Creative Accounting Practices in Nigerian Banks

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Abstract

This study is an empirical investigation of creative accounting practices in the Nigerian banking industry. To achieve the purpose of this study research questions were raised, hypotheses were formulated, and a review of related literature was made. The population of this study consisted of 25 managers and 25 accountants drawn from the twenty-five (25) recapitalized banks currently operating in the Federal Capital Territory (FCT)- Abuja. In order to collect the necessary data for this study, the survey method of research design was adopted and the primary method of data collection was employed. The major instrument used for generating the primary data was the questionnaire, which was designed in five-response option of Likert-Scale. The data generated for this study were analysed through mean scores while the stated hypotheses were statistically tested with Z-test. Our findings revealed that) the major reason for creative accounting practices in Nigerian banks is to boost the market value of shares; users of accounting information are adversely affected by the practice of creative accounting;) accounting
principles and rules should be streamlined to reduce diversities of professional judgment in financial reporting. Based on the above, it was recommended among others that creative accounting should be considered as a serious crime and therefore accounting bodies, law courts and other regulatory authorities need to adopt strict measure to stop the practice.

**Keywords**: Creative accounting, Bank distress,

**Introduction**

Financial reporting is a crucial element necessary for corporate governance system to function effectively. Current accounting practices allow a degree of choice of policies and professional judgment in determining the method of measurement, criteria for recognition, and even the definition of the accounting entity. The exercise of this choice can involve a deliberate non-disclosure of information and manipulation of accounting figures, thereby making the business appear to be more profitable (or less profitable for tax purposes) and financially stronger than it’s supposed to be. With this practice, users of accounting information are being misled and this constitutes a threat to corporate investment and growth.

The list of recent cases of creative accounting practices seems to be growing as many more corporate bodies in Nigeria are being investigated. The recent change of board members in Cadbury Nigeria was as a result of doctoring of accounts to cover up certain inadequacies or some unscrupulous deals perpetuated by management. The corporate failures of most Nigeria banks today and the arrest of some banks Chief Executive Officers by the Economic and Financial Crimes Commission (EFCC), are as a result of fraudulent financial reporting, which has affected the stability of the financial system. The list of recent cases of creative accounting practices seems to be growing as many more corporate bodies in Nigeria are being investigated. The recent change of board members in Cadbury Nigeria was as a result of doctoring of accounts to cover up certain inadequacies or some unscrupulous deals perpetuated by management. The corporate failures of most Nigeria banks today and the arrest of some banks Chief Executive Officers by the Economic and Financial Crimes Commission (EFCC), are as a result of fraudulent financial reporting, which has affected the stability of the financial system. Creative accounting practice has been increasing in recent years in the Nigerian banking industry to attract unsuspecting investors, or obtain undeserved accounting-based rewards by presenting an exaggerated misleading or deceptive state of bank financial affairs. It is evident that the
extent of window-dressing of banks’ Financial Statements in Nigeria has greatly violated all known ethical standards of the accounting and auditing profession.

Previous studies on creative accounting such as Sen and Inanga (2004), Domash (2002), Amat, Blake and Dowds (1999) Naser (1993), Schiff (1993), and Alam (1988) have focused mainly on the impact of creative accounting on investors’ decisions in the stock market without highlighting the reasons for such practices. More so, the studies are of foreign origin whose findings may not be compactible with the Nigerian situation considering environmental differences. The few available studies in Nigeria such as Osisioma and Enahoro (2006), Aremu and Bello (2004), did not pay particular attention to the banking industry. Based on the above, our point of departure is to fill these existing gaps and to provide an empirical investigation of creative accounting practices in the Nigerian banking industry. Specifically, the study aimed at achieving the following:

(i) To examine the reasons for creative accounting practices in the Nigeria banking industry.

(ii) To investigate whether creative accounting is responsible for banks’ distress in Nigeria.

(iii) To examine whether accounting principles and rules should be streamlined to reduce diversities of professional judgment in financial reporting.

Based on the above objectives, the following hypotheses were formulated;

\( H_01 \); The major reason for creative accounting practices in Nigerian banking industry is not to boost the market value of shares.

