Innovations

Effect of Creative Accounting Practices on Banks' Financial Statement Quality in Nigeria

[1]Dr Obioma V. Ugwoke, [2]Dr. Chidi Nnamani*, [3]Chidiebere D. Ozor, [4]Prof. Robinson O. Ugwoke

Department of Accountancy, Faculty of Management Sciences
University of Nigeria, Nsukka, Enugu Campus, Enugu

Corresponding Author: **Dr.Chidi Nnamani**

Abstract: *There is growing concern among present and potential investors, regulators, auditors etc. on the quality of financial statement usually made available by most companies in Nigeria. This concern is linked to the trend of cases of creative accounting practices being reported especially in the banking sector. This study was designed to provide empirical findings to the aforementioned. Thus, the study aimed at examining the effect of creative accounting on the quality of financial statements of deposit money banks in Nigeria from 2007 – 2019. An ex-post facto research design was considered appropriate for the study. The population of the study comprised all the twenty (20) deposit money banks in Nigeria from which a sample of seven (7) banks, namely, First bank plc, Zenith Bank Plc, Guaranty Trust Bank Plc, Access bank Nigeria, United bank for Africa, Ecobank Nigeria and Fidelity bank, were randomly selected. Annual data were collected from secondary sources such as abstracts from the Federal Office of Statistics (FOS), the Central Bank of Nigeria Statistical Bulletin (CBNSB), etc. and was analysed using linear regression model with the aid SPSS version 23.0. The analysed data were presented in tables. The findings indicate that there exists a statistical significant effect between provision for doubtful debt (LOGPDD) and the reliability of profit after tax (LOGPAT) (R^2 = .237, P = .000 at P < 0.05). Also, there exists a statistical significant effect between loan loss provision (LOGLLP) and cash and cash equivalent (LOGCCE) of deposit money banks in Nigeria (R^2 = .361, P = .000 at P < 0.05). Lastly, the regression coefficients (β) of .462 and .566 respectively indicate that creative accounting has had a significant effect on the quality of financial statements of deposit money banks in Nigeria. These findings therefore imply that creative accounting has eroded the quality of financial reporting in Nigeria by providing distorted financial statements on firms' financial performance and position which leads to misguided investments, corporate governance breakdown and corporate collapse on the quality of financial statements of deposit money banks in Nigeria. It is therefore recommended that deposit money banks in Nigeria should avoid* *creative accounting practices as they distort the quality of financial statements and by extension the usefulness of financial information passed on to all users. More so, creative accounting practices in Nigerian banks should be legislated against and culprits held accountable.*

Keywords: *Effect, Creative accounting, Financial statement quality, Deposit money banks, Nigeria.*

Introduction:

Gone are the days when financial statement was perceived as a mere recording of transactions or an ordinary bookkeeping activity. Today, it is now perceived as a very important tool for the management of an organisation under good corporate governance principles (Uwalomwa et al., 2018). In other words, it refers to the systematic description of the financial performance and position of any entity in order to enhance the quality of economic and financial decisions made by the users (Nassar, Uwuigbe, Uwuigbe, & Abuwa, 2014; Okereke, 2008). Thus, the primary objective of preparing financial statements is to enhance the quality of the decisions made by the users, which can only be possible when quality financial statements are made available to them (Uwalomwa et al., 2018).For this reason, regulators of Accounting profession, have made concerted efforts towards ensuring the compliance of entities or organisations to accounting standards, regulations and practices devoid of manipulations.

Despite these concerted efforts, preparers of the financial statements have been found to wilfully manipulate or alter their financial reports through the use of lawful accounting policies in order to suit the various purposes of management and directors especially when there is a weak internal control, poor corporate governance structure or weak regulatory and monitoring mechanism. This is popularly referred to as creative accounting (Olaniyi, Jimoh, Yunus, 2018).Creative accounting therefore involves those practices which are openly displayed such as window dressing and those which are sophisticated such as off-balance sheet financing (Gosh, 2010). Creative accounting is, thus, of paramount concern to regulators and practitioners considering the fact that it erodes the quality of financial reporting and misleads users of financial statements by providing distorted financial statements on a firms' financial performance and position which leads to misguided investments, corporate governance breakdown and corporate collapse (Charles, 2016; Chen, Elder & Hsieh, 2007).

For instance, during the last two decades, severe accounting scandals have been reported to occur in large companies such as WorldCom, Enron BCCI, Barings, HealthSouth and Tyco (in USA), Baninter Intercontinental (in Dominican Republic), Parmalat SPA (a multinational Italian food and Daily Corporation), Olympus Corporation in Japan, Satyam Computer Services in India, Sanlu Group in China amongst many other large corporations in the world (Omurgonulsen & Omurgonulsen, 2009; Soble, 2011; Prentice, 2002). There is also a growing concern among present and potential investors, regulators, auditors etc. on the quality of financial statement that is usually made available by most companies in Nigeria, especially in deposit money banks. This concern is linked to the trend of cases of creative accounting practices being reported in the banking sector, as observed in the investigation of some bank's Chief Executive Officers by the Economic and Financial Crimes Commission (EFCC), because of poor corporate governance, poor risk management policies, inadequate internal control systems and poor quality of financial reporting (Olaniyi, Jimoh & Yunus, 2017). Ijeoma (2014) reported that the published audited accounts of some of these banks were at variance with the figures the banks submitted to the committee during the investigation which pointed to the fact that the banks engaged in the creative accounting technique of inflating their operating costs to reduce taxable income or profits. The extent of window-dressing of banks' financial statements in Nigeria has also been adjudged to have greatly violated all known ethical standards of the accounting and auditing profession either revealed in the form of tax evasion, non-remittance of government revenue or outright falsification of accounts (Ijeoma, 2014).

