

CREATIVE ACCOUNTING AND SHAREHOLDERS WEALTH MAXIMIZATION IN NIGERIAN QUOTED BANKS

Dr Solomon Egbe
Department of Accounting Faculty of Management Sciences,
University of Port Harcourt, Choba, Nigeria

ABSTRACT	KEYWORDS
This work seeks to study and reveal major threat creative accounting posed on shareholders as a result different accounting method used by banks or organization. The research work focuses on creative accounting and shareholders wealth maximization in Nigerian quoted banks. The main objective of this study is to examine the influence of creative accounting on shareholders wealth maximization in Nigerian quoted banks. Nine (9) hypothesis were formulated survey design was adopted with a sample size of one hundred and fifty (150). The questionnaires were instrument used for data collection. The data collected were subject to simple validity and reliability test: The analysis of data was based on statistical tools such as percentage, frequency and mean, while correlation analysis was used to test the hypothesis. Some of the findings reveal that creative accounting affects shareholders wealth at the long- run and their possible investment decision. Based the finding it was recommended that investors through the financial sector regulatory authorities should encourage banks to engage in creative accounting but at the same time closely regulate such development to assure of its integrity in other to enhance effective earnings per share and return on investment.	Earnings after Tax. Share price. Shareholders. Creative accounting. Return on Investment.

Introduction

Over the years the main purpose of financial reporting was to present adequate data to a wide range of users of accounting information for strategic decision making. However, the creditability of this purpose is being questioned by some parties interested in corporate financial reporting because of the tendency that some organization uses creative accounting element or concept to adjust the contents of such reports. In view of the dynamism in the business circle and the core motive of any departments of companies to increase the level of income above the break- even and to remain in business under certain situation where profitability or global financial indicators are used to achieve specific objectives, some firms resort to using any methods of creative accounting since the financial reporting

standards allows the use accounting variety of accounting method that can serve same purpose for preparation of published financial statements, which in many ways can influence the validity of statements. Creative accounting is the concept that treats key issues relating to accounting appraisal, conflicts items and events. The nature of accounting' information gives room for manipulation, deceit and misrepresentation. Hence, professional accountants' uses advance knowledge of accounting rules and principal to manipulate report.

Statement of the Problem

“The right given to management to decide on accounting principles that a firm will use in preparation of audited financial statements is one of the factors that gave rise to the birth of creative accounting techniques in reporting” (Barth, Landsman & Lang, 2006). The too many failures in banking sector and other sectors of the economy have a link to the loopholes in the general acceptable accounting practices or standard used by different organization globally. The core aspect of accounting disclosure, assets recognition and expenses measurement are not well explained and are used differently to match a specific objective of management in preparation of final report of an organization. The effect of this issue on the integrity of financial reporting and the audit profession can be damaging. Corporate scandals also create other harmful treat to a business which may include massive loss of investors' fund, loss of jobs, disruption of capital market and reduction in the National Gross Domestic Product (GDP) of the Nation. Osazevbaru (2012) stated clearly that “that many banks in Nigeria indulged in creative accounting by direct lending to shareholders to buy the bank's shares in order to sustain demand pressure to cause unabated price rise without appreciation in capital base”. Additionally, Akenbor & Ibanichuka (2012) pointed out that “some of the reasons for creative accounting practices in Nigeria banking sector is to raise market value of share”. Sanusi & Izadonmi (2013) also observed that “most reason for creative accounting in Nigerian commercial banks is to boost the market value of share”. Therefore this study seeks to investigate the effect of creative accounting on shareholders wealth maximization.

Aim and Objectives of the Study

The aim of this study is to examine the influence of creative accounting on shareholders wealth maximization in Nigerian quoted bank. Specific objectives are to;

- 1 Examine the effect of income smoothing on dividend pay-out policy of quoted banks in Nigeria.
- 2 Ascertain the effect of off balance sheet financing on earnings after tax and interest in quoted banks in Nigeria.
- 3 Identify the effect of window dressing on share price of quoted banks in Nigeria.

Research Questions

In line with the aim and objectives of the study, the questions to address are;

- 1 To what extent does income smoothing affect dividends pay-out policy of quoted banks in Nigeria?
- 2 How docs off balance sheet financing affect earnings after tax and interest of quoted banks in Nigeria?
- 3 How does window dressing affect share price of quoted banks in Nigeria?

