Innovations

Loan loss provisions, creative accounting and the financial performance of deposit money banks in Nigeria

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Abstract
The research looked at the effect of creative accounting on the financial performance of Nigerian deposit money banks. Secondary data was gathered between 1999 and 2019 from the NSE Facts Books and World Bank. The dependent variable was financial performance (as assessed by return on assets, or ROA), and the independent variable was creative accounting (as measured by non-performing loans). Techniques for data analysis included trend analysis and regression analysis. According to the conclusions of the data analysis, both non-performing loans and return on assets fluctuate over time. The findings showed that both non-performing loans and returns on assets fluctuate over the study period. It was also established that creative accounting has a positive and significant effect on the financial performance of deposit money banks in Nigeria at a 5% level of significance ($\beta_1 = 0.149455; t = 2.962489; P - value = .008$)*. Given the findings, the research came to the conclusion that creative accounting significantly and favourably affects the financial performance of Nigerian deposit money institutions. The report advises that banks' management exercise caution when using creative accounting, not misuse it, and avoid overstating financial success.*

Keywords*: 1.Creative Accounting, 2.Financial Performance, 3.Banks Non-performing loans, 4.ROA*

Introduction

In order for stakeholders and other data users to make wise choices, financial accounting reports are designed to represent or reflect the fairness and true nature of business organisations. The importance of financial reporting in the process of governance within an organization cannot be over-emphasized. It is to ensure the smooth running of an organization; hence close attention needs to be is given to the financial reporting process. However, current accounting procedures, on the other hand, have given room for some flexibility in policies and the use of experienced judgment in establishing a method of measurement, criteria of recognition, and determination of the accounting rules. This option may lead to information withholding and accounting data manipulation to make the company appear more profitable or less profitable (for tax purposes) and financially stronger than it is in reality. Manipulation of the financial report for any reason is the creative accounting concept. Adeola et al (2011), observed that the global financial crisis of between 2007 and 2008 was as result of non-performing loan which resulted in bank failure. The harmful effect of this non-performing loans on banks also affected the economy of developed countries and developing countries. According to Bhattarai (2017), increase in non-performing loans affect the financial performance as it reduces the banks profit and intermediation capacity. While non- performing and creative accounting is not a new phenomenon, it was a big concern in corporate governance in the 1980s. But by the beginning of the 1990s, creative accounting had advanced to the point that national and international authorities mainly considered it as one of the most difficult subfields of financial reporting, and it had geographically expanded in terms of both complexity and identity. Therefore, "Creative Accounting" is the term that is most often used in both the USA and Europe, despite the fact that "Earnings Management" is more frequently used in Europe. In other writings, creative accounting is also referred to as Income Smoothing and Accounting Crafts (Umobong and Ironkwe 2017, Umobong and Ironkwe 2017) Shareholders and other investors have suffered significant financial losses as a result of creative accounting, and some businesses have failed. Big companies including Enron, WorldCom, Parmalat, Freddie Mac, and American Insurance Group (AIG) were engulfed in accounting scandals involving fraud, errors, and significant misstatements (Odoh and Udeh 2009). As a result, good accounting rules are essential to minimize opportunistic discretion and provide accounting results that are more reflective of a company's economic end and higher quality.The trusted stewards of a company often manage and organise financial transactions. In collaboration with internal auditors, company accountants are expected to create and present financial reports that accurately reflect the company's true financial situation. According to him, the financial reports' evaluation by the external auditors accurately represents the firm's financial situation. This isn't always the case since financial statements can have been changed to meet management's objectives, which might have included wanting to provide a positive image of the company's success.Accountants of the organization will therefore be instructed to write financial reports to show the company in a favorable light(Akenbor and Ibanichuka, 2012).The failure of some Nigerian banks today is a result of window-dressing the financial statements which have affected the stability of the financial system. As a result of the peculiar nature of the banking industry built on goodwill and trust, a lot of pressure has been conferred on management who may mistakenly feel that creative accounting reports would bring about increment in their customer base (Ijeoma, 2014).

