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CREATIVE ACCOUNTING AND CORPORATE FAILURE IN NIGERIAN MANUFACTURING COMPANIES

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ABSTRACT

Manufacturing firms are vulnerable to liquidation and financial problems in firms, with some dying almost immediately and a public uproar against the sector's poor management. Despite solid accounting ideas and conventions, accounting standards and company regulations, as well as expert accountants and auditors in place to avoid and control business failure, studies have revealed that acts of liquidation and financial scandals have persisted in corporations. Several attempts have been undertaken to determine possible reasons and ways to mitigate financial scandals. There is a paucity of work on how accounting policy selection, income smoothing, and artificial transactions can aid in the complete avoidance of liquidation and financial scandals. The purpose of this study was to investigate the association between creative accounting and corporate failure in Nigerian manufacturing firms.

The study used a field survey design that was a combination of exploratory and explanatory. The research focused on the 77 manufacturing companies listed on the Nigeria Exchange Group (NEG) as of December 31, 2022. The study targeted 300 internal control and accounting department personnel from five (5) selected manufacturing organizations based on their fund ratings by DataPro (2019) and as Nigeria's industrial destination by Manufacturers Association of Nigeria MAN (2017). Using the purposive sampling technique, the sample size was limited to two hundred and ninety-eight (298) respondents. A standardized and validated questionnaire was used to collect data. Cronbach's Alpha reliability coefficients varied from 0.78 to 0.86, with a 99.3% response rate. Data was analyzed using the Descriptive and inferential (regression) statistics.

The findings revealed that creative accounting have a positive significant effect on corporate With the following r factors: accounting policy choice ($r = 0. .809^a$; $p\ 0.000 < 0.05$); income smoothing ($r= 0.783^a$; $p\ 0.000 < 0.05$) artificial transaction ($r = 0.864^a$; $p\ 0.000 < 0.05$) and Creative accounting ($Adj.\ R^2 = 0.794$, $F(3, 296) = 385.259$, $p < 0.05$), all have positive statistical significant effect on corporate failure.

Based on the outcomes of the research, this study indicated that creative accounting procedures encourage financial scandals, which lead to corporate failure. The research advises, among other things, that creative

accounting be considered a major crime, and that accounting bodies, law courts, and other regulatory authorities take strict measures to put an end to the practice.

KEYWORDS: Accounting Policy choice, Artificial Transaction, Corporate Failure, Creative Accounting, Income Smoothing.

1. Introduction

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

Accounting is commonly referred to as the language of business, according to Osazevbaru (2012), referenced in Essien et al (2021), while finance is referred to as the lifeblood of enterprises. Accounting seeks to communicate information and facts about businesses' commercial activities that may be quantified in monetary terms to various interest groups. To fulfill this crucial duty, accounting must be practiced in a consistent language and manner. This serves as the foundation for accounting principles and customs, which are supplemented by accounting standards and business legislation. Many accounting information users have been disappointed by their experiences depending on accounting information that subsequently turns out to be untrustworthy owing to inventive accounting procedures.

The Enron Affairs - A High Cost of Corporate Misbehavior, Odozi (2002) makes the following observations based on the information that is currently available, for example: "one of the most enduring lessons that flowed from these cases (failure and serious scandals associated with Johnson Matheys Bank (JMB), Bank for Credit and Commerce International (BCCI), Baring Brothers, Nomura Securities, Bre-X, and Long Term Capital Management (LTCM) of the 1980s and (all in USA). Corporate failure is characterized as "failure and distress" related to false accounting and financial statement embellishment, as was the case with Enron in 2001, the WorldCom scandal in 2002, Olympus in 2011, Lehman Brothers in 2008, and more recently, Thomas Cook in 2019 in the UK and the USA. Examples of corporate failures in Nigeria include Bank PHB, Spring Bank, and Diamond Bank. Akintola William and Deloitte were charged with enabling the falsification of Afribankplc (Main Stream Bank Plc) statements and overstating Cadbury Plc profits. Oluwagbuyi (2013) claims that between 1990 and 1994, Nigeria lost more than $6 billion (or $42.9 million) in the banking industry. 2018 (Bankole).