\( H_02 \); Creative accounting has no significant effect on banks’ distress in Nigeria.

\( H_03 \); Accounting principles and rules should not be streamlined to reduce diversities of professional judgment in financial reporting.

Conceptual aspects of creative accounting
Creative accounting, as a matter of approach, is not objectionable per se. However, when unethical elements make intrusion, the resultant accounting details becomes anything but true and fair. Creativity in such context is like referring to a half glass of water as half-full instead of describing it as half-empty. While both statements are factually correct, they paint different
pictures and thus convey different images. Creativity in company accounting may arise under at least three different financial market conditions. The first is when a company floats its shares to attract investors to subscribe to such shares either at par or at a premium, depending on the financial market evaluation of the company’s future prospects. The second is when the company whose shares are already listed in a stock exchange, wants to paint an attractive picture of its financial conditions so that the shares may be quoted at a premium. Finally, a company having its shares listed in the stock exchange may declare and pay high dividends based on inflated profits through overvaluation of assets, undervaluation of liabilities and change in systems of stock valuation that may boost the image of the company at least in the short run. Unethical considerations in creative accounts have developed to such depths that terms like fraud audit and forensic accounting have gained currency and are becoming new professions. Accounting practitioners and auditors are increasingly required to appear in courts for deposition.

The term Creative Accounting is widely used to describe accepted accounting techniques which permit corporations to report financial results that may not accurately portray the substance of their business activities ... creative accounting is recognized as a synonym for deceptive accounting. Creative accounting methods are noteworthy because they remain in use as generally accepted accounting principles, even though they have been shown to be deceptive in many cases. Every company in United Kingdom[UK] is fiddling its profits; every set of published accounts is based on books which have been gently cooked or completely roasted ... this deception is all in perfectly good taste; it is legitimate; it is creative accounting (Griffiths, 1992).

It was common [in the mid 1980s in Australia] for the so-called entrepreneurial companies to include capital profits from the sale of properties or shares ... as operating profits ... on the ground that speculation was a major element in their business ... Some companies ... booked unrealized capital gains as operating profit ... some of the transactions which gave rise to these “profits” were done with business associates or even within the same group of associated companies. The values put on the assets “sold” often looked very suspicious, with secret put and call option arrangements sometimes allowing the “buying” company to transfer the asset back to the seller at a later date — in some cases just after balance sheet
date ... It was common for companies to include their “share” of the net profits of associated companies in their own results. There was an extensive use of 49 per cent owned companies that were not consolidated into group accounts to keep debt off a group’s balance sheet and thus to give a misleading appearance of its capital structure. Associated companies and interposed trusts were also used to conceal other favourable information from the eyes of investors (Bosch, 1990:122).

From a positive viewpoint, it may seem that creative accounting connotes invention of accounting principles and techniques to recognize changes in economic, social, political and business environments. But in reality, the term is not normally used in the positive, but negative, sense, although it might be both a blessing and a curse. It is a blessing when something new is created to refine the accounting system and becomes an addition to the existing stock of accounting knowledge. Creative accounting becomes a curse, and therefore undesirable, when unethical elements enter the system. But real world experience reveals that it is in most cases practised in an undesirable way to attract investors by presenting an exaggerated, sometimes misleading and deceptive state of an organization’s financial affairs. This is why this system of accounting is sometimes referred to as “deceptive accounting.” Thus, two perspectives of this term may be identified. The first one recognizes genuine changes in the business accounting practices while the second one reflects undesirable window-dressing that tends to distort financial information. And this second perspective is normally referred to as creative accounting. Habibulla as cited by Alam (1988:5), associates creative accounting with any, or a combination, of the following actions:

(a) Creation of data, (b) dressing up of documents and (c) cooking up of accounts... the accountant is perceived to be a pottery artist. If [the accountant] is given clay as basic raw material, he can make either ‘Shiva’ (the God of Hindus) or ‘monkey’ as desired by the client, manipulating the items on either side of the profit and loss account.

