean of 215,082,547.20 and standard deviation of 228,044,604.60 indicate that banks differ sharply in their capital strength. This disparity reflects variations in resilience, regulatory compliance levels, and overall risk absorption capacity. Some banks appear to maintain extensive capital buffers, while others operate with comparatively leaner capital positions. The valid listwise observations total 69, meaning that only 69 cases had complete data for all variables. The slight reduction from the full dataset suggests the presence of missing values, which is common in financial research and may be attributed to reporting inconsistencies or data availability issues.

Overall, the descriptive analysis reveals significant heterogeneity across the sampled banks in terms of financial stability, credit risk exposure, loan portfolio composition,

provisioning practices, and capital adequacy. The large standard deviations across most variables indicate wide differences in operational scale, financial performance, and risk levels. These variations are crucial, as they may influence the strength and direction of the relationships between the Z-Score and the explanatory variables (NPL, LLP, LA, and CA) in subsequent regression analyses.

Table 2: Correlation Analysis

		ZSCORE	NPL	LA	LLP	CA
Pearson Correlation	ZSCORE	1.000	.023	-.238	.030	.091
	NPL	.023	1.000	-.197	.580	.068
	LA	-.238	-.197	1.000	-.090	.059
	LLP	.030	.580	-.090	1.000	.354
	CA	.091	.068	.059	.354	1.000
Sig. (1-tailed)	ZSCORE	.	.424	.025	.404	.228
	NPL	.424	.	.053	.000	.288
	LA	.025	.053	.	.232	.314
	LLP	.404	.000	.232	.	.001
	CA	.228	.288	.314	.001	.
N	ZSCORE	69	69	69	69	69
	NPL	69	69	69	69	69
	LA	69	69	69	69	69
	LLP	69	69	69	69	69
	CA	69	69	69	69	69

Source: Researcher, 2025

Table 2 presents the Pearson correlation coefficients showing the strength and direction of the relationships between the Z-Score and the explanatory variables Non-Performing Loans (NPL), Loans and Advances (LA), Loan Loss Provision (LLP), and Capital Adequacy (CA). The analysis is based on 69 observations, and significance is evaluated using one-tailed tests. The results show that the correlation between Z-Score and NPL is positive but extremely weak ($r = 0.023$, $p = 0.424$). This suggests that increases in non-

performing loans have almost no linear relationship with the financial stability of the banks as measured by the Z-Score. The coefficient is not statistically significant, indicating that NPL does not meaningfully predict variations in the Z-Score in the simple bivariate context.

Loans and Advances (LA) exhibit a weak negative correlation with Z-Score ($r = -0.238$, $p = 0.025$). This relationship is statistically significant at the 5% level, implying that higher levels of loans and advances are associated with slightly lower Z-Scores. In practical terms, banks with higher loan disbursements may face increased credit exposure, which can reduce financial stability if not matched with adequate risk management. The correlation between Z-Score and Loan Loss Provision (LLP) is weak and positive ($r = 0.030$, $p = 0.404$), and the relationship is not statistically significant. This suggests that LLP, as a standalone variable, does not have a meaningful linear impact on bank stability. It also indicates that mere increases in provisioning do not directly translate into higher or lower Z-Scores.

Capital Adequacy (CA) shows a weak positive correlation with Z-Score ($r = 0.091$, $p = 0.228$), and the relationship is statistically insignificant. This implies that although higher capital buffers may contribute to bank stability, the relationship is not strong enough to be detected through simple correlation in this dataset. It is possible that capital adequacy influences bank stability more strongly in a multivariate context rather than in isolation. Examining relationships among the explanatory variables, the strongest correlation appears between LLP and NPL ($r = 0.580$, $p = 0.000$), which is statistically significant.

This aligns with expectations: banks with higher non-performing loans tend to set aside larger provisions, reflecting prudent or required risk management practices. Another moderate positive relationship exists between CA and LLP ($r = 0.354$, $p = 0.001$), suggesting that banks with stronger capital positions may also maintain higher levels of loan loss provisions, possibly due to better compliance with regulatory standards.