The crucial question, then, is whether the management of such bankrupt businesses misled users with the information they were given. If this is the case, why did the auditors miss these misrepresentations? The majority of the answer can be found in the fact that companies that use the aforementioned creative accounting techniques actively engaged in income smoothing by any means necessary to cause auditors to compromise their objectivity and independence as a result of a lax or ineffective corporate governance structure. Creative accounting is the manipulation of financial numbers, typically within the letter of the law and standard accounting practices, but deviating from those rules' spirit and undoubtedly failing to provide the true and fair picture that accounts are supposed to present, and this amounts to outright financial community deception (Osazevbaru, 2012). The end outcome of innovative accounting procedures, especially over the long term, is firm collapse, which damages the reputation of the accounting profession and erodes public trust in financial reporting around the world.

According to Fizza and Qaisar (2015), creative accounting is the practice of changing a company's financial reporting in order to persuade investors to purchase the company's stocks, hence raising the firm's market value. Taking the Statement of Financial Situation for granted is known as creative accounting in financial reporting (Mulford and Comiskey, 2002).

Since 2000, numerous corporate scandals throughout the globe have exposed how many firms' profits are the consequence of accounting tricks and shenanigans. Osazevbaru (2012) asserts that this discovery has not only cast doubt on the reliability of individuals who write accounting reports but has also contributed to a decline in confidence among those who are tasked with monitoring a company, in particular auditors, analysts, and government regulators. The operation of the securities markets has been hindered by the lack of public confidence in financial reporting and potential investors' investment interests.

There are many studies on creative accounting (Akenbor et al., 2012; Osazevbaru, 2012; Akpanuko et al., 2017; Mine et al., 2007; Rewayati et al., 2015; Sen and Inanga, 2004; Domash, 2002; Amat, Blake and Dowds, 1999; Naser, 1993; Schiff, 1993); Osazevbaru (2012); Akembor (2012); Osis (1988) have mostly focused on how creative accounting affects firm value and investor investment decisions, placing little emphasis on the reasons for such activities and giving little thought to corporate failures. Additionally, because the majority of the research was done in other nations with different climatic conditions, its results could not be applicable to the situation in Nigeria. The limited studies that have been conducted in Nigeria, like those by Osisioma and Enahoro (2006), Aremu and Bello (2004), and others that have already been noted, give little attention to corporate failure, especially in the manufacturing industry. In light of the aforementioned, our study would be one of

the few to look into creative accounting and corporate failures in Nigerian financial reporting, with a particular emphasis on the manufacturing sector in Lagos and Ogun.

Research Objective

The main objective of this study was to examine the effect of creative accounting on corporate failure in the Nigerian manufacturing companies. Other specific objectives are to:

(i) investigate whether Accounting Policy Choice has a significant effect on corporate failure in Nigerian manufacturing companies.

(ii) examine the effect of Income Smoothing on corporate failure in Nigerian manufacturing companies

(iii) determine the effect of Artificial Transaction on corporate failure in Nigerian manufacturing companies

(iv) establish the effect of Creative Accounting on corporate failure in Nigerian manufacturing companies

Research Questions

The following questions were raised:

(i) Does creative accounting practice have a significant effect on corporate failure in Nigerian manufacturing companies?

(ii) Why do corporate organizations practice creative accounting in Nigeria?

(iii) To examine why corporate organizations practice creative accounting in Nigeria.

(iv) To what extent does creative accounting have a significant effect on corporate failure in Nigerian manufacturing companies?

Research Hypotheses

The following hypotheses were tested:

H_{01}: Accounting Policy Choice has no significant effect on corporate failure in Nigerian manufacturing companies.

H_{02}: Income Smoothing has no significant effect on corporate failure in Nigerian manufacturing companies.

H_{03}: Artificial Transaction has no significant effect on corporate failure in Nigerian manufacturing companies.

H_{04}: Creative Accounting has no significant effect on corporate failure in Nigerian manufacturing companies.

2. Literature Review/Theoretical Framework

2.1 Conceptual Review

2.1.1 Corporate Failure:

A company's failure On the other hand, a business entity runs into going concern issues that prevent it from continuing as a business unit, which results in business failure. According to Arasti (2011), a number of different terminologies, including firm closures, entrepreneurial exit, dissolution, discontinuance, insolvency, organizational mortality, and bankruptcy, are connected to business failure in general. Entrepreneurial failure is typically understood to be the closure of a business for financial reasons. However, given the history of airlines closing their operations—some even in the year of establishment—we are worried about the collapse of air firms in Nigeria's aviation sector given the background of our study.