This is why the accountant’s strict adherence to professional ethics is most important. As Jameson (1988) has rightly argued, “accountants have an obligation to the organizations they serve, their profession, the public, and themselves to maintain the highest standards of ethical behaviour. They have
a responsibility to be competent and to maintain confidentiality, integrity and objectivity.

According to IFAC (1992), the accountant and the auditor should be straightforward, honest and sincere in his approaches to his professional work. This statement of the International Federation of Accountants (IFAC) is applicable not only to auditors but also to all other professionals in the course of their professional duties. But this advice has greater significance to a person who is a member of a profession, because he represents not only himself but also the entire profession. The name and the reputation of a profession depend on the personal qualities of those who constitute the profession. An accountant should not allow personal prejudice or bias to override objectivity. When conveying information in financial statements, the accountant must maintain impartiality. However, whether or not an accountant is objective in the course of his professional duties may be a matter of opinion. The criterion to be applied in judging fairness and objectivity is whether an accountant has acted in a manner that a reasonable person would have acted in a given situation. Here again the dictum of reasonableness is an illusion. However, an accountant has to be seen to be free from prejudice or bias. While it is not possible to inquire into the working of one’s mind, an accountant should satisfy himself that none of his acts is influenced by personal bias. This principle needs to be understood in its proper perspective and observed by dictates or conscience.

We may therefore conclude that creative accounting in the context of this paper refers to accounting techniques in which financial information is distorted by window-dressing and various manipulations in order to present theoretically, a better financial picture by either increasing or reducing profit as the case may be, by giving a misleading appearance of capital size or structure and by concealing relevant information from existing or potential investors.

**Methods of creative accounting**

According to Amat, et al (1999), the various methods of creative accounting can be considered to fall in four categories as discussed below:

1. Sometimes the accounting rules allow a company to choose between different accounting methods. In many countries, for example, a company is allowed to choose between a policy of writing off development expenditure as it occurs and amortising it over the life
of the related project A company can therefore choose the accounting policy that gives a preferred image.

(2) Certain entries in the accounts involve an unavoidable degree of estimation, judgment, and prediction. In some cases, such as the estimation of an asset’s useful life made in order to calculate depreciation, these estimates are normally made inside the business and the creative accountant has the opportunity to err on the side of caution or optimism in making the estimate. Grover (1991 b) reports on the example of the film industry, where a decision has to be made on how to allocate film production costs. Initially, these are capitalised, and then amortised against related earnings. Grover discusses one film company, Orion pictures: ‘Some studies are definitely more optimistic than others and Orion was always among the most optimistic. . . Orion would delay, sometimes for years, taking write-downs on films that didn’t measure up: in other cases an outside expert is normally employed to make estimates; for instance, an actuary would normally be employed to assess the prospective pension liability. In this case the creative accountant can manipulate the valuation both by the way in which the valuer is briefed and by choosing a valuer known to take a pessimistic or an optimistic view, as the accountant prefers.

(3) Artificial transaction can be entered into both to manipulate balance sheet amounts and to move profits between accounting periods. This is achieved by entering into two or more related transactions with an obliging third party, normally a bank. For example, supposing an arrangement is made to sell an asset to a bank then lease that asset back for the rest of its useful life. The sale price under such a ‘sale and leaseback’ can be pitched above or below the current value of the asset, because the difference can be compensated for by increased or reduced rentals.

(4) Genuine transactions can also be timed so as to give the desired impression in the accounts. As an example, suppose a business has an investment of £1 million at historic cost which can easily be sold for £3 million, being the current value. The managers of the business are free to choose in which year they sell the investment and so increase the profit in the accounts.
Accounting regulators who wish to curb creative accounting have to tackle each of these approaches in a different way:

(1) Scope for choice of accounting methods can be reduced by reducing the number of permitted accounting methods or by specifying circumstances in which each method should be used. Requiring consistency of use of methods also helps here, since a company choosing a method which produces the desired picture in one year will then be forced to use the same method in future circumstances where the result may be less favourable.