Statement of the Research Problem

The records of organizational failure incidents are traceable to diverse creative accounting factors; the persistence of the menace caused by creative accounting has necessitated the need for continuous research. From the literature review, evidence suggests that various studies have been conducted on creative accounting and financial performance in Nigeria (Oseme, Muritala, and Olawale, 2014; Ijeoma, 2014; Umobong and Ironkwe, 2017; Tyoakosu and Ekpe, 2018; and Egolum, 2021). However, it was discovered that researchers used a variety of methodologies, including questionnaires, theoretical reviews of previous studies, financial report analysis, and regression procedures. Majorly, questionnaires and descriptive analysis were used to examine creative accounting practices and those scholars that used secondary data had diverse opinions on what should be the measures of creative accounting practices. The lack of agreement on the remedies suggests that Nigeria's problem with creative accounting is more serious. This demonstrates that there is still a void in the research regarding how to accurately quantify the impact of creative accounting on deposit money bank financial performance. On this note, the current study used aggregate annual dataof financial statement and accounts of Deposit Money Banks from Nigerian Stock Exchange facts books (NSE, Fact Books), Central Bank of Nigeria (CBN), and World bank. The database adequately provides information on the non- preforming loan index of deposits money banks. Using the data sources and annual data will edge out the discrepancies in measuring creative accounting practices. Thereby, the finding of the study will contribute to the existing body of knowledge and expand the frontier of knowledge on creative accounting and financial performance in Nigeria.

Research Objectives

The specific objectives of the study are:

- To examine the trend of non-performing loans (creative accounting) and Return on Assets (ROA) of deposit money banks in Nigeria during the study as at 30th April 2022
- To examine the effect of non-performing loanson Return on Assets (ROA) of deposit money banks in Nigeria.

Research questions

The research questions guiding the study are stated as follows;

- What is the trend and pattern ofNon-performing loans (creative accounting) and Return on Assets (ROA) of deposit money banks in Nigeria during the study period?
- What is the effect ofNon-performing loans(creative accounting) on Return on Assets (ROA) of deposit money banks in Nigeria?

Research Hypotheses

The null hypotheses of the study were formulated and tested at a 5% level of significance as shown below;

It may be better to test one hypothesis than this. How can we be testing a hypothesis on upward or down trend and pattern. What does that mean to a reviewerHo_2: Non-performing loans (creative accounting) have no significant impact on the Return on Assets (ROA) of deposit money bank in Nigeria.

Literature Review

Concept of Creative Accounting

Creative accounting, according to Okoye (2008), is defined as accounting techniques that circumvent or twist the standards of normal accounting practices or the spirit of those ideals. They are differentiated by dubious complications and novel means of showing revenue, assets, and liabilities. It is a company's purposeful dampening or fluctuation of earnings about a specific level that is considered typical.

Concept of Financial Performance

Financial performance is a verifiable metric used to assess a company’s growth. It is a set of quantitative and measurable indicators used by a company to track its progress over time. Financial performance is used to assess a company’s progress towards its strategic and operational objectives,as well as serve as a basis to compare the company’s finances and overall performance of other firms within the same industry (Ebrahim, Abdullah, and Faudziah, 2014)

Concept of Non-Financial Performance

This is another key metric for measuring or assessing a firm's growth. Some employees, reputation, labor turnover, competitiveness, market share, customer retention and interaction, operations, quality, cycle time, and the organization’s supply chain are all typically included (Ukko, Tenhunen, and Rantanen 2007).