Several extant literatures have examined the effect of creative accounting on the financial performance of organisations. These include the study of Nyabuti et al (2016), Amat et al (2003), Amat and Catherine (2004). Also, Emuze, Emuze and Ogbole (2018) examined the determinants of accounting quality of Nigerian banks, Uwalomwa, Eluyela, Olubukola, Obarokpo & Falola (2018) focused on corporate governance and quality of financial statements while Nangih (2017) assessed the nexus between creative accounting practices and financial statements quality in oil servicing companies in Port Harcourt, Nigeria. Extant studies that have addressed concerns about the impact of exchange rate fluctuations in developed and developing countries have shown significant relationship with exports (Abdoh et al., 2016; Caselli et al., 2017; Fauceglia, 2020; Vieira and MacDonald, 2016; Vo and Zhang, 2019), employment growth (Bakhshi and Ebrahimi, 2016; Fang, 2020; Usman and Elsalih, 2018), trade (Asteriou et al., 2016; Jadoon and Guang, 2019; Rashid and Waqar, 2017; Senadza and Diaba, 2017), inflation (Alagidede and Ibrahim, 2017; Bagheri and Gheisarinejad, 2016), investment (Avdjiev et al., 2019; Mostafapour et al., 2020; Zakari, 2017) and growth (Alagidede and Ibrahim, 2017; Habib et al., 2017; Isola et al., 2016; Vasani et al., 2019).

Of all these studies, none had empirically looked at the effect of creative accounting practices on bank financial statement quality in Nigeria, to the best of the researcher's knowledge.If evidence-based policies are to be made that would address incessant exchange rate fluctuation in the country, it is pertinent to empirically understand the effect of fluctuation in exchange rate on economic development especially in a developing country like Nigeria. It is on this note that this study seeks to examine the effects of exchange rate fluctuations on economic growth in Nigerian over a period of 20 years (2003 – 2022).

Objectives of the study

The main objective of this study is toexamine the effect of creative accounting on the quality of financial statements of deposit money banks in Nigeria. The specific objectives are to:

i. determine the effect of provision for doubtful debt on the reliability of profit after tax of deposit money banks in Nigeria;
ii. ascertain the extent to which loan loss provision affects cash and cash equivalent of deposit money banks in Nigeria; and

Research Questions

The following research questions are formulated for the purpose of this research:

i. To what extent does provision for doubtful debt have an effect on reliability of profit after tax of deposit money banks in Nigeria?
ii. To what extent does loan loss provision have an effect on the reliability of banks' cash and cash equivalent?

Statement of Hypotheses

The following hypotheses are formulated for the purpose of this research:

H_{O1}: Provision for doubtful debt does not have an effect on the reliability of profit after tax of deposit money banks in Nigeria.

H_{O2}: Loan loss provision does not have an effect on the reliability of banks' cash and cash equivalent.

Literature Review

Conceptual Framework

Concept of Creative Accounting

Creative accounting is said to be as old as the Accounting profession itself and has remained a problem despite the fact that several scholars have made several attempts to understand and address it (Mulford & Comiskey, 2011). Historically, creative accounting could be traced to the early seminal works (De Arithmetica) of the father of Accounting, Luca Pacioli, in 1494. This therefore means that the practice of creative accounting had been in existence for centuries. Luca Pacioli described the concept as an attempt to make figures more appealing or otherwise in the eyes of the accounts' readers. From the foregoing, it is obvious that there are several or different definitions of creative accounting. It is also known by many names such as earnings management, income smoothing, earnings smoothing, financial engineering and cosmetic accounting, big bath accounting and window dressing. For instance, the preferred term in the USA is earnings management while Europe prefers the term creative accounting (Aggarwal, 2014). Other terms that have also been used synonymously include earnings management, innovative accounting, income smoothing, earnings smoothing, cosmetic accounting, aggressive accounting, amongst many others (Amat & Gowthorpe, 2004).

One of the major reasons for creative accounting practices had been revealed to be income smoothing. Income smoothing, in this sense, involves charging provision for liabilities against assets by companies in order to reduce profit in a good year. This would enable companies to show steady growth in profit rather than fluctuating high or low. Other reasons pointed out include the need to tie in the forecast (designing accounting policies and profit to match reported earnings to profit forecast), reduce tax liability and maintain or boost company's share price, amongst many others.Creative accounting practices could take various forms. Firstly, it may be done in the form of off statement of financial position financing, where transactions are deliberately constructed to allow the non-recognition of assets and particularly liabilities for loans. Secondly, it may be in the form of aggressive earnings management where revenues are being recognised before they are earned by the company. Thirdly, creative accounting could be carried out by way of unjustifiably altering accounting policies or accounting estimates for example, increasing the economic lives of non-currents assets with the aim of reducing their depreciation expenses and increasing earnings and vice versa. Finally, management could embark on the distortion of profit figure by including fictitious assets and liabilities in the accounts and spreading these amounts over time. This is called profit smoothing.

Types of Creative Accounting

The major types of creative accounting are profit smoothing and off-balance sheet financing. On the one hand, smoothing of profits refer to the application of corporate governance rules in the priority as well as recording cost and earnings accounting or taking into account costs by transferring them to subsequent years with the aim of that the company will have no major changes over the subsequent fiscal years. The most important motive for profit smoothing is the belief that companies that have a good profit trend and their profits do not undergo major changes are much more worthwhile than similar companies. In other words, it increases the organisation’s stock value in stock exchange and attracts potential investors.

