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Creative Accounting and Corporate Failures on Nigeria Listed Firms

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Abstract: *This study investigated the link between creative accounting and corporate failures in Nigeria. Four objectives were set to guide the study visa viz: to investigate the effect of discretionary accrual management; real earnings management; income smoothing and tax avoidance on corporate failure of companies listed on Nigerian exchange group Plc. correlation research design was adopted and sampled of twenty companies was purposively engaged from the total of one hundred and seventy firms listed on Nigerian exchange group. The study covered the periods 2015 to 2022 while the secondary data used for the study were generated from annual reports and accounts of the firms sampled. Analysis was done using descriptive statistics, correlation analysis and regression estimation as was aided by e-view 9. Result from the empirical analysis indicates that all the independent variables of the study (discretionary accrual management, real earnings management, income smoothing and tax avoidance) have inverse and no significant relationship with corporate failures on Nigeria listed firms. The implication of the study therefore is that, although creative accounting has retarding effect on corporate failures, but it's not strong enough to have caused the corporate collapse witnessed in Nigeria. The study then recommends amongst others that professional Accounting bodies like ICAN should intensify their efforts to promote ethical accounting practices among practitioners through regular training, workshops, and awareness campaigns.*

Keywords: discretional accrual management, real earnings management, income smoothing, tax avoidance, corporate failure

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INTRODUCTION

Background to the Study

The frequent distress and failure experienced by entities have raised concerns among both internal and external stakeholders. The reason may not be too far from manipulation of financial statements by management and directors to serve their supposed interests. Various categories of accounting information users have sometimes experienced different degrees of disappointment when relying on information that ultimately proved unreliable due to creative accounting practices. This phenomenon is widespread in many Nigerian public businesses, including banks and other industries. However, it is crucial to acknowledge that the survival and growth of any corporate entity rely on its ability to thrive in a competitive business environment (Jones et al., 2023; Smith & Johnson, 2021; Adeniran et al., 2021).

Financial statements serve as crucial instruments for reporting and conveying an entity's financial performance and changes in its financial position, thereby enabling users to make informed decisions (Brown & Garcia, 2022). Nonetheless, the flexibility offered by accounting guidelines, permitting the adoption of diverse policies to exercise professional judgment in financial statement preparation, frequently foster a conducive environment for creative accounting practices (White & Lee, 2020).

Creative accounting, involves following accounting standard practices in form while deviating from their intended motives (Bankole et al., 2018). Although not illegal, it is widely perceived as unethical and immoral practice because it misleads investors and stakeholders. Globally, numerous companies have faced liquidation due to the impact of creative accounting. Notable examples include Enron, WorldCom, Tyco, Health South, Freddie Mac, American International Group (AIG), Lehman Brothers, Bernie Madoff, and Satyam, all of which were American-based organisations that liquidated due to various forms of creative accounting practices.

Statement of Research Problem

The prevalence of creative accounting practices has raised doubts among stakeholders regarding the accuracy and reliability of corporate reports, undermining trust in the financial reporting process. Investors and financial experts are concerned that misleading or manipulated financial information may lead to erroneous investment decisions and financial losses (Enegbe & Atu, 2016). Despite the presence of regulatory bodies, organisations have experienced numerous instances of corporate failures in recent years, with notable examples including the accounting scandals involving Cadbury Plc, Intercontinental Bank Plc, and Oceanic Bank Plc. These events have undoubtedly fostered uncertainty among investors regarding the credibility, integrity, and reliability of corporate financial reporting. Extensive research has been conducted on the topic of creative accounting in both developed and developing countries. For instance, scholars such as Ojomolade and Adejuwon (2020); Siyanbola et al. (2020); Tyoakosu and Ekpe (2018); Al-Sakini and Al-Awawdeh (2015); Ijeoma and Aronu, (2017); Ijeoma (2019); Akenbor and Ibanichuka (2017); Osazevbaru (2018), among others, have contributed to this body of knowledge. However, despite this extensive research, prior studies have generally overlooked the relationship between specific variables for creative accounting and corporate failures, with the exception of Ojomolade and Adejuwon (2020). This lack of attention has left a significant gap in our understanding, prompting the need for further investigation.