Theoretical Literature

Agency Theory

The agency theory, first forward by Berle and Means in 1932, contends that owners may be concerned that their managers' objectives may conflict with their own and that they could behave in a manner that prevents profit maximisation. Due to the possibility that their decisions may endanger the company's survival, the owners see these managers as having significant power. The foundation of this research is the agency theory, which claims that whenever one party (principal) hires another (agent) to make choices on their behalf (Michael et al, 2005). According to common knowledge, agency theory is a two-way contract where the agent (manager) is given permission to act on behalf of the principle (principal). This perspective embraces that a business is a legal fiction that acts as the centre of a complicated process where people's conflicting objectives are balanced within of a contractual partnership (Meekling and Jensen, 1976). The use of agency theory to creative accounting suggests that to fully understand the phenomena, a data-driven approach is necessary. In any case, it is the accountant's or manager's (agent) responsibility to notify management and stakeholders about the firm's stewardship via the presentation of signalling-relevant information. Management (agent) must thus provide an accounting statement that provides an accurate and fair picture of the organization's various transactions in accordance with accounting laws, regulations, and standards. The agency theory is pertinent to the issue or problem of creative accounting since accountants may work along with management to improve or minimise financial statements at the cost of investors (Tyoakosu and Ekpe, 2018).

Resource Dependency Theory

Pfeffer and Salancik introduced resource dependency theory in 1990 and it was founded on the concept of independence. Because executive compensation is typically linked to stock price, managers are highly reliant on shareholders, and investors have a significant deal of control over where their money is invested. If shareholders were concerned about whether managers had enough influence over their companies, this may have an impact on how managers are constrained by their responsibilities. They can try to deal with the issue on their own by improving their sense of control (Pfeffer, 1981). According to the argument of Schlachter and Meindl (1990), managers can create the appearance of control by not claiming credit for success but accepting blame for unfavorable outcomes. This not only alleviates investor concerns about management's lack of authority but also reduces the firm's reliance on shareholders by increasing its perceived power (Tyoakosu and Ekpe, 2018).

Empirical Review

Egolum and Onodi (2021) used data from the nation's banking industry, the t-test statistical technique, and the SPSS statistical package 20.0 to conduct research on creative accounting practises in Nigerian deposit money institutions. According to the study's findings, creative accounting practises in corporate financial reporting are lessened by a strong regulatory framework for accounting, which also contributed to the difficulties faced by Nigerian banks. Additionally, it has been shown that the employment of creative accounting methods significantly affects the decisionof accounting standards and the manipulation of transactional data in financial reporting.

John and James looked at how the performance of Nigerian deposit money institutions was affected by new accounting procedures (2020). Survey-based research was used for the study. In order to investigate hypotheses one and two, descriptive statistics were employed to divide the questionnaire data into two groups using a 5-point Likert scale. For the purpose of researching Hypothesis 3, the correlation approach was used. The study's conclusions indicate that creative accounting significantly affects the non-financial and financial performance of Nigerian banks. The research also found a connection between innovative accounting techniques and banks' performance on both a financial and non-financial level.

Omojolade and Adejuwon (2020) in their study examined the link between creative accounting and corporate failure in Nigeria using descriptive and Pearson Coefficient Correlation. The study established that non-performing loan caused the corporate failure. The study also revealed that doctored financial statements of organizations make investors suffered as they rely on the financial statement made available to them for decision-making.

Tyoakosu and Ekpe (2018) looked into creative accounting and deposit money bank performance in Nigeria. The study employed a sample of five deposit money institutions in Nigeria during ten years from 2007 to 2016. Non-performing loans have no substantial impact on a bank's profitability, according to the findings of a study utilizing multiple regressions. It was also discovered that total accrual has no significant impact on the performance of Nigerian deposit money institutions, however gross earnings have a considerable beneficial impact on their performance.

Al-Dalabih (2017) investigated the use of creative accounting in Jordan's banking sector. A total of 150 people were chosen from three banks in Jordan's northern area for this study. They were given a questionnaire survey that was created and delivered. A total of 121 copies for statistical analysis surveys were obtained, accounting for about 80.7 percent of all distributed questions; the questionnaires were processed using SPSS statistical software. Jordanian commercial banks.

Umobong and Ironkwe (2017) used secondary data from the Nigeria Stock Exchange to investigate creative accounting and business financial performance, to determine if food and beverage enterprises in Nigeria manage income using seasonal trading reports. The data collected was subjected to the Hausmann test and regressed against the performance variables such as return on assets, returns on equity, and earnings per share in order to find an acceptable model. The test of causality was performed to determine whether the variables in the study had a causal link. According to the data, creative accounting has no meaningful relationship with ROA, ROE, or EPS.

