THE EFFECT OF CREATIVE ACCOUNTING ON THE JOB PERFORMANCE OF ACCOUNTANTS (AUDITORS) IN REPORTING FINANCIAL STATEMENTIN NIGERIA

EZEANI NNEKA SALOME (08035726241)
Accounting Department
Madonna University, Okija
Anambra State
&
Ogbonna MARTIN IFEANYI (08033934936)
Accounting Department
Madonna University, Okija
Anambra State
&
EZEMOYIH, CHUKS MARCEL (08068262606)
Business Education Department
Alvan Ikoku College of Education, Owerri.
Imo State
&
OKONYE EKENDU ECHEZONACHI (08038565258)
Accounting Department
Madonna University, Okija
Anambra State

Abstract
The study is titled "The Effect of Creative Accounting on the job performance of Accountants/ Auditors in Reporting Financial Statement in Nigeria". The study aimed at identifying the strategies used by the accountants to avoid creative accounting in any of their financial dealings. Despite the international and local scandals received by accounting officers, they still involve themselves in misrepresentation, malfalsification of figures of financial statement. The study employed empirical survey. Two hundred and twenty seven out of 500 respondents were chosen, using simple ransom sampling techniques and Yaro Yameni's for formula. The same number of questionnaire were returned representing 100% response rate. The reliability of the instrument yielded a reliability coefficient of 0.98 indicating that the instrument is highly reliable. The data generated were analyzed using simple percentage method and pie chart for the research question, and t – test statistics for the hypotheses formulated. Among the findings made in the study was that the accountants/auditors indulge in creative accounting through profit eroding mechanisms to attract investors and resources but deceptive or fraudulent

accounting practices often conduct to drastic consequences. One of the implications of the findings is that the managers of non profits organizations may have incentives to manipulate their reported programme-spending ratios because donors use them in determining contribution decision. Also, manipulation of financial information which is called several names like earnings management, income smoothing, creative accounting practices, aggressive accounting or account manipulation, prevents the allocation of resources in the most areas in the economy. It is recommended that there is urgent need for practice monitoring to commerce in order to raise the quality of financial report globally.

Introduction

Creative accounting also known as aggressive accounting is the process that deals with matters of accounting appraisal, conflicts items and events. This flexibility gives room for manipulation, deceit and misrepresentation. Hence, the accountants use their knowledge of accounting rules to manipulate the figures reported in the accounts of a business.

Creative accounting means different things to different people. According to Amat, Blake and Dowds (1999), four authors in the U.K explored creative accounting from a different perspective (Including business journalist, accountant, an investment analysis and an academic view). According to the authors:

1. A business journalist-Griffiths (1986) observes that every company in the country is fiddling its profits. Every set of published accounts is based on books which have been gently cooked or completely roasted. The figures which are fed twice a year to the investing public have all been changed in order to protect the guilt. It is the biggest con trick since the Trojan horse… In fact this deception is all in perfectly good taste. It is totally legitimate. It is creative accounting.

2. Accountant - Michael (1988)argues that ‘creative accounting is the accounting process consists of dealing with many matters of judgment and of resolving conflicts between competing approaches to the presentation of the results of financial events and transactions… This flexibility provides opportunities for manipulation, deceit and misrepresentation. These activities-practiced by the less scrupulous elements of the accounting profession.

3. An Investment Analysis Smith (1992) reports that we felt that much of the apparent growth in profits which had occurred in the 1980s was the result of accounting sleight of band rather than genuine economic growth, and we set out to

expose the main techniques involved, and to give live examples of companies using those techniques.

4. Nasser (1993) presenting an academic view offers this definition. Creative accounting is the transformation of financial accounting figures from what they actually are to what preparers' desire by taking advantage of the existing rules and/or ignoring some or all of them. Nasser (1993) further observed the accounting systems in Angela-Saxon countries are particularly prone to such manipulation because of the freedom of choice it permits.

However, one can firmly assert that creative accounting is referred to as income smoothing, earnings management, earning smoothing, financial engineering and cosmetic accounting as perceived by the USA and Europe. The common opinion of the authors is that the creative accounting is expressed by window dressing and reporting profits and assets in a way that is complimentary to the companies' shareholders and investors. So, apart from it's widely usage as a way of being fraudulent, it is seen by most authorities as been deceitful and undesirable practice because of misleading information.

Creative accounting is more than just a profit changing. The various methods of creative accounting according to Amat, Blake and Dowds (1999) include:

1. Sometimes the accounting rules allow a company to choose between different, methods eg. A company can choose the accounting policy that gives their preferred image.
2. Certain entries in the accounts involve an unavoidable degree of estimation, judgment, and prediction.
3. Artificial transactions can be entered into both to manipulate balance sheet amounts and to move profits between accounting periods.
4. Genuine transactions can be timed so as to give the desired impression in the accounts.

Thus, creative accounting has come to include: conceal financial risk, circumvent borrowing restrictions, escape shareholder control, boost reported profits or minimize reported losses, manipulate key ratios used in market analysis, enhance management performance, gain access to finance, would otherwise be impossible to raise.