Creative Accounting

The use of accounting creativity in practice and the creation of corporate annual reports involves making use of the inherent flexibility in accounting standards. The use

of legal ways for documenting financial information about an organization that do not accurately reflect the real situation, frequently making the company appear more successful than it is, according to 123-Financial (2020). Therefore, as long as it complies with all applicable accounting standards, creativity in accounting is not illegal. However, the majority of self-serving accountants may overdo it by manipulating accounting records to the detriment of naive users.

Accounting Policy Choice: The statement of accounting standard number "8" enables businesses and others who generate financial statements to choose from a range of possibilities the accounting policy that will work best for their operations. Financial accounting theory, according to Fekete, Damagum, Mustaţă, Matiş, and Popa (2010), gives firms the freedom to select their accounting (including evaluation) methods in order to present a truthful and impartial image of their activities. The accounting policies of the companies, which provide the foundation for creating and assessing their financial statements, reflect these decisions. The consequences of this flexibility have led to the development of financial statement alteration policies, the majority of which are arbitrary in nature. This is known as creative accounting practice.

Income Smoothing: The majority of financial statement preparers make dress accounting records by balancing the accounts using profitable periods to cover up the losing times. According to Kencana, Mukhtaruddin, and Iqbal (2018), managers may use revenue smoothing, which seeks to decrease anomalous variances in revenue information within the parameters allowed by accounting rules and ethics, to make their accounts appear financially viable.

Artificial Transactions: These are business dealings that look to be actual market transactions but are not what they seem to be. These kinds of transactions could have a specified financial outcome as their end goal. In order to alter the financial numbers of the records, Ibanichuka and Ihendinihu (2012) illustrated a scenario in which a company might have a contract to sell property to a financial firm and rent it back within the property's useful life. This is especially true when the disposal cost of the deal and hire back could be skewed over or under the value of the property, as discrepancies could be compensated for by higher or lower hires. It is difficult to comprehend why a company would want to sell and lease what was sold back given this type of fictitious trading, especially "sales and leaseback"; it defies logic and common sense! In accounting, it is very likely to happen and be appropriate, especially when creative accounting and earnings management are the main priorities.

Creative Accounting Techniques

The term creative implies originality, expertise, and energy in one's activity. Accounting, on the other hand, is described as "the art of documenting, classifying, and summarizing in terms of money, transportations, and events that are, in part, at least of a financial nature, and interpreting

the outcomes thereof" by the American Institute of Certified Public Accountants (Okafor 2003). According to Okoye and James (2020), creative accounting is misleading accounting; nevertheless, Akenbor and Ibanichuka (2012) confirm that it is extensively used to describe accounting procedures that allow organizations to declare erroneous financial outcomes of their commercial activities. Creative accounting entails applying accounting expertise to alter reported figures while maintaining within the bounds of accounting rules and legislation. Instead of displaying the company's true performance or position, the data are intended to reflect what management wishes to tell stakeholders (Yadav, 2014). Bankole, Ukolobi, and McDubus (2018) describe creative accounting as accounting techniques that adhere to the text or norms of traditional accounting practices but stray from the spirit of those principles. Even while creative accounting procedures are immoral in terms of misleading investors, they are not criminal because they are distinct from fraudulent tactics (Okoye & James, 2020). According to Michael (2011), the broader US definition includes fraud, whereas the UK definition sees creative accounting as utilizing the flexibility of the accounting system but excluding fraud.

Creative accounting approaches are notable because they continue to be used as widely accepted accounting principles, while being demonstrated to be deceptive in many circumstances. Mulford and Comiskey (2002) classify inventive accounting approaches into five categories: (i) Recognizing Premature/ fictitious revenue: This entails recognizing revenue for a legitimate sale in a period prior to that called for by the Generally Accepted Accounting Principles (GAAP). (ii) Aggressive Capitalization and extended amortization: These are policies that companies employ to minimize expenses by aggressively capitalizing expenditures that should have been expensed or by amortizing capitalized amounts over extended periods. (iii) Misreporting assets and liabilities: These include overstating assets that are not subject to annual amortization, such as accounts receivables, inventory and investments, and understating liabilities which may include accrues expenses payable, environmental claims and derivatives - related losses. (iv) Intentional manipulations or omissions of amounts or disclosures in financial statements, fiddling with profits or losses in the income statement for deceit and fraudulent intentions. (v) Ineffective and inaccurate recording of financial transactions (cash inflows and cash outflows in a business entity).