Creative accounting exists in numerous ways due to the volume of estimates that require judgment and experience in drawing up a set of periodic financial statements. The following are few examples of methods of creative accounting.

Extraordinary and Exceptional items: Extraordinary and exceptional itemsare material items which derive from events that fall within the ordinary activities of the group and which individually or if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view. These items are any gains and losses that result from events and transactions that don't arise in routine nature of the business and that is unlikely to recur. For example, disposal of items of fixed assets, disposal of long-term investments, litigation settlement etc. 'Asea Brown Boveri' used this practice to inflate its profit for several years by regularly boosting income with the inclusion of the extraordinary income from asset dispositions.

Off-balance sheet financing: Off-balance sheet financing is a financing activity that doesn't appear on the company's balance sheet. Many companies resort to off-balance sheet financing to keep its leverage ratios low and to conceal loss or liabilities by creating a 'separate' entity that will take over the losses or liabilities. Common off-balance sheet financing examples are joint ventures, debt factoring and sale and leaseback arrangements etc. It was witnessed in the infamous 'Enron' scam. 'Enron' did not want to reveal the billion-dollar debt on the balance sheet so employed this technique by transferring some of its rapidly rising stock to Special Purpose Entity (SPE) in exchange for cash. 'Adelphia' also hides $2.3 billion in debts that were not reported on its balance sheet, 'Livedoor' used off-balance sheet vehicles to hide debts and 'Riccar' masks its inventory as off-balance sheet asset.

Inventory and depreciation: Inventory and depreciation are most prone to manipulation as these provide a lot of room for tampering with the financial numbers. The elasticity of accounting rules provides enough opportunity for a company to choose alternative accounting methods like changing methods of depreciation, changing the useful lives and changing estimates of salvage value used for depreciation purpose. The company thus chooses that accounting method that gives it the maximum benefit. For example, switching from straight-line method to diminishing balance method will lead different results in the outcomes.

Contingent liability: The contingent liabilityis one of the techniques used to cook the book of accounts. It is a potential loss or obligation that is based on the happening of uncertain future events. Companies can creatively account for these liabilities by underestimating their materiality. Companies that fail to record a contingent liability that is likely to be incurred and subject to reasonable estimation are understating their liabilities and overstating their net income or shareholders' equity. Examples include: lawsuits expenses, a government investigation, threat of expropriation, product warranties etc.

Premature Revenue Recognition: Premature revenue recognitionis another aggressive accounting tool that is generally employed by firms. Revenue is treated for ordered goods though the goods have not left the shipping dock. Revenue is recognised for a legitimate sale in a period prior to that called for by generally accepted accounting principles. It also includes fictitious revenue recognition i.e. the recording of revenue for a non-existent sale. 'Sunbeam' accelerated sales from later periods into the current period. 'Xerox' also prematurely accelerated its revenues by $3 billion by recognizing future revenues in the current period. 'Prosolvia', 'Informix', 'Lucent Technologies', 'Bausch and Lomb' scams also used the similar practice to improperly recognise its revenue.

Income Manipulation: Researchers on income manipulations proceed from the belief that market participants mislead by a steady stream of profit. Income manipulationis a technique which aims to produce a steadily growing stream of profits. It is mainly a reduction of the variance of the profit. Manipulation of income is a way of removing volatility in earnings by levelling-off the earning peaks over a number of years and raising the valleys over the same period. Steps are therefore taken to reduce and store profits during good years for use during slower years (Mulford & Comiskey, 2002). Ronen & Sadan (1975) defined income smoothing as the dampening of the variations in income over time.

Other forms include "big bath" accounting, using cookie jar reserves, aggressive capitalization and extended amortization policies; being generous with bad debts; getting creative with the income statement; getting creative with the income statement; amongst others (Jones, 2011; Yadav et al., 2014).

2.2.5 Concept of Financial Reporting Quality

The concept of firm reporting quality was first posed by financial analysts and Stock Exchange market agents. They inferred that, most times, the reported profit of organisations do not show the organisations' profitability as it purports. Thus, analysing firms' financial statements is usually seen as a difficult task considering tendencies for manipulation of accounting information, particularly earnings. The accounting earnings of an organisation is therefore said to be of a high quality when the probability of errors and misstatements is low or absent (Ewert &Wagenhoper, 2010).

Financial reporting quality is the product of accounting system that reflects unobservable construct that inherently involves estimations and judgment, and thus has the potential for unintentional errors and intentional bias like earnings management (Ewert & Wagenhoper, 2010). Users of accounting information need information to help them assess the performance and position of an entity in order to make useful decisions. They need credible financial information about the resources of the entity and the claims against the resources to know whether management have performed well in the discharge of their responsibilities.

The concept of firm reporting quality considers two characteristics for quality determination which includes profitability in decision-making and the relationship between firm reporting quality and economical profit. In other words, earnings quality is an honest expression of the reported profit. That is, a high firm reporting quality shows the usefulness of profit information for decision-making by the users and also it is more adjusted with economic profit (Ahmad & Ahmadi, 2008). Therefore, high quality financial statement, in this regard, is said to improve capital market efficiency. As such, investors and other users are usually interested in high-quality financial accounting information. For that reason, standard setters strive to develop accounting standards that improve earnings quality. It is surmised that financial statements must have certain fundamental qualities or attributes which include: reliability, relevance, faithful representation, understandability, verifiability, and comparability. These are also called fundamental and enhancing characteristics of financial reporting informationothers (Jones, 2011; Yadav et al., 2014).

