Assessing The Impact of Creative Accounting Practices On Corporate Failure in Selected Nigerian Manufacturing Firms

[1]Atere Akinsogo, [2]Kuola, Aanu Joseph, & [3]Obasan, Olabowale Taiwo
Department of Accountancy,
Abraham Adesanya Polytechnic, Ijebu-Igbo, Ogun State, Nigeria.
Correspondence email: atereakinsogo2015@gmail.com Phone No: +234 802 941 3415

ABSTRACT

There have been several cases of accounting and business scandals around the world which had attracted criticisms of the quality of the information provided by corporate entities. This study examined the impact of creative accounting practice on the corporate failure of selected Nigerian manufacturing firms. The study aimed to examine the effect of Income smoothing on corporate failure in Nigerian manufacturing firms. Also, the study investigated the relationship between artificial transactions and corporate failure in Nigerian manufacturing firms. The research design of this study is a cross sectional survey and purposive sampling research. The primary source of data for this study was obtained through a well-structured questionnaire while secondary data were gotten from literature of past studies, libraries, newspaper and online search engine. Five (5) manufacturing firms will be randomly selected from these two locations and the sample included 50 managers and 70 accountants gotten from manufacturing firms operating in Ijebu-Ode, Ogun state and Toll gate Ibadan, Oyo State. Total number of One hundred and twenty 120 questionnaire after thorough checks were distributed, while 100 of these questionnaire were retrieved after confirming that they were filled properly and ready to be compiled for analysis. Ultimately, the findings revealed that there is evidence of creative accounting in the manufacturing firms in Nigeria. It was recommended that when making investment selections, the public should exercise caution and avoid relying exclusively on the published financial statement due to the harsh techniques and gimmicks used by business accountants.

Keywords: *Creative Accounting, Income Smoothing, Artificial Transactions, Corporate Failure.*

1. INTRODUCTION

Failure is a concept widely defined and understood differently depending on the area of weakness and inability of businesses to achieve set goals or inability to meet societal, industrial, or even government expectations of organizations. When there is failure its effect cuts across all human endeavors and professions, hence the need to place this important construct on the front burner for discussion.

Corporate failure is perceived as when a company becomes insolvent or goes out of business as witnessed, "failure and distress" associated with fraudulent accounting and window dressing of financial statements such as in Enron, 2001, Worldcom scandal 2002, Satyam 2009, Olympus, 2011, Lehman brothers 2008 and recently; Thomas Cook, 2019 in UK and USA. In the case of Nigeria; banks PHB, Spring Bank, and Diamond are examples of corporate failures, and Akintola William and Deloitte were indicted for facilitating the falsification of accounts of Afribank plc (Main stream bank plc) and for deliberately overstating the profits of Cadbury Plc. It is reported that between 1990 and 1994 Nigeria lost more than ₦6b ($42.9m) within the banking sector, This-Day (2006) and Oluwagbuyi, (2013) cited in (Bankole,2018).

The systemic failures of the above corporations were attributed to unethical practices and financial mismanagement by the directors which the non-discovery by external auditors (professional accountants) requires satisfactory explanations and not assisting them in accomplishing their selfish interests.

According to David and Eyo (2013), corporate failure occurs when a company fails to follow its strategic path for growth and development to meet its legal requirements, financial goals, and economic objectives. Corporate failure has been extensively studied and discussed by economists, bankers, creditors, equity owners, accountants, manufacturers, marketing and management specialists, and others, according to Essien, Etim, Edem, Ibanichuka, Emmanuel, Ironkwe, Uwaoma, and Egbe (2021). They also asserted that it is crucial for shareholders, creditors, the government, and others to continuously monitor the activities of firms because of the catastrophic and social implications of corporate failure.

There have been several cases of accounting and business scandals around the world which had attracted criticisms of the quality of the information provided by corporate entities. Although there are existing strong accounting standards (GAAP and IAS) to guide financial accounting activities, sometimes it becomes impossible to prevent the manipulative behavior of financial statement preparers, who want to affect the decisions of the users of financial statements in favor of their companies. (Haruna & Emmanuel, 2017) These manipulative behaviors of figures in accounting reporting are often called "creative accounting".

Creative accounting is a term used to describe means used by preparers of financial statements to make companies competitive in the business environment where they operate (Odia & Ogiedu, 2013). This practice is manifested through the manipulation of the statement of financial position, managing results through inconsistent accounting methods or policies, capitalizing costs, and abuse of materiality concepts to validate inaccuracies. Managers adopt creative accounting as a tool for presenting accounting data in such a way as to attract stakeholders, instead of revealing the actual business position. Adetayo and Ajiga (2017) gave their view on creative accounting as the process of changing the financial information from what it should be to what the company wants relying on the existing loopholes of law or financial standards (IFRS) flexibility that allow firms to choose method and rate of asset depreciation and

inventory valuation. However, this act has a derogative effect on the integrity of financial statements and the audit profession and this corporate scandal disrupts the capital market, reduction in GDP, and massive loss of jobs and investments.