Ijeoma (2014) asserts that unfair accounting favors a select few at the detriment of others. Investors should not accept a company's financial statements at face value, according to Schiff (1993), as doing so could be disastrous. Domash 2002) suggests that financial statements that exaggerate company performance by manipulating figures be prohibited because it makes it difficult for investors and other users of financial information to distinguish between paper entrepreneurs and truly successful

entrepreneurs. This recommendation is made in light of the negative effects of creative accounting practices in any financial system.

2.2 Theoretical Framework

2.2.1 Agency Theory

Stephen Ross and Barry Mitrick proposed agency theory in 1973. According to Vladu and According to Madis (2010), agency theory is the most prevalent theory in the study of creative accounting. In a legal entity, ownership and management are distinct. As the principal, the owners (shareholders) appoint managers (directors) to administer the shareholders' investments. Sydserff and Weetman (1999) assert that because of the conflict of interest between shareholders and directors over the allocation of financial resources, directors are capable of acting opportunistically. As a result, managers provide accounting accounts for shareholders without objectivity. As a result, the principal and the agent have different levels of information. According to agency theory, both the principal and the agent are driven by their own interests. Agency theory is doomed to inherit conflicts because of its self-interest premise. Therefore, agents are more likely to pursue self-interest goals that differ from or even conflict with the principal's aims if both parties are driven by self-interest. However, agents are supposed to act in their principals' best interests. It's common to make false connections between agency theory and creative accounting. Directors are concerned with raising their earnings, whereas shareholders are frequently interested in boosting their wealth through dividends.

2.2.2 Information asymmetry theory

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

2.2.3 Stakeholders theory

Freeman (1984), who argues that firms should take into account the benefits of all stakeholders, both internal and external to the enterprise, popularized this idea. The theory's detractors asserted that it serves as a justification for managerial opportunism, that by fostering more groups with which management can claim that their actions are

beneficial, the theory encourages self-dealing, and that management defends it more vigorously than if the only goal were shareholders theory (Jensen, 2000, Marcous, 2000 Staernberg, 20000). In light of the balancing language that has been important in conversations about what it means to manage stakeholders, critics stressed the significance of treating stakeholders fairly (Gioia, 1999, Marcoux, 2000, Staernberg, 2000). Philips, Freeman, and Wicks (2003) contend that stakeholders theory is not a comprehensive doctrine since it is an organizational theory that excludes even consideration of issues of morality outside of the corporate setting. The stakeholders thesis was viewed as being morally exclusive by its proponents (Donaldson &Preston,1995, Boatright, 1994, Goodpaster,1991).

2.2.4 Debt Covenant theory

In 1986, Watts put up the Debt Covenant theory. This theory's fundamental tenet is that businesses with significant debt have a strong incentive to use inventive accounting techniques to avoid violating their debt covenants. According to DeFond and Jiambalvo (1994), enterprises who are unable to adhere to debt covenants smooth their income in the year prior to the violation by using accruals. This implies that companies employ innovative accounting techniques to avoid breaking loan covenants. There are many theories that support the study of inventive accounting methods. However, the agency and information theories serve as the foundation for this study.

2.3 Empirical Review

Since the term "creative accounting" was first used in 1968, numerous studies have been carried out by researchers in a variety of fields, according to Osazevbaru (2012). Numerous studies have looked at creative accounting from an ethical angle, assessing it as fraud and a danger to the accounting profession as a result. According to Gowthorpe and Amat's definition of ethical issues in accounting from 2005, accounting regulation is quite similar to legal systems. These systems are seen as cultural constructs that reflect morality-related issues and fundamental moral values like honesty. Thus, traits that aid in defining ethical quandaries in accounting include respect for justice, the rule of law, fairness, and morality. They identified two categories of manipulative behavior. The first is macro manipulation, which is influencing regulators to pass legislation that is beneficial to those who prepare financial statements. In relation to Goodwill accounting, they made this discovery there. The second type of micro-manipulation is the distorting of accounting statistics at the entity level. Numerous reports of this were made in Spain. Both kinds of behavior are seen as unethical.