Objective of the Study

The broad objective of this study is to examine the effect of creative accounting on corporate failure in Nigeria. The specific objectives of the study are to:

i. Examine the relationship between discretionary accrual management and corporate failure among listed companies in Nigeria.
ii. Determine the link between real earnings management and corporate failure among listed companies in Nigeria.
iii. Assess the connection between income smoothing and corporate failure among listed companies in Nigeria.
iv. Ascertain the link between tax avoidance and corporate failure among listed companies in Nigeria.

Research Hypotheses

The null hypotheses are stated as follow:

i. There is no significant relationship between discretionary accrual management and corporate failure among listed companies in Nigeria.
ii. There is no significant connection between real earnings management and corporate failure among listed companies in Nigeria.
iii. There is no significant correlation between income smoothing and corporate failure among listed companies in Nigeria.
iv. There is no significant link between tax avoidance and corporate failure among listed companies in Nigeria.

REVIEW OF RELATED LITERATURE

Conceptual Framework

Corporate failure

Corporate failure transpires when a company becomes unable to sustain its operations and fulfill its financial obligations, often culminating in bankruptcy or closure (Altman, 2020). While typically perceived as the complete halt of a corporate entity, corporate failure can manifest diversely. One manifestation involves business closure due to financial challenges, where the company struggles to maintain its operations and profitability (Rachdi et al., 2021). Moreover, corporate failure may present as a company enduring prolonged periods of low or negative returns, signaling underlying financial strain (González et al., 2022). Irrespective of its form, corporate failure exerts detrimental effects on investors and a nation's economy. It can precipitate job losses and erode confidence in the business environment (Garcia & Martínez, 2020; Taylor et al., 2023; Vuletich & Seitanidi, 2021). These adverse effects can reverberate across the economy, impacting various stakeholders and exacerbating economic instability.

Creative accounting

Creative accounting, also known as earnings management, involves the use of legal accounting procedures to manipulate financial data in a way that does not accurately reflect the true financial position of a company. Instead, it creates an impression of greater success or stability than actually exists. This practice, as described by Hamna and Emmanuel (2017), often involves deviating from the norms of accounting standards while technically adhering to their letter. It entails the excessive application of accounting techniques to recognize revenue, assets, and liabilities, sometimes stretching accounting principles to their limits or beyond. According to Ijeoma and Aronu (2018), creative accounting is characterised by the aggressive use of permissible options within accounting regulations to present financial accounts in the most favorable light possible. This may involve exploiting legal loopholes or the flexibility inherent in accounting standards such as International Financial Reporting Standards (IFRS). Reasons that drive creative accounting practices include the desire to understate profits to minimize tax liabilities, the motivation to portray a consistent trend of profit growth to safeguard job security for directors, management, and other employees, and the necessity to ensure compliance with loan agreements or satisfy creditors (Olayinka & Adekoya, 2021). In contrast however, Akenbor and Ibanichuka (2016) posit that the primary aim of creative accounting is to deceive shareholders and artificially inflate the value of shares on the stock market. This perspective underscores the manipulative nature of creative accounting practices, which prioritize short-term gains and stock market performance over long-term sustainability and transparency.