Hypotheses

1 H01: Income smoothing has no significant effect on dividends pay-out policy of quoted banks in Nigeria.

2 H02: Off balance sheet financing has no significant effects on earnings after tax and interest of quoted banks in Nigeria.

3 H03: Window dressing has no effect on share price of quoted banks in Nigeria.

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Scope of the study

Scope: The study scope was discussed under three perspectives - content scope, geographic scope and unit of analysis.

a. Content Scope: The content scope of this study is streamlined to the effect of creative accounting on shareholders wealth maximization in Nigerian quoted banks. Therefore the study will pay particular attention on the effect of creative accounting on the return on dividends pay-out policy, earnings after tax and interest and return share price as indicators of shareholders wealth maximization

b. Geographic Scope: Geographically, the review of extant literature cuts across the banking industry in Nigeria, Uganda, Switzerland, China, Philippine, United Kingdom, United States of America, and Asia. However, the analysis was carried out in Port Harcourt, Rivers State, Nigeria.

c. Unit of Analysis: Since the study is focused on the effect of creative accounting on shareholders wealth maximization, the unit of analysis was at the microeconomic level.

Literature Review Theoretical Framework

The basic theories for this study are the Stakeholder's Theory (ST) and agency theory, and the information theory. These theories capture the relationship that should exist between the organization and all parties interested in its activities. They also capture the bases for the use of creative accounting by management to optimized shareholders wealth.

Stakeholders' Theory The stakeholders' theory was first proposed by Edward Freeman. The stakeholder theory is seen as a theory of organizational business management and ethics that moderate behaviour within an organization. The theory identifies and models the groups which are stakeholders of a corporation, can state or propose methods acceptable to management with regards to the goals of those groups. In short, it attempts to address the "principle of who or what really counts" (Wikipedia, 2016). A stakeholder is an individual, community or association that has an identify interest in various function of an organization. Agency theory The agency theory holds that conflict may arose between the principal (shareholders) and their agents (managers). Since management have an incentive to manage the company's financial report process in order to meet or beat earning targets and, thus, to receive any bonuses that may be tied to the company's earnings (performance-related pay). This creates an information asymmetry in that managers can exercise the discretion they have on accruals, which in turn reduces the relevance and reliability of reported earnings, and the whole financial statements, pliers, unions, and the community from which the business draws its resources.

The Information Theory According to Kamau et.al (2015), the theory states that there is a possibility of information asymmetry in which the manager has better information about the financial position of the firm than the shareholders and other users, f rom the informational perspective, the information asymmetry creates a conflict in between other parties and advantaged managers that have access to information.

Conceptual Framework

The conceptual framework of this study shall cover the concept of creative accounting under which meaning of creative accounting, History of creative accounting, benefits and challenges of creative accounting shall be considered, Concept of shareholders wealth maximization under which the concept of dividend pay-out policy, earnings after tax and interest and share price are explained. This section shall also examine the application of using creative accounting in quoted banks in Nigeria as a measure of shareholders wealth maximization.

Concept of creative accounting

Creative accounting is usually believed to have led to emergence of various disciplines such as; auditing profession in the 18th century after management took advantage of the separation of management and ownership functions to engage in opportunistic behaviour and Also the development of generally accepted accounting standards following the great depression where several dollars were lost in the stock market.

Factors Motivating Creative Accounting

Several factors encourage managers to indulge in creative accounting practices. Such factors include;

