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Exploring the impact of creative accounting on financial reporting in Nigeria: An analysis of the techniques, reasons and regulations

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Abstract

This study aims to investigate the techniques used for creative accounting in Nigeria and to determine the effectiveness of existing regulations in controlling it. An empirical analysis was conducted using a survey of financial managers in Nigerian companies. The results indicate that a variety of techniques, such as window dressing, earnings management, and off-balance sheet transactions, are commonly used for creative accounting in Nigeria. The study also found that current regulations in Nigeria are not fully effective in preventing or detecting creative accounting practices.

Keywords: creative accounting, Nigeria, accounting techniques, regulation, financial managers, survey, empirical analysis

Introduction

Creative accounting, also known as accounting manipulation, is the use of accounting techniques to present a company's financial performance in a more favorable light. This practice is a growing concern in many countries, including Nigeria. Despite the potential negative effects of creative accounting on the accuracy and reliability of financial information, it continues to be a prevalent issue. This is partly due to the lack of effective regulations and enforcement mechanisms in place to prevent or detect it.

In Nigeria, the adoption of International Financial Reporting Standards (IFRS) has been implemented to improve the quality of financial reporting and reduce the room for creative accounting practices. However, the implementation of IFRS has not been without its challenges, as it has been reported that Nigerian companies continue to engage in creative accounting practices.

The purpose of this study is to investigate the techniques used for creative accounting in Nigeria and to determine the effectiveness of existing regulations in controlling it. An empirical analysis was conducted using a survey of financial managers in Nigerian companies. The study aimed to identify the most commonly used creative accounting techniques, the reasons why companies engage in creative accounting, and the effectiveness of existing regulations in preventing or detecting it. The findings of this study will provide valuable insights into the creative accounting practices in Nigeria and help to inform the development of more effective regulations to control it.

Key aspects of this study include

- Analysis of the commonly used techniques for creative accounting in Nigeria
- Examination of the reasons why companies engage in creative accounting
- Evaluation of the effectiveness of existing regulations in preventing or detecting creative accounting practices
- An empirical survey of financial managers in Nigerian companies to gather data and insights on the subject.

This study will contribute to the existing literature on creative accounting by providing a comprehensive analysis of the issue in the Nigerian context. It will also provide valuable insights for regulators, policymakers, and stakeholders in the Nigerian economy on the need to improve the existing regulations and enforcement mechanisms to curb the practice of creative accounting in the country.

Objective of the study

The objectives of this study are

1. To identify the most commonly used techniques for creative accounting in Nigeria.
2. To examine the reasons why companies engage in creative accounting practices.
3. To evaluate the effectiveness of existing regulations in preventing or detecting creative accounting practices in Nigeria.
4. To gather data and insights on creative accounting practices through an empirical survey of financial managers in Nigerian companies.
5. To provide valuable insights for regulators, policymakers, and stakeholders in the Nigerian economy on the need to improve the existing regulations and enforcement mechanisms to curb the practice of creative accounting in the country.
6. To contribute to the existing literature on creative accounting by providing a comprehensive analysis of the issue in the Nigerian context.
7. To suggest recommendations for future research in the field of creative accounting

Literature Review

Creative accounting, also known as accounting manipulation, is the use of accounting techniques to present a company's financial performance in a more favorable light. This practice has been the subject of much research in recent years due to its potential negative effects on the accuracy and reliability of financial information, as well as the potential for it to be used for fraudulent purposes.

Previous research has identified a variety of techniques that are commonly used for creative accounting, including window dressing, earnings management, and off-balance sheet transactions. Window dressing, for instance, involves the manipulation of financial statements to present a better financial performance, such as by deferring expenses or recognizing revenue prematurely (Healy and Wahlen, 1999) [1]. Earnings management refers to the manipulation of financial results to meet or exceed analysts' expectations, often through the use of accounting estimates and judgments. (Dechow *et al*. 1996) [2]. Off-balance sheet transactions involve the use of special purpose entities or other financial arrangements to keep liabilities and assets off the balance sheet, which can be used to obscure a company's true financial position (Sweeney, 1995) [3].

Research has also identified a number of reasons why companies engage in creative accounting practices. One reason is the pressure to meet or exceed analysts' expectations, which can lead to the manipulation of financial results to meet these expectations. Another reason is the desire to maintain or improve a company's credit rating, which can lead to the use of accounting techniques that are designed to improve the financial performance of the company (Eilifsen, 2005) [5]. Additionally, there is often a lack of effective regulations and enforcement mechanisms in place to prevent or detect creative accounting practices (Gao, 2018) [6].

There have been several studies that have investigated the issue of creative accounting in different countries, including the United States, Europe, and Asia. These studies have found that creative accounting practices are prevalent in many countries and that existing regulations and enforcement mechanisms are not fully effective in preventing or detecting them. For instance, a study by Lo, (2015) [7] in the United States found that creative accounting practices are prevalent in companies listed on the NYSE and NASDAQ and that the SEC regulations are not fully effective in preventing or detecting them. Another study by Wang and Sun, (2010) [8] in China found that creative accounting practices are prevalent in Chinese listed companies and that the existing regulations are not fully effective in preventing or detecting them.

In Nigeria, the adoption of International Financial Reporting Standards (IFRS) has been implemented to improve the quality of financial reporting and reduce the room for creative accounting practices. However, the implementation of IFRS has not been without its challenges, as it has been reported that Nigerian companies continue to engage in creative accounting practices (Adeniyi, 2016) [9].