Relevance, in this sense, means that accounting information must be useful for decision-making needs of the users. If accounting information is not relevant though understandable, it will be useless. Information has the quality of relevance when it influences the economic decisions of the users by helping them to evaluate past, present or future events or confirming or correcting their past evaluations. On the other hand, verifiability entails that financial statements should be verifiable with some original documents (source documents). The true position of an organisation is ascertained if any checking by way of verification is carried on periodically. In addition, comparability and understandability of accounting information implies that financial statements of a business enterprise must be prepared on a consistent basis with application of principles that make comparison of the net results within the enterprise possible. It also implies that accounting information should also be simple to understand rather than being ambiguous. Furthermore, objectivity of accounting information suggests that information in financial statements must be neutral and/or free from bias. This implies that accounting information should not be manipulated or distorted by preparers and should faithfully represent the true and fair status of the organisation always others (Jones, 2011; Yadav et al., 2014).

Theoretical Framework

This study was hinged on the agency theory and the stakeholders' theory. The theories are discussed extensively below.

Agency Theory

An agency relationship is defined as one in which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent (Jensen & Meckling, 1976). According to Investopedia (2016), agency theory is the relationship between two parties, where one is a principal and the other is an agent who represents the principal in transaction with a third party. It explains the relationship between principals (such as shareholders) and agents (such as company executives) in business. In a similar vein, Elhelaly (2014) opined that agency theory is based on the relationship between the principals or the owners of the firm and the agents or the managers.

The agency theory was popularized by Ross in 1973 and is often regarded as one of the oldest theories in management and economics literatures (Wasserman, 2006). Basically, the theory is concerned with the issue that occurs in an organization due to separation of owners and managers and how to resolve this asymmetry problem. The theory states that problems are bound to arise in any cooperative exchange when one party (principal) contracts with another (the agent) to make decisions on behalf of the principal (Michael, Peter, Seven-Olaf & Philippe, 2005).

Stakeholders Theory

Stakeholder theory is ascribed to R. Edward Freeman (1984) whose original concept was that managers have a moral obligation to consider and appropriately balance the interests of all stakeholders. The theory refers to stakeholders as a collection of individual or group interests which may affect or be affected by organizations. These groups include employees, shareholders, consumers, suppliers, trade unions, business associates as well as competitors. They are also recognized and involved in the success and failure of the organization. Therefore, the theory stated in both practical and managerial terms, that corporate organizations should strive, apart from making profit, to obey law, be ethical and of course be a good corporate citizen.

Evan and Freeman (1993) stated that a stakeholder theory of the firm must redefine the purpose of the firm which is to serve as a vehicle for coordinating stakeholder interests. Stakeholder theory expresses the idea that business organizations are dependent upon stakeholders for success, and stakeholders have some stake in the organization.

Application of Theories to the Study

This study is anchored on the agency theory and stakeholders' theory. This is based on the premise that in both theories, a company consists of a set of linked contracts between the owners of economic resources and managers who are charged with using and controlling these resources. It is stated in both theories that agents have more information than principals and this information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by the agents. Also, the agency and stakeholder theory viewpoint of financial reporting quality reveals that there are various elements that should be assured of as having the prevailing influence on financial reporting quality in deposit money banks in Nigeria. This requires that different stakeholder should critically examined their actions so as to determine the influence and effect of their action of financial reporting quality.These theories, therefore, explain the basis of creative accounting in organisations where accounting professionals use their knowledge to manipulate or influence figures included in the annual accounts thereby making it difficult or impossible for the principals been the shareholders to actually know or understand wholly the financials of the company.

Empirical Review

The researcher reviewed extant empirical works bordering on the effect of creative accounting on the quality of financial statements of deposit money banks in Nigeria. For instance, Mahsoud, Najmeh & Fatemeh (2018) carried out a study that examined the impact of creative accounting on the probability of fraud in accepted companies in Tehran stock exchange for the period of 2011-2015. Logistic regression was used to test the validity of the hypotheses and findings indicate that there was a significant relationship between profit smoothing and the probability of fraud. Impliedly, fraudulent companies were found to be more likely to smooth profits than non-fraudulent companies. Also, there was found a lack of significant relationship between external financing and fraud probability.

Emuze, Emuze & Ogbole (2018) investigated the quality of accounting information in Nigerian Banks and its relationship with some attributes (performance, leverage, bank size and audit size) using 14 banks listed on the Nigerian Stock Exchange (NSE) over a five-year period (2011-2015). Panel regression was used to test the association between the level of AQ (measured using non-discretionary accruals) and some bank's attributes. Findings from the study indicate that performance, bank size and audit size were significantly related to accounting quality, while leverage was found to be statistically insignificant with accounting quality. Recommendations from the study point to the fact that the country should make conscious effort to improve on the existing institutional quality and governance particularly in the banking sector, so as to help strengthen the financial reporting mechanism.

Olaniyi, Jimoh & Yunus (2018) evaluated the relationship between corporate governance (proxied with internal control system, audit committee experience, board independence and external auditors' independence) and creative accounting practices in Nigerian banks. Secondary data were obtained from audited financial reports of all the 15 quoted commercial banks on the Nigeria

Stock Exchange (NSE) between 2008 to 2014 and were analysed using panel regression technique. Findings indicate that internal control system and audit committee experience had negative/inverse relationship (β = -0.3645 &-0.2956 respectively) with creative accounting while board independence and external auditors' independence had positive relationship (β = 0.5789 & 2.8976 respectively) with CA. Impliedly, corporate governance was found to have statistically significant relationship with creative accounting (F-stat = 9.0323 and P-value = 0.0000). The study recommends more non-executive directors with less substantial portion of shares should be featured than executive ones.