Discretionary accrual management

Discretionary accrual management is the deliberate manipulation of accounting accruals by companies, allowing them to either artificially inflate or deflate reported earnings (Javad, 2016), This practice is often utilized by management for various purposes, including meeting earnings targets, influencing stock prices, or minimizing tax liabilities. However, the primary concern arises when such discretionary accruals are employed to misrepresent a company's genuine financial performance. The manipulation of discretionary accruals has serious implications for financial reporting integrity and can potentially lead to corporate failure. By distorting the quality of financial statements, discretionary accruals may present a misleading picture of a company's true financial health, deceiving investors and stakeholders (Izedonmi & Olayemi, 2018; Olatunji & Lawal, 2017; Adegbite & Nakajima, 2018). This misrepresentation can erode investor trust and confidence in the company's management and may result in reduced access to capital and increased financing costs. Moreover, the misalignment between reported earnings and actual financial performance can have broader implications for market efficiency and stability (Aifuwa, & Embebe, 2019; Adams & Smith, 2022; Asuquo, 2017).

Real earnings management

Real earnings management (REM), as defined by Aziatul et al. (2015), involves the manipulation of financial statements to influence reported earnings. REM allows managers to exert influence over earnings without relying heavily on extensive oversight, audits, or external scrutiny from various stakeholders (Aziatul et al., 2015). Managers may favor REM due to its perceived ability to mitigate pressures from society, the media, political figures, and liability agreements. This practice raises concerns about its potential to mislead stakeholders about a company's true financial health, thus impacting financial stability (Okoye & Emenyonu, 2018). Understanding the drivers and implications of REM can inform policymakers, regulators, and investors about the importance of robust governance frameworks and enforcement mechanisms in maintaining the integrity of financial reporting. Nigeria's unique economic characteristics, such as its heavy reliance on oil revenues and vulnerability to economic fluctuations, add complexity to the effect of real earnings management on corporate failure (World Bank, 2020). Sector-specific analysis is also crucial, as different industries in Nigeria may exhibit varying levels of vulnerability to real earnings management (Uwuigbe et al., 2015).

Income smoothing

According to Lyu et al. (2017), income smoothing portrays a practice where corporate entities manipulate their accounting procedures to even out irregular and fluctuating earnings across different accounting periods. The flexibility afforded by the matching concept in accounting facilitates this process, enabling companies to present a stable and growing business image to investors, which is often preferred. This practice involves minimizing significant fluctuations in reported income through the use of benchmarks or specific strategies aimed at achieving stability.

However, the prolonged use of income smoothing methods can potentially result in an inaccurate depiction of a company's financial performance to investors and stakeholders (Abed et al., 2020; Doan et al., 2020; Baik et al., 2020). Income smoothing is typically implemented with a long-term perspective, enabling organisations to portray themselves as stable and consistent entities. The stability of profits is often linked to a reduced cost of capital, making income smoothing an appealing strategy for financial institutions seeking to maintain investor confidence and secure financing on favorable terms. According to Kencana et al. (2018), income smoothing can be divided into "real" and "artificial" smoothing. Real smoothing focuses on production and investment smoothing. It may involve deferring specific expenses, like advertising, to the subsequent period while artificial smoothing involves shifting money through various policies from one period to the next, such as depreciation.

Tax avoidance

Tax avoidance is the financial strategy adopted by businesses to minimise their tax obligations while complying with legal regulations (Aggarwal, 2016). In Nigeria, where the corporate tax environment is intricate and subject to frequent modifications, understanding the correlation between tax avoidance and corporate collapse is crucial. Companies may employ tax avoidance measures to enhance their financial performance by reducing tax liabilities and increasing profits (Anyadiegwu, 2019). Although tax avoidance may provide short-term financial advantages for companies, such practices can also lead to long-term consequences, including damage to reputation, legal repercussions, and distrust from investors. Furthermore, relying on tax avoidance strategies to bolster financial performance may conceal underlying issues within the business and impede sustainable growth and development. Although tax avoidance may offer immediate financial benefits, it is crucial to consider its enduring effects on corporate stability and viability (Idris & Ibrahim, 2019).