Statement of the Problem

The relationship between creative accounting and corporate failure in Nigeria is a significant topic that deserves attention. Corporate failure is explained as a company becoming insolvent or going out of business. This has been observed in high-profile cases such as Enron, Worldcom, Satyam, Olympus, Lehman Brothers, and Thomas Cook. In Nigeria, examples of corporate failures include bank PHB, Spring Bank, and Diamond, with instances of fraudulent accounting practices. These failures have been attributed to unethical practices and financial mismanagement by company directors, often overlooked by external auditors. Corporate failure occurs when a company deviates from its strategic path for growth and development, failing to meet legal requirements, financial goals, and economic objectives. It is crucial for shareholders, creditors, the government, and others to continuously monitor the activities of firms due to the catastrophic and social implications of corporate failure. Despite the existence of strong accounting standards, such as GAAP and IAS, manipulative behavior in financial reporting, known as "creative accounting," remains prevalent. Creative accounting involves manipulating financial statements to make companies appear more competitive in their operating environment, often through methods such as income smoothing, artificial transactions, inconsistent accounting policies and capitalizing costs. This practice has a detrimental effect on the integrity of financial statements, and the audit profession, and can lead to disruptions in the capital market, reduction in GDP, and significant job and investment losses.

Myriad research carried out on creative accounting (Akenbor et al., 2012; Osazevbaru, 2012; Akpanuko et al., 2017; Mine et al., 2007; Rewayati et al., 2015; Sen and Inanga, 2004; Domash, 2002; Amat, Blake and Dowds, 1999; Naser, 1993; Schiff, 1993), studies such as Sen and Inanga (2004), Domash (2002), Amat, Blake and Dowds (1999) Naser (1993), Schiff (1993), Osazevbaru (2012), Akembor (2012), Osisioma and Enahoro (2006), Aremu and Bello (2004), and Alam (1988) have focused mainly on the impact of creative accounting on firm value and investors‟ investment decisions with little highlight on the reasons for such practices and a few consideration for corporate failures. Moreover, most of the studies are foreign-based whose findings may not be suitable with the Nigerian situation putting environmental differences into consideration. The few available studies in Nigeria such as Osisioma and Enahoro (2006), Aremu and Bello (2004), and Elaigwu, Audu and Abdullahi (2020) and others as mention above, pay little attention to corporate failure, especially in the banking industry. However, this study aims to examine the effect of creative accounting on corporate failure of manufacturing firms in Nigeria.

Objective of the Study

The study is narrowed primarily to investigate the effect of creative accounting on corporate failure of selected Manufacturing firms in Nigeria and the specific objectives are as follows:

i. To examine the effect of Income smoothing on corporate failure in Nigerian manufacturing firms.
ii. To investigate the relationship between artificial transactions and corporate failure in Nigerian manufacturing firms.

Research Question

The following questions would be answered at the end of the study:

i. Is there a significant effect of Income smoothing on corporate failure in Nigerian manufacturing firms?

ii. Does artificial transaction have a relationship with corporate failure in Nigerian manufacturing firms?

Research Hypotheses

For the purpose of this study, the following are the hypotheses to be tested:

H0i: There is no significant effect of Income smoothing on corporate failure in Nigerian manufacturing firms.

H0ii: Artificial transaction has no relationship with corporate failure in Nigerian manufacturing firms.

2. LITERATURE REVIEW

Conceptual Review

Corporate Failure

A company failure is explained that a business entity runs into going concern issues that prevent it from continuing as a business unit, which results in business failure. Corporate failure otherwise, business failure is a situation where a business entity is face with going concern issues, that causes it not to be able to continue as a business unit. Arasti (2011) opined that in general, many different terminologies are related to business failure, such as firm closures, entrepreneurial exit, dissolution, discontinuance, insolvency, organizational mortality and bankruptcy. Normally, entrepreneurial failure is referred to as the cessation of an operation for financial reasons. However, in the context of this study our concern is the demise of air firms in the aviation industry in Nigeria, with a long history of airlines liquidating their operations some in the very year of formation.

A corporate entity can experience failure if it is unable to effectively utilize its financial resources. This can lead to a lack of funds and can be attributed to various factors within the corporation's operations. If managers are unable to make efficient decisions regarding resource management and allocation, this can result in decreased profits and an inability to distribute dividends to shareholders at the end of the fiscal cycle.