Other correlations among the independent variables such as between LA and NPL ($r = -0.197$), LA and LLP ($r = -0.090$), and CA with LA ($r = 0.059$) are weak and statistically insignificant. This indicates relatively low multicollinearity risk among the predictors, which supports their suitability for regression analysis. Consequently, the correlation results suggest that most variables have weak relationships with the Z-Score at the bivariate level, with only Loans and Advances showing a significant association. This implies that the impact of NPL, LLP, and CA on financial stability may be better captured through multivariate regression analysis rather than simple pairwise correlations.

Table 3: Summary of Regression

Model Summary^b

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	.263 ^a	.069	.011		10.67946	2.046

a. Predictors: (Constant), CA, LA, NPL, LLP
 b. Dependent Variable: ZSCORE
 Source: Researcher, 2025

Table 3 provides the summary of the regression analysis examining how Non-Performing Loans (NPL), Loans and Advances (LA), Loan Loss Provision (LLP), and Capital Adequacy (CA) jointly influence bank financial stability, measured by the Z-Score. The

analysis recorded a correlation coefficient (R) of **0.263**, indicating a *weak positive* relationship between the independent variables and financial stability. This shows that, collectively, the predictors have only a slight association with the Z-Score.

The **R Square value of 0.069** indicates that the model explains only **6.9%** of the variation in banks' Z-Scores. Thus, about **93.1%** of the changes in financial stability are attributable to factors outside the model. The **Adjusted R Square of 0.011**, which accounts for the number of predictors, further demonstrates the model's limited explanatory strength showing that only **1.1%** of the variance in the dependent variable is effectively accounted for after adjustment.

The **Standard Error of the Estimate (10.67946)** reflects the average distance between actual Z-Score values and those predicted by the model. Considering the magnitude of the Z-Score, this relatively high error value aligns with the low explanatory power of the model.

The **Durbin–Watson statistic of 2.046** falls within the acceptable range (approximately 1.5–2.5), indicating that there is no meaningful autocorrelation among the residuals and that the error terms are independent.

Overall, the model suggests that although NPL, LLP, LA, and CA are important financial indicators, they collectively provide only a weak explanation for variations in banks' financial stability as measured by the Z-Score. This finding implies that other internal or

external factors may play more significant roles in determining corporate financial health, warranting further investigation in future studies.

Table 4: The coefficient table

Coefficients^a

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	VIF
1	(Constant)	35.831	3.455			.000		
	NPL	-1.232E-8	.000	-.022	-.142	.888	.625	1.600
	LA	-1.461E-6	.000	-.251	-2.032	.046	.956	1.046
	LLP	-1.050E-8	.000	-.021	-.130	.897	.565	1.771
	CA	5.359E-9	.000	.115	.875	.385	.843	1.187

a. Dependent Variable: ZSCORE

Source: Researcher, 2025

Table 4 presents the coefficients of the regression model examining the effects of Non-Performing Loans (NPL), Loans and Advances (LA), Loan Loss Provision (LLP), and Capital Adequacy (CA) on banks' financial stability, as measured by the Z-Score. The constant (intercept) has an unstandardized coefficient of 35.831 ($p = 0.000$), indicating that when all independent variables are held at zero, the baseline Z-Score for the banks is approximately 35.83. This value is significantly different from zero, confirming that the model has a meaningful intercept. Non-Performing Loans (NPL) have a very small negative unstandardized coefficient ($B = -1.232E-8$) and an insignificant p-value (0.888). This means that NPL has no statistically significant effect on the Z-Score, and its negative direction suggests that increases in non-performing loans may slightly reduce financial stability, but the effect is negligible and not meaningful statistically. The

standardized coefficient (Beta = -0.022) further confirms its weak influence. Collinearity diagnostics (Tolerance = 0.625 ; VIF = 1.600) show no multicollinearity concerns.

Loans and Advances (LA) exhibit a negative and statistically significant coefficient ($B = -1.461E-6$, $p = 0.046$). This indicates that an increase in loans and advances is associated with a decrease in the Z-Score, implying that as banks expand their loan portfolios, their financial stability may decline slightly. The standardized Beta of -0.251 shows that LA has the strongest effect among the independent variables in the model. This result suggests that aggressive lending without adequate risk management may negatively affect bank solvency. Collinearity indicators (Tolerance = 0.956 ; VIF = 1.046) confirm strong model reliability.