PRINCIPAL OF ACCOUNT MANIPULATION

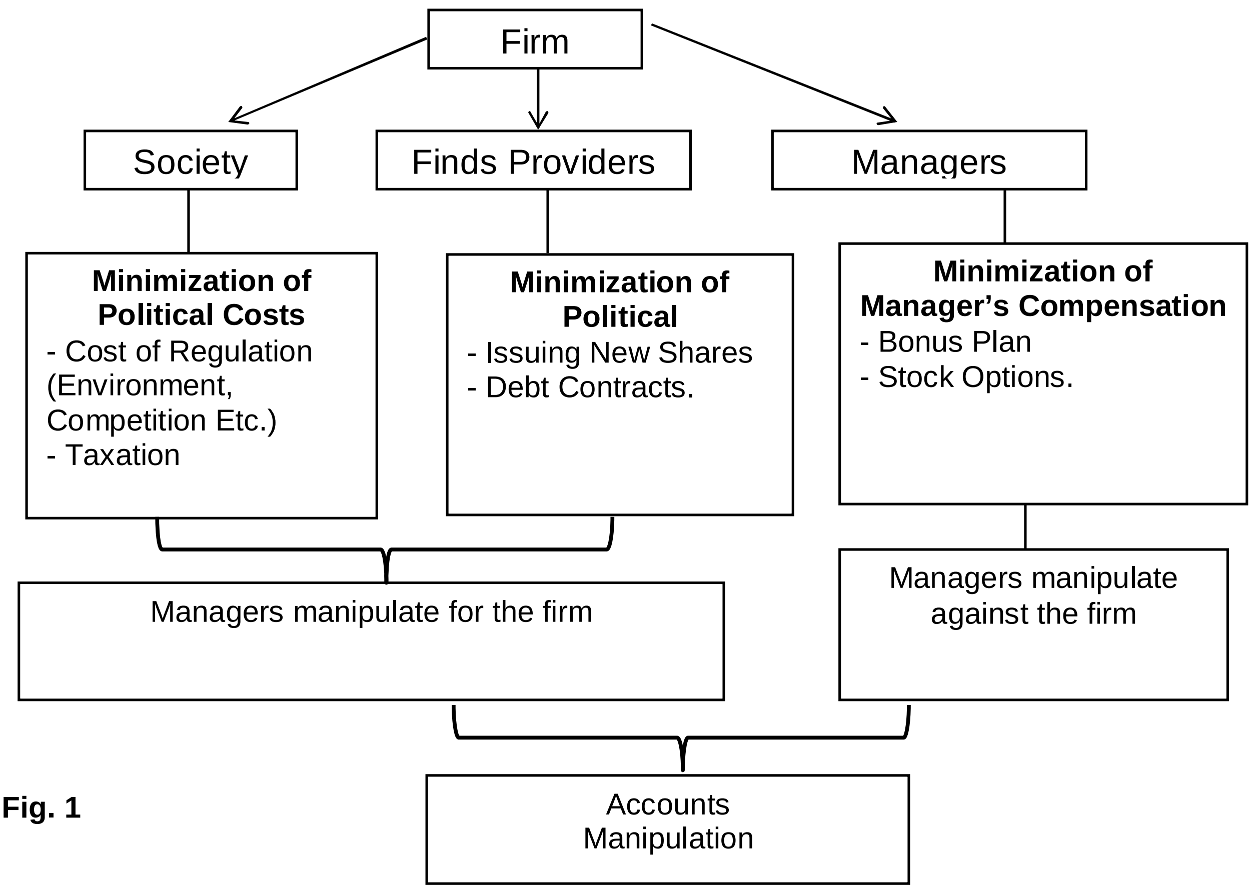

Fig. 1

Source: Balacius and Madalina (2008) Creative Accounting, Window Dressing Fraud and Account Manipulation

The manipulation of financial numbers is prohibited by laws and accounting standards, they were against the spirit of not providing the "true and fair view" of a company that accounts are supposed to. The techniques of creative accounting charge over time. As accounting standard change, the techniques that will work also changes. Many changes in accounting standards are meant to block particular ways of manipulating account, which means that intent on creative accounting need to find new ways of doing things.

Moreover, one should be able to see that if creative accounting is practiced by any organization there is plenty of scope of manoeworing and manipulation of the accounting information. Such manipulation might leave the shareholder, public, the government and any interested party absolutely confused as to what are facts and what is not real and true regarding a published set of accounting statements.

Statement of the Problem

Creative accounting and earning management are euphemisms for accounting practices that tend to circumvent, albeit, cleverly, or manipulate the rules of standard accounting practices or the spirit of those values (Barnea, Chamberlain and Marlinton, 1076). They are characterized by dubious complications and use of 'novel' ways of presenting income, assets or liabilities.

There are many reports of price manipulation, profit overstatement, and accounts falsification by some dubious stewards which rendered the financial reporting ineffective. The business failures of the past decade however, have been closely associated with corporate governance failure which involves a number of parties, management board of directors, auditors and some investors (Ezeani, 2010).

Most business organizations have always been connected with fraud and have always been affected by financial collapses. Recently, accounting scandals like Enran, World Com, Parmalat, Tyco, etc. have cost not only billions of dollarsto the stakeholders but also have damaged the accounting profession as a result of financial mis-representation.

Most of the standards set for the accounting (Audit) report have been eroded. According to Osisioma and Enahoro (2006), accounting processes and choice of policies resulting from many judgments at the same time are capable of manipulation, which have resulted in creative accounting. The differences which are observed in financial reporting are legitimately prepared from choice of varied accounting polices of the same organization for the same period, has brought about challenges of credibility to accounting (finically statements and reporting).

It is upon this backdrop that the study intends to find out whether the practices of creative accounting affected financial reporting in Nigeria.

Objective of the Problem

The main objective of this study is to determine the effect of creative accounting on the job performance of accountants in reporting financial statements in Nigeria. Specially, the study intends to:

1. Find out whether creative accounting practices affect the financial reporting system.
2. Examine whether "creative accounting practices significantly influences both accounting policy choice and manipulation of transaction in financial reporting.

3. Ascertain whether a well designed framework of accounting regulation will curb creative accounting practice in corporate financial reporting.

Research Question

The following research questions guided the study:

1. To what extent does a creative accounting practice affect the financial reporting system?
2. To what extent does creative accounting practices significantly influences both accounting policy choice and manipulation of transaction in financial reporting?
3. To what extents will a well designed framework of accounting regulation will curb creative accounting practice in corporate financial reporting?

Hypotheses

The following null hypotheses were tested at 0.05 level of significance ($P<0.05$).

$H0_1$: Stock Broker (dealer) and Market Analyst do not differ significantly in their rating regarding the extent creative accounting practices affect the financial reporting system.

$H0_2$: Investor (Shareholder) and Receiving Agent do not differ significantly in their rating of the extent “creative accounting” practices influence both accounting policy choice and manipulation of transaction in financial reporting.

$H0_3$: There is no significant difference between the mean scores of the Market Analyst and Investor (Shareholder) as to whether a well designed framework of accounting regulation will curb creative accounting practices in corporate financial reporting.

REVIEW OF RELATED LITERATURE

The term creative accounting was first used in 1968 in a film produced by Mel Brooks. Creative accounting according to Wikipedia (2005) is accounting practices that deviate from standard accounting practices. These practices are characterized by excessive compilation and the use of novel ways of charactering income, assets or liabilities. This results in financial reports that are not all dull, but have all the complication of a novel, hence the name “creative”. Creative accounting has led to a number of recent accounting scandals, and many proposals for accounting reform that centred on an updated analysis of capital and factors of production that would correctly reflect how value is added (Osisioma and Enahoro, 2006).

Creative accounting and earnings management are interchangeably used as the accounting practices that may follow the rules of standard accounting practices, but certainly deviate from those rules. Earnings management according to Healy and Whalen (1999), occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead stakeholders about the under lying economic performance of a company or influence contractual outcomes that depend as reported accounting numbers. Earnings management usually involves the artificial increase or decrease if revenues/ profits, or earnings per share figures through aggressive accounting tactics.

The terms “innovation” or “aggressive” are also sometimes used. This is generally understood as the systematic misrepresentation of the true income and assets of corporations or other organizations. Aggressive earnings management is a form of fraud and differs from reporting error.

This section intends to review literatures that are related to the topic of study. The review will cover articles derived from textbooks, journals, seminar papers, internets, newspapers, etc. Major issues to be reviewed will include:

Empirical an Academic Review

In a study carried out by Osisioma and Enahoro (2006), titled “Creative Accounting and Option of Total Quality Accounting in Nigeria”, sought to find out whether financial accounting information users (accountants, managers and investment analysis) in Nigeria are aware of creative accounting in the private sector of the economy (banks, accountancy practicing firms) in Lagos, Nigeria. The study was carried out through field work questionnaire administration. Primary data through structured questionnaire were administered to a sample of 300 practicing accountants. The population was randomly selected from the private sector of the economy. Attention was directed specifically to practicing accountancy and audit firms. Simple proportion and companions will significantly apply and statistical test of relevance (Chi-square, x^2at 5% significance level) are applied. The study found out that creative accounting has definitely affected information users. Hence, in Nigeria it is believed that the practice of creative accounting is constructive to the benefit of the manipulator of accounts. Also, the authors found out that the genuinely positive aspect of the corporation is presented to the fullest proportion to the public, while the area of weakness is played down reporting in anticipation of correcting the weakness. The financial status is enhancedto enable the company to be attractive. However, less than 40% claim this advantage while less than 40% do not consider that creative accounting is creditable for practice. Creative accounting is manipulation for falsification and it gives erroneous impression of the reality and this is fraudulent.