Corporate failures can also refer to the collapse or bankruptcy of a business organization, often as a result of mismanagement, financial misdeeds, or external factors such as economic downturns, changes in consumer behavior, or unexpected events such as natural disasters. Corporate failures can have severe consequences for the company's employees, shareholders, and other stakeholders, as well as for the broader economy. Some examples of high-profile corporate failures include the bankruptcy of Enron in 2001, which resulted from fraudulent accounting practices and caused the loss of thousands of jobs and billions of dollars in investor losses, and the collapse of Lehman Brothers in 2008, which was a key trigger of the global financial crisis. Other causes of corporate failures can include excessive debt, poor strategic decision-making, lack of innovation, and failure to adapt to changing market conditions. In many cases, corporate failures can be prevented or mitigated through effective governance, risk management, and accountability mechanisms. Companies that prioritize transparency, ethical behavior, and long-term sustainability are more likely to avoid the kinds of missteps that can lead to failure, and are better positioned to weather economic or market disruptions.

Creative Accounting

Creative accounting is unethical but not illegal as it did not conform to financial reporting objectives of true and fair view, as highlighted by Ojomolade and Adejuwon (2020). The investors expect reliable, accurate and credible financial reporting information in order to make various

investment decisions while the company due to economic environment and market competition wishes to attract investors which lead to unethical method of creating accounting resorting from loopholes in laws and standards to overestimate asset valuation, to beat targets, meeting financial market expectations and share prices, for credit rating, decreasing expenditures with motive to increase company capital, (Shahid, Ali, 2016; Branka, 2018; Karim, 2016; and Hastiti, 2015).

Creative accounting is a practice that may (or may not) comply with accounting standards or principles but deviates from what those principles and standards intend to achieve, in order to show a desired image of the company to stakeholders (Bhasin, 2016). As observed by Nadim (2013), creative accounting is practiced in order to match the interest among parties. Various parties in the society seek to maximize their own interest. Managers wish to pay less tax possible and to report huge profits so they can earn good bonus. Shareholders interest is to earn good dividend, while employees wish to get improved salary and job security, while government wants to collect taxes.

Proxies of creative accounting are explained below:

Income Smoothing: This is a practice by most preparers of financial statements to widow dress accounting records, by levelling the accounts using profitable periods to smoothen the periods of losses. Like in the study of Kencana, Mukhtaruddin and Iqbal, (2018), that observed that managers in their determination to make their accounts appear worthy financially, may implement Revenue Smoothing, the intention to decrease strange discrepancies in revenue information within the bounds acceptable in accounting does and ethics.

Artificial Transactions: these are transactions that have the form of literal market exchange but substantially does not fit what they portray. The intent of these forms of transactions may be to achieve desired financial outcome. Ibanichuka and Ihendinihu, (2012) painted a situation where a firm may have an understanding to dispose property to financial firm and rent it again within the span of usefulness of the property with a mind to alter monetary numbers of the records, principally while disposal cost of deal and hire back could be slanted over or under the worth of the property, since discrepancies could be rewarded for by higher or lower hires. Given this model artificial trading, and particularly 'sales and leaseback' it becomes worrisome why a company would choose to sell and lease what was sold back, it defies ordinary sense and reasoning! But very possible and applicable in accounting mostly when creative accounting and earnings management is the focus.

Factors Motivating Creative Accounting

From the view of Adetoso and Ajiga (2017) several factors encourage managers to indulge in creative accounting practices. Such factors include;

(i) Separation of ownership from management - Once management and owners are separated, (i.e an agency relationship exists between the owner(s) and the manager(s) of the entity), and there is pressure on management to report positive or flattering results to those who have an interest or potential interest in the business.

(ii) (Vagueness of accounting rules/guidelines - Legislation and accounting rules or guidelines that are set to guide accounting practices are often framed in vague and flexible terms. These rules and standards aim only at narrowing down the available options, thereby providing for consistent application at the expense of standardised usage. This is aggravated by tenuous and undefined concepts like "true" and "fair" and "materiality". These concepts leave a lot of room for subjective judgement and maneuver in practice.

(iii) To Meet Internal Targets -The managers do create accounting figures in order to meet targets set by higher management with respect to sale, profitability and share prices.

(iv) To Meet External Expectations – Dilip (2006) argued that creative accounting is also motivated by the conflicts of interest among different interest groups. Entities do face many expectations from its employees,

(v) To obtain an ISPO for a Loan -The window dressing can also be done to favour corporate events such as issuance of Irrevocable Standing Payment Order (ISPO) before taking a loan or in acquisition bid. Reports have it that the tendency of firms nearing violation of debt covenants is twice or thrice to make income increasing accounting policy changes, than other companies.

(vi) Taxation - Creative accounting may also be a result of desire for some tax benefits.

Modes of Creative Accounting

As contained in the study of Adetoso and Ajiga (2017), blow are few examples of creative accounting tools used to inflate or smooth income flows;

(i) Income smoothing - Is the process of reducing the reported profits of a business in good periods and deferring them to loss making periods in an effort to portray a 'stable' income stream over the years. According to Richard, Myrtle & Jack (2008), this is possible because of the flexibility of the matching concept and because breaking down the results of a business venture into financial periods is not always appropriate. One of the many reasons for income smoothing is that investors prefer a smoothed income flow because it supposedly reflects stability, strength and growth within a company.