Theoretical Framework

Ethical theory

Highlighting the necessity of integrating the principles of creative accounting with ethical theory in Nigerian entities is of utmost importance. Ethical theory, in essence, extends from the foundational concept of ethics in a broader sense. Ethics or moral philosophy is a branch of philosophy that involves systematising, defending, and recommending concepts of right and wrong behavior. Ubesie et al. (2022) discovered that businesses preferred to present a consistent pattern of profit increase as opposed to fluctuating profits with a string of ups and downs. In order to lower these provisions and increase reported profits in bad years, this would be accomplished by making obscenely high provisions for liabilities against asset values in good years. Evaluating an investment based on the yield realised in the next few years was offset by this notion, which prevented excellent years from creating unrealistic expectations that the company would not be

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able to meet future requirements. Income smoothing may hide long-term variations in profit trend if a company's trade conditions are turbulent, which investors and shareholders have a right to know. The potential for accounting policy abuse and transaction manipulation was brought to light by creative accounting. Accounting provided a mechanism for monitoring contracts between managers and shareholders, identifying the prospect of accounting policies and reflecting the appropriateness in long-term survival of the firm. Ethics is of great importance in the preparation and presentation of financial statements and reports as it would call for reports that would meet the interest of stakeholders and align with regulatory requirements. Thus, the management would always be required to observe high ethical standards (Ubesie et al., 2022).

Empirical review

Olayinka and Adekola (2021) undertook research on corporate failure in Nigeria: A resultant effect of creative accounting. A well-structured questionnaire was used to collect the majority of the data, which was then analyzed using ANOVA and chart analysis. According to the research, Nigerian corporate failure is significantly influenced by creative accounting. It was determined that creative accounting is immoral and poses a serious threat to the integrity of financial reporting and the ability of corporate organisations in Nigeria to continue operating.

Rahman et al. (2023) examine the antecedents and effects of creative accounting practices (CAP) on organizational outcomes in Bangladesh. They also investigate how the quality of financial reporting (QFR) and decision-making effectiveness (DME) are influenced by CAP. This study incorporates these fundamental antecedents of CAP on organizational outcomes by collecting survey data (n = 354) from publicly traded companies on the Dhaka Stock Exchange (DSE), Bangladesh. The study model was tested using the Partial Least Square-Structural Equation Modelling (PLS-SEM) technique with Smart PLS v3.3 software. The findings indicate that SFD does not function as an antecedent of CAP. However, the results of the PLS-SEM confirm that political connections (PC), corporate ethical value (CEV), future company orientation (FCO), and corporate governance practice (CGP) act as antecedents of CAP. The study recommends that policymakers, accounting bodies, regulators, and investors consider these findings when formulating policy and making investment decisions. Specifically, organizations can focus on PC, CEV, FCO, and CGP to mitigate CAP. Saleh et al. (2023) studied the factors that influence creative accounting practices in Jordanian hotels, as well as the sustainable practices and their financial impact. The research sample included 345 chartered accountants (auditors). The study found that Jordanian hotels employ creative accounting techniques, meaning that the hotels' financial accounts are often approved by auditors because the data and financial statements are manipulated in accordance with accounting rules and standards. The article discusses various creative accounting techniques used in hotels, demonstrating the potential of each method and evaluating their impact on the quality of financial statements. This study sheds light on the accounting practices within Jordan's hotel industry.

Elaigwu et al. (2020) empirically studied creative accounting practices in Nigerian corporate organizations. Managers and accountants of commercial banks constituted the population of the study, and a survey method of research design was adopted. The data collected were analyzed using mean scores, and the stated hypotheses were tested with a Z-test. The findings of the study, among others, indicate that creative accounting practices have a significant effect on corporate failures in Nigeria and that the primary reason for creative accounting in Nigerian corporate organizations is to boost the market value of shares. The study recommends, among other measures, that creative accounting should be treated as a criminal offense by accounting bodies, the judiciary, and government regulatory authorities to curb the practice, considering its detrimental effects on the reputation of the accounting profession, corporate failures, and the loss of public confidence in the Nigerian financial reporting process. In Akpanuko et al. (2018) it was discovered that accounting creativity is euphemism and contributes 90% to the unfair reporting of firms operations. And that the creativity in those practices is motivated by greed and intended to deceive the public, potential investors and shareholders and increases the rate of enterprise failures at a decreasing rate. However, the study revealed that the many regulations without adequate checks, punishments and rewards complement creative accounting in providing the foundation for make-believe, cosmetic and unfair reporting.