In another study carried out by Amat, Blake and Dowds (1999), titled “The Ethics of creative accounting”, showed that accountants accept the ethical challenge that creative accounting raises need to be aware of the scope for both abuse of accounting policy choice and manipulation of transactions. Still in a study carried out by Sen and Inagnga (2005), titled “Creative Accounting in Banglasesh and global perspectives found that creative accounting include: conceal financial risk, circumvent borrowing restrictions, escape shareholder control, boost, reported profits/ minimize reported losses, manipulate key ratios used in market analysis, enhance management performance and gain access to finance, would otherwise be impossible to raise.

They also found out that if creative accounting is practiced by any organization there is plenty of scope of manoeworing and manipulation of accounting information such manipulation might leave the shareholder, public, the government and any interested party absolutely confused as to what is and what is not real and true in connection with a published set of accounting statements.

Techniques of Creative Accounting

The potential for Creative Accounting may be found in six principal areas, regulatory flexibility, dearth of regulation, and managerial judgment of assumptions about the future, the timing of some transactions, the use of artificial transactions, and the reclassification and presentation of financial numbers.

Regulatory Flexibility

Accounting regulation often permits a choice of policy, for example, in respect of asset variation. For example, the international accounting standard permits a choice between carrying non-current assets at either revalued amounts or depreciated historical cost. Business entities may, quite validly, change their accounting policies. As Schipper (1989) points out, such changes may be relatively easy to identify in the year of change, but are much less readily discernible thereafter.

Dearth of Regulation

Some areas are simply not fully regulated. For example, there are very few mandatory requirements in respect of accounting for stock options. In some countries, like Spain, accounting regulation is limited to, for example, the recognition and measurement of pension liabilities and certain aspects of accounting for financial instruments. Management has considerable scope for estimation in discretionary areas.

Genuine transactions can also be times so as to give the desired impression in the accounts. As an example, suppose business has an investment at historical cost, which can easily be sold for a higher sales price, 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.

Artificial transactions can be entered both to manipulate balance sheet amounts and 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, suppose an arrangement is made to sell an asset to a bank and they lease that asset back for the rest of its useful life. The sale price under such a sale and lease back can be pitched above or below the current value of the asset, because the difference can be compensated for by increased or reduced rentals. The study by Fox (1997) suggests that firms may engage in balance sheet manipulation to reclassify liabilities in order to smooth reported liquidity and leverage rations. A special type of creative accounting relates to the presentation of financial numbers, based on cognitive reference points.

Table 1: Opportunities for creative accounting

Opportunity For Creative Accounting	Solution Available To Accounting Regulator
Choice of accounting method	Reduced permitted choice
Bias estimates and prediction	Reduced scope for estimate
Enter into artificial transaction	Substance over form
Timing of genuine transactions	Prescribe revaluation

Source: Amat and Blake, 1996 – 'Contabdidad Creative'

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 financial statement are as follows (Amat and Blake, 1996).

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 fails. 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. 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.

In countries with highly conservative accounting system, the income smoothing, effect can be particularly pronounced because of the high level of provisions that accumulate. Blake, Amat, Martinez and Gracia (1995), discuss a German example. Another bias that sometimes arises is called ‘big bath’ accounting where a company making a bad loss seeks to maximize the reported loss in that year so that future years will appear better.

A variant on income smoothing is to manipulate profit to tie in to forecast. 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 port 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. Moreover company directors may keep an income-boosting accounting policy change in hand to distract attention from unwelcome news.

According to Griffiths (1986) as cited by Amat et al (1999), creative accounting may help maintain or boost a company’s share price by reducing the apparent levels of borrowing, thereby making the company less susceptible to risk, and by creating the appearance of a good profit trend. This helps the company to raise capital from new share issues, offer their own share in takeover bids, and resist takeover by other companies. However, where the directors engage in “insider dealing” in their company’s shares, they can use creative accounting to delay the release of information, thereby enhancing their opportunity to benefit from inside knowledge.

It should be noted that in an efficient market, analysts would not be fooled by cosmetic accounting choices. Indeed, the alert analyst will see income boosting accounting devices as a possible signal of weakness. Another reason for creative accounting arises because companies are subject to various forms of contractual rights, obligations and constraints based on the amounts reported in the accounts.

The Ethical Perspective of Creative Accounting

The ethics of bias in accounting policy choice is reviewed at the 'macro' level of the accounting regulator. This can similarly be applied to the bias in accounting policy choice at the 'micro' level of the management of individual companies that is implicit in Creative Accounting. If we consider the position taken by Ruland (1984) and compare it to Ravine's analysis, we note that Ruland distinguishes between the deontological view, whereby moral rules apply to actual actions, and the teleological view that an action should be judged on the basis of the moral worth of the out come. Revsine (1991) appears to take a teleological view of accounting in the private sector, allowing managers to choose between the alternatives permitted in "loose" standards to achieve their desired end, but to make a deontological view of accounting in the public sector where he calls for tighter standards to prevent such manipulation. We might ask whether the presence or absence of market discipline justifies such ethical inconsistency. Ruland also discusses the distinction between a 'positive' responsibility, which here would be the duty to present unbiased accounts, and a negative, responsibility, where managers would be responsible for states of affairs they fail to prevent. Thus, Ruland gives priority to the positive. Within Revsine's framework, where all outcomes are deemed to be impounded in the process of contracting and price-setting, the distinction is not acknowledged. The 'duty to refrain' would imply avoiding the bias inherent in creative accounting while the 'duty to act' would involve pursuing the consequences to be achieved by creative accounting.

To the professional accountant, creative accounting generally seems to be regarded as ethically dubious. In the USA, the then senior partner of price water house coopers Conner observed. "When fraudulent reporting occurs, if frequently, is perpetrated at levels of management above those for which internal control systems are designed to be effective. It often involves using the financial statements to create an illusion that the entity is healthier and more prosperous than it actually is. This illusion sometimes is accomplished by masking economic realities through intentional misapplication of accounting principles (Conner, 1986).

In Australia, Leung and Cooper (1995) found that in a survey of 1500 accountants, the three ethical problems cited frequently were conflict of interest, client proposals to manipulate accounts, and client proposals for tax evasion.

Table 2: Three most frequently cited ethical problems

	% of Respondents
Conflict of Interest	51.9
Client proposal to manipulate accounts	50.1
Client proposal for tax evasion	46.8

Source: Leung and Cooper (1995) – "Ethical dilemmas in accountancy practice" pp. 28-33.