(ii) Window dressing and secret reserves - Window dressing is the process of adjusting the financial statements of a company to achieve the maximum effect on its financial position at a particular date. Practically any item on the financial statement can be manipulated to portray a desired picture (Richard, Myrtle & Jack (2008). For example, adjustments can be made to the allocation of expenses between different periods. Current assets and liabilities can be stated either as gross figures or net of discounts. A company intending to take out a loan may inflate its sales figures by selling to its related companies.

(iii) Off-balance sheet financing - In off balance sheet financing, a company increased borrowing is not reflected in the financial statements. This enables the company to show better gearing ratios, obtain additional borrowing, while still maintaining its gearing limits with its lenders.

Creative Accounting Techniques

The term creative implies originality, expertise, and energy in one's activity. Accounting, on the other hand, is described as "the art of documenting, classifying, and summarizing in terms of money, transportations, and events that are, in part, at least of a financial nature, and interpreting the outcomes thereof" by the American Institute of Certified Public Accountants (Okafor 2003). According to Okoye and James (2020), creative accounting is misleading accounting; nevertheless, Akenbor and Ibanichuka (2012) confirm that it is extensively used to describe accounting procedures that allow organizations to declare erroneous financial outcomes of their commercial activities. Creative accounting entails applying accounting expertise to alter reported figures while maintaining within the bounds of accounting rules and legislation. Instead of displaying the company's true performance or position, the data are intended to reflect what management wishes to tell stakeholders (Yadav, 2014). Bankole, Ukolobi, and McDubus (2018) describe creative accounting as accounting techniques that adhere to the text or norms of traditional accounting practices but stray from the spirit of those principles. Even while creative

accounting procedures are immoral in terms of misleading investors, they are not criminal because they are distinct from fraudulent tactics (Okoye & James, 2020). According to Michael (2011), the broader US definition includes fraud, whereas the UK definition sees creative accounting as utilizing the flexibility of the accounting system but excluding fraud.

Creative accounting approaches are notable because they continue to be used as widely accepted accounting principles, while being demonstrated to be deceptive in many circumstances. Mulford and Comiskey (2002) classify approaches into inventive five accounting categories:

(i) Recognizing Premature/ fictitious revenue: This entails recognizing revenue for a legitimate sale in a period prior to that called for by the Generally Accepted Accounting Principles (GAAP).

(ii) Aggressive Capitalization and extended amortization: These are policies that companies employ to minimize expenses by aggressively capitalizing expenditures that should have been expensed or by amortizing capitalized amounts over extended periods.

(iii) Misreporting assets and liabilities: These include overstating assets that are not subject to annual amortization, such as accounts receivables, inventory and investments, and understating liabilities which may include accrues expenses payable, environmental claims and derivatives - related losses.

(iv) Intentional manipulations or omissions of amounts or disclosures in financial statements, fiddling with profits or losses in the income statement for deceit and fraudulent intentions.

(v) Ineffective and inaccurate recording of financial transactions (cash inflows and cash outflows in a business entity).

Theoretical Review

Agency Theory

The theory that explains the motivations for creative accounting is the agency theory. This theory is rooted in the modern corporation which depicts the separation of firm ownership from the management and often credited to the landmark work on the theory of the firm: managerial behavior, agency cost and ownership structure (Jenson and Meckling, 1976; Fama and Jensen, 1983; Brijesh, 2014). They emphasized that agency problems will certainly arise in circumstances where the principal employs the agent to undertake a number of duties for a reward. Thus, the management is acting in the capacity of an agent to the principals, owes principals fiduciary duty of care to run the organization in the best interests of the owners for a given reward (Berle and Means, 1932; Jenson and Meckling, 1976). Therefore, they argued that inevitably, conflicts of interest do exist between the management and the owners of the business most especially when owners are not managers. This is because the agency theory assumes a model of managers as a man that is self-interest seeking, self-serving, individualistic and opportunistic in nature that only prefers to maximize his personal utility functions at the expense of the owners (principals). The theory holds that there exists always a divergence of objectives between the goals of the management and those of the shareholders. Agency problems could also arise due to adverse selections and moral hazards (Jenson and Meckling, 1976).

Voluntary Disclosure Theory

This study is anchored on the voluntary disclosure theory. Disclosure of information useful to financial statements users is a key requirement in financial reporting as clearly stated in international accounting standards 'IAS 1', like the theory pointed out, some pieces of information remain mandatory and must be seen to be disclosed if the financial reports would be decision useful, even though some information disclosure may be voluntary. Rankin, Stanton, Mcgowan, Ferlauto and Tilling (2012), where vocal about voluntary disclosure and assert, theory predicts shareholders optimize disclosure policy, corporate governance and management incentives to maximize firm value. They argued, Increase disclosure lowers information asymmetry, though it does not mean credible or unbiased disclosure because it is too costly to eliminate all the ways that managers can use to add some bias. But they remain optimistic that the theory predicts that even though disclosure is somewhat biased, on average it will be credible (Essien & Fabian, 2021).