Loan Loss Provision (LLP) has a small negative coefficient ($B = -1.050E-8$) with a high p-value (0.897), indicating no statistically significant relationship with the Z-Score. Although the direction suggests that higher provisioning may marginally reduce financial stability, the effect is trivial. The Beta value (-0.021) confirms its weak influence, and the collinearity values (Tolerance = 0.565 ; VIF = 1.771) fall within acceptable limits.

Capital Adequacy (CA) shows a positive but statistically insignificant coefficient ($B = 5.359E-9$, $p = 0.385$). The positive direction suggests that higher capital adequacy may support financial stability, but the lack of significance implies that this effect is not strong enough to influence the Z-Score meaningfully in this sample. The standardized Beta value of 0.115 reflects its relatively small contribution. Collinearity diagnostics (Tolerance = 0.843 ; VIF = 1.187) indicate no multicollinearity issues.

Consequently, the coefficient results suggest that Loans and Advances (LA) is the only variable that significantly predicts banks' financial stability, and the relationship is negative. NPL, LLP, and CA do not significantly influence the Z-Score in the current model. These findings align with the earlier model summary and correlation analysis, which showed limited explanatory power of the predictors. The results imply that the financial stability of banks may be driven by factors beyond the traditional credit-risk and capital-adequacy indicators captured in this study.

4.3 Hypotheses Testing

This section presents the hypotheses testing based on the regression coefficient results displayed in Table 4. Each hypothesis is evaluated using the t-statistics and p-values at the 5% significance level.

Hypothesis One

H0: There is no significant relationship between non-performing loans (NPL) and corporate failure.

H1: There is a significant relationship between non-performing loans (NPL) and corporate failure.

Paraphrased Version (Plagiarism-Free)

The coefficient results indicate that Non-Performing Loans (NPL) exert a negative but statistically insignificant effect on the Z-Score, reflected in a t-value of -0.142 and a p-value of 0.888 . Since the p-value exceeds the 0.05 significance level, the relationship is

not statistically meaningful. Consequently, the null hypothesis is retained, suggesting that NPLs do not significantly influence corporate failure among the banks examined. Although the direction of the coefficient is negative, the magnitude of the effect is too minimal to be considered important.

Hypothesis Two

H0: Loan loss provision (LLP) has no significant relationship with corporate failure.

H1: Loan loss provision (LLP) has a significant relationship with corporate failure.

The findings show that LLP has a negative but statistically insignificant effect on the Z-Score, with a t-value of -0.130 and a p-value of 0.897 . Because the p-value is greater than 0.05 , the effect is not statistically significant. Therefore, the study fails to reject the null hypothesis, indicating that LLP does not significantly affect corporate failure. Although the coefficient is negative, the impact is too weak to be considered meaningful.

Hypothesis Three

H0: Loans and advances (LA) have no significant relationship with corporate failure.

H1: Loans and advances (LA) have a significant relationship with corporate failure.

The coefficient results show that LA has a negative and statistically significant effect on the Z-Score, with a t-value of -2.032 and a p-value of 0.046 . Since the p-value is less than 0.05 , the relationship is significant at the 5% level. Thus, the null hypothesis is

rejected, and the alternative hypothesis is accepted. This indicates that loans and advances significantly and negatively affect corporate failure. The implication is that increased loan exposure may threaten financial stability if the associated risks are not properly managed.

Hypothesis Four

H0: Capital adequacy (CA) has no significant relationship with corporate failure.

H1: Capital adequacy (CA) has a significant relationship with corporate failure.

The results reveal that CA has a positive but statistically insignificant effect on the Z-Score, as shown by a t-value of 0.875 and a p-value of 0.385. With the p-value above 0.05, the effect is considered statistically insignificant. Therefore, the study fails to reject the null hypothesis, suggesting that capital adequacy does not significantly influence corporate failure in the banks studied, despite the positive direction of the coefficient.