(2) Abuse of judgement can be curbed in two ways. One is to draft rules that minimise the use of judgement. Thus in the UK company accountants tended to use the ‘extraordinary item’ part of the profit and loss account for items they wished to avoid including in operating profit. The UK Accounting Standards Board (ASB) responded by effectively abolishing the category of ‘extraordinary item’. Auditors also have a part to play in identifying dishonest estimates. The other is to prescribe ‘consistency’ so that if a company chooses an accounting policy that suits it in one year it must continue to use it in subsequent years when it may not suit so well.

(3) Artificial transactions can be tackled by invoking the concept of ‘substance over form’, whereby the economic substance rather than the legal form of transactions determines their accounting substance. Thus linked transactions would be accounted for as one whole.

(4) The timing of genuine transactions is clearly a matter for the discretion of management. However, the scope to use this can be limited by requiring regular revaluations of items in the accounts so that gains or losses on value changes are identified in the accounts each year as they occur, rather than only appearing in total in the year that a disposal occurs. It is interesting to observe that, in their recent draft conceptual framework, the ASB have stated a wish to move towards increased use of revaluations rather than historic cost in the accounts.

Reasons for creative accounting

Discussions of creative accounting have focused mainly on the impact on decision of investors in the stock market. Reasons for the directors of listed
companies to seek to manipulate the accounts as noted by Amat, et al (1999), are as follows;

1. **Income smoothing** - Companies generally prefer to report a steady trend of growth in profit rather than to show volatile profits with a series of dramatic rises and falls. This is achieved by making unnecessarily high provisions for liabilities and against asset values in good years so that these provisions can be reduced, thereby improving reported profits, in bad years. Advocates of this approach argue that it is a measure against the ‘short-termism’ of judging an investment on the basis of the yields achieved in the immediate following years. It also avoids raising expectations so high in good years that the company is unable to deliver what is required subsequently. Against this is argued that:

- If the trading conditions of a business are in fact volatile then investors have a right to know this;
- Income smoothing may conceal long-term changes in the profit trend.

This type of creative accounting is not special to the UK. In countries with highly conservative accounting systems, the ‘income smoothing effect can be particularly pronounced because of the high level of provisions that accumulate. Blake et al. (1995) discuss a German example. Another bias that sometimes arises is called ‘big bath’ accounting, where a company making a bad loss seeks to maximise the reported loss in that year so that future years will appear better.

2. **Matching reported earning to profit forecast** - A variant on income smoothing is to manipulate profit to tie in to forecasts. Fox (1997) reports on how accounting policies at Microsoft are designed, within the normal accounting rules, to match reported earnings to profit forecasts. When Microsoft sells software a large part of the profit is deferred to future years to cover potential upgrade and customer support costs. This perfectly respectable, and highly conservative, accounting policy means that future earnings are easy to predict.

3. **Changes in accounting method** - Company directors may keep an income boosting accounting policy change in hand to distract attention from unwelcome news. Collingwood (1991) reports on
how a change in accounting method boosted K-Mart’s quarterly profit figure by some $160 million, by a happy coincidence distracting attention from the company slipping back from being the largest retailer in the USA to the number two slot.

(4) **Boosting the market value of shares** - Creative accounting may help maintain or boost the share price both by reducing the apparent levels of borrowing, so making the company appear subject to less risk, and by creating the appearance of a good profit trend. This helps the company to raise capital from new share issues, offer the own shares in takeover bids, and resist takeover by other companies. Collingwood (1991) claimed that creative accounting is being practiced particularly to enhance share prices.

(5) **Delaying market information** - If the directors of a company engage in ‘insider dealing’ in their company’s shares they can use creative accounting to delay the release of information for the market, thereby enhancing their opportunity to benefit from inside knowledge.

It should be noted that, in an efficient market, analysts will not be fooled by cosmetic accounting charges. Indeed, the alert analyst will see income-boosting accounting changes as a possible indicator of weakness. Dharan and Lev (1993) report on a study showing poor share price performance in the years following income increasing accounting changes. Another set of reasons for creative accounting, which applies to all companies, arises because companies are subject to various forms of contractual rights, obligations and constraints based on the amounts reported in the accounts.