Information asymmetry theory

Akerlof first forth the theory of information asymmetry in 1970. Information theory plays a significant role in Schipper's (1989) description of the creative accounting phenomenon, which is a problem of knowledge asymmetry between privileged management and a more diverse group of stakeholders in corporate organizations. Managers must now choose whether or not to turn the other parties against them by taking use of their advantageous position. By providing clear signals, this information standpoint makes guarantee that accounting disclosures contain information that is valuable to stakeholders. Due to a lack of accounting expertise or a reluctance to do a thorough study, individual stakeholders are almost unable to tell the difference between the cause and impact of accounting manipulation. In a sample-based test of the information asymmetry hypothesis, Warfield, Wild, and Wild (1995) found a strong positive correlation between creative accounting and information asymmetry. Additionally, their findings show that a firm is more likely to use creative accounting the greater the informational disparity between management and shareholders.

Empirical Review

Škoda, Lengyelfalusy and Gabrhelová (2017) conducted a study on creative accounting practices in Slovakia after passing financial crisis. The study found that companies are forced and under pressure of performing well and this becomes the major motivator of creative accounting. The study also emphasis that to be competitive and be in the race of competition, companies are trying to do anything not minding whether it is unethical.

Bankole et al. (2018) examined the effect of creative accounting on share holders' wealth. Inventory valuation, depreciation policy and debtors' ageing schedule were used as proxies for creative accounting. The study found that frequent changes in inventory valuation method and depreciation policy affect shareholders' wealth while frequent manipulation of a firm's ageing schedule had no significant effect on shareholders' wealth.

Kamau (2015) analyzed creative accounting practices among listed companies on the Nairobi Stock Exchange in Kenya. The study comprised 64 companies listed on the (NSE). The conclusion of the study is that there were significant variances in discretionary accruals for various sectors which is an evident that high probability that creative accounting exists across the sectors.

Okeoma (2014) studied the influence of creative accounting on organizational effectiveness. Using survey data and financial reports of fourteen Nigerian manufacturing firms over a period of five years, the study found weak

evidence of a positive correlation between income smoothing, artificial transaction and market share. The study further concluded that many manufacturing firms in Nigeria underperform but practice creative accounting to appear legitimate.

3. METHODOLOGY

The research design of this study is a cross sectional survey and purposive sampling research. The primary source of data for this study was obtained through a well-structured questionnaire while secondary data were gotten from literature of past studies, libraries, newspaper and online search engine. The population of this study are the managers and accountants in Nigerian manufacturing firm, covering Ijebu-Ode and Ibadan in Ogun and Oyo state respectively. Five (5) manufacturing firms will be randomly selected from these two locations and the sample included 50 managers and 70 accountants gotten from manufacturing firms operating in Ijebu-Ode, Ogun state and Toll gate Ibadan, Oyo State.

A well-structured questionnaire was distributed to all the selected respondents The questionnaire constructed was coined from the research questions which the study tends to answer at the end of the study, to ensure the validity of research instrument and the responses of the respondents were thoroughly checked by experts to ensure the data obtained were reliable.

The well-structured questionnaire was ten (10) close-ended questions containing five (5) questions for each research question, with Likert Scale response options; Strongly Agreed, Agreed, Undecided, Strongly Disagreed and Disagreed). The Analysis of Variance (ANOVA) statistical method was employed to analyze the data collected at 5% level of Significance.

4. RESULTS AND DISCUSSION

The total number of One hundred and twenty 120 questionnaire after thorough checks were distributed, which the target respondents are 50 Managers and 70 Accountants, while 100 of these questionnaire were retrieved after confirming that they were filled properly and ready to be compiled for analysis. The percentage of the returned questionnaire is 83% which makes it be free from any objection.

Table 1: Interpretation of data

S/N	Questions/Variables	SA	Agrd	Undcd.	SD	Dsgrd
The effect of Income smoothing on corporate failure in Nigeria Manufacturing firms.						
1.	There is absolutely no practice of income smoothing in financial statements to widow dress accounting records in your firm.	39	42	5	8	3
2.	Your firm does not get involve in levelling the accounts using profitable periods to smoothen the periods of losses.	47	36	4	6	7
3.	Your managers in their determination make their accounts appear worthy financially.	41	43	5	6	5
4.	There is no intention to decrease strange discrepancies in revenue information within the bounds acceptable in accounting and ethics in your firm.	37	45	6	5	7

5.	Do you agree that creativity in accounting is an illegal act to the extent that it breaches any accounting standards?	56	28	2	7	7
The relationship between artificial transaction and corporate failure in Nigeria Manufacturing firms.						
6.	There are no transactions that have the form of literal market exchange but substantially does not fit what they portray in your firm.	61	26	4	3	6
7.	The intent of several transactions in your firm may not be to achieve desired financial outcome.	44	36	2	11	7
8.	Your firm may not have an understanding to dispose property to financial firm and rent it again within the span of usefulness of the property with a mind to alter monetary numbers of the records.	50	32	3	6	9
9.	Principally while disposal cost of deal and hire back could be slanted over or under the worth of the property in your firm.	34	53	5	4	3
10.	Your company would not choose to sell and lease what was sold back.	44	29	7	12	8

Source: Researchers' Field Survey, 2024 *(All the questions in the questionnaire were constructed by the researchers).*

Hypothesis One

H0i: There is no significant effect of Income smoothing on corporate failure in Nigerian Manufacturing firms.