Conner (1986) goes on to say that dishonest reporting is equivalent to creative accounting since it gives the impression that the entity is wealthier and healthier than it actually is. Sen and Inanga (2005) found evidence of inventive accounting practices used by Bangladeshi businesses, which they

connected to a conflict of interest between the many groups the accountant tries to serve. Thus, accounts are created to benefit the particular group that the accountant wants to serve. Investors should exercise caution when trusting exclusively on a company's financial report, warns Schiff (1993), since this could lead to tragedy. He stressed the possibility of easily inflating and manipulating earnings per share (EPS), which investors pay for when they invest. The manipulation could be done by combining revenue from one's own subsidiaries.

Additionally, Leung and Cooper (1995) in Australia studied 1,500 accountants and found that innovative accounting was rated as a larger ethical concern than tax evasion. Explicit self-interest-driven creative accounting got more criticism than creative accounting driven by business marketing, according to Merchant and Rockness' (1994) investigation into the causes of creative accounting. It has also been demonstrated that accountants are less tolerant of transaction manipulation than of the misuse of accounting standards. The findings are explained by Fisher and Rosenzweig (1995) in terms of accountant attitudes. There is evidence of innovative accounting activity worldwide (Sen and Inanga, 2005). Izeze (2008) found proof of inventive accounting techniques used by Nigerian oil firms. He emphasized that figures of oil transactions reported to the Department of Petroleum Resources (DPR) and the Nigerian National Petroleum Corporation (NNPC) are largely made up, and that for a very long time, multinational oil companies in Nigeria have engaged in creative accounting, unintentionally defrauding the nation of enormous sums of money. Furthermore, African Petroleum Plc's management used clever accounting techniques to hide a N23 billion debt during the company's privatization (Proshare, 2009). The share debate was preceded by this deed.

Additionally, Osazevbaru (2012) examined the effect creative accounting might have on a firm's value in a study titled "creative accounting and firms' market value in Nigeria." According to statistical research, it may raise a company's value. This indicates that the majority of investors lack the ability to see past the monetary deception created by creative accounting. They therefore adhere to Kahneman and Tversky's (1986) prospect theory, which claims that people regularly use cognitive heuristics when given the challenging task of assigning probability to uncertain futures. This has important implications for how effectively international and domestic norms are enforced. Account preparers' actions as moral agents may be questioned because business is not exempt from morality. The created financial statement supports the preparers' goal, which makes it unfair to users and tends to reduce the authority of regulators. According to Akembor et al. (2012), Nigerian banks adopt innovative accounting techniques primarily to raise the market value of their shares, which has an adverse effect on the users of accounting information.

According to Akpanuko et al. (2018), accounting inventiveness is a euphemism that contributes 90% to the inaccurate reporting of corporate operations. And that the inventiveness in those methods is motivated by avarice and is meant to deceive the public, potential investors, and shareholders, resulting in a lower rate of firm failures. The study, however, indicated that a plethora of regulations lacking proper checks, sanctions, and rewards accompany innovative accounting in creating the framework for fictitious, cosmetic, and unjust reporting.

2.4 Creative Accounting and Corporate Failures

As previously stated, the Enron and other scandals brought to light the fact that many corporations' earnings are the product of accounting gimmicks. This discovery has not only called into question the integrity of accounting report preparers, but it has also led to a loss of trust in those who, as previously stated, are expected to check business executives. From an ethical standpoint, many studies regard the act as immoral, with only a few proposing justifications for the activity based on agency and positive accounting theories. The true reason of creative accounting is conflict of interest among various interest groups.