The survey of attitude to creative accounting in the USA both highlight a difference in accountants, attitudes to creative accounting depending on whether it arises from abuse of accounting rules or from the manipulation of transactions. Fischer and Rosen Zweig (1995) found that accounting and MBA students were more critical than accounting practitioners of manipulated transactions, whereas accounting practitioner were more critical than students of abuse accounting rules.

Merchant and Rockness (1994)similarly found that, when presented with scenarios of creative accounting accountants were more critical of abuse of accounting rules than of manipulation of transactions. Fisher and Rosen Zweig offer two possible explanations for accountants' attitudes. First, accountants may like a rule-based approach to ethics, rather than on the impact on users of the accounts. Second, accountants may see abuse of accounting rules as falling within their domain, and therefore demanding their domain, and therefore demanding their ethical judgment, while the manipulation of transaction falls within the domain of management and so not subject to the same ethical code. Merchant and Rockness also found a difference in accountant's attitude to creative accounting depending on the motivation of management. Creative accounting based on explicit motives of self-interest attracted more disapproval than where the motivation was to promote the company.

An accountant, or other manager, who takes a stand on creative accounting faces the same pressures as any other whistle blower, in extreme cases failure to act could ruin a reputation. As one company accountant who took a firm stand put it.

"It cost me my job, but I don't think I would have gotten another job, had I been unethical" (Baldo, 1995).s

Ethical Behaviour of Accounting Professionals

Wide spread corruption in the business environment seems to be the order of the day in almost all societies. Business practices have always been connected with fraud and have always been affected by financial collapses. In the U.K, corporate scandals have involved such companies as independent insurance and BCC 1. The recent time has witnessed the collapse of a number of corporate giants in the USA such as Enron Corporation, Tyco International, World Com, Global Crossing, Arthur Anderson, Parlmalat, etc. However, these have cost not only billion of dollars to the stakeholders but also have damaged the accounting profession.

The Nigeria business community is also plagued with ethical problems. Cases of unethical, cases of business behavior and corporate scandals involving such large companies as African Petroleum Plc, Cadbury Nigeria Plc, and Lever Brothers Plc have been reported. Also, the collapse of many banks and other financial institutions has also been linked with various ethical violations.

Moreover, these cases of corporate scandals and collapses were allegedly a result of widespread fraud, in which accounting firms and professionals played significant roles. Management of the companies were found to engage in fraudulent activities and aided by audit firms, they were able to cover up these activities through fraudulent financial reporting, thereby misleading and investing public. This situation, which saw the demise of a once respected accounting firm, Arthur Anderson is of particular concern to the accounting profession. Accounting professionals, who are historically regarded as the watch dog of the society, are being implicated in these scandals which have cost the investing public huge financial losses.

Accountants and the accountancy profession exist as a means of public service, the distinction which separates a profession from a mere means of livelihood is that the profession is accountable to standards of the public interest, and beyond the compensation paid by clients. Accounting ethics is the study of moral values and judgments as they apply to accountancy. However, due to the diverse range of accounting services and recent corporate collapses, attention has been drawn to ethical standards accepts within the accounting profession. These collapses have resulted in a wide spread disregard for the reputation of the accounting profession. In order to combat the criticism and present fraudulent accounting, various accounting organizations and governments have developed regulations and remedies for improved ethics among the accounting profession.

The nature of the work carried out by accountants and auditors requires a high level of ethics. Potential shareholders, shareholders and other users of the financial statements rely heavily on the yearly financial statements of a company as they can use this information to make an information decision about investment. The above mentioned rely on the opinion of the accountants who prepared the statements as well as the auditors that verified it, to present a true and fair view of the company. However, knowledge of ethics can help accountants and auditors to overcome ethical dilemmas, allowing for the right choice that, although it may not benefit the company, will benefit the public who relies on the accountants/ auditors reporting.

The outcomes of the many cases of unethical behavior have underscored the importance of ethics in business; companies' bankruptcies, loss of investments and savings and loss of public confidence have shown that unethical behaviour in business is not only morally wrong but also disastrous for an economy. However, for the good of everyone, including the business organizations themselves is vitally important that business be conducted within an ethical framework that builds and sustains trust.

Concept and Objectives of Financial Reporting

Oxford Dictionary of Accounting defines "Financial Reporting" as presenting financial data of a company's position, operating performance, and funds flow for an accounting period." These financial reports are most time presented in the form of financial statements and daily stock summary of stock exchanges, and may be contained in various forms for external party use such as in the annual report, SEC form 10-K, and prospectus. According to Anichebe (2009), the objectives of financial reporting are concerned with fulfilling the role of financial accounting and reporting by business companies. According to the author, financial reporting should provide information.

i. That is useful to represent the potential investors and creditors and other users in making rational investment, credit and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.

ii. To help the potential investors, creditors and other users to assess the amounts, timing and uncertainty of prospective cash receipts from the sale, redemption, or maturity of securities or loans. Since investor's and creditor's cash flows are related to enterprise cash flows, financial reporting should provide information to help investors, creditors, and others assess the amounts. Timing and uncertainty of prospective net cash inflows to the related enterprise.

iii. About the economic resources of an enterprise, which are sources, direct or indirect, of future cash inflows; the claims to those resources (Obligations of the enterprise to transfer resources to other entities and owners' equity) which are sources, direct or indirect, of future cash outflows; and the effects transactions, events and circumstances that cause change in resources and claims to those resources.

iv. Anichebe also maintains that the primary focus of financial reporting is to provide information about an enterprise's performance provided by measures of earning its components.

v. Nzekwu (2007) also has it that, financial reporting supplies key quantitative representation of individual corporations that support a wide range of contractual relationships and enhance the information environment more generally while its quality also impacts on firms' cash flows as well as influencing the cost of capital on which the cash flows are discounted. Transactions and events being reported may have both financial and non-financial effects i.e. may contain both financial and non-financial information. The literature review would only consider the financial perspective financial reporting. Such final reports are intended to provide information to meet the needs of external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs.

An obligation to report often derives from legislation, regulations, common law, or contractual arrangements. However, the responsibility to report publicly is broader than the "legal" obligation and arises from.

(a) The role played in the community by the reporting entity, and/ or.

(b) Users' reliance on financial reports for their information needs.

The following are examples of users who may be dependent on an entity's financial reports.

(a) Providers of resources to such entities. For example, suppliers, lenders, investors, tax payers or donors.

(b) Representatives of groups such as voters or shareholder whether the representatives be elected or appointed.

(c) Analysts and members of the media concerned with analyzing and reporting the performance of entities.

The objectives of financial reporting are to provide information to assist users in:

(a) Assessing the reporting entity's financial and service performance, financial position and cash flows.

(b) Assessing the reporting entity's compliance with legislation, regulations, common law and contractual arrangements, as these relate to the assessment of the reporting entity's financial and service performance, financial position and cash flows and.

(c) Making decisions about providing resources to or doing business with the reporting entity.