Uwalomwa, Eluyela, Olubukola, Obarokpo & Falola (2018) investigated the influence of corporate governance (proxied with board size, board independence and foreign executives) on the timeliness of financial reports of listed banks in Nigeria. Data was generated from the annual report of listed banks on the Nigerian Stock Exchange from 2008 - 2015. Descriptive statistics, correlation matrix and panel data regression analysis were used for the analysis, findings from the study indicated that board size and board independence had a non-significant negative relationship with the timeliness of financial reports. Also, it was observed that foreign executives on the board had a significant positive relationship with the timeliness of financial reports. Recommendations from the study point to the fact that existing legal framework in Nigeria should be developed that clearly specifies the rights and obligations of a bank, its management and, of course, other stakeholders.

Summary of Literature and Gap

Several extant literatures have examined the effect of creative accounting on the financial performance of organisations. These include the study of Nyabuti et al (2016), Amat et al (2003), Amat and Catherine (2004). Also, Emuze, Emuze and Ogbole (2018) examined the determinants of accounting quality of Nigerian banks, Uwalomwa, Eluyela, Olubukola, Obarokpo & Falola (2018) focused on corporate governance and quality of financial statements while Nangih (2017) assessed the nexus between creative accounting practices and financial statements quality in oil servicing companies in Port Harcourt, Nigeria. Extant studies that have addressed concerns about the impact of exchange rate fluctuations in developed and developing countries have shown significant relationship with exports (Abdoh et al., 2016; Caselli et al., 2017; Fauceglia, 2020; Vieira and MacDonald, 2016; Vo and Zhang, 2019), employment growth (Bakhshi and Ebrahimi, 2016; Fang, 2020; Usman and Elsalih, 2018), trade (Asteriou et al., 2016; Jadoon and Guang, 2019; Rashid and Waqar, 2017; Senadza and Diaba, 2017), inflation (Alagidede and Ibrahim, 2017; Bagheri and Gheisarinejad, 2016), investment (Avdjiev et al., 2019; Mostafapour et al., 2020; Zakari, 2017) and growth (Alagidede and Ibrahim, 2017; Habib et al., 2017; Isola et al., 2016; Vasani et al., 2019).

Of all these studies, none had empirically looked at the effect of creative accounting practices on bank financial statement quality in Nigeria, to the best of the researcher's knowledge.If evidence-based policies are to be made that would address incessant exchange rate fluctuation in the country, it is pertinent to empirically understand the effect of fluctuation in exchange rate on economic development especially in a developing country like Nigeria. It is on this note that this study seeks to examine the effects of exchange rate fluctuations on economic growth in Nigerian over a period of 20 years (2003 – 2022).

Methodology

Research Design

The researcher adopted ex-post facto research design. The choice of the ex-post facto design is because the research relied on already recorded events, and researchers do not have control over the relevant dependent and independent variables they are studying with a view to manipulating them (Onwumere, 2009).

Area of the Study

This research is on the effect of creative accounting practices on the financial statement quality of deposit money banks in Nigeria from 2010 to 2019. The choice of a 10-year period for this study was to improve and advance the knowledge obtained from previous studies which used a lesser number of years (Nyabuti et al, 2016; Amat et al, 2003; Amat &Catherine, 2004; amongst many others).

Sources of Data

This study made use of secondary data covering a period of 10 years i.e. 2010 – 2019 and was obtained from the financial statements of deposit money banks in Nigeria that were selected for the study. The study utilized the secondary source because it is purposeful, objective and verifiable.

Population of the Study

The population of study comprised all the deposit money banks in Nigeria. There are a total of twenty deposit money banks in Nigeria with both international, national and regional authorization. They are as follows:Access Bank Plc; Fidelity Bank Plc; First City Monument Bank Plc; First Bank of Nigeria Limited; Guaranty Trust Bank Plc; Union Bank of Nigeria Plc; United Bank for Africa Plc; Zenith Bank Plc; amongst many others.

Sample Size Determination

The sample size consists of seven (7) selected deposit money banks in Nigeria. They include; First Bank Plc, Zenith Bank Plc, Guaranty Trust Bank Plc, Access bank Nigeria, United bank for Africa, Ecobank Nigeria and Fidelity bank. These banks were sampled with the aid of judgmental sampling. The basis for the selection rests on the fact that these banks have been rated as the top most seven Nigerian banks by Fitch rating and Bankers' magazine as at January 2019.

Model Specification

The model of the study established the effect of creative accounting practices (measured by provision for doubtful debt and loan loss provision) on the quality of financial statements (measured by profit after tax and cash and cash equivalent). The first objective will be evaluated with the following models:

PAT = F (PDD) ....(1)

Where:

PAT = Profit after Tax

PDD = Provision for Doubtful Debt

In a linear regression form, it will become:

$$PAT_{it} = \beta o + \beta_1 PDD_{it} + \mu \quad \text{.........(2)}$$

Where:

βo = Constant Term

β_1 = Coefficient of PDD

μ = Error Term

The second objective will be evaluated with the following models:

CCE = F (LLP) ....(3)

Where:

CCE = Cash and cash equivalent

LLP = Loan loss provision

In a linear regression form, it will become:

$$CCE_{it} = \beta o + \beta_1 LLP_{it} + \mu \quad \text{.........(4)}$$

Where:

βo = Constant Term

β_1 = Coefficient of LLP

μ = Error Term

Apriori Expectation

The researcher expects that the independent variable (measured by provision for doubtful debt and loan loss provision) will be significantly related to the dependent variables (measured by profit after tax and cash and cash equivalent). In other words, creative accounting practices should have stronger predictive ability on the dependent variables (quality of financial statements).