4.4 Discussion of Findings

The findings provide valuable insights into the extent to which credit-risk-related factors—NPL, LA, LLP, and CA—affect corporate failure in Nigerian banks using the Altman Z-Score. Consistent with previous studies, the results show a mixed level of predictive power among these key indicators of credit risk.

NPL has a negative but statistically insignificant effect on corporate failure ($p = 0.888$). While theory suggests that higher NPL levels should heighten financial distress due to declining asset quality, the insignificant relationship observed here indicates that bad loans alone do not sufficiently explain variations in financial stability. This aligns with the conclusions of Azeem & Amara (2014) and Curak et al. (2013), who reported that NPLs sometimes fail to exhibit strong immediate effects due to delayed impairment recognition or regulatory discretion. Likewise, Serwa (2013) notes that true NPL levels may be obscured during periods of credit expansion. Nonetheless, the negative sign is consistent with the views of Brown & Moles (2016) and Duffie & Singleton (2003), who argue that deteriorating loan quality undermines capital strength and increases default risk. Overall, NPL behaves as expected theoretically, but it does not significantly predict failure in this context.

Loans and Advances (LA) show a negative and statistically significant impact on corporate failure ($p = 0.046$; $t = -2.032$), indicating that increased lending activities reduce financial stability. This likely occurs because aggressive loan expansion exposes banks to greater credit risks. This finding aligns with Kargi (2011), Kolapo et al. (2012), and Poudel (2012), who found that bank performance deteriorates when credit growth is not accompanied by strong risk-management practices. Other authors, including Berger, Hanweck & Humphrey (1987) and Athanasoglou et al. (2006), also note that rapid loan growth often precedes declining asset quality. Wagle & Campus (2010) further argue that

excessive lending in developing economies commonly leads to liquidity pressures and higher default rates. Thus, the significant role of LA in predicting corporate failure is well supported in the literature.

LLP exhibits a negative but statistically insignificant impact on corporate failure ($p = 0.897$). While higher provisions should theoretically strengthen financial resilience by covering expected losses, the lack of statistical significance suggests inconsistencies in provisioning practices among Nigerian banks. This finding supports the arguments of Beatty & Liao (2009) and Bikker & Metzmakers (2005), who observed that provisioning tends to be pro-cyclical and may not reliably predict financial distress. Laeven & Majnoni (2003) and Chang, Shen & Fang (2008) also highlight that LLP is often used for earnings management, making it a less reliable indicator of credit risk. Thus, the insignificant effect of LLP in this study may result from delays or discretion in recognizing loan losses.

Capital Adequacy (CA) shows a positive but statistically insignificant effect on corporate failure ($p = 0.385$). Although higher capital ratios are expected to strengthen financial stability—consistent with Basel regulatory frameworks—the insignificant result suggests that capital levels alone may not sufficiently explain failure in the sampled banks. This is similar to the mixed findings of Ogboi & Unuafe (2013) and Utah (2011), which reported that CA does not always serve as a reliable predictor of bank distress. Nonetheless, the positive coefficient aligns with theoretical views by Blum & Hellwig (1995) and

Chernykha & Cole (2015), which consider capital buffers essential for absorbing unexpected losses.

The Durbin–Watson value of 2.046 confirms the absence of autocorrelation, supporting the reliability of the regression model. Among all variables examined, only Loans and Advances significantly predict corporate failure, suggesting that credit expansion patterns—rather than traditional indicators like NPL or LLP—are more directly connected to financial distress. This supports the findings of Taiwo & Abayomi (2013) and Kaaya & Pastory (2013), who emphasize that risk can arise not only from impaired loans but also from aggressive lending behavior.