**Effects of creative accounting**

The real causes of creative accounting lie in the conflicts of interest among different interest groups. Managing shareholders’ interest is to pay less tax and dividends. Investor-shareholders are interested to get more dividends and capital gains. Country’s tax authorities would like to collect more and more taxes. Employees are interested to get better salary and higher profit share. But creative accounting puts one group or two to advantageous position at the expense of others. One day some researchers had an opportunity to have a discussion with the Chief Accountant of an enterprise in this regard. The Chief Accountant told, in the course of conversation, that he was determined to retain profit for the expansion of his existing unit and establishment of new ones. Quite naturally, his interest was to pay less tax and less dividend and,
accordingly, to ‘create’ financial statements. This type of creative accounting has led Schiff (1993) to warn investors; in general that taking a company’s financial statements at face value can be ‘a recipe for disaster.’

Earnings Per Share (EPS), the only number to which investors often go wrong by paying too much attention, can be ‘boosted by the stroke of an accountant’s creative pen.’ Schiff (1993) has mentioned six of the many ways companies can manipulate their earnings: (1) hidden pension liabilities, (ii) capitalizing expenses instead of writing them off, (iii) receivables or inventories growing faster than sales, (iv) negative cash flow, (v) consolidating owned subsidiary’s income and net worth, with the impossibility of receiving the same, and (vi) following seemingly conservative practice in a situation of reverse direction [e.g., if layers of lower priced LIFO (last-in, first-out)-costed inventory are “inflated” and sold at current prices, current earnings power is overstated].

Domash (2002) in a speech before members of the Australian Society of Accountants, stressed that financial statements, which inflate the performances of companies by manipulating figures (i.e., through creative accounting) should be stamped out as it puts the investor and other users of accounting information to great difficulties to distinguish between the paper entrepreneur and the truly successful entrepreneur. The message from this statement may now be stated to focus on the obvious effects of creative accounting:

(1) There are companies listed on the stock exchange, which show inflated profit and better financial position in their creative accounting statements to attract investors; this creation of accounts just misguides and creates confusion.

(2) Some company prospectuses may not always depict the reality of the financial positions of the listed companies.

(3) Processes adopted for created accounting statements may hold out untrue hopes to investors for a shorter period but cannot continue to succeed for a longer period.

(4) Ultimately, the concerned companies listed in the stock exchange collapse and the investors lose confidence in them and stock market.
Research methodology

The survey method of research design was adopted in this study and the population consisted of fifty (50) branch managers and accountants of the recapitalized banks currently operating in the Federal Capital Territory (FCT), Abuja. The main instrument used for the collection of data in this study was the questionnaire, which was designed in five response options of Likert-scale. The questionnaire was administered on branch Managers and Accountants of the recapitalized banks chosen for this study. The data generated for this study were presented in a table and analysed using mean scores. The stated hypotheses were statistically tested with Z-test and Analysis of Variance (ANOVA).

Test of hypotheses

The hypotheses stated earlier in this study are hereby tested using the Z-test.

$H_0$; The major reason for creative accounting practices in the Nigerian banking industry is not to boost the market value of shares.

In testing this hypothesis, the data generated were used and the result obtained is presented in the table 1 below.
### Table 1: Z-Test Computations for Test of Hypothesis I