- (i) Separation of ownership from management - Once management and owners are separated, (i.e. an agency relationship exists between the owner(s) and the manager(s) of the entity), there is pressure on management to report positive or flattering results to those who have an interest or potential interest in the business.
- (ii) Vagueness of accounting rules/guidelines - Legislation and accounting rules or guidelines that are set to guide accounting practices are often framed in vague and flexible terms. These rules and standards aim only at narrowing down the available options, thereby providing for consistent application at the expense of standardised usage. This is aggravated by tenuous and undefined concepts like "true" and "fair" and "materiality", etc., These concepts leave a lot of room for subjective judgement and manoeuvre in practice.
- (iii) To Meet Internal Targets -The managers do create accounting figures in order to meet targets set by higher management with respect to sale, profitability and share prices.
- (iv) To Meet External Expectations - Dilip (2006) argued that creative accounting is also motivated by the conflicts of interest among different interest groups. Entities do face many expectations from its employees,
- (v) To obtain an ISPO for a Loan -The window dressing can also be done to favour corporate events such as issuance of Irrevocable Standing Payment Order (ISPO) before taking a loan or in acquisition bid. Reports have it that the tendency of firms nearing violation of debt covenants is twice or thrice to make income increasing accounting policy changes, than other companies.
- (vi) Taxation - Creative accounting may also be a result of desire for some tax benefits.

Modes of Creative Accounting

Below are few examples of creative accounting tools used to inflate or smooth income flows;

- (i) Income smoothing - Is the process of reducing the reported profits of a business in good periods and deferring them to loss making periods in an effort to portray a 'stable' income stream over the

years. According to Richard, Myrtle & Jack (2008), “this is possible because of the flexibility of the matching concept and because breaking down the results of a business venture into financial periods is not always appropriate”. One of the many reasons for income smoothing is that investors prefer a smoothed income flow because it supposedly reflects stability, strength and growth within a company.

(ii) Window dressing and secret reserves - Window dressing is the process of adjusting the financial statements of a company to achieve the maximum effect on its financial position at a particular date. Practically any item on the financial statement can be manipulated to portray a desired picture (Richard, Myrtle & Jack (2008). For example, adjustments can be made to the allocation of expenses between different periods. Current assets and liabilities can be stated either as gross figures or net of discounts. A company intending to take out a loan may inflate its sales figures by selling to its related companies.

(iii) Off-balance sheet financing - In off balance sheet financing, a company increased borrowing is not reflected in the financial statements. This enables the company to show better gearing ratios, obtain additional borrowing, while still maintaining its gearing limits with its lenders.

Effects of Creative Accounting

The effects can be viewed from three (3) main perspectives: the shareholders, the bank, and the economy.

The shareholders' perspective -The Chief Executives and Directors of banks manage investments on behalf of the shareholders for maximum returns, through dividend payouts and capital appreciation. Appreciation in shareholders wealth is measured by the Earning Per Share (EPS). Sadly, bank managers deceive the shareholders by manipulating the EPS above the reality, thereby given the shareholders the false impression that their investments have been growing steadily., The investors are therefore misled into taking wrong investment decisions as they rely on the accounts/Financial statement.

The banks' perspective - Ijeoma (2014), in his study of the effect of creative accounting on the Nigerian banking industry, concluded that one of “the key reasons for creative accounting practice in Nigeria banking industry is to help maintain or boast the share price by reducing the true level of borrowing, making the bank appear less risky for investment and for having good profit trend”. Gherai and Balaciu (2011), observed that “a firm that indulge in creative accounting practices is at risk, as its (practices) allows a firm short term benefits and at the end, such firm is a victim of scandal”. Thus, firms lose 30% of their market value on the average, when financial misrepresentations are publicly disclosed, (Karpoff, Lee & Martin, 2008). Therefore, whenever the creative accounting behaviours are exposed, the bank loses integrity and the confidence of investors and that of the general public. Existing investors are lost, while there is difficulty in attracting potential (new) investors. Such banks may be distressed and eventually collapsed.

The economy's perspective - Akenbor & Ibanichuka (2012), observed that banks involve in a deliberate nondisclosure of information and manipulation of accounting figures to either make the business appear to be more profitable or less profitable for tax purpose. They further observed that Nigerian government has lost over the years, billions of naira in tax revenue under shady hand dealings designed by bank managers to corruptly evade taxes. Therefore, a creative accounting technique targeted by banks towards evading taxes has denied the Nigerian economy the much needed revenue for sustainable growth and development.

Methodology Research Design

This research method was adopted so as to seek respondents' perception on how the various Creative accounting affect the service provider (banks) and how in turn it affects the wealth maximization of Shareholders. In this study, Shareholders wealth maximization is the dependent variable while the independent variables are Creative accounting.