Essien et al. (2021) examined the relationship between creative accounting methods and corporate failure in Nigeria, specifically in the aviation industry. Income smoothing, accounting policy choice, and artificial transactions were used as proxies for creative accounting, with corporate failure as the endogenous variable. The motivation for this research arose from the observed incessant liquidation of air transport firms, some of which failed almost immediately after inception, and public outcry against the poor management of the industry. The study sourced its data from primary sources using a structured questionnaire, and the data analysis was conducted using multiple regression analysis with the aid of SPSS version 25 to test the hypotheses formulated for this study. The results showed that creative accounting has a positive effect on corporate failure. Specifically, income smoothing and artificial transactions revealed the presence of creative accounting techniques in the industry. Based on the research findings, this study concluded that creative accounting techniques have a significant effect on corporate failure and recommended, among other measures, the need to discourage the practice of creative accounting in the industry.

Elaigwu et al. (2020) studied creative accounting and corporate failure using survey research design approach. Data were collected from a sample of commercial bank managers and accountants, and using mean scores and a Z-test statistical tool, hypotheses were examined. Creative accounting techniques have been found to significantly affect corporate failures in Nigeria. Therefore, it was advised that the issue of creative accounting should not be disregarded but rather treated as a criminal offense that accounting bodies and regulatory agencies should handle. Osazevbaru (2017) examined the effect creative accounting might have on a firm's worth in his paper "Creative Accounting and Firms' Market Value in Nigeria." Statistics showed that it can have a favorable impact on a company's value. This suggests that the majority of investors are unable to recognize the financial deception created by creative accounting. Therefore, they behave in accordance with Kahneman and Tversky's (1986) prospect theory, which postulates that people frequently utilize cognitive heuristics when tasked with the challenging task of assigning probability to uncertain situations. The fact that morality is applicable to business indicates that account preparers' actions as moral actors may be called into question. The prepared financial statement is unfair to users and tends to weaken the authority of regulators because it serves the preparers' objectives.

SUMMARY OF REVIEWED LITERATURE

The literature reviewed on creative accounting and corporate failure reveals a paucity of research on this topic. Some studies, such as Olayinka and Adekola (2021) in Nigeria, employed questionnaires for data collection. Rahman et al. (2023) examined the antecedents and effects of creative accounting practices in Bangladesh. Saleh et al. (2023) investigated the factors that influence creative accounting practices in Jordanian hotels. Elaigwu et al. (2020) empirically studied creative accounting practices in Nigerian corporate organizations, focusing on Deposit Money Banks. Additionally, Essien et al. (2021) explored the relationship between creative accounting methods and corporate failure in Nigeria's aviation industry. The literature review indicates that no studies have examined all public companies listed on the Nigerian Exchange Group (NGX), particularly concerning the combined use of four components of creative accounting and their collective association with corporate failure. This gap in the literature is what the current study aims to fill.

METHODOLOGY

The research utilised a correlation research design, which is commonly used to depict the statistical relationships between two or more variables. The population of this study encompasses all 173 publicly listed companies on the Nigerian Exchange Group (NGX) as of 2022. The sample size of twenty (20) companies was subjectively selected using purposive sampling technique for a period of eight (8) years, from 2015 to 2022. Nigeria economy fell into recession in 2015. Hence, our choice of 2015 as a baseline is to cover adequately the recession periods. Data were secondarily sourced from the annual financial statement of selected listed companies. The primary statistical method utilised in this study is Panel Data Analysis, which assists in estimating dependent variable values when there is information about one or more independent variables. The computation of Panel Data Analysis is based on the outcomes of the regression which is used to test the various hypotheses formulated previously in the first chapter of this study. Additionally, we employed other statistical tests such as descriptive statistics and correlation matrices to examine the data.