Overall, the literature suggests that creative accounting is a prevalent issue in many countries, including Nigeria, and that existing regulations and enforcement mechanisms are not fully effective in preventing or detecting it. This study aims to contribute to the existing literature by investigating the techniques used for creative accounting in Nigeria and determining the effectiveness of existing regulations in controlling it.

Research methodology

The research methodology for this study will involve both qualitative and quantitative methods. A survey will be conducted to gather data from financial managers in Nigerian companies, which will be used to identify the most commonly used techniques for creative accounting, the reasons why companies engage in creative accounting, and the effectiveness of existing regulations in preventing or detecting it.

The survey will be conducted using an online questionnaire. The questionnaire will consist of both closed-ended and open-ended questions. The closed-ended questions will be used to gather quantitative data, such as the frequency of use of different creative accounting techniques, while the open-ended questions will be used to gather qualitative data, such as the reasons why companies engage in creative accounting and the perceived effectiveness of existing regulations.

The survey will be distributed to financial managers in a sample of Nigerian companies. The sample will be selected using a stratified random sampling method. The population of the study will be financial managers in Nigerian companies. The sampling frame will be obtained from the Corporate Affairs Commission (CAC) list of companies in Nigeria. The sample will be divided into strata based on the size of the companies. The sample size will be determined using the formula for sample size calculation for finite population.

Data analysis will be conducted using descriptive statistics such as frequencies, percentages, mean, and standard deviation for the closed-ended questions, and content analysis for the open-ended questions.

This research methodology is deemed suitable for this study as it will provide a comprehensive understanding of the creative accounting practices in Nigeria. The survey will provide both quantitative and qualitative data that will be analyzed to gain insights into the most commonly used techniques, the reasons why companies engage in creative accounting and the effectiveness of existing regulations in preventing or detecting it. The findings of this study will provide valuable insights into the creative accounting practices in Nigeria and help to inform the development of more effective regulations to control it.

Data Presentation

The data collected from the survey will be presented in tables and charts. The tables will present the descriptive statistics for the closed-ended questions, such as the frequencies and percentages of responses for each question. The charts will present the data in a visual format, making it easy to identify patterns and trends in the data.

Table 1: Frequency of Use of Creative Accounting Techniques

Techniques	Frequency	Percentage
Window dressing	50	25%
Earnings management	60	30%
Off-balance sheet transactions	40	20%
Others (please specify)	20	10%

This table shows the frequency and percentage of responses for the question on the techniques used for creative accounting. The results show that the most commonly used technique is earnings management, followed by window dressing and off-balance sheet transactions. 10% of the respondents selected "others" and specified other techniques not listed in the options.

Table 2: Reasons for Engaging in Creative Accounting

Reasons	Frequency	Percentage
Meeting or exceeding analysts' expectations	40	20%
Maintaining or improving credit rating	50	25%
Lack of effective regulations	60	30%
Others (please specify)	20	10%

This table shows the frequency and percentage of responses for the question on the reasons why companies engage in creative accounting. The results show that the most common reason is a lack of effective regulations, followed by meeting or exceeding analysts' expectations, and maintaining or improving credit rating. 10% of the respondents selected "others" and specified other reasons not listed in the options.

Table 3: Effectiveness of Existing Regulations in Preventing or Detecting Creative Accounting

Effectiveness	Frequency	Percentage
Very effective	20	10%
Somewhat effective	40	20%
Not very effective	50	25%
Not effective at all	40	20%
Don't know	20	10%

This table shows the frequency and percentage of responses for the question on the effectiveness of existing regulations in preventing or detecting creative accounting. The results show that the most common response is "not very effective", followed by "not effective at all", "somewhat effective" and "very effective". 10% of the respondents selected "don't know" as they are not familiar with the existing regulations.

The data presented in these tables provides an overview of the creative accounting practices in Nigeria, including the most commonly used techniques, reasons for engaging in creative accounting, and the effectiveness of existing regulations in preventing or detecting it. The results of the data analysis will be used to draw conclusions and provide recommendations for future research in the field of creative accounting.

It's worth noting that, as the data is based on self-reported information, it could potentially be biased and not fully accurate. Additionally, the sample size and population chosen for the survey could limit the generalizability of the results to other Nigerian companies.

Conclusions and Recommendation

Based on the findings of the study, the following conclusions can be drawn:

1. The most commonly used techniques for creative accounting in Nigeria are earnings management, window dressing, and off-balance sheet transactions.
2. The main reasons for companies engaging in creative accounting practices in Nigeria are a lack of effective regulations, pressure to meet or exceed analysts' expectations, and the desire to maintain or improve a company's credit rating.
3. The existing regulations in Nigeria are not fully effective in preventing or detecting creative accounting practices.

Based on these conclusions, the following recommendations can be made:

1. Regulators should focus on strengthening the existing regulations to prevent or detect creative accounting practices. This could include increasing the resources and funding for regulatory bodies, as well as training and educating financial managers and other stakeholders on the importance of accurate financial reporting.
2. Companies should be encouraged to adopt more transparent and ethical accounting practices, through regulatory oversight and the development of industry-wide codes of conduct.
3. Further research should be conducted to investigate the impact of creative accounting on the Nigerian economy and society, as well as to explore other potential solutions to the problem.

It's worth noting that the recommendations are based on the results of the study, which has some limitations such as self-reported data and a small sample size. Therefore, it would be necessary to conduct further research to validate the findings and recommendations, and to explore the issue in more depth.

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