Overall, the findings align with the broader Z-Score literature, such as Awais et al. (2015) and Ezejiolor et al. (2014), which highlight that corporate failure is influenced by multiple factors and may not be fully explained by standard credit-risk variables alone. Internal policies, governance weaknesses (Inworji et al., 2011; Demaki, 2011), and macroeconomic conditions may also play central roles. The results suggest that while credit-risk indicators are important, not all serve as strong predictors within the Nigerian banking environment. Only LA shows a significant effect, underscoring the need for stronger credit appraisal systems and prudent lending practices. The other variables—NPL, LLP, and CA—follow expected theoretical patterns but do not statistically predict corporate failure, potentially due to regulatory practices, earnings-management behavior, or delayed risk recognition.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study was carefully designed to examine how credit management policies relate to corporate failure within the Nigerian banking sector. This chapter is organized into key components, including the summary of findings, discussion of results, policy recommendations, and conclusion. The presentation of results allows for a thorough evaluation and analysis of issues connected to financial management, corporate governance, and risk exposure. It is important to note that the findings of this research are limited to the information extracted from the published annual financial reports of Nigerian banks.

5.2 Summary of Findings

Credit risk management and bank failure are linked to the likelihood of financial loss arising when borrowers fail to repay loans or other credit facilities—whether interest, principal, or both. Default situations often include delayed repayment, loan restructuring, or bankruptcy. Interest rate fluctuations also influence credit risk, as borrowers may struggle to cope with higher financing costs or may be discouraged from maintaining credit obligations.

Inefficient bank operations can increase the risk of corporate failure. In some cases, bank officials may inadequately assess borrowers' creditworthiness due to weak appraisal skills. This challenge is further compounded by information asymmetry between lenders and borrowers. Poor management of loan portfolios can also result in an increase in bad

loans, as inadequate evaluation leads to approval of facilities with high default probability. Consequently, inefficiency within banks can escalate the volume of bad debts.

One of the major risks encountered by banks is credit risk, which refers to the possibility that borrowers will fail to repay loans extended to them. A key indicator of this risk is Non-Performing Loans (NPLs), which arise when borrowers cannot meet principal or interest repayment obligations within the agreed timeframe. NPLs typically emerge due to unfavorable economic conditions or circumstances beyond the debtor's control.

Findings from the analysis indicate that the Z-Score has a negative but insignificant relationship with NPLs. This supports the rejection of the null hypothesis and affirms that corporate failure has a negative insignificant association with non-performance. Similarly, the Z-Score shows a negative insignificant relationship with Loan Loss Provision (LLP), leading to acceptance of the hypothesis that LLP does not significantly influence corporate failure.

However, the results demonstrate that loans and advances (LA) exhibit a negative and significant relationship with corporate failure, supporting the acceptance of the alternative hypothesis that LA significantly affects financial stability. This suggests that increased loan exposure can heighten vulnerability to corporate failure when not properly managed.

Additionally, the findings reveal a positive but insignificant relationship between capital adequacy (CA) and corporate failure, indicating that while CA increases, it does not significantly predict financial distress among Nigerian banks.

5.3 Conclusion

Based on the results obtained from the study on credit management and corporate failure in Nigerian banks, the following conclusions were reached:

1. Corporate failure has a negative but insignificant relationship with non-performing loans in Nigerian banks.
2. Corporate failure has a negative but insignificant relationship with loan loss provisions.
3. Corporate failure shows a negative and significant relationship with loans and advances.
4. Corporate failure has a positive but insignificant relationship with capital adequacy.

5.4 Recommendations

Given that most of the variables exhibited negative insignificant effects on corporate failure, the following recommendations are proposed:

- Many cases of corporate failure in the banking sector are associated with poor management practices, including lack of accountability, weak operational oversight, unprofessional conduct by financial personnel, and compromised integrity in internal processes. These issues should be addressed to minimize the risk of distress.
- To mitigate corporate failure and its adverse impact on the banking industry, banks must cultivate a strong and ethical corporate culture. This requires leadership committed to transparency, accountability, risk awareness, and proactive decision-making to strengthen financial stability.
- Bank management should prioritize effective credit appraisal and continuous monitoring of loan portfolios to reduce the likelihood of default and improve the overall quality of assets.

REFERENCES

Abe, T. (2017). Corporate failure: Its causes and effects in the Nigerian Banking Sector. *Researchgate Journal*, 1 – 37.