Population for the study

The desired populace for this study therefore, comprises (240) Shareholders, drawn out of the 22 authorized Banks in Nigeria, as approved by the central bank of Nigeria.

Sample size Determination

The sample size consists of one hundred and Fifty (150) Shareholders drawn from the 240 shareholders. This was determined through the application of Taro Yamane formula for determination of sample size from known population. Hence, one hundred and Fifty (150) copies of the research instrument (questionnaire) were distributed to Shareholders of the above banks in Nigeria.

Table 1: Study Sample

S/N	Banks	Number of shareholders
1	Access Bank	8
2	Citibank	7
3 .	Daimond Bank	8
4	Ecobank Nigeria	8
5	Fidelity Bank Nigeria	8
6	First Bank of Nigeria	8
7	First City Monument Bank	8
8	Guaranty Trust Bank	8
9	Heritage Bank Pic	8
10	Keystone BankLimited	8
11	Skye Bank	8
12	Stanbic IBTC Bank Nigeria LTD	8
13	Standard Charterd Bank	8
14	Sterling Bank	8
15	Union Bank of Nigeria	8
16	United Bank for Africa	8
17	Unity Bank PLC	7
18	Wema Bank	8
19	Zenith Bank	8
Total		150

Research Instrument

The research instrument that was used for data collection was a well structured questionnaire. Moore (1987) described the questionnaire “ as a tool for data collection because it is quicker in getting data from respondents and also flexible and could be used to gather information concerning almost any topic, from a large or small number of people.” The questionnaire is divided into two (\$) parts (see Appendix 1). The first part (Section A) contains the covering letter the second part (Section B) contains

selected demographic information of the respondents. The third part of the questionnaire (Section C) measures both the dependent and the independent variables of the study.

Sources of Data !.

The Data for any Research under investigation are primary and Secondary Data. However, this study will employ only the primary data which was obtained from the respondents through the use of structured questionnaire that was administered on the study sample.

Method of Data Analysis

Demographic characteristics of respondents were analysed using statistical tools such as percentages, frequency and mean. Pearson Correlation Coefficient was used to analyses the relationship between the dependent variable and the independent variables. All analyses were done using Statistical Package for Social Sciences (SPSS 22.0 Version) at 5% level of significance.

Results and Discussion Data presentation

Data was gotten from one hundred and Fifty (150) Shareholders of the 24 authorized Banks in Nigeria, as approved by the CBN, through the use of our questionnaire which was analyzed using both descriptive and inferential statistics. Pearson's Correlation Coefficient was used to test the research hypotheses.

Table 2: Description of Income smoothing

S/N	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total	Mean
	5	4	3	2	1		
Q7	70	45	12	0	0	127	4.46
Percentage	55.1%	35.4%	9.4%	0.0%	0.0%	100%	
Q8	36	66	25	0	0	127	4.09
Percentage	28.3%	52.0%	19.7%	0.0%	0.0%	100%	
Q9	51	51	25	0	0	127	4.20
Percentage	40.2%	40.2%	19.7%	0.0%	0.0%	100%	
Q10	39	76	12	0	0	127	4.21
Percentage	30.7%	59.8%	9.4%	0.0%	0.0%	100%	
Over all mean							4.24

Table 2 shows that majority of the respondents agreed with the statements measuring Income smoothing which states that: There is usually prompt service through the use of income smoothing ($X^2=4.46$); Income smoothing is an effective dimension of creative accounting (X^2 4.09); Income smoothing has a major influence on creative accounting ($X^2 = 4.20$); Banks are committed to success of creative accounting through income smoothing ($X^2 = 4.21$). The overall mean score of 4.24 confirms that majority of the respondents agreed that there is a high level (usage) of Income smoothing.