Analytical Procedure

After the collection of needed and relevant data, the researcher used the regression model to analyse the data with the aid of Statistical Package for Social Sciences (SPSS) version 26.0 at 5% level of significance. The results were presented using tables to give a clear picture of the research findings.

Decision Rule

Reject the null hypothesis if P-value is less than 0.05. Otherwise, accept the null hypothesis.

Data Presentation, Analysis and Results

Table 1: Descriptive Statistics of the Variables

	Dependent variable		**Independent variable**	
	LOGPAT	**LOGCCE**	**LOGPDD**	**LOGLLP**
Mean	5.5958	6.4575	5.3995	5.1586
Std. error of mean	.16558	.16544	.17512	.17683
Median	4.9308	5.8411	5.3816	4.9434
Std. deviation	1.57957	1.57821	1.65203	1.67752
Skewness	.262	.321	.072	.295
Std. error of skewness	.253	.253	.255	.254
Kurtosis	-.948	-1.431	-.744	-.859
Std. error of kurtosis	.500	.500	.506	.503
Minimum	1.57	3.88	2.05	2.09
Maximum	8.22	9.33	8.87	9.09
Sum	509.22	587.64	480.56	464.28
Observations	91	91	91	91

Source: SPSS Analysis, 2020

With the aid of SPSS, the researcher used the data in Table 1 above to compute the mean, standard deviation and variance which formed the descriptive statistics for both the dependent and the independent variables. The result shows that the mean of profit after taxation of the selected deposit money banks was 5.60 with a low variability of 1.58 as seen in the standard deviation. It indicates that profit after taxation of the selected banks were slightly varied. In a similar vein, the mean of cash and cash equivalent, cash used in/from investing, provision for doubtful debt, loan loss provision and off-balance sheet financing was 6.46, 5.86, 5.40, 5.16 and 6.23 respectively. In addition, they also had a very low variability of 1.58, 1.54, 1.65, 1.68 and 1.33 respectively as seen in their standard deviation.

Test of the Research Hypotheses

Test Results for Hypothesis 1

H_0: Provision for doubtful debt does not have an effect on the reliability of profit after tax of deposit money banks in Nigeria.

H_1: Provision for doubtful debt has an effect on the reliability of profit after tax of deposit money banks in Nigeria.

Table 2: Model Summaryfor Hypothesis 1

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.487[a]	.237	.228	1.37691	.237	27.026	1	87	.000

a. Predictors: (Constant), LOGPDD

b. Dependent Variable: LOGPAT

Table 3: ANOVA Result for Hypothesis 1

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	51.237	1	51.237	27.026	.000[b]
	Residual	164.941	87	1.896		
	Total	216.179	88			

a. Dependent Variable: LOGPAT

b. Predictors: (Constant), LOGPDD

Table 4: Coefficients Result for Hypothesis 1

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.093	.501		6.169	.000
	LOGPDD	.462	.089	.487	5.199	.000

a. Dependent Variable: LOGPAT

The results on Tables 2 – 4 above provided an investigation into the overall significance of the model. The value of R is 0.487, implying that there is a weak relationship. The R-square indicates that about 23.7% variation in the endogenous variable can be explained by the exogenous variable while 76.3% is accounted for by other factors aside provision for doubtful debt (PDD). In addition, the estimated value of the regression coefficient (β) is 0.462. This shows that there is a positive relationship between provision for doubtful debt (PDD) and profit after tax (PAT) of deposit money banks in Nigeria. That is, a relative change in provision for doubtful debt will result in about 0.462 change in the reliability of profit after tax (ROA) of the selected deposit money banks. However, this is relatively low but significant.

To test for the significance of the independent variable, the probability value of the independent variable (PDD), that is, 0.000 indicates that provision for doubtful debt has an effect on the reliability of profit after tax of the selected deposit money banks in Nigeria(i.e. p-value is less than 0.05 or 5% critical value). Thus, we accept the alternative hypothesis (H_1) and conclude that provision for doubtful debt has an effect on the reliability of profit after tax of deposit money banks in Nigeria. This effect, however, is relatively low (23.7%).Furthermore, the value of F-statistics is 27.026 and the probability associated with it is 0.00 which is less than the 0.05 or 5% level of significance. This result implies that there exists a statistical significance between provision for doubtful debt (PDD) and the reliability of profit after tax (PAT).

Test Results for Hypothesis 2

H_0: Loan loss provision does not have an effect on the reliability of banks' cash and cash equivalent.

H_1: Loan loss provision has an effect on the reliability of banks' cash and cash equivalent.

Table 5: Model Summary for Hypothesis 2

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.601[a]	.361	.353	1.27052	.361	49.643	1	88	.000

a. Predictors: (Constant), LOGLLP
b. Dependent Variable: LOGCCE

Table 6: Anova result for Hypothesis 2

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	80.135	1	80.135	49.643	.000[b]
	Residual	142.051	88	1.614		
	Total	222.186	89			

a. Dependent Variable: LOGCCE

c. Predictors: (Constant), LOGLLP

Table 7: Coefficients Result for Hypothesis 2

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.555	.435		8.168	.000
	LOGLLP	.566	.080	.601	7.046	.000

a. Dependent Variable: LOGCCE

The results on Tables 5 – 7 above provided an investigation into the overall significance of the model. The value of R is 0.601, implying that there is a strong relationship. The R-square indicates that about 36.1% variation in the endogenous variable can be explained by the exogenous variable while 63.9% is accounted for by other factors aside loan loss provision (LLP). In addition, the estimated value of the regression coefficient (β) is 0.566. This shows that there is a positive relationship between loan loss provision (LLP) and cash and cash equivalent (CCE) of deposit money banks in Nigeria. That is, a relative change in loan loss provision will result in about 0.566 change in the reliability of cash and cash equivalent (CCE) of the selected deposit money banks. This is relatively high and significant.