Oseme, Muritala, and Olawale (2014) focused on innovative accounting and bank performance. The study found that non-performing loans have a favorable influence on return on equity cum dividend payout using panel least square, an econometric analytical technique. The study, on the other hand, discovered a negative link between return on equity, gearing ratio, and net income before taxes.
Creative accounting and its relevance in the Nigerian banking industry were explored by Ijeoma (2014). Using the Kruskal-Walli's test and multiple bar chart analysis, the study discovered that the justification for creative accounting is misrepresenting operating costs solely to lower tax exposure. Creative accounting is also claimed to be used by businesses to boost share prices and establish a profitable trend.

Methodology
The current paper's methodology included information on the research design, study population, sampling methodologies, and sample size, model specification, variable descriptions, data sources, and analytical techniques.

Research Design
Based on the nature of the study variables, which is the secondary data, *the ex-post-facto* research design was employed: the research design is appropriate as the study sought to analyze a causal effect ofcreative accounting on the financial performance of money deposit banks in Nigeria from 1999 to 2019.

Data Source
The data on the study variables were sorted from the Nigerian Stock Exchange (NSE) fact books (various publications), CBN,World Bank, and CEIC Data. The aforementioned database provides annual information on deposit money banks at an aggregate level to showcase their performance. Thus, the variables of the study were collected on an annual basis due to the paucity of data on the bank-specific level.

Model Specifications
In the study, the researcher adapted and modified a model by Tyoaksu and Ekpe (2018), which was specified as follows;

$$BP_{it} = a_0 + b_1TA_{it} + b_2NPL_{it} + b_3GE_{it} + U_{it} \quad \text{(i)}$$

Where;

BP	=	Bank performance
a_0	=	Intercept
b_1-b_2	=	Partial regression coefficient of slope
NPL_{it}	=	Change in Non-performing loans of the bank in time t.
TA_{it}	=	Total Accruals of the bank in time t
GE_{it}	=	Gross Earnings of the bank in time t
U_{it}	=	Error time

The above model was modified by removing "Total accrual" from the model and retaining non-performing loans in line with the study objectives. The model for the study thereby becomes;

$$ROA_t = \beta_0 + \beta_1NPL_t + e_t \quad \text{(ii)}$$

Where;

ROA_t	=	Return on Assets
NPL_t	=	Change in Non-performing loans of bank in time t.
β_0	=	Constant
β_1,	=	Slope
e_t	=	Error time
t	=	time trend (1999 to 2019).
β_1	< 0	(A priori Expectations)

Data Analysis Techniques

Both trend analysis and Ordinary Least Squares (OLS) regression were adopted as data analysis techniques in the study. Both objectives one and two were achieved by trend analysis and regression analysis respectively.

Variable Descriptions and Measures

Table 1: Measures of Variable

Variables Types	Variables	Measures	Source
Dependent variable	Financial performance	Asset (ROA)	NSE – Facts Books, CEIC Data
Independent variable	Creative Accounting	Non-performing Loans (NPL)	NSE – Facts Books, World bank, CEIC Data

Source: Compiled by Researcher (2021)