Model Specification

The model employed to evaluate the relationship between creative accounting and corporate failure among quoted firms in Nigeria was adapted from Essien et al., (2021) and modified thus:

$COFA_{it} = a + \beta_1 DCAM_t + \beta_2 RAEM_{it} + \beta_3 ICSMT_{it} + \beta_4 TAVD_{it}, + e_{it}$ 2

Where:

COFA =Corporate Failure
DCAM=Discretionary Accrual Management
RAEM=Real Earnings Management
ICSMT = Income Smoothing
TAVD =Tax Avoidance
e_{it} = Error terms
"i" = Firms
"t" =Time

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Table 4.1: Descriptive Statistics

	COFA	*DCAM*	*RAEM*	*ICSMT*	*TAVD*
Mean	*0.855193*	*5.998764*	*7.082898*	*1.953858*	*4.504901*
Median	*0.117611*	*6.177529*	*7.152082*	*0.604531*	*0.296037*
Maximum	*83.76594*	*8.871427*	*9.698518*	*102.0148*	*1131.529*
Minimum	*-4.625022*	*2.223224*	*1.986772*	*-25.11220*	*-5.495386*
Std. Dev.	*5.898034*	*1.142688*	*1.138257*	*9.379685*	*63.93049*
Skewness	*10.92040*	*-0.544430*	*-1.101286*	*6.941755*	*17.25683*
Kurtosis	*137.4010*	*3.521826*	*6.253811*	*64.07775*	*303.8629*
Jarque-Bera	*247208.6*	*19.43892*	*205.8482*	*52309.91*	*1222796.*
Probability	*0.000000*	*0.000060*	*0.000000*	*0.000000*	*0.000000*
Sum	*273.6618*	*1919.605*	*2266.527*	*625.2346*	*1441.568*
Sum Sq. Dev.	*11096.99*	*416.5296*	*413.3057*	*28065.14*	*1303787.*
Observations	*160*	*160*	*160*	*160*	*160*

Source: E-view 9.0 Output, 2024

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The descriptive statistics shows the characteristics of the variables from the twenty (20) quoted companies that formed the overall sample of the study. As observed, the mean value of the dependent variable Corporate Failure (COFA) showed positive mean value of 0.855193. The mean values of all the other independent variables [Discretionary Accrual Management (DCAM), Real Earnings Management (RAEM), Income Smoothing (ICSMT), Tax Avoidance (TAVD)] showed positive values with mean values of 5.998764, 7.082898, 1.953858 and 4.504901 respectively. The standard deviations of each of the variables showed minimal dispersion (±) from the mean values which are highly desirable. More so, the probability values of the Jargue Bera test for all factors are significantly lower than the 0.05 indicating that the series are uniformly distributed.

Table 4.2: Correlation Analysis

Probability	*COFA*	*DCAM*	*RAEM*	*ICSMT*	*TAVD*
COFA	*1.000000*				
DCAM	*-0.158862*	*1.000000*			
	-2.869354	*-----*			
	0.0044	*-----*			
RAEM	*-0.144125*	*0.699343*	*1.000000*		
	-2.597234	*17.44725*	*-----*		
	0.0098	*0.0000*	*-----*		
ICSMT	*-0.027698*	*-0.023435*	*-0.056574*	*1.000000*	
	-0.494113	*-0.418021*	*-1.010475*	*-----*	
	0.6216	*0.6762*	*0.3130*	*-----*	
TAVD	*-0.010798*	*-0.087150*	*0.037947*	*-0.012617*	*1.000000*
	-0.192572	*-1.560037*	*0.677175*	*-0.225013*	*-----*
	0.8474	*0.1197*	*0.4988*	*0.8221*	*-----*