To test for the significance of the independent variable, the probability value of the independent variable (LLP), that is, 0.000 indicates that loan loss provision has an effect on the reliability of cash and cash equivalent of the selected deposit money banks in Nigeria(i.e. p-value is less than 0.05 or 5% critical value). Thus, we accept the alternative hypothesis (H_1) and conclude that loan loss provision has an effect on the reliability of banks' cash and cash equivalent. This effect, however, is relatively low (36.1%).Furthermore, the value of F-statistics is 49.643 and the probability associated with it is 0.000 which is less than the 0.05 or 5% level of significance. This result implies that there exists a statistical significance between loan loss provision (LLP) and the reliability of cash and cash equivalent (CCE).

Discussion of Results

The study showed evidence that there exists a statistical significant effect between provision for doubtful debt (LOGPDD) and the reliability of profit after tax (LOGPAT) (R = .487, alpha-significance is .000 at $p < 0.05$). In addition, the coefficient of determination (R^2) of 23.7% indicates that about 24% variation in the endogenous variable can be explained by the exogenous variable while 76% is accounted for by other factors aside provision for doubtful debt. The estimated value of the regression coefficient (β) is .462 which indicates that there is a positive relationship between provision for doubtful debt (PDD) and profit after tax (PAT) of deposit money banks in Nigeria. That is, a relative change in provision for doubtful debt will result in about 0.462 change in the reliability of profit after tax (ROA) of the selected deposit money banks. This implies that there exists a statistical significant effect between provision for doubtful debt (PDD) and the reliability of profit after tax (PAT). The result or finding in this study could be buttressed with the assertion of Kamau, et al (2012) who revealed that management of companies could embark on the distortion of profit figure by including fictitious assets and liabilities in the accounts and spreading these amounts over time. It could also be supported with the finding of Akenbor & Ibanichuka (2012) who revealed that creative accounting was being practiced by Nigerian Banks and the major reason was to boost up the market value of shares which have been reported to have adverse consequences on users of accounting information. This practise has been reported to be the major cause of banks around the world collapsing as opined by the Reserve Bank of Zimbabwe (2006). The findings in this present study also agrees with the view that was expressed in the study of Ijeoma (2014) who revealed that the extent of window-dressing of banks' financial statements in Nigeria has been adjudged to have greatly violated all known ethical standards of the accounting and auditing profession either revealed in the form of tax evasion, non-remittance of government revenue or outright falsification of accounts.

Further findings from the study indicated that there exists a statistical significant effect between loan loss provision (LOGLLP) and banks' cash and cash equivalent (LOGCCE) ($R = .601$, alpha-significance is .000 at $p < 0.05$). In addition, the coefficient of determination (R^2) of 36.1% indicates that about 36% variation in the endogenous variable can be explained by the exogenous variable while 64% is accounted for by other factors aside loan loss provision. The estimated value of the regression coefficient (β) is .566 which indicates that there is a positive relationship between loan loss provision (LLP) and cash and cash equivalent (CCE) of deposit money banks in Nigeria. That is, a relative change in loan loss provision will result in about 0.566 change in the reliability of cash and cash equivalent (CCE) of the selected deposit money banks. This implies that there exists a statistical significant effect between loan loss provision (LLP) and the reliability of cash and cash equivalent (CCE). The findings in this study quite corroborates the assertion of Olaniyi, Jimoh & Yunus (2017) who expressed concern at the growing cases of creative accounting practices being reported in the banking sector, as observed in the investigation of some bank's Chief Executive Officers by the Economic and Financial Crimes Commission (EFCC), because of poor corporate governance, poor risk management policies, inadequate internal control systems and poor quality of financial reporting. Similar finding was observed in the study of Mahsoud, Najmeh & Fatemeh (2018) in Tehran who revealed that there was a significant relationship between profit smoothing and the probability of fraud in organisations. In the same vein, it agrees with the study of Uwalomwa, Eluyela, Olubukola, Obarokpo & Falola (2018) who revealed that creative accounting has an influence on the timeliness of financial reports of listed banks in Nigeria. Possible reasons why money deposit money banks in Nigeria engage in creative accounting practices in Nigeria could be drawn from the study of Ijeoma (2014) who revealed that published audited accounts of some of these banks were at variance with the figures the banks submitted to the committee during the investigation which pointed to the fact that the banks engaged in the creative accounting technique of inflating their operating costs to reduce taxable income or profits. The implication of these findings therefore point to the need of stakeholders in the banking sector in Nigeria to make conscious effort to improve on the existing institutional quality and governance particularly in the banking sector, so as to help strengthen the financial reporting mechanism.

Conclusion:

This study was aimed at examining the effect of creative accounting practices on the financial statement quality of deposit money banks in Nigeria from 2010 to 2019. The study revealed that that there exists a statistical significant effect between provision for doubtful debt (LOGPDD) and the reliability of profit after tax (LOGPAT) (R^2 = .237, alpha-significance is .000 at $p < 0.05$). It also indicated that there exists a statistical significance between market capitalisation (LOGMKTCAP) and Earnings per Share (EPS) (R^2 = .1331, alpha-significance is .0363 at $p < 0.05$).Lastly, the regression coefficients (β) of .462 and .566 respectively indicate that creative accounting has had a significant effect on the quality of financial statements of deposit money banks in Nigeria. Findings from this study therefore imply that the effect of creative accounting on the quality of financial statements of deposit money banks in Nigeria is a subject matter worthy of urgent attention because creative accounting erodes the quality of financial reporting in Nigeria by providing distorted financial statements on firms' financial performance and position which leads to misguided investments, corporate governance breakdown and corporate collapse on the quality of financial statements of deposit money banks in Nigeria.