The goal of managing shareholders' interests is to pay less in taxes and dividends. Dividends and capital gains are important to investors and shareholders. The country's tax collectors want to collect more and more taxes. Employees want to earn a bigger wage and a larger profit share. However, clever accounting benefits one or two groups at the expense of others. This has led Schiff (1993) to caution investors in general that trusting a company's financial statements at face value can be a recipe for disaster". Schiff (1993) identified six methods through which firms can manipulate their earnings: (i) 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 impossibilities of receiving the same, and (vi) following seemingly conservative practices in a situation of reverse direction (for instance, if players of lower-priced LIFO - Last In First Out - coasted inventory are inflated and sold at current prices, current earnings power is overstated) (Akenbor et al., 2012). These manipulations have an adverse effect on the image and reputation of the accounting profession and should be discouraged using every legal means.

Domash (2002) emphasized in a speech to members of the Australian Society of Accountants that financial statements that inflate company performance by manipulating figures through creative accounting should be eliminated because it makes it difficult for investors and other users of accounting information to distinguish between the paper entrepreneur and the truly successful entrepreneur. This statement's emphasis can now be focused on the evident repercussions of innovative accounting practices: (i) Some businesses on the stock exchange present inflated profits

and a stronger financial situation in their inventive accounting statements in an effort to draw investors; nevertheless, these accounts only mislead and cause uncertainty. (ii) It's possible that some prospectuses don't always accurately reflect the listed companies' actual financial situation. (iii) The method used for creative accounting statements may provide investors false hope for a short time, but it cannot be sustained for a longer time; (iv) In the end, the affected companies listed on the stock exchange fail, and investors lose faith in them and the stock market; and (v) In other words, inventive accounting practices are short-term.

As a result, most of the time, creative accounting results in corporate failure. Corporate failure refers to a firm's or a corporate organization's inability to adhere to its strategic path of growth and development in order to meet economic and financial goals as well as legal requirements (Akenbor & Ibanichuka, 2012). It also refers to a company's or firm's inability to meet its own goals, which could be due to a range of issues such as technological and economic factors, a weak internal control system, and misuse of funds (Akembor & Ibanichuka, Ibid). They said that an organization is regarded to have failed when it has a low negative return, technical insolvency, or bankruptcy.

3. Methodology

This study's research design is a hybrid of exploratory and explanatory research (cross-sectional survey and purposive sampling). The primary source of data for this study was obtained through a well-structured questionnaire. The population of this study included all managers and accountants in Nigerian manufacturing enterprises, while the sample included 90 managers and 210 accountants taken from all manufacturing companies currently operating in Lagos and Ogun States. The multiple regression analysis tool was used to determine the link between the independent and dependent variables, and the results produced form the foundation for our discussion and conclusions.

Functional Relationship

CF = f (APC, IS, AT) …………………… 1

Where

CF = Corporate Failure

APC = Accounting Policy Choice

IS = Income Smoothing

AT = Artificial Transactions

Accordingly, we specify:

$CF = \alpha o + \alpha 1\ APC + \alpha 2\ IS + \alpha 3\ AT + et$ ... 2

The logarithmic transformation of equation 2 is designed to bring the variables to the same base hence the model becomes:

$LN\ CF = \alpha o + \alpha 1\ LnAPC + \alpha 2 LnIS + \alpha 3 LnAT.. + et$…………….…………… 3

Where

αo = Intercept term (parameter)

$\alpha 1$-$\alpha 3$ = Parameter known as partial regression coefficient

et = Error term or unexplained variable.

4 Results, Analysis and discussion.

4.1 Test of Hypotheses

Research Hypothesis one (Ho_1): Accounting Policy Choice has no significant effect on corporate failure in Nigerian manufacturing companies

TABLE 1
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.809[a]	.654	.653	.401

a. Predictors: (Constant), Accounting Policy Choice

TABLE 2
ANOVAb

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	90.533	1	90.533	563.196	.000[a]
	Residual	47.903	298	.161		
	Total	138.437	299			

a. Predictors: (Constant), Accounting Policy Choice

b. Dependent Variable: Corporate Failure

TABLE 3
Coefficient[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.499	.121		12.368	.000
	Accounting Policy Choice	.671	.028	.809	23.732	.000

a. Dependent Variable: Corporate Failure

Statistical criteria {first order test} Coefficient of multiple determinants {r2}

The result showed that accounting policy choice (α = 0.671, t = 23.732, p = 0.000) has a positive and significant effect on corporate failure. This implies that a 1% increase in Accounting Policy Choice (APC) will lead to a 67% increase in corporate failure (CF). The R-Squared {R^2} which measures the overall goodness of fit of the entire regression shows the value as .654 and adjusted to .653. This means that R^2 accounts for 65.4 percent approximately 65 percent. This indicates that the independent variable accounts for about 65 percent of the variation in the dependent variable. Which shows goodness of fit? From the result, at a level of significance 0.05, the overall F-Statistics of 563.196, while the P-value of the F-Statistics is 0.000 which is less than 0.05 adopted for this work. Therefore, the study rejects the null hypothesis, and the alternate accepted which implies that Accounting Policy Choice have a positive statistically significant effect on corporate failure in Nigerian manufacturing companies.