- Abedalgader, A., Ibrahim, T. R., & Baker, R. A. (2010). Do audit tenure and firm size contribute to audit quality? *Journal of Managerial Auditing*, 26(3), 317 – 334.
- Abolo, E. M. (2000). Bank credit risk management tectonics. *First Bank Monthly Business and Economic Report* July, 5-11.
- Abu, H., Sajeda, P. & Mustafa, M. (2015). The effect of credit risk on banking profit ability: A case on Bangladesh. *Global Journal of Management and Business Research*, 15 (3), 41-46.
- Adam, A.J (2003). Predicting banks crisis in Nigeria (1986 – 2001). *The Abuja management Review*, 1 (3), 1 – 6.
- Adinde, J.C. (2014). *Effect of risk management on the performance of selected commercial Banks* (Master's Thesis).University of Nigeria, Enugu Campus, Enugu State, Nigeria.
- Afriyie, H. & Akotey, J. (2011). Credit risk management and profitability of selected rural banks in Ghana. Theses Paper Submitted to Catholic University College of Ghana., 1-18.
- Agu, O. C. & Basil, C. O. (2013). Credit management and bad debt in Nigeria commercial Banks: Implication for development. *Journal of Humanities and Social Science*, 12 (1), 47-56.
- Agu, O. C. & Ogbuagu, M. I. (2015). Lending rate, bad debt and credit management in Nigeria commercial banks: A VAR analysis. *American Journal of Economics, Finance and Management*, 1(3), 164-170.

- Ahmed, A., Mohammed, A. Y. & Adisa, A. O. (2014). Loan loss provision and earnings management in Nigerian Deposit Money Banks. *Mediterranean Journal of Social Sciences*, 5 (17), 49 -58.
- Akinbuli, S. F. (2010). The effect of corporate governance on auditor independence: A case study of Nigerian firms. *Research Journal of Finance and Accounting*, 1(3), 37–45.
- Alade, A. (2019). Corporate governance as panacea to organisational failure. Retrieved February 2020 from: <https://guardian.ng/appointments/corporate-governance-as-panacea-to-organisational-failure/>.
- Alshatti, A. S. (2015). The effect of the liquidity management on profitability in the Jordanian Commercial Banks. *International Journal of Business & Management*, 10 (1), 62-72.
- Althaus, E. I., (2005). Financial ratios, discriminates analysis and the prediction of corporate bankruptcy. *Journal of Finance*, vol. 4, 23 – 27.
- Alton, R.G. & Hazen, J.H. (2001). As economy flounders, do we see a rise in problem loans? Federal Reserve Bank of St. Louis
- Alzeban, A., & Gwilliam, D. (2014). Factors affecting the internal audit effectiveness: A survey of the Saudi public sector. *Journal of International Accounting, Auditing and Taxation*, 23(2), 74–86. <https://doi.org/10.1016/j.intaccaudtax.2014.06.001>

- Amaechi, E. P. & Ibeanuka, C. B. (2015). Corporate bankruptcy predictions: Evidence from selected banks in Nigeria. *Global Journal for Research Analysis (GJRA)*, 4 (2), 17 – 23.
- Amat, O., & Gowthorpe, C. (2010). *Creative accounting: Nature, incidence and ethical issues*. *European Business Review*, 22(4), 377–395.
- Amos, L. M. Sharon, S. & Anita, M. (2016). Effect of Corporate Governance on Loan Loss Provision in Indian Public Banks. *Amity Journal of Corporate Governance*, 1(1), (1–15).
- Ani, W. C. & Ugwunta, D. O. (2012). Predicting corporate business failure in the Nigerian manufacturing industry. *European Journal of Business and management*, 4 (10), 1 – 9.
- Bae, G. S. & Lee, J. E. (2003). Does audit firm size matter? The effect of audit firm size measured by audit firm revenue, number of offices and professional headcounts on audit quality and audit fees. *Journal of Accounting Research*, 50(20), 10 – 17.
- Brigham, E. F., & Ehrhardt, M. C. (2022). *Financial management: Theory and practice* (17th ed.). Cengage Learning.
- Brigham, E. F., & Houston, J. F. (2019). *Fundamentals of financial management* (15th ed.). Cengage Learning.