Thus, financial reporting has an accountability role (Parts (a) & (b)) and an information role (Part (c)). The relative importance of these roles may vary for different users and in different sectors. For example, because many public sector entities exercise particular powers, the users of public sector financial reports may be more interested in accountability. The objective of financial reporting outlined above, are most commonly achieved by publishing financial reports which cover.

(a) Financial Position.

(b) Financial and Service Performance, and

(c) Cash Flows.

An entity's performance is assessed by comparing the entity's financial results with its financial objective and comparing the entity's service performance results with its service performance objectives. Service performance objectives and results are reported in non-financial terms such as quantities of goods and services provided. Financial results and objectives are reported in financial terms such as financial surplus. Where service performance objectives predominate, entities report primarily in non-financial terms where financial objectives predominate (as for example most private sector for profit entities). In the public sector, many entities have both service performance objectives and financial performance objectives. Accountability is the requirement for one party to account to another party for its performance over a given period. For example, directors are accountable to shareholders. Parliament holds ministers to account.

The four (4) components of accountability are outlined in figure below:

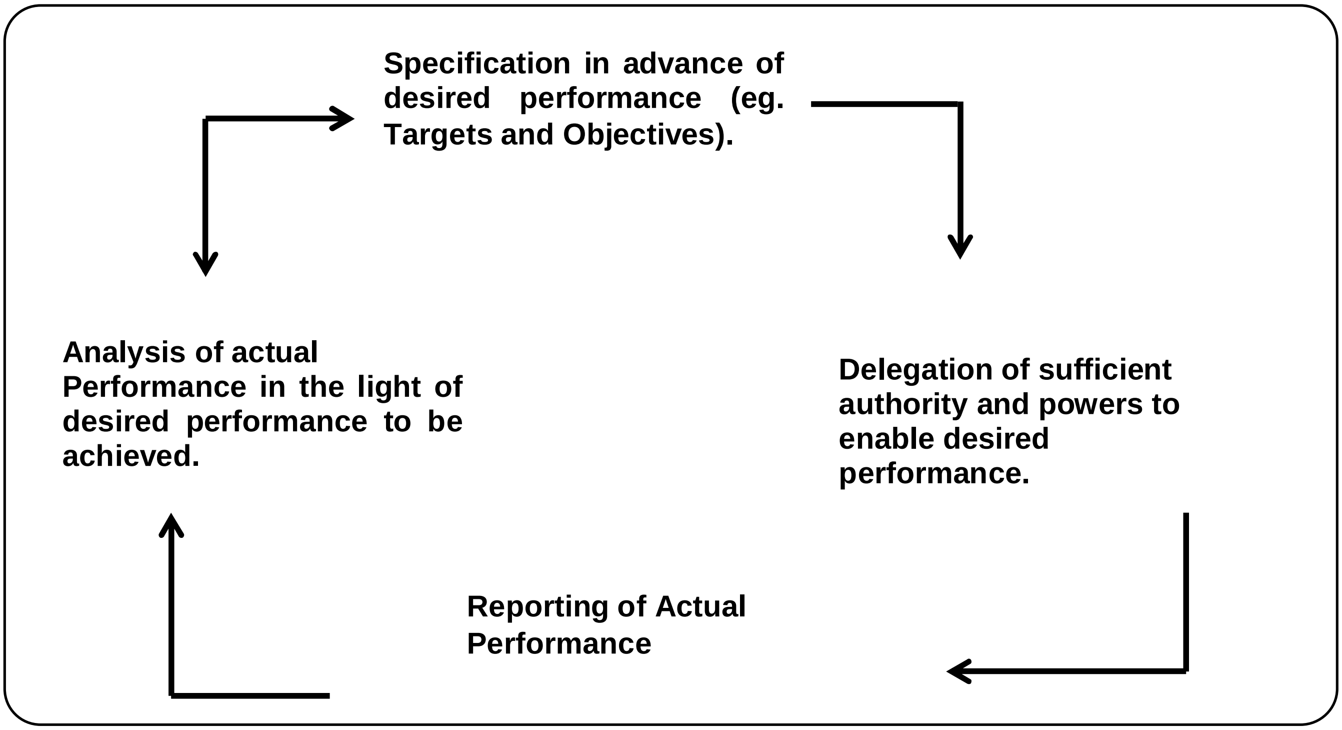

Fig. 2: The four (4) components of accountability.

To fulfill the accountability role financial reports should reflect the nature and dimensions of performance that are relevant to the entity. Accountability requires that financial reports.

(a) Identify the objectives and targets normally established by formal process.

(b) Measure actual achievements against those objectives and targets.

Such objectives and targets may be financial or non-financial. Traditionally, financial reporting has focused on providing information about past transaction and events. To meet the objectives of financial reporting, the entity might usefully supplement historical information by providing.

(a) Interpreting Comment on the financial information supplied.

(b) Prospective Information.

Interpretive comment could point out the relationship between material changes in financial elements and the entity's current activities, external environment or objectives. Narrative, for example, can provide information about an entity's physical resources, resulting in improved understanding of the entity's financial position. Narrative comment is particularly relevant in reporting service performance.

Prospective information could take either narrative or quantitative form. Narrative information could provide an assessment of the entity's prospects, focusing on how anticipated changes in the economic environment might affect results, liquidity and risk. Quantitative information could take the form of predictive results for operations, financial position and cash flows, based on assumptions about future economic conditions and courses of action. For example, local government budgets usually set the basis of a rate, levy, user change or other source of funding. Further, the publication of financial budgets and other prospective information at the beginning of a reporting period, and the later comparison with actual results, are essential to the accountability of public sector entities.

Theoretical Framework

The study was anchored on the Agency theory. The theory states that problems are bound to arise in any cooperative exchange when one party (principal) contracts with another (the agent) to make decisions on behalf of the principal (Michael, Peter, Sven-Olaf, Philippe, 2005). According to agency theory, the firm is a legal fiction which serves as a focus for complex, process in which the conflicting objectives of individual are brought into equilibrium within a framework of contractual relations (Jensen and Meckling, (1976) as quated by Amat and Gowtharpe (2010).

Agency as widely known is a consensual relationship existing between two parties by which one the agent (Accountants/ Auditors) is authorized to act on behalf of another, the principal (Management/ Stakeholders).

Application of agency theory on creative accounting shows that the informational perspective is a key element underpinning the study of the creative accounting phenomenon. A conflict is created by information asymmetry that exists in complex corporate structures between a privileged management and a more remote body of stakeholder (Shipper, 1989). However, the accountant or auditor (agent) who is employed and delegated to prepare the financial statements for the organizations is responsible to the management/ stakeholders to present the accounts of stewardship of the organization. Managers, accountants or auditors may choose to exploit their privileged position for private interest, by managing financial reporting disclosures in their own favour. The informational perspective assumes that accounting disclosures have an information content that possesses value to stakeholders in providing useful signals. The accountant (agent) therefore, must prepare an accounting statement that depicts true and fair view of the various transactions carried out by the organization according to the accounting principles, policies and standard.