Data analysis and presentation

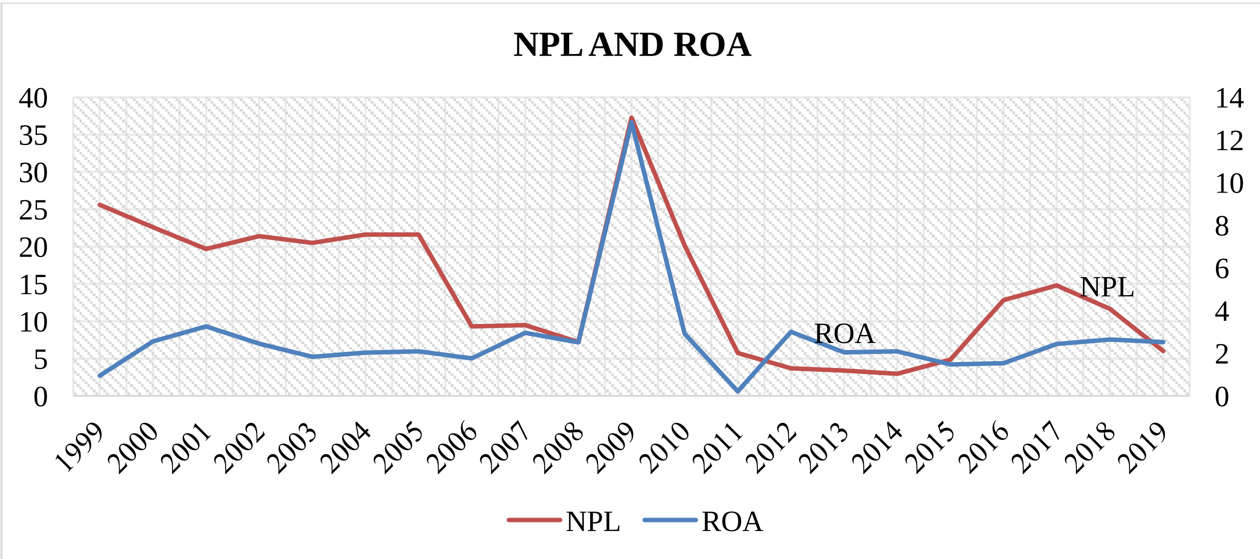
Trends analysis of NPL and ROA

The study's first objective was to look at the trend and pattern of non-performing loans (creative accounting) and ROAof Nigerian deposit money banks over time. The corresponding hypothesis was developed, and trend analysis was employed to ascertain the postulation or otherwise.

Ho_1: Non-performing loans and Return on Assets (ROA) of deposit money banks in Nigeria do not indicate an upward trend and pattern during the study period.

The trend analysis of the variables is shown in Figure 1:

Figure 1. Trend Analysis of NPL and ROA



Source: Researcher's Computation (2021)

As shown in figure 1, the trend of non-performing loans (NPL) of DMBs in Nigeria dwindling gradually from1999 to 2006. Thereafter, the trend soared upward from 2008 and reached its peak relative to other spikes in the years 2009. The position of the non-performing loan of banks in Nigeria was characterized by the economic recession, which truncated many business activities and also impacted bank activities. The trend moved downward sharply and then dwindling towards the end of the study period.

In addition, return on assets (ROA) trends upward from the starting point of the study and moved gradually till 2016, where the variable trends upward gradually till 2008 and reached its peaked in the year 2009 and dropped in the same manner. Thereafter, the trend fluctuates to the end of the study period.

Looking at the trends of both non-performing loans (NPL) and return on assets (ROA) in the year 2011; it was observed that the return on assets was higher than the NPL and stable till the year 2015 where both variables intercept. The implication was that money deposits banks in Nigeria had appreciable assets and made profits that were capable of absorbing the non-performing loans. In contrast, NPL was higher than ROA for the period of four (4) years from 2015 to 2019. The performing loans of the banks were higher than the return on assets. The implication was that money deposits banks in Nigeria had their resources under the caption of non-performing loans during the study period. However, in the context of creative accounting, which is the practice of inflating the company valuation and deviates from the standard practices.

Non-performing loan and Return on Assets

The study's second objective was to see how non-performing loans (creative accounting) affected deposit money banks in Nigeria's return on assets (ROA). To accomplish the goal, regression analysis was used to test the null hypothesis formulated at a 5% level of significance.

Ho_2: Non-performing loan (creative accounting) has no significant impact on the Return on Assets (ROA) of deposit money banks in Nigeria.

Interpretation of the Regression Output

According to the regression result for hypothesis II (Appendix II), NPL have a positive coefficient of 0.149455, suggesting that non-performing loans (creative accounting) have a positive effect on financial performance as measured by return on assets. ROA. As a consequence, if more creative accounting techniques are employed, DMBs' financial performance will improve.