Table 3: Description of Off balance sheet

S/N	Strongly	Agree	Not Sure	Disagree	Strongly	Total	Mean
	5	4	3	2	1		
Q11	72	45	10	0	0	127	4.49
Percentage	56.7%	35.4%	7.9%	0.0%	0.0%	100%	
Q12	78	49	0	0	0	127	4.61
Percentage	61.4%	38.6%	0.0%	0.0%	0.0%	100%	
Q13	64	55	6	2	0	127	4.43
Percentage	50.4%	43.3%	4.7%	1.6%	0.0%	100%	
Q14	49	63	8	7	0	127	4.21
Percentage	38.6%	49.6%	6.3%	5.5%	0.0%	100%	
Over all mean							4.44

Table 3 shows that majority of the respondents agreed with the statements measuring off balance sheet which states that; There is usually prompt service through the use of off balance sheet ($\bar{x} = 4.49$); Off balance, sheet is an effective dimension of creative accounting ($\bar{x} = 4.61$); off balance sheet has a major influence on creative accounting ($\bar{x} = 4.43$); Banks are committed to success of creative accounting through off balance sheet ($\bar{x} = 4.21$). The overall mean score of 4.44 confirms that majority; of the respondents agreed that there is a high level (usage) of Off balance sheet.

Table 4\ Description of Widow dressing

S/N	Strongly	Agree	Not Sure	Disagree	Strongly	Total	Mean
	5	4	3	2	1		
Q15	57	50	20	0	0	127	4.29
Percentage	44.9%	39.4%	15.7%	0.0%	0.0%	100%	
Q16	49	56	22	0	0	127	4.21
Percentage	38.6%	44.1%	17.3%	0.0%	0.0%	100%	
Q17	70	57	0	0	0	127	4.55
Percentage	55.1%	44.9%	0.0%	0.0%	0.0%	100%	
Q18	83	44	0	0	0	127	4.65
Percentage	65.4%	34.6%	0.0%	0.0%	0.0%	100%	
Over all mean							4.43

Table 4 shows that majority of the respondents agreed with the statements measuring Widow dressing which states that: There is usually prompt service through the use of widow dressing ($\bar{x} = 4.29$); Widow dressing is an effective dimension of creative accounting ($\bar{x} = 4.21$); Widow dressing has a major influence on creative accounting ($\bar{x} = 4.55$); Banks are committed to success of creative accounting through widow dressing ($\bar{x} = 4.65$). The overall mean score of 4.43 confirms that majority of the respondents agreed that there is a high level (usage) of Widow dressing.

Table 5: Description of dividend pay-out policy

Table 5: Description of dividend pay-out policy

S/N	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total	Mean
Q19	50	40	30	20	10	127	4.10
Percentage	39.4%	39.4%	13.4%	7.9%	0.0%	100%	
Q20	40	87	0	0	0	127	4.31
Percentage	31.5%	68.5%	0.0%	0.0%	0.0%	100%	
Q21	95	30	2	0	0	127	4.73
Percentage	74.8%	23.6%	1.6%	0.0%	0.0%	100%	
Q22	82	28	10	7	0	127	4.46
Percentage	64.6%	22.0%	7.9%	5.5%	0.0%	100%	
Over all mean							4.40

Table 5 shows that majority of the respondents agreed with the statements measuring Dividend pay-out policy which states that: The attainment of dividend pay-out policy is a golden principal for banks in Nigeria ($\bar{x} = 4.10$); Long term success and reputation of an organization depends on dividend pay-out policy ($\bar{x} = 4.31$); Increased level of creative accounting leads to increased dividend pay-out policy ($\bar{x} = 4.73$); Dividend pay-out policy has been recognized as an important element that drives bank and its creative accounting ($\bar{x} = 4.46$). The overall mean score of 4.40 confirms that majority of the respondents agreed that Dividend pay-out policy is high.

Table 6: Description of Earnings before interest and tax

S/N	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total	Mean
	5	4	3	2	1		
Q23	50	57	17	3	0	127	4.21
Percentage	39.4%	44.9%	13.4%	2.4%	0.0%	100%	
Q24	18	87	22	0	0	127	3.97
Percentage	14.2%	68.5%	17.3%	0.0%	0.0%	100%	
Q25	85	42	0	0	0	127	4.67
Percentage	66.9%	33.1%	0.0%	0.0%	0.0%	100%	

Table 6 shows that majority of the respondents agreed with the statements measuring Earnings before interest and tax which states that: Earnings before interest and tax is one of the most valuable sales lead that banks engage in ($\bar{x} = 4.21$); Referrals are a cost effective way to grow banking services ($\bar{x} = 3.97$); creative accounting has significant effect on earnings before interest and taxes ($\bar{x} = 4.67$); long term success and reputation of an organization depends on earnings before interest and tax ($\bar{x} = 4.50$). The overall mean score of 4.34 confirms that majority of the respondents agreed that Earnings before interest and tax is high.