The relevance of the agency theory to this study is that accountants at times corroborate with the management either to increase or decrease (inflate) the financial statement. Accountants instead of rendering the accounts of their stewardship with a true and fair view rather conjoin with the boss to manipulate accounting figures. In support of the above view, Umar (2003) warned all accountants that the oversight authorities and consuming public can no longer put up with double standards in the practice of our profession in Nigeria. Umar further attested whether in accountancy practice or management of national economy, the quality of decision depends on the decision-making process and decision maker. Decision makers in public, private and even the informal sectors of the economy should adopt the modern management science approach if they desire to make quality and transparent decisions.

Strategies Used in Avoiding Creative Accounting

One of the identified ways through which accountants should avoid creative accounting is to ensure his ability of preparing a sound financial statement that is fraud free, and to ensure proper accountability, transparency and due process. The accountants should render stewardship activities that will meet up with expectations of his principals, shareholders, potential stakeholders and management boards and as well as accounting standards. However, any attempt not to comply with the laid down financial principles, rules and regulation would have great effect on his profession.

Nigerian accountants should have sound general education that enables them understands the other functional areas of business and to interact better with other functional staff in the organization. In addition, he requires basic and specific accounting knowledge upon which to build on the technical accounting skills.

The accountants should not indulge in the production of improper books of accounts, in complete records of financial statement, mis-appropriation of funds, either to over or under state financial statements or any mis-representation in any form at all. Any accountant found in financial frauds should be brought to book to serve as a deterrent to others.

The accountants should ensure that they received the professional and skill training in accounting. There is always the contention that training produces a complete individual. The accountants involved with the preparation and presentation of financial reports must be trained in the act to imbibe the ethics of the profession, rules that are acceptable and the principles that must be observed. Also, the accountant requires continuous on-the-job training to deeper his proficiency especially in the areas of communication skills and information communication technology (ITC).

The accountants, like every other worker require a conducive and an enabling work environment that would facilitate optimum performance. But the situation on the ground indicates lack of basic facilities for efficient accounting service delivery.

The theoretical framework that assists this study is the Agency Theory which means a conceptual relationship between the principal and the agent. Here, the agent performs duty on behalf of another called his principal.

A person who has given express or implied authority for another to as an agent on his or her behalf is called a principal while on the other hand, a person who is employed with or for the purpose of putting his employer (the principal) into legal relationship with the third parties is known as an agent.

The accountant as the agent of the principal (Stakeholders, Shareholders and Users of the Financial Information) is expected to discharge his work according to the specification of accounting principles, rules and regulations as to avoid misrepresentation of financial fraud or malfalsification of figures. The application of creative accounting by Osisioma and Enahoro (2006) and Amat, Blake and Dowds (1999) show that stakeholders, shareholders and other users of accounting information rely heavily on the yearly financial statements of a company as they can use this information to make as informed decision about investment. They rely on the opinion of the accountants who prepared the statements, as well as the auditors that verified it, to present a true and fair view of the company.

The relevance of the agency theory to this study is that knowledge of ethics assists the accountants and auditors to overcome ethical dilemmas, allowing for the right choice that may not benefit the company, rather will benefit the public who relies on the accountants/ auditors reporting. Cottel (1990 added in order to uphold strong ethics; an accountant must have a strong sense of values, the ability to reflect on a situation to determine the ethical implications, and a commitment to the well-being of others.

No known scholar to the researcher has related creative accounting to the job performance of accountants in reporting financial statement in Nigeria. Hence the essence of this study.

Methodology

The study employed empirical survey. The population was made up 500 respondents from various operators, stock broker (dealer), market analyst, investor (shareholder), receiving agent and others. (from Nigeria Stock Exchange, Lagos branch). Random sampling technique and Yaro Yameni's were used to determine the sample size of 227. Questionnaire, personal enquiry and observation were used as an instrument for data collection. A 5 – point Likert type of scale (i.e SA, A, UD, D and SD) was used. The instrument was validated by some experts. The Split Half method was used to estimate reliability which yields 0.98 indicating that the instrument was reliable. Two hundred and twenty seven questionnaires were distributed and the same numbers were collected representing 100% response rate. The data generated were analyzed using simple percentage method and pie chart. T-test was used for the three hypotheses formulated. Pie chart analyzes data using pie cuts into various segment sectors to represent the sub divisions summed up to 360^0.

Research Question 1

To what extent does a creative accounting practice affect the financial Reporting system?

Table 1: Respondents Rating on the Extent Creative Accounting Practices Affect the Financial Reporting System

Responses	Frequency	Percentage (%)	Degree
Strongly Agree	20	23.5%	84.7^0
Agree	18	21.2%	76.2^0
Undecided	20	23.5%	84.7^0
Disagree	17	20%	72^0
Strongly Disagree	10	11.8.6%	42.4^0
Total	85	100%	360^0

Source: Field survey, 2012

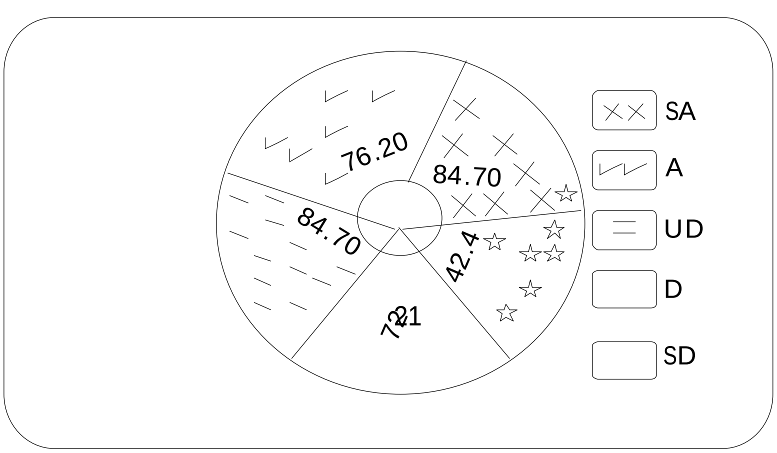

FIG1: Pie-chart: Analyzing the response to Research Question 1.

The above depicts that, 20 respondents (representing 23.5% and 84,7^0) strongly agreed that the creative accounting practices affected financial reporting system, the same number are undecided, 18 respondents (representing 21.2% and 76.2^0) agreed; 17 respondents (representing 20% and 72^0) disagreed; while 10 respondents (representing 11.8% and 42.4^0) strongly disagreed. The presence of the technical accounting terminology – creative Accounting could be an explanation for the high number of respondents that are undecided meaning that the term is either unfamiliar or that some other term is interchanged for it's in their operations in the organization.

Research Question 2

To what extent does "Creative Accounting" practices significantly influenced both accounting policy choice and manipulation of transaction in financial reporting?

Table 1: Respondents Rating on the Extent Creative Accounting Practices Significantly Influence both Accounting Policy Choice and Manipulation of Transaction in Financial Reporting.