Table 2

SUMMARY OF MEAN AND VARIANCE				
Groups	*Count*	*Sum*	*Average*	*Variance*
39	4	181	45.25	68.25
42	4	145	36.25	48.25
5	4	16	4	2.666667
8	4	24	6	0.666667
3	4	28	7	0

Source: Excel Spreadsheet (2024)

The table 2 above shows how the respondents give their opinion of the first objective of the study and the results from the table revealed that income smoothing is a tool used in influencing firms income and it is detrimental to the success of manufacturing firms, if this is not curtailed.

Table 3.

ANOVA SUMMARY

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	6088.7	4	1522.175	63.51217	3.19E-09	3.055568
Within Groups	359.5	15	23.96667			
Total	6448.2	19				

Critical Value of 5% level of significance with degree of freedom 4 to 15 is 3.05

Decision Rule

Since the calculated value is 3.19, is greater than the critical value of 3.05. The alternative hypothesis should be accepted and the null hypothesis (H0) should be rejected. Therefore, there is significant effect of Income smoothing on corporate failure in selected Nigerian Manufacturing firms

Hypothesis Two

H0ii: Artificial transaction has no relationship with corporate failure in Nigerian Manufacturing firms.

Table 4.

SUMMARY OF MEAN AND VARIANCE				
Groups	*Count*	*Sum*	*Average*	*Variance*
61	4	172	43	44
26	4	150	37.5	115
4	4	17	4.25	4.916667
3	4	33	8.25	14.91667
6	4	27	6.75	6.916667

Source: Excel Spreadsheet (2024)

The table above shows how the respondents give their opinion of the first objective of the study and the results from the table revealed that artificial transaction is a tool used in influencing firms fake transactions and it is detrimental to the success of manufacturing firms, if this is not curtailed.

Table 5.

ANOVA SUMMARY

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	5587.7	4	1396.925	137.60229	3.69E-07	3.055568
Within Groups	557.25	15	37.15			
Total	6144.95	19				

Critical Value of 5% level of significance with degree of freedom 4 to 15 is 3.05

Decision Rule

Since the calculated value is 3.69, is greater than the critical value of 3.05. The alternative hypothesis should be accepted and the null hypothesis (H0) should be rejected.

Therefore, artificial transaction has relationship with corporate failure in Nigerian Manufacturing firms.

Discussion of Findings

This study investigated the significant effect of creative accounting on corporate failure of selected manufacturing firms in Nigeria. With the above results, the first hypothesis which stated that there is no significant effect of Income smoothing on corporate failure in selected Nigerian Manufacturing firms, was rejected. This showed that there is significant effect of Income smoothing on corporate failure of the selected manufacturing firms in Ijebu-Ode, Ogun state and Ibadan, Oyo state.

In the same vein, the results further explained that the second hypothesis which stated that artificial transactions have no relationship with corporate failure in the selected Nigerian Manufacturing firms, was rejected. This resulted to the acceptance of alternative hypothesis which states that artificial transactions have relationship with corporate failure in Nigerian Manufacturing firms.

Apparently, the two proxies of creative accounting; income smoothening and artificial transactions have been the major concern in the presentation of financial statements of manufacturing firms in Nigeria. The two proxies have been tools used by firms who are not making profits up to the expectation of the prospective investors in a bid to who them and picture the company as the type that makes robust profits on investments. The cause of this could be traced to the recent hike in the prices of mostly all commodities; as a result of steady increase in pump price of Premium Motor Spirit (PMS) and recent increase in tax rate and interest rate.

Ultimately, our findings revealed that there is evidence of creative accounting in the manufacturing firms in Nigeria.

5. CONCLUSION AND RECOMMENDATION

This study examines the effect of creative accounting on corporate failure of selected manufacturing firms in Nigeria. Looking through the result of the hypothesis tested and responses from respondents on other issues as supporting evidence, it is apodictic that most companies that indulge in creative accounting end up failing and this is a signal to the ones that just ventured into the act as a result of the economic meltdown in the country. The tested hypothesis revealed that income smoothening has a positive impact on corporate failure of manufacturing firms in Nigeria. Also, it was found out in the second hypothesis that the acceptance of the alternative hypothesis which states that artificial transaction has relationship with corporate failure in Nigeria Manufacturing firms, give positive impact on corporate failure. In this regard, the response of respondents to the issue of the impact of creative accounting on corporate failure is significantly positive, that is, if the firms continue with creative accounting in the long run scandals will ensue.