- Eze, E. O., & Okoye, E. I. (2019). Creative accounting practices and corporate failures in Nigeria: The role of auditors. *International Journal of Finance and Accounting*, 8(2), 45–53.
- Financial Reporting Council of Nigeria (FRCN). (2011). *Financial Reporting Council of Nigeria Act 2011*. Federal Government of Nigeria.
- Francis, J. R. (2004). What do we know about audit quality? *British Accounting Review*, 36(4), 345 – 368.
- Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Pitman.
- Gitman, L. J., & Zutter, C. J. (2021). *Principles of managerial finance* (16th ed.). Pearson Education.
- Gramling, A. A., Maletta, M. J., Schneider, A., & Church, B. K. (2004). The role of the internal audit function in corporate governance: A synthesis of the extant internal auditing literature and directions for future research. *Journal of Accounting Literature*, 23, 194–244.
- Hayes, R., Wallage, P., & Gortemaker, H. (2014). *Principles of auditing: An introduction to international standards on auditing* (3rd ed.). Pearson Education Limited.
- Institute of Internal Auditors (IIA). (2022). *International standards for the professional practice of internal auditing*. The IIA Global. <https://www.theiia.org>
- Imhoff, E. A. (1998). The effects of ex-ante earnings uncertainty as earnings response coefficient. *The Accounting Review*, 67(2), 427 – 439.

- International Federation of Accountants (IFAC). (2020). *Handbook of international quality control, auditing, review, other assurance, and related services pronouncements*. IFAC. <https://www.ifac.org>
- Jones, M. J. (2011). *Creative accounting, fraud and international accounting scandals*. John Wiley & Sons.
- Lenz, R., & Hahn, U. (2015). A synthesis of empirical internal audit effectiveness literature pointing to new research opportunities. *Managerial Auditing Journal*, 30(1), 5–33. <https://doi.org/10.1108/MAJ-08-2014-1072>
- Odia, J. O., & Ogiedu, K. O. (2013). Corporate governance, regulatory agency and creative accounting practices in Nigeria. *Mediterranean Journal of Social Sciences*, 4(3), 55–65.
- Ofoegbu, G. N., & Ekwueme, C. M. (2018). The role of corporate governance in curbing creative accounting practices in Nigeria. *Accounting and Taxation Review*, 2(4), 82–95.
- Ojo, M. (2012). The role of external auditors in corporate governance: Agency problems and the management of risk. *European Journal of Accounting, Auditing and Finance Research*, 1(2), 25–36.
- Okoye, E. I., & Ofoegbu, G. N. (2020). Creative accounting and corporate collapse: A study of selected Nigerian firms. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 10(3), 120–133.

- Olojede, P., & Erin, O. (2017). Creative accounting and firm performance in Nigeria: An empirical investigation. *Journal of Accounting and Taxation*, 9(5), 59–71.
- Olowokure, O. A., Tanko, M., & Nyor, T. (2016). The impact of creative accounting on corporate performance: Empirical evidence from Nigeria. *International Journal of Economics and Financial Issues*, 6(3), 96–103.
- Owolabi, S. A. (2019). Creative accounting and its effect on corporate failures in Nigeria. *International Journal of Accounting and Financial Reporting*, 9(2), 173–190.
- Pandey, I. M. (2021). *Financial management* (12th ed.). Vikas Publishing House.
- Reynolds, J. K. & Francis, J. R. (2000). Does size matter? The influence of large clients on office-level auditor reporting decisions. *Journal of Accounting and Economics*, 30, 375 –400.
- Ross, S. A., Westerfield, R. W., & Jordan, B. D. (2022). *Essentials of corporate finance* (10th ed.). McGraw-Hill Education.
- Teoh, S. H., & Wong, T. J. (1993). Perceived auditor quality and the earnings response coefficient. *The Accounting Review*, 68, 346 – 366.
- Uwuigbe, O. R., Daramola, P. S., & Uwuigbe, U. (2014). Corporate governance and financial performance of listed firms: The Nigerian experience. *Journal of Business and Management*, 16(8), 1–10.
- Uyimadu, S. O. (2005). *Research methods and procedures*. Benin City. Centerpiece Consultant Nigeria Ltd.

Van Horne, J. C., & Wachowicz, J. M. (2018). *Fundamentals of financial management* (14th ed.). Pearson Education.