Recommendations:

Based on the findings of this study, the following recommendations will suffice:

i. Creative accounting should be considered a serious crime and accounting bodies and other regulatory authorities need to adopt strict measures to stop these practices and duly punish the offenders;
ii. Accounting practice and scandal can destroy any institution, there is the needto restore integrity and public confidence to accounting operations, theaccountants should be strengthened to respond quickly to the egregiousabuses and malpractice in the world of business and impose sanctions onoffenders; and
iii. Organizations should also maximize use of internal audit department which is instrumental in monitoring governance, risk management and control

processes. Presence of active and independent internal audit department can play a key role in sealing internal control weaknesses which can be exploited by the perpetrators of creative accounting.

References

1. *Amat, O, Gowthoree, C. & Perramon, J. (2004). Creative accounting: nature, incidences and ethical issues. Journal of Business Ethics, 57, 55-64.*
2. *Charles, L. (2016). Creative Accounting Related Practices Among Corporations Listed in Nairobi Securities Exchange in Kenya. International Journal of Sciences: Basic and Applied Research, 25(1), 254 – 265*
3. *Chen, K. Y., Elder, R. J. &Hsich, Y. M. (2007). Corporate governance and earnings management: the implications of corporate governance best-practice principles for Taiwanese listed companies. Available at: hyperlink "ssrn.com".*
4. *Elhelaly, M. (2014). Related party transactions, corporate governance and accounting quality in Greece. Greece: Aston University.*
5. *Emuze, G. Emuze, I. B. &Ogbole, P. O. (2018). Determinants of accounting quality of Nigerian banks. International Journal of Economics, Commerce and Management.6(1), 1 – 21.*
6. *Ewert, R., Wagenhofer, A., (2010), Earnings quality metrics and what they measure. Working paper, University of Graz.*
7. *Gosh, S. (2010). Creative accounting: A fraudulent practice leading to corporate collapse. Research and Practice in Social Sciences, 6(1), 1 – 15*
8. *Ijeoma, B. N. (2014). The Effect of Creative Accounting on the Nigerian Banking Industry. Industry International Journal of Managerial Studies and Research, 2(10), 13-21.*
9. *Jensen, M. C. & Meckling, W. H. (1997). Theory of the firm managerial behaviour agency cost and ownership structure, Journal of Economics, 3(1), 305-360.*
10. *Jones, M .(2011). Creative accounting, fraud and international accounting scandals. John Wiley & Sons Ltd., England.*
11. *Masoud, T., Najmeh, T. & Fatemeh, T. (2018). The Impact of Creative Accounting on the Probability of Fraud in the Companies Accepted in the Tehran Stock Exchange. Industrial Engineering & Management Systems, 17(4), 709 – 718*
12. *Michael, H. L., Peter, I. L., Sven-olaf, C. & Philippe. (2005). Origin of Corporate Governance in USA, Sweden and France. France.*
13. *Mulford, C.W. & Comiskey, E.E., (2002). The Financial Numbers Game: Detecting Creative Accounting Practices. New York: John Wiley & Sons.*
14. *Nangih, E. (2017). Nexus between Creative Accounting Practices and Financial Statements Quality in Nigeria: A Reflection of Oil Servicing Companies in Port Harcourt Metropolis. Journal of Accounting and Financial Management, 3(3), 1 – 11.*

15. *Nassar, L. M., Uwuigbe, O. R., Uwuigbe, U., &Abuwa, J. T. (2014). IFRS Adoption and its integration into accounting education curriculum in Nigerian universities. Research Journal of Finance and Accounting, 5(22), 76 - 82. Retrieved from: eprints.covenantuniversity.edu.ng.*
16. *Nyabuti V.O, Memba F. & Chege C. N (2016). Influence of creative accounting practices on financial performance of companies listed in the Nairobi Security Exchange in Kenya. International Journal of Management and Commerce Innovations, 3(2), 45-59.*
17. *Olaniyi, T. A., Jimoh, T. O. & Yunus, A. B. (2018). Relationship between corporate governance and creative accounting practices of Nigerian banks. Industry International Journal of Managerial Studies and Research, 2(10), 13-21.*
18. *Omurgonulsen, M., & Omurgonulsen, U. (2009). Critical thinking about creative accounting in the face of a recent scandal in the Turkish banking sector. Critical Perspectives on Accounting, 20(5), 651-673.*
19. *Prentice, R. (2002). Enron: A brief behavioural autopsy. American Business Law Journal, 40(2), 417-444.*
20. *Soble, J. (2011). Olympus used takeover fees to hide losses. Financial Times (London), 1(1), 1 – 18. Retrieved from: www.ft.com.*
21. *Uwalomwa, U., Eluyela, D. F., Olubukola, R. U., Obarakpo, T. & Falola, I. (2018). Corporate governance and quality of financial statements: a study of listed Nigerian banks. Banks and Bank Systems, 13(3), 12-23.*
22. *Yadav, B., Kumar, A. & Bhatia, B.S. (2014). Concept of creative accounting and its different tools. International Journal of Management and Social Sciences Research (IJMSSR), 3(2) 66-74.*