Table 7 Description of Share price

S/N	Strongly	Agree	Not Sure	Disagree	Strongly	Total	Mean
	5	4	3	2	1		
Q27	50	47	27	3	0	127	4.13
Percentage	39.4%	37.0%	21.3%	2.4%	0.0%	100%	
Q28	19	86	22	0	0	127	3.98
Percentage	15.0%	67.7%	17.3%	0.0%	0.0%	100%	
Q29	8:5	40	2	0	0	127	4.65
Percentage	6.6.9%	31.5%	1.6%	0.0%	0.0%	100%	
Q30	90	30	7	0	0	127	4.65
Percentage	70.9%	23.6%	5.5%	0.0%	0.0%	100%	
Over all mean							4.35

Table 7 shows that majority of the respondents agreed with the statements measuring Share price which states that: Sales volume fosters a positive, innovative product in my company($\bar{x} = 4.13$); creative accounting is positively related to Share price($\bar{x} = 3.98$); Share price have continuous effect on banks.($\bar{x} = 4.65$); Increased level of creative accounting leads to increased Share price.($\bar{x} \sim 4.65$). The overall mean score of 4.35 confirms that majority of the respondents agreed that Share price is high.

Testing of Research Hypotheses

In establishing the relationship between creative accounting on shareholders-wealth maximization in Nigerian banks, Pearson correlation analysis was conducted. The results are used to test the various research hypotheses. The result is shown in Table 8 below:

Hypothesis One

HO_i: Income smoothing does not significantly contribute to Payout policy;

IIA_i: Income smoothing significantly contribute to Payout policy;

Table 8: Correlations between Income smoothing and Payout policy

	Income smoothing	Payout policy
Pearson Correlation	1	0.311**
Income smoothing Sig. (2-tailed)		0.000
N	127	127
Pearson Correlation	0.311**	1
Payout policy Sig. (2-tailed)	0.000	
N	127	127

The results in Table 8 above show the correlation between Income smoothing and Payout policy. This is affirmed by the correlation coefficient of 0.311 and a p-value less than 1% ($r=0.311$; $p=0.0000$); Based on the result, we therefore reject the null hypothesis and accept the alternative hypothesis that states that Income smoothing significantly contribute to Payout policy in Nigerian banks.

Discussion of Findings

following the results of the empirical analysis, the study found that:

The overall mean scores of 4.24, 4.44 and 4.43 confirm that majority of the respondents agreed that there is a high level of Income smoothing, Off balance sheet and Widow dressing.

The overall mean scores of 4.40, 4.34 and 4.35 confirm that there is high Payout policy, Earnings before interest and tax and Share price in Nigerian banks. Furthermore, it was found that; Income smoothing significantly contribute to Payout policy; Income smoothing significantly contribute to Earnings before interest and tax; Income smoothing significantly contribute to Share price; Off balance sheet significantly contribute to Payout policy; Off balance sheet significantly contribute to Earnings before interest and tax; Off balance sheet significantly contribute to Share price; Widow dressing significantly contribute to Payout policy; Widow dressing significantly contribute to Earnings before interest and tax; Widow dressing significantly contribute to Share price.

Conclusion and Recommendations

The objective of the study was to establish the relationship between creative accounting and shareholders-wealth maximization in Nigerian banks. The findings indicated that creative accounting contributes to financial shareholders-wealth maximization in Nigerian banks. The study is consistent with Corolyne (2012) who found that creative accounting contributes to and is positively correlated to profitability in the banking sector particularly that of commercial banks. Similarly Patrick (2011) found that there is a significant relationship between the adoption of various creative accountings and the profit levels of the commercial banks in Kenya. Therefore Nigerian banks should adopt more creative accounting to improve on their shareholders-wealth maximization and if possible its performance. Creative accounting presents more convenience, efficiency and security to commercial banks shareholders resulting to more demand for the new innovations. Hence, the demand for traditional payment systems reduces as shareholders switch to the more effective payment systems.

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