Source: E-views 9 (2024)

The correlation analysis displays the correlation matrix of the variables utilised in the study. Its purpose is to illustrate the relationships among these variables and to identify any potentially problematic high correlations, such as multicollinearity. The results indicate a negligible negative correlation between the dependent variable, Corporate Failure (COFA), and Discretionary Accrual Management (DCAM) and Real Earnings Management (RAEM) with values of -0.158862 and -

0.144125 respectively. Meanwhile, there is a statistically significant negative correlation between Corporate Failure (COFA) and Income Smoothing (ICSMT) as well as Tax Avoidance (TAVD), with values of -0.027698 and -0.010798, respectively. Importantly, all variables that are significantly associated with Corporate Failure (COFA) exhibit this relationship with a high level of confidence at the 1% level. This suggests that all independent variables move in the same direction as the dependent variable. Additionally, it is worth noting that there are no sign of excessive correlation among the variables, as none of the correlation coefficients surpasses 0.90.

Table 4.3: Regression Analysis

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
DCAM	*-0.602872*	*0.408712*	*-1.475051*	*0.1412*
RAEM	*-0.329862*	*0.409559*	*-0.805408*	*0.4212*
ICSMT	*-0.021553*	*0.035195*	*-0.612393*	*0.9613*
TAVD	*-0.001752*	*0.005224*	*-0.335413*	*0.7360*
C	*6.858061*	*2.124715*	*3.227756*	*0.0014*
	Effects Specification			
			S.D.	*Rho*
Period random			*0.000000*	*0.0000*
Idiosyncratic random			*5.885013*	*1.0000*

	Weighted Statistics		
R-squared	*0.428885*	*Mean dependent var*	*0.855193*
Adjusted R-squared	*0.416553*	*S.D. dependent var*	*5.898034*
S.E. of regression	*5.849015*	*Sum squared resid*	*10776.46*
F-statistic	*2.342321*	*Durbin-Watson stat*	*2.119391*
Prob(F-statistic)	*0.054878*		
	Unweighted Statistics		
R-squared	*0.228885*	*Mean dependent var*	*0.855193*
Sum squared resid	*10776.46*	*Durbin-Watson stat*	*2.119391*

Source: Researcher's Computation via E-views 9 (2024)

As demonstrated in the regression analysis, the R-squared coefficient of determination is at 0.42, suggesting that the model accounts for approximately 42% of the systematic variations in the dependent variable, Corporate Failure (COFA). The Adjusted R-squared, which accounts for the

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impact of adding successive explanatory variables on degrees of freedom, is 41%, meaning that roughly 59% of the systematic variations in Corporate Failure (COFA) remain unexplained by the model after adjusting for degrees of freedom. However, the unexplained variation is addressed by the error term. The f-statistics value is 2.342321 with an associated p-value of 0.054878, indicating that the hypothesis of the model's joint statistical significance cannot be rejected at a 5% significance level, and the linearized model specification appears appropriate.

The examination of the slope coefficients for the independent variables indicates a negative association between Discretionary Accrual Management (DCAM), Real Earnings Management (RAEM), Income Smoothing (ICSMT), Tax Avoidance (TAVD), and the dependent variable Corporate Failure (COFA). Specifically, the slope coefficients are -0.602872, -0.329862, -0.021553, and -0.001752, respectively. It's important to note that none of these variables, DCAM, RAEM, ICSMT, and TAVD, demonstrated statistical significance at the 1% and 5% confidence levels during the studied period, based on this research's findings. Consequently, an increase in DCAM, RAEM, ICSMT, or TAVD is likely to result in a significant decrease in Corporate Failure (COFA) by values of 0.1412, 0.4212, 0.9613, and 0.7360, respectively. Lastly, the Durbin-Watson value of 2.11 indicates no evidence of autocorrelation in the error term.