<table>
<thead>
<tr>
<th>Responses</th>
<th>Manager Scores (x)</th>
<th>Frequencies (f)</th>
<th>(fx)</th>
<th>((x - \bar{x})^2)</th>
<th>(f(x - \bar{x})^2)</th>
<th>Accountant Scores (x)</th>
<th>Frequencies (f)</th>
<th>(fx)</th>
<th>((x - \bar{x})^2)</th>
<th>(f(x - \bar{x})^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SA</td>
<td>5</td>
<td>10</td>
<td>50</td>
<td>0.92</td>
<td>0.846</td>
<td>5</td>
<td>1</td>
<td>5</td>
<td>2.39</td>
<td>5.712</td>
</tr>
<tr>
<td>A</td>
<td>4</td>
<td>8</td>
<td>32</td>
<td>-0.08</td>
<td>0.006</td>
<td>4</td>
<td>4</td>
<td>16</td>
<td>1.39</td>
<td>1.932</td>
</tr>
<tr>
<td>D</td>
<td>3</td>
<td>3</td>
<td>9</td>
<td>-1.08</td>
<td>1.166</td>
<td>3</td>
<td>7</td>
<td>21</td>
<td>0.39</td>
<td>0.152</td>
</tr>
<tr>
<td>SD</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>-2.08</td>
<td>4.326</td>
<td>2</td>
<td>8</td>
<td>16</td>
<td>-0.61</td>
<td>0.372</td>
</tr>
<tr>
<td>U</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>-3.08</td>
<td>9.486</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>-1.61</td>
<td>2.59</td>
</tr>
<tr>
<td>TOTAL</td>
<td>–</td>
<td>23</td>
<td>94</td>
<td>–</td>
<td>–</td>
<td>30.157</td>
<td>–</td>
<td>23</td>
<td>60</td>
<td>–</td>
</tr>
</tbody>
</table>

Source: Survey Data, 2011

\[
\bar{x}_1 = 4.08 \quad \bar{x}_2 = 2.61
\]

\[
S_1^2 = 1.31 \quad S_2^2 = 0.99
\]

\[
n_1 = 23 \quad n_2 = 23
\]

\[
Z = \frac{4.08 - 2.61}{\sqrt{\frac{(23 - 1)(1.31) + (23 - 1)(0.99)}{23 + 23 - 2} \left[ \frac{1}{23} + \frac{1}{23} \right]}}
\]

\[
Z = 4.67
\]
**Decision:** Reject H0, since Z-computed (4.67) is greater than Z-critical (1.96). This implies that the major reason for creative accounting practices in the Nigerian banking industry is to boost the market value of shares.

**H02:** Creative accounting has no significant effect on banks’ distress in Nigeria.

To test this hypothesis, the data generated were used, and the result obtained is presented in the table 2 below.

**Table 2; Z-Test Computations for Test for Hypothesis II**

<table>
<thead>
<tr>
<th>responses</th>
<th>Scores (x)</th>
<th>Frequencies (f)</th>
<th>( fx )</th>
<th>((x - \bar{x}))</th>
<th>((x - \bar{x})^2)</th>
<th>Scores (x)</th>
<th>Frequencies (f)</th>
<th>( fx )</th>
<th>((x - \bar{x}))</th>
<th>((x - \bar{x})^2)</th>
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<td>7</td>
<td>35</td>
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<td>1.00</td>
<td>5</td>
<td>5</td>
<td>25</td>
<td>2.00</td>
<td>4.00</td>
</tr>
<tr>
<td>A</td>
<td>4</td>
<td>19</td>
<td>48</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>93</td>
<td>12</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>D</td>
<td>3</td>
<td>2</td>
<td>6</td>
<td>-1.00</td>
<td>1.00</td>
<td>3</td>
<td>4</td>
<td>12</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>SD</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>-2.00</td>
<td>4.00</td>
<td>2</td>
<td>9</td>
<td>18</td>
<td>-0.00</td>
<td>1.00</td>
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<tr>
<td>U</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>-3.00</td>
<td>9.00</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>-2.00</td>
<td>4.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>–</td>
<td>23</td>
<td>94</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>23</td>
<td>69</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

Source; Survey Data, 2011

\[
\bar{x}_1 = 4.00 \quad \bar{x}_2 = 3.00
\]

\[
S_1^2 = 0.96 \quad S_2^2 = 1.74
\]

\[
n_1 = 23 \quad n_2 = 23
\]
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\[ Z = \frac{4.00 - 3.00}{\sqrt{\frac{(23-1)(0.96) + (23-1)(1.74)}{23 + 23 - 2} \left[ \frac{1}{23} + \frac{1}{23} \right]}} \]

\[ Z = 2.93 \]

**Decision:** Reject \( H_0 \), since \( Z \)-computed (2.93) is greater than \( Z \)-critical (1.96). This implies that creative accounting practices adversely affect users of accounting information.