For this study, the following are recommended:

i. To deter creative accounting, the discipline of forensic accounting which combines investigative, auditing, and accounting expertise should be promoted.

ii. When making investment selections, the public should exercise caution and avoid relying exclusively on the published financial statement due to the harsh techniques and gimmicks used by business accountants.

iii. Accounting professional bodies, legal authorities, and other regulatory entities should all take strong action to outlaw creative

accounting procedures and punish those who engage in them.

iv. To keep accountants current, foster their initiative and inventiveness, and prepare them for the demanding and expanding corporate world, research and education are essential.

REFERENCES

Adetayo, J.O. and Ajiga, O. F. (2017). Creative Accounting Practices among Nigeria Listed Commercial Banks Curtaining Effect of IFRS Adoption. *Journal of Resources Development and Management. Vol 3.*

Adetoso, J.A & Ajiga, O. F. (2017). Creative Accounting Practices among Nigeria Listed Commercial Banks: Curtailing Effect of IFRS Adoption. *Journal of Resources Development and Management, An International Peer-reviewed Journal Vol.38, ISSN 2422-8397.*

Akenbor, C. & Ibanichuka, E. (2012). Creative Accounting Practices in Nigerian Banks. *An International Multidisciplinary Journal, Ethiopia, 6(3), 23-34.*

Akpanuko, E., & Umoren, N. (2018). The influence of creative accounting on the cred ibility of accounting reports. *Journal of Financial Reporting and Accounting, 16(2), 292–310.* http://dx.doi.org/10.1108/JFRA-08-2016-0064.

Alam, A.K.M. (1988). Creative Accounting - Is It Leading Us Towards a Stock Market Crash? The Cost and Management, *The Institute of Cost and Management Accountants of Bangladesh, Dhaka, 16(5), 5-7.*

Amat, O; Blake, J. & Dowds, J. (1999). The Ethics of Creative Accounting. *Journal of Economic Literature.*

Arasti, Z., 2011. An empirical study on the causes of business failure in Iranian context. *African Journal of Business Management. 5(17), pp. 7488-7498.*

Aremu, J. A. & Bello, M (2004). Creative Accounting and Financial Scandals. *International Journal of Accountancy, 17 (2), 143-147.*

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

Berle, A.A. Jr, & Means, G.C. (1932), The Modern Corporation and Private Property. *The Macmillan Company, New York, NY, p. 396.*

Bhasin, M. (2016). Survey of Creative Accounting Practices: An Exploratory Study of an Asian Market. *International Journal of Management and Social Sciences Research, 5(9), 29–41.*

Branka, R., Ivana, K., & Ivo, M. (2018). Creative Accounting-Motives, Techniques and Possibilities of Prevention. Ekonomski Vjesnik, *31(1), 193–199.*

Brijesh, Y. (2014). Creative Accounting: An Empirical Study from a Professional Perspective. *International Journal of Management and Social Sciences Research, 3(1), 23-56*

Dillip, K.S. (2006). Creative accounting in Bangladesh and global perspectives. http://www.msm.nl/news. Retrieved 28/1/2017.

Domash, H. (2002). How to Detect Creative Accounting: Detecting Accounting Shenanigans. Economics, *26(2), 301-325.*

Essien, Etim N., Edem, Edem N., Ibanichuka, Emmanuel A. L., Ironkwe, Uwaoma and

Egbe S. (2021). Creative Accounting Methods and Corporate Failure in Nigeria. *Global Journal of Social Sciences Vol 20, 2021: 99-108. DOI: https://dx.doi.org/10.4314/gjss.v20i1.10.*

Essien, E. N., & Fabian, A. O. (2021). Impact of Creative Accounting Practices on Business Failure in the Nigerian Aviation Industry. *IOSR Journal of Economics and Finance. Volume 12, 4, ISSN: 2321-5925*

Fama, E.F. & Jensen, M. (1983). Separation of Ownership and Control. *Journal of Law and Economics, 26(2), 301-325.*

Haruna, N., and Emmanuel, T. S. (2017). Analysing the Critical Effects of Creative Accounting Practices in Corporate Sector of Ghana. *MPRA. Paper 81113*

Hastuti, T.D and Gozall, (2015). Manipulation Detection in Financial Statements. *International Journal of Humanities and Management Sciences 4 (4)1-8*

Ibanichuka, E. A. L., and Ihendinihu, J. U., (2012). Creative accounting and implication for dividend payout of companies in the financial sub-sector of Nigerian economy: *Mediterranean Journal of Social Sciences, 3 (15) 125.Retrievedfromhttps://www.richtmann. org/journal/index.php/mjss/article/view/11528.*