Responses	Frequency	Percentage (%)	Degree
Strongly Agree	45	53%	190^0
Agree	20	23.5%	84.7^0
Undecided	11	12.9%	46.6^0
Disagree	6	7.1%	25.4^0
Strongly Disagree	3	3.5%	12.7^0
Total	85	100%	360^0

Source: Field survey, 2012

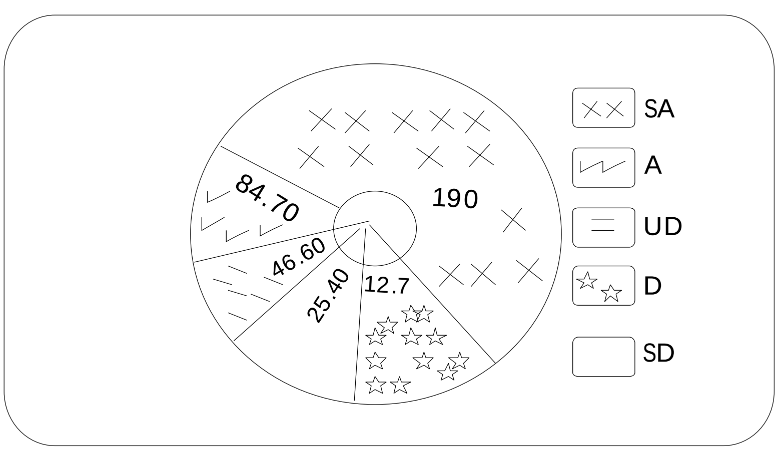

FIG 2: Pie-chart analyzing the response to Research 2

Majority of respondents (45), representing 53% (190^0) strongly agreed that creative accounting practices significantly influenced both accounting policy choice and manipulation of transaction in financial reporting, 20 respondents (representing 23.5% (84.7^0), agreed; 11 respondents (representing 12.9%) (46.6^0), are undecided, 6 respondents (representing 7.1%) (25.4^0), disagreed; while 3 respondents (representing 3.5% (12.7^0) strongly disagreed with the above information.

Research Question 3

To what extent will a well designed framework of accounting regulation (by regulatory agencies) curb creative accounting practices in corporate financial reporting?

Table 3: Respondents rating on the Extent a well Designed Framework of Accounting Regulation will Curb Creative Accounting Practices in Corporate Financial Reporting

Responses	Frequency	Percentage (%)	Degree
Strongly Agree	42	49.4%	177.9^0
Agree	25	29.4%	105.9^0
Undecided	10	11.8%	42.3^0
Disagree	8	9.4%	33.9^0
Strongly Disagree	-	-	-
Total	85	100%	360^0

Source: Field survey, 2012

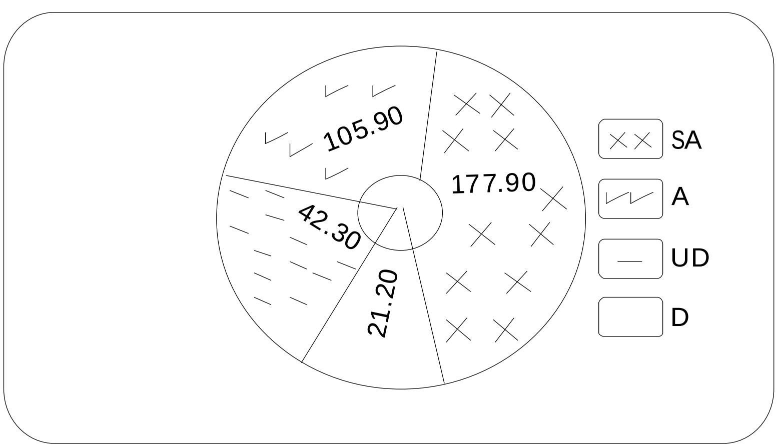

FIG 3: Pie-chart analyzing the response Research Question 3

Table 3 and figure 3 show that majority of the respondents (42), representing 49.4% (117.9^0), strongly agreed that a well designed framework of accounting regulation (by regulatory agencies) will curb creative accounting practice in corporate (financial) reporting; 25 respondent, representing 29.4% (105.9^0), agreed; 10

respondents, representing 11.8% (42.3%), are undecided, 8 respondents, representing 9.4% (33.9^{0}%), disagreed, while non strongly disagreed.

Hypothesis One

Stock broker (dealer) and market Analyst do not differ significantly in their rating regarding the extent creative accounting practices affect the financial reporting system.

Table 4 below shows the t-test of difference between the response of stock broker (dealer) and market analyst regarding the extent creative accounting practices affect the financial reporting system.

Table 4: t-test of significance between Stock Broker and Market Analyst as regards the extent Creative Accounting affects the Financial Reporting System

Categories of Respondent	N	$\bar{X}$	SD	Df	t-cal	t-crit	Decision
Stock Broker (Dealer)	127	3.20	0.92	225	2.78	1.98	Reject
Market Analyst	100	3.13	0.97				

The table 4 above shows the t-calculated value to be 2.78 while t-critical is 1.98 at 0.05 level of significance. As the t-calculated value is higher than the t-critical value, the null hypothesis is therefore rejected as postulated.

This shows that significant difference exist between the response of stock broker and the market analyst as to the extent creative accounting practices affect the financial reporting system.

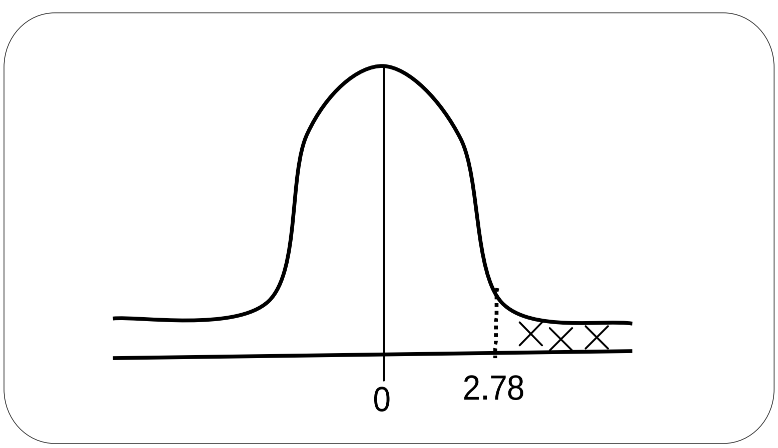

FIG 4: Normal Distribution curve of Hypothesis 1 testing

Hypothesis Two

Investor (Shareholder) and Receiving Agent do not differ significantly in their rating of the extent creative accounting practices influenced both accounting policy choice and manipulation of transaction in financial reporting.

Table 5 below, reveals t-test of difference between the responses of Investor (Shareholder) and Receiving Agent in their rating of the extent creative accounting practices influences both accounting policy choice and manipulation of transaction in financial reporting.

Table 5: t-test significance between Investors (Shareholder) and Receiving Agent as regards the extent Creative Accounting Practices influences both Accounting policy choice and manipulation of Transaction in Financial Reporting

Categories of Respondent	N	X	SD	Df	t-Cal	t-crit	Decision
Investor (shareholder)	10	3.06	0.85	225	2.88	1.98	Reject
Receiving Agent	117	2.76	1.05				

Table 6 above, indicates that t-calculated value is 2.88 while the t-critical value is 1.98 at 0.05 level of significance. As the t-calculated value is greater than the t-critical, the null hypothesis is also rejected.