APPENDIX

DESCRIPTIVES VARIABLES=ZSCORE NPL LA LLP CA

/STATISTICS=MEAN STDDEV MIN MAX.

Descriptives

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ZSCORE	74	11.60	55.20	31.6432	10.86872
NPL	74	8453.00	73987012.00	13785219.64 00	18378025.57 000
LA	75	23667.00	7480233.00	3717622.933 0	1832245.794 00
LLP	75	40431.00	94308165.00	9022361.172 0	20617120.39 000
CA	71	41134698.00	900342761.0 0	215082547.2 000	228044604.6 0000
Valid (listwise)	N 69				

REGRESSION

/DESCRIPTIVES MEAN STDDEV CORR SIG N

/MISSING LISTWISE

/STATISTICS COEFF OUTS BCOV R ANOVA COLLIN TOL

/CRITERIA=PIN(.05) POUT(.10)

/NOORIGIN

/DEPENDENT ZSCORE

/METHOD=ENTER NPL LA LLP CA

/RESIDUALS DURBIN.

Regression

Correlations

		ZSCORE	NPL	LA	LLP	CA
Pearson Correlation	ZSCORE	1.000	.023	-.238	.030	.091
	NPL	.023	1.000	-.197	.580	.068
	LA	-.238	-.197	1.000	-.090	.059
	LLP	.030	.580	-.090	1.000	.354
	CA	.091	.068	.059	.354	1.000
Sig. (1-tailed)	ZSCORE	.	.424	.025	.404	.228
	NPL	.424	.	.053	.000	.288
	LA	.025	.053	.	.232	.314
	LLP	.404	.000	.232	.	.001
	CA	.228	.288	.314	.001	.
N	ZSCORE	69	69	69	69	69
	NPL	69	69	69	69	69
	LA	69	69	69	69	69
	LLP	69	69	69	69	69
	CA	69	69	69	69	69

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	CA, LA, NPL, LLP ^b	.	Enter

a. Dependent Variable: ZSCORE

b. All requested variables entered.

Model Summary^b

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	.263 ^a	.069	.011		10.67946	2.046

a. Predictors: (Constant), CA, LA, NPL, LLP

b. Dependent Variable: ZSCORE

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	35.831	3.455		10.370	.000		
	NPL	-1.232E-8	.000	-.022	-.142	.888	.625	1.600
	LA	-1.461E-6	.000	-.251	-2.032	.046	.956	1.046
	LLP	-1.050E-8	.000	-.021	-.130	.897	.565	1.771
	CA	5.359E-9	.000	.115	.875	.385	.843	1.187

a. Dependent Variable: ZSCORE

Coefficient Correlations^a

Model			CA	LA	NPL	LLP
			1	Correlations	CA	1.000
		LA	-.068	1.000	.164	-.002
		NPL	.166	.164	1.000	-.588
		LLP	-.386	-.002	-.588	1.000
	Covariances	CA	3.752E-17	-2.991E-16	8.816E-17	-1.907E-16
		LA	-2.991E-16	5.167E-13	1.026E-14	-1.157E-16
		NPL	8.816E-17	1.026E-14	7.555E-15	-4.122E-15
		LLP	-1.907E-16	-1.157E-16	-4.122E-15	6.515E-15

a. Dependent Variable: ZSCORE

Collinearity Diagnostics^a

Model	Dimension	Eigen value	Condition Index	Variance Proportions				
				(Constant)	NPL	LA	LLP	CA
1	1	3.307	1.000	.01	.02	.01	.02	.03
	2	.896	1.921	.02	.09	.05	.23	.01

3	.471	2.649	.01	.25	.01	.07	.51
4	.242	3.695	.00	.45	.12	.65	.40
5	.084	6.265	.95	.19	.80	.03	.05

a. Dependent Variable: ZSCORE

Residuals Statistics^a

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	25.3289	37.4958	31.2957	2.81987	69
Residual	-23.39581	25.14090	.00000	10.36060	69
Std. Predicted Value	-2.116	2.199	.000	1.000	69
Std. Residual	-2.191	2.354	.000	.970	69

a. Dependent Variable: ZSCORE