Jensen M. C. and Meckling W. H. (1976). Theory of the firm: managerial behaviour, agency costs, and ownership structure. *Journal of Financial Economics, 3(4), 305– 360.*

Kamau, A. (2015). Creative Accounting among corporations Listed in Nairobi Stock Exchange: Sector Analysis. *The International Journal of Business and Management, 4(1), 161–168.*

Karim,A.M, Shaikh,J.M, Hock,O.Y and Islam, M. R. (2016). Solution to Adopting Creative Accounting Practice. An in-depth Perception of Gap Analysis among Accountants and Auditors of listed Companies. *Australian Academy of Accounting and Finance Review Vol 2 (2) pp 166-188.*

Kencan, D., Mukhtaruddin, and Iqbal, A. P., 2018. Income smoothing and market performance: empirical study on manufacturing companies listed in Indonesia stock exchange. *Journal of Investment Management and Financial Innovations, 15 (1) pp. 106-119.*

Mulford, W.C., & Comisky, M.E. (2003). The Financial Number Game: Deleting Creative Accounting Practices. 4 – 8.

Nadim, (2013). Creative accounting: A discussion on the tricks used by accountants to manipulate their financial statements. http://www.thesis.eur.nl/pub/10076/ba025(IBEB)-sakkai-314037.pdf. Retrieved 14/2/2017.

Naser, K. (1993). Creative Financial Accounting: Its Nature and Use. Prentice-Hall, Hemel Hempstead.

Odia, J., & Ogiedu, K. (2013). Corporate Governance, Regulatory Agency and Creative Accounting Practices in Nigeria. *Mediterranean Journal of Social Sciences, 4(3), 55– –66. http://dx.doi.org/10.5901/mjss.2013.v4n3p55.*

Ojomolade, D. J., & Adejuwon, A. J. (2020). Creative Accounting and Corporate Failure in Nigeria. *Global Scientific Journal (GSJ): Vol 8, 10, ISSN 2320-9186.*

Okafor R.G (2000) 'Elements of Financial Accounting' Enugu; precision Printers and Publishers.

Okoye,E.I.& James,O.N.(2020). Impact of Creative Accounting Techniques on Firm

Financial Performance: A Study of Selected Firms in Nigeria, *Journal of Accounting and Financial Management E-ISSN 2504-8856 P-ISSN 2695-2211 Vol 6 (2)*

Oluwagbuyi, O. L., and Olowoloju, M. (2013). Incessant Financial Culpability. *Research Journal of Finance and Accounting Federal Polytechnic Ado-Ekiti State Vol 4 (9)*

Osazevbaru, H. O. (2012). Creative Accounting and Firm's Market Value in Nigeria. *Kuwait Chapter of Arabian Journal of Business and Management Review, 2(3), 38-50*

Osisioma B. C. & Enahoro, J, A. (2006). Creative Accounting and Option of Total Quality Accounting in Nigeria. *Journal of Global Accounting, 2(1), 5-15.*

Rankin, M., Stanton, P., McGowan, S., Ferlauto, K. & Tilling, M. (2012): Contemporary Issues in 4064, 42 McDougall Street, John Wiley and Sons Australia, Ltd.

Richard, G.S., Myrtle, W.C. & Jack, M.C. (2008). Financial Accounting theory and Analysis: Text and cases. (9th edition). Wiley Publishers, 261-270.

Riwayati, H. E., Markonah & Muljanto, S. (2015). Implementation of Corporate Governance Influence to Earnings Management. *Procedia – Social and Behavioral Science, 219 (2016), 632-638.*

Schiff, D. (1993). The Dangers of Creative Accounting Worth. 92-94.

Schipper, K. (2005). Accounting Research and the Potential use of International Accounting Standards for Cross- border Securities Listings. *The British Accounting Review,32, 243 – 256.*

Sen, K. D., & Inanga, L. E. (2005). Creative Accounting in Bangladesh and Global Perspectives. Inanga @ msm.nl. *Working Paper Series, Universitat Pompeu Fabra.* http://www.allbusiness.com.

Shahid,M and Ali, H. H. (2016). Influence of Creative Accounting on Reliability and Objectivity of Financial Reporting. *Journal of Accounting and Finance in Emerging Economics,Vol2 (2) pp75-82.*

Škoda, M., Lengyelfalusy, T., & Gabrhelová, G. (2017). Creative accounting practices in Slovakia after passing financial crisis. *Copernican Journal of Finance & Accounting, 6(2), 71–86. http:// dx.doi.org/10.12775/CJFA.2017.012.*

Warfield, T., Wild, J. & Wild, K., (1995). Managerial ownership, accounting choices and informativeness of earnings. *Journal of Accounting and Economics 20, 61-91.*

Yadav, B. (2014), Creative accounting: An empirical study from professional prospective. *International Journal of Management and Social Sciences Research, 3(1), 38-53.*