This means that significance difference exists between the response of investor and the receiving agent as regards the extent creative accounting influenced both accounting policy choice and manipulation of transaction in financial reporting.

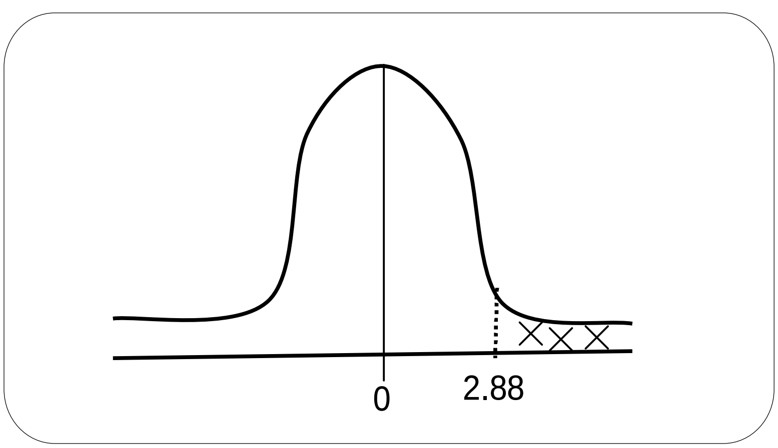

FIG: Normal Distribution of Hypothesis 2 Testing

Hypothesis Three

There is no significant difference between the mean scores of the Market Analyst and investor (Shareholder) as to whether a well designed framework of accounting regulation will curb creative accounting practice in corporate financial reporting.

Table 6 below shows t-test of difference between the market Analyst and investor (Shareholder) as regards whether a well designed framework of accounting regulation will curb creative accounting practices in corporate financial reporting.

Table 6: t-test of significance between market Analyst and investor as to how a well designed Framework of Accounting Regulation will curb Creative Accounting Practice in Corporate Financial Reporting

Categories of Respondent	N	X	SD	Df	t-cal	t-crit	Decision
Market Analysis	120	3.12	0.93	225	2.73	1.98	Reject
Investor (Shareholder)	107	2.78	0.98				

Table 6 shows that the t-calculated value is 2.73 while the t-critical value is 1.98 at 0.05 level of significance. As the t – calculate value is greater than the t – critical value the null hypothesis is therefore rejected.

This shows that significant difference exists between the responses of the Market analyst and the investor as to whether a well designed framework of accounting regulation will curb creative accounting practice in corporate financial reporting.

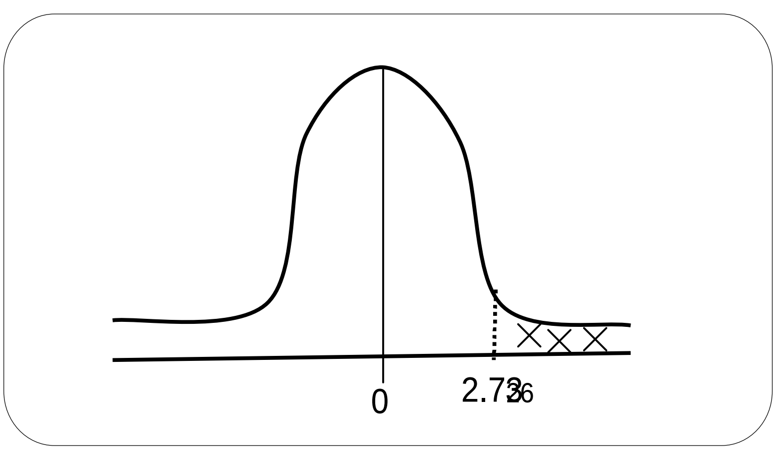

FIG 6: Normal Distribution curve of Hypothesis 2 testing.

In the course of the study, the following findings were made:

1. The creative accounting practices affected the quality of financial reporting. This is evident in the various reported cases of share price manipulation, over statement of profit, accounts misstatement and cooking etc.

2. The practice of creative accounting is ethically dubious and significantly influences both accounting policy choice and manipulation of transaction in financial reporting, just as hypothesis two (2) reveals this in the course of its test.

3. The Global Economic meltdown which influenced the hurried exit of some share price manipulation and the misstatement of profit and account, is one of the intensifiers, if not the instigator of the bearish trend or meltdown of the Nigerian capital market.

4. The provision of information about an enterprises performance provided by measure of earning and its components is the primary focus of financial reporting.

5. A well structured framework of accounting regulation by regulatory agencies can curb creative accounting influence on financial reporting and that despite the prevailing bearish trend in the NSE, many are optimistic that the market would still bubble again.

CONCLUSIONS

The findings of the study serve as the basis for making the conclusion below:

Creative Accounting offers a formidable challenge of the accounting profession which when carried to extreme negativity has cast aspersion on the credibility of accounting principles and standards. In general, Creative Accounting lends itself as a deceitful and undesirable practice. The ethical implication of the Creative Accounting raises the need for a close scrutiny of the potential abuse of accounting policy choice and manipulation of transactions.

The study brought to the multi-dimensional nature of the ongoing financial crises and its effect on financial reporting by way of increasing adoption of creative accounting. Creative accounting offers a formidable challenge of the accounting profession which when carried to extreme negativity has cast aspersion on the credibility of accounting principles and standards. In general, creative accounting lends itself as a deceitful and undesirable practice. The effect of the creative accounting raises the need for a close scrutiny of the potential abuse of accounting policy choice and manipulation of transactions.

This study therefore, concludes that this practice of creative accounting which presents itself in the form of share price manipulation, profit or accounts misstatements and insider trading in the NSE could be part of the explanation for the recent crash of the NSE. Hence, the need for standard setters regulators and professional bodies to not only work towards the global adoption of one single set of high quality accounting standard, but also the need for strengthening enforcement and monitoring mechanisms. This would assist to enhance the quality of financial reporting as well as rebuild and sustain the warning confidence of financial investors.

RECOMMENDAITONS

The following suggestions were made in line with the findings:

i. Adoption of one set of global financial reporting standards known as international financial reporting standard (IFRS) must be embrace by all operators of accounts or those performing an accounting duty.

ii. Accounting practice and scandal can destroy any institution, there is the need to restore integrity and public confidence to accounting operations, the accountants should be strengthened to respond quickly to the egregious abuses and malpractice in the world of business and impose sanctions on offenders.

iii. The urgent need for practice monitoring to commence in order to raise the quality of financial report globally.

iv. Greater emphasis on enforcement of code of corporate governance and ethics. Proper enforcement of changes in accounting regulation, ethical standard and governance code by regulatory authorities will prevent companies from employing misleading reporting practices of creative accounting.

v. The Nigerian Accounting standard Board (NASB) should be empowered to draft a well structured framework of accounting regulation, accept, review and investigate financial statements of all companies quoted on the NSE to ensure compliance with GAAP. SAS, CAMA and other financial reporting Act before.

vi. Regulatory agencies in Nigeria should draft rules that minimize the use of Judgment estimation and prediction in the treatment of certain entries in financial reporting, e.g. extra ordinary items.

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