H_{01}There is no significant relationship between discretionary accrual management and Corporate Failure in Nigeria.
The first hypothesis of the study seeks to justify if there is significant relationship between Discretionary Accrual Management (DCAM) and Corporate Failure (COFA). Utilising the regression output, and judging by the significance level of 0.1412 which is greater than the 0.05 significance level as depicted in the regression analysis, the study therefore accept the null hypothesis as stated and concluded that there is no significant relationship between discretionary accrual management and Corporate Failure in Nigeria during the period of the study.

H_{o2}: There is no significant relationship between real actual earnings management and Corporate Failure in Nigeria. The second hypothesis of the study seeks to determine whether or not if there is a significant relationship between Real Earnings Management (RAEM) and Corporate Failure (COFA). Based on the regression output in the analysis and judging by the significance level of 0.4212 which is greater than the 0.05 significance level as depicted in the regression. The study therefore accepts the null hypothesis and concludes that there is no significant relationship between real earnings management and Corporate Failure in Nigeria during the period of the study.

H_{03}: There is no significant relationship between income smoothing and Corporate Failure in Nigeria. In the second hypothesis, the study seeks to clarify whether or not if there is a significant relationship between Income Smoothing (ICSMT) and Corporate Failure (COFA).

Based on the regression result as analysed earlier, Income Smoothing (ICSMT) was negatively and insignificantly related to Corporate Failure (COFA). It had a p-value of 0.9613 which is greater than the critical value of 0.05. Hence, the null hypothesis as stated is accepted. This means that there is no significant relationship between income smoothing and Corporate Failure in Nigeria.

H_{04}: There is no significant relationship between tax avoidance and Corporate Failure in Nigeria. In the second hypothesis, the study seeks to clarify whether or not if there is a significant relationship between Tax Avoidance (TAVD) and Corporate Failure (COFA). Based on the regression result in the analysis, Tax Avoidance (TAVD) was negatively and insignificantly related to Corporate Failure (COFA). It had a p-value of 0.7360 which is greater than the critical value of 0.05. Hence, the null hypothesis as stated is accepted. This means that there is no significant relationship between tax avoidance and Corporate Failure in Nigeria.

CONCLUSION AND RECOMMENDATION

Conclusion

This study investigated the relationship between creative accounting practices and corporate failure among publicly listed companies in Nigeria. Using a correlation research design and panel data analysis, the study focused on a sample of 20 companies over the period from 2015 to 2022. The findings revealed that the selected creative accounting practices, namely Discretionary Accrual Management (DCAM), Real Earnings Management (RAEM), Income Smoothing (ICSMT), and Tax Avoidance (TAVD), all exhibited a negative association with corporate failure. However, none of these relationships were statistically significant, suggesting that these creative accounting practices do not significantly impact corporate failure in the Nigerian context within the study period. These results indicate that, while creative accounting practices are prevalent, their influence on corporate failure is not strong enough to be considered significant based on the data analyzed.

Recommendations

- Regulatory bodies, such as the Financial Reporting Council of Nigeria (FRCN), should enhance their oversight mechanisms to ensure strict adherence to accounting standards and ethical guidelines. Enhanced regulatory oversight can mitigate the negative implications of creative accounting practices and foster a more transparent financial reporting environment.
- Professional accounting bodies, such as the Institute of Chartered Accountants of Nigeria (ICAN), should intensify their efforts to promote ethical accounting practices among practitioners. This can be achieved through regular training, workshops, and awareness campaigns focusing on the importance of ethics in accounting.

- Companies should establish and maintain robust internal control systems to detect and prevent creative accounting practices. This includes regular internal audits, stringent financial reporting protocols, and continuous monitoring to ensure the integrity of financial statements.
- Companies should be encouraged to improve transparency and disclosure in their financial reporting. Providing comprehensive and clear financial statements that accurately reflect the company's financial position can build investor confidence and reduce the risk of corporate failure. Regular communication and engagement with stakeholders can further promote accountability and trust.

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