**H\(_0\)3:** Accounting principles and rules should not be streamlined to reduce diversities of professional judgment in financial reporting.

In testing this hypothesis, question 16 in the questionnaire was used, and the result obtained is presented in the table 3 below.

**Table 3; Z-Test Computations for Test for Hypothesis III**

<table>
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<th>Accountants</th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Scores (x)</td>
<td>Frequencies</td>
<td>( f )</td>
<td>( (x - \bar{x}) )</td>
<td>( (x - \bar{x})^2 )</td>
<td>( f(x - \bar{x})^2 )</td>
<td>Scores (x)</td>
<td>Frequencies</td>
<td>( f )</td>
</tr>
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<td>0.008</td>
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<td>9</td>
<td>27</td>
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<td>12</td>
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<td>1</td>
<td>-3.00</td>
<td>9.00</td>
<td>9.00</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>–</td>
<td><strong>23</strong></td>
<td><strong>94</strong></td>
<td>–</td>
<td>–</td>
<td><strong>29.006</strong></td>
<td>–</td>
<td><strong>23</strong></td>
<td>64</td>
</tr>
</tbody>
</table>

Source; Survey Data, 2011

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\[ \bar{x}_1 = 4.09 \quad \bar{x}_2 = 2.78 \]
\[ S^2_1 = 1.26 \quad S^2_2 = 1.21 \]
\[ n_1 = 23 \quad n_2 = 23 \]
\[ Z = \frac{4.09 - 2.78}{\sqrt{\frac{(23-1)(1.26) + (23-1)(1.21)}{23 + 23 - 2} \left[ \frac{1}{23} + \frac{1}{23} \right]}} \]
\[ Z = 4.02 \]

**Decision:** Reject \( H_0 \), since \( Z \)-computed (4.02) is greater than \( Z \)-critical (1.96). This implies that accounting principles and rules should be streamlined to reduce diversities of professional judgment in financial reporting.
Conclusion and recommendations

The results of our analysis clearly revealed that creative accounting practices adversely affect users of accounting information. Our survey report for this purpose indicates a mean score of 3.44, which is greater than the expected mean score of 3.00. This finding agrees with Damash (2002) who reported that creative accounting practices put the investor and other users of accounting information to great difficulties to distinguish between the paper entrepreneur and the truly successful entrepreneur. It was also observed that the major reason for the practice of creative accounting in the Nigerian banking industry is to boost the market value of shares. Our analysis on this issue revealed a mean score of 3.35, which is equally greater than 3.00, the expected mean score.

This result does not differ from the work of Collingwood (1991) who claimed that creative accounting is being practiced particularly to enhance share prices.

Finally, the result of our analysis indicated that accounting principles and rules should be streamlined to reduce diversities of professional judgment in financial reporting. Our analysis for this purpose shows a mean score of 3.44, which is greater than the expected means score of 3.00. This finding lend support to Osisioma and Enahoro (2006), who revealed that accounting based, principles and processes should be streamlined in order to reduce diversities of human judgments on accounting issues.

Based on the findings generated from this study the following recommendations are made –

(i) Accounting principles and rules should be streamlined to reduce diversities of professional judgment in financial reporting.
(ii) Creative accounting practices should be considered as a serious crime and therefore accounting bodies, law courts and other regulatory authorities need to adopt strict measures to stop the practice and punish the offenders.
(iii) Accountants in Nigerian banks and other sectors in general should uphold high ethical standards and maintain integrity in all their professional dealings. They need to ensure that the accounting profession rests on ethical principles and values, commanding national and international respect and confidence, by stopping the evil practice of creative accounting.
(iv) Independent auditor of banks should be straightforward, honest and sincere in their approaches to professional work. They should not allow personal prejudice or bias to override the principle of objectivity in the profession.

(v) Forensic accounting practice should be introduced to serve as investigative function and expert witnessing in the Nigerian banking industry.

References


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