Furthermore, NPL has a t-value of 2.962489 and a P-value of.008, showing that it is positive and significant at the 5% level. As a consequence, the null hypothesis that non-performing loans had no significant influence on deposit money banks' ROA in Nigeria could not be accepted. The research revealed that creative accounting (NPL) had a significant influence on DMBs in Nigeria after rejecting the null hypothesis and adopting the alternative hypothesis.

The R-square value of 0.315965 indicates that creative accounting (non-performing loans) accounted for 31.6 percent of the variation in DMBs financial performance in Nigeria, with the remaining 68.4 percent explained by other factors that influence ROA but were not considered in the study.

The F-test result, which indicated the model's overall significance in the study, is 8.776343, with a P-value of 0.007. This shows that the NPL coefficient is not zero, indicating that the model is appropriate and fit.

Discussion of Findings

Empirically, the findings of the study revealed that creative accounting has a significant contribution tothe financial performance of selected Deposit Money Banks in Nigeria. The finding corroborates the previous studies by Ijeoma (2014) and Egolum (2021). Ijeoma (2014) established that creative accounting enhances share prices and creates a profitable trend. Similarly, Egolum (2021) discovered that creative accounting practice has a major impact on accounting policy selection and transaction manipulation in financial reporting.

Conclusion and Recommendations

The study empirically examined the effect of creative accounting practices on the financial performance and non-financial performance of selected deposit money banks in Nigeria. The study adopted an expo-facto research design, which guided the data collection and analysis in the study. Secondary data was sourced from Word banks, CBN, NSE fact books, and CEIC. The information collected was analyzed with trend analysis and regression analysis. The findings of the study revealed that both non-performing loan and return on assets fluctuates over the study period. It was also established that creative accounting measured by non-performing loans has a positive and significant effect on the financial performance of selected deposit money banks in Nigeria.

Based on the findings and conclusion, the following recommendations are made;

- Given that the financial performance of the chosen banks is positively and significantly impacted by creative accounting techniques, it is advised that the management of the banks exercise caution while using this technique and not misuse it or overestimate the banks' financial success.
- The management of DMBs is advised to inform the shareholders about the use of creative accounting. The stakeholders' awareness of the use of creative accounting would effectively enlighten them about the real performance of the banks.

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Appendix 1
Data ON ROA and NPL

Years	ROA	NPL
1999	0.95235	25.600
2000	2.55798	22.600
2001	3.26071	19.700
2002	2.44341	21.400
2003	1.84105	20.500
2004	2.02481	21.600
2005	2.09658	21.600
2006	1.75430	9.300
2007	2.96593	9.503
2008	2.51721	7.194
2009	12.82980	37.235
2010	2.91697	20.143
2011	0.21747	5.772
2012	2.99869	3.702
2013	2.04182	3.393
2014	2.08639	2.960
2015	1.47160	4.861
2016	1.53139	12.816
2017	2.43538	14.81
2018	2.64000	11.675
2019	2.52900	6.035

Source: NSE Facts Books (Various Editions), World Banks &CEIC Data
NPL = Non performing Loans to Total Gross Loans (%)
ROA = Return on Assets (%)

Appendix II
Regression OUTPUT

Dependent Variable: ROA
Method: Least Squares
Date: 07/25/21 Time: 06:21
Sample: 1999 2019
Included observations: 21

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.519896	0.855124	0.607977	0.5504
NPL	0.149455	0.050449	2.962489	0.0080

R-squared	0.315965	Mean dependent var	2.672040
Adjusted R-squared	0.279963	S.D. dependent var	2.436122
S.E. of regression	2.067172	Akaike info criterion	4.380632
Sum squared resid	81.19077	Schwarz criterion	4.480111
Log likelihood	-43.99664	Hannan-Quinn criter.	4.402222
F-statistic	8.776343	Durbin-Watson stat	1.388250
Prob(F-statistic)	0.007998		

Source: Researcher's Computation (2021)