Research Hypothesis one (Ho_2): Income Smoothing has no significant effect on corporate failure in Nigerian manufacturing companies

TABLE 4

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.783[a]	.613	.612	.424

a. Predictors: (Constant), Income Smoothing

TABLE 5

ANOVAb

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	84.859	1	84.859	471.985	.000[a]
	Residual	53.578	298	.180		
	Total	138.437	299			

a. Predictors: (Constant), Income Smoothing

b. Dependent Variable: Corporate Failure

TABLE 6

Coefficient[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.615	.172		3.569	.000
	Income Smoothing	.845	.039	.783	21.725	.000

a. Dependent Variable: Corporate Failure

Statistical criteria {first order test} Coefficient of multiple determinants {r2}

The result indicated that Income Smoothing (α = 0.845, t = 21.725, p = 0.000) has a positive and significant effect on corporate failure. This implies that a 1% increase in Income Smoothing (IS) will lead to a 85% increase in corporate failure (CF). The R-Squared {R^2} which measures the overall goodness of fit of the entire regression shows the value as .613 and adjusted to .612. This means that R^2 accounts for 61.3 percent approximately 61 percent. This indicates that the independent variable accounts for about 61 percent of the variation in the dependent variable. Which shows goodness of fit? From the result, at a level of significance 0.05, the overall F-Statistics of 471.985, while the P-value of the F-Statistics is 0.000 which is less than 0.05 adopted for this work. Hence, the study rejects the null hypothesis, and the alternate accepted which means that Income

Smoothing have a positive statistically significant effect on corporate failure in Nigerian manufacturing companies.

Research Hypothesis one (Ho3): Artificial Transaction has no significant effect on corporate failure in Nigerian manufacturing companies

TABLE 7

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.864[a]	.746	.745	.344

a. Predictors: (Constant), Artificial Transaction

TABLE 8
ANOVAb

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	103.244	1	103.244	874.236	.000[a]
	Residual	35.193	298	.118		
	Total	138.437	299			

a. Predictors: (Constant), Artificial Transaction

b. Dependent Variable: Corporate Failure

TABLE 9
Coefficient[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.326	.137		2.390	.017
	Artificial Transaction	.919	.031	.864	29.567	.000

a. Dependent Variable: Corporate Failure

Statistical criteria {first order test} Coefficient of multiple determinants {r2}

The result revealed that Artificial Transaction $(\alpha = 0.919, t = 29.567, p = 0.000)$ has a positive and significant effect on corporate failure. This implies that a 1% increase in Artificial Transaction (AT) will lead to a 92% increase in corporate failure

(CF). The R-Squared {R^2} which measures the overall goodness of fit of the entire regression shows the value as .746 and adjusted to .745. This means that R^2 accounts for 74.6 percent approximately 75 percent. This indicates that the independent variable accounts for about 75 percent of the variation in the dependent variable. Which shows goodness of fit? From the result, at a level of significance 0.05, the overall *F*-Statistics of 874.236, while the *P*-value of the *F*-Statistics is 0.000 which is less than 0.05 adopted for this work. Therefore, the study rejects the null hypothesis, and the alternate accepted which implies that Artificial Transaction have a positive statistically significant effect on corporate failure in Nigerian manufacturing companies.

Research Hypothesis one (Ho_4): Creative Accounting has no significant effect on corporate failure in Nigerian manufacturing companies

TABLE 7

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.892[a]	.796	.794	.309

a. Predictors: (Constant), Artificial Transaction, Accounting Policy Choice, Income Smoothing

TABLE 8
ANOVAb

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	110.211	3	36.737	385.259	.000[a]
	Residual	28.226	296	.095		
	Total	138.437	299			

a. Predictors: (Constant), Artificial Transaction, Accounting Policy Choice, Income Smoothing

b. Dependent Variable: Corporate Failure

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TABLE 9
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.274	.129		2.130	.034
	Accounting Policy Choice	.287	.035	.345	8.200	.000
	Income Smoothing	.147	.058	.137	2.560	.011
	Artificial Transaction	.505	.067	.475	7.522	.000

a. Dependent Variable: Corporate Failure

Statistical criteria {first order test} Coefficient of multiple determinants {r2}

Table 9 presents the multiple regression results for the effect creative accounting (Accounting Policy Choice, Income Smoothing and Artificial Transaction) on corporate failure of the listed Nigerian manufacturing companies in Ogun and Lagos State. The results revealed that accounting policy choice (α = 0.287, *t* = 8.200, *p* = 0.000), income smoothing (α = 0.147, *t* = 2.560, *p* = 0.011) and artificial transaction (α = 0.505, *t* = 7.522, *p* = 0.000) have a positive and significant effect on corporate failure. This implies that a 1% increase in Accounting Policy Choice (APC) will lead to a 29% increase in corporate failure (CF), also a 1% increase in Income Smoothing (IS) will lead to a 15% increase corporate failure (CF) and 1% increase in Artificial Transaction (AT) will lead to an increase corporate failure by 51% in Nigerian manufacturing companies. The R-Squared {R^2} which measures the overall goodness of fit of the entire regression shows the value as .796 and adjusted to .794. This means that R^2 accounts for 79.6 percent approximately 80 percent. This indicates that the independent variables accounts for about 80 percent of the variation in the dependent variable. Which shows goodness of fit? From the result, at a level of significance 0.05, the overall *F*-Statistics of 385.259, while the *P*-value of the *F*-Statistics is 0.000 which is less than 0.05 adopted for this work. Hence, the study rejects the null hypothesis, and the alternate accepted which means that Creative Accounting {Accounting Policy Choice, Income Smoothing, Artificial Transaction} have a positive statistically significant effect on corporate failure in Nigerian manufacturing companies.

Discussion and Implications of findings

This study is distinctive in that it primarily focuses on creative accounting as measured by income smoothing, changes in accounting principles, and fictional transactions. Regarding business failure, all study factors

have positive mean values. Innovative accounting techniques used by management significantly reduce the likelihood of a company failing. According to inferential statistics, there is a substantial positive interaction between the predictors and the dependent variables in the study of the association between innovative accounting practices and corporate failure. The authors of (Audu & Abdullahi, 2020) and (Fizza & Qaisar, 2015; Alomery & Alameen, 2014) underline this finding and draw the conclusion that innovative accounting methods improve the caliber of financial reporting. The study's conclusions have implications for the accounting industry, regulators, and those in charge of governance, as well as for directors, managers, auditors, and the accounting profession. The paper offers a framework for cutting-edge accounting practices that boost the accuracy of financial reporting. By examining the significance and effects of ethical norms and integrity on the dependability of financial reporting, this study contributes to the body of knowledge on the ethics of the accounting profession.

Conclusion /Recommendations

This study looked at Nigerian manufacturing enterprises specifically to see how creative accounting affected corporate failure. The main objective was to investigate how innovative accounting methods affect corporate failure in the sector. The results showed that significant variables including income smoothing and fake transactions indicated the existence of inventive accounting practices in the sector. According to the combined mean values and coefficients of the independent variable's independent variables, accounting policy selection, however, provided the opposite outcome, which did not refute the idea that inventive accounting methods exist in the business. Our research revealed that inventive accounting significantly contributed to corporate failure in Nigerian manufacturing enterprises. Therefore, we contend that cutting-edge accounting techniques significantly affect the likelihood of corporate collapse. However, given that they have been shown to be widespread, we do suggest, among other things, that the practice of income smoothing and fraudulent transaction techniques of creative accounting be prohibited in the industry. To counter manipulative accounting methods, accounting policy decisions should be endorsed once more.

Suggestion for Further Studies

The manufacturing firms in Nigeria were the subject of this study. Future research should broaden the scope of this study and investigate additional Nigerian industries, such as the oil and gas sector, in order to generalize the findings to Nigerian businesses.

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