IOSR Journal of Economics and Finance (IOSR-JEF)
e-ISSN: 2321-5933, p-ISSN: 2321-5925. Volume 12, Issue 4 Ser. II (Jul. –Aug. 2021), PP 46-51
www.iosrjournals.org

Impact of Creative Accounting Practices on Business Failure In The Nigerian Aviation Industry

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Abstract
This study examined the relationship between Creative Accounting Practice and business Failure in the Nigerian Aviation Industry. To carry out this study, Income smoothing, and Accounting policy choice were used as proxies of creative accounting and business failure as our endogenous variable. The aim of this study was to determine the relationship between creative accounting practice and business failure in the Aviation Industry in Nigeria, and the motivation for this research was born out of observed liquidation of air transport firms, some dead almost at arrival and public outcry against the poor management of the industry. the design adopted was a blend of exploratory and explanatory research (cross sectional survey and purposive sampling) design; the sample was basically drawn from the Nigerian aviation industry. The study sourced its data from primary sources using well-structured questionnaire. Regression analysis was used in this study. The results showed that creative accounting practice has contributed to business failure, based on the research findings, this study concluded that creative accounting has significant effect on business failure. And recommended amongst others thus: the need for a Nigerian model of air transport policy; the industry should adopt a model peculiar to the Nigerian situation, bearing in mind its unique culture, politics, social life and economy.

Date of Submission: 28-06-2021 Date of Acceptance: 12-07-2021

I. Introduction

Failure is a concept widely defined and understood differently depending on the area of weakness and inability of businesses to achieve set goals or inability to meet societal, industrial or even government expectation of organizations. When there is failure its effect cuts across all human endeavours and professions, hence the need to place this important construct on the front burner for discuss. Regarding entrepreneurs, Gulst and Maritz (2009) define failure as deviation from the entrepreneur's desired expectations. This definition builds relativity inside the concept; failure becomes an interpretation as oppose to a fact. The downside of the approach is that it requires extraneous effort from an outsider, such as researcher, to find out whether failure has taken place. Additionally, as founders may interpret failure differently, similar events may be reported as a failure and non -failure depending on the case – in effect, classification attempts become difficult as no common definition for failure can be agreed upon. Regarding entrepreneurs, Gulst and Maritz (2009) define failure as deviation from the entrepreneur's desired expectations. This definition builds relativity inside the concept; failure becomes an interpretation as oppose to a fact. The downside of the approach is that it requires extraneous effort from an outsider, such as researcher, to find out whether failure has taken place. Additionally, as founders may interpret failure differently, similar events may be reported as a failure and non -failure depending on the case – in effect, classification attempts become difficult as no common definition for failure can be agreed upon. Gulst and Maritz 2009(in Salminen, 2012) defined failure as deviation from the entrepreneur's desired expectations. The author assertsthat this definition builds relativity in the concept; failure becomes an interpretation as oppose to a fact. The author further opined that the downside of the approach is that it requires extraneous effort from an outsider, such as researcher, to find out whether failure has taken place. The researcher added also that, as founders may interpret failure differently, similar events may be reported as afailure and non-failuredepending on the casein effect, classification attempts become difficult as no common definition for failurecan be agreed upon. From the opinion of the author which corroborated with our earlier view, we state that failure may be individual, organization or country specific. However, in relation to creative accounting practices, simply put creative accounting is the practice of taking advantage of the flexibility in accounting standards to prepare desired accounts. Creative accounting otherwise earnings management, or window dressing may mean to present misleading financial statement and hide liabilities or any item the financial statement preparer considers as a hindrance to achieve envisaged result, the extreme practice of creativity may culminate into business failure or corporate failure.Ibanichuka and Ihendinihu, (2012), argued that "Creative accounting is the transformation of financial accounting figures from what they actually are to what preparers' desire, by taking advantage of existing rules and/or ignoring some or all of them.

Objective of the Study

The objective of this study is to determine the relationship between creative accounting practices and business failure in the Aviation Industry in Nigeria. Specifically, this study sets to:

1. Examine the relationship between income smoothing and business failure
2. Investigate the relationship between accounting policy choice and business failure

Hypothesis

H_O:$_1$ Income smoothing does not have significant relationship with business failure

H_O:$_2$ Accounting policy choice does not have significant relationship with business failure

II. Literature Review

Ani and Ugwunta, (2012), carried out a study on Predicting Corporate Business Failure in the Nigeria Manufacturing Industry. Data were gathered for a five-year period for eleven firms sampled from the manufacturing, oil marketing and the conglomerates sectors of the Nigerian economy. The result revealed that multivariate discriminant analysis(MDA) is a veritable tool for assessing the financial health of firms in Nigeria. While, Akpotu and Omesi, (3013) investigated external auditor's unethical behavior and corporate business failure in Nigeria public owned firms. It was recommended that in addition to government regulations and penalties for unethical practices, management commitment towards evolving ethical culture must be emphasized.Also, Mbat and Eyo, (2013) considered the factors that can cause corporate failure and its attendant inability to attain its objectives. They recommended that Supervisory Agencies (SAs) should be established in each state of Nigeria to effectively supervise the operations of the micro, small and medium enterprises to adequately comply with the provisions of the Companies and Allied Matters Act (CAMA) 2004, as amended. Again, Jennifer and Paul, (2006), examined whether income smoothing garbles earnings information or improves the informativeness of past and current earnings about future earnings and cash flows. The result was robust to decomposing earnings into cash flows and accruals and to controlling for firm size, growth, future earnings variability, private information search activities, and cross-sectional correlations.However, Ibanichuka and Ihendinihu (2012), in their study, examine the relationship between creative accounting and reported financial performance of banks and insurance companies in Nigeria, and the extent creative accounting impacts on their dividend payout ratio. Their findings reveal that creative accounting techniques are positively associated with firm financial performance and have significant effect on dividend payout. However, they recommended a more stringent regulatory regime with effective enforcement mechanisms to ensure compliance with accounting and auditing standards. Also,Fizza and Qaisar (2015), studied Creative Accounting and Financial Reporting: Model Development and Empirical Testing Empirical Review. The study concluded that a company is involved in frauds or scandals because of several factors like unethical behaviors, agency problem and non-professional attitude. While, Efiok and Eton (2012), as part of their contribution to knowledge, conducted an appraisal on the impact of creative accounting on management decisions of selected companies listed in the Nigerian Stock Exchange. They concluded that creative accounting through macro-manipulation of financial statements affects a firm's price and capital market performance. More so, Kumshe (2017), also carried out a study on the concept of creative accounting and earnings management with aims to analyze the concept of Creative accounting and earnings management not only in terms of its history, but also in terms of motivation, techniques, empirical review and its impact on financial reporting. The author concluded that it would be unrealistic to think that it is possible to eliminate creative accounting or earnings management practices at all, however it would be possible to minimize at least the negative effects of creative accounting by adopting the accounting standards, giving more importance to ethical considerations and decreasing the flexibility of the managers in deciding among different accounting methods. However, Nangih (2017), lend credence to the discussion by examining empirically the influence of creative accounting practices on the quality of financial statements of oil servicing companies in Nigeria. Results of the findings revealed that creative accounting practices by oil servicing companies influenced the quality of their financial statements negatively. companies. Professional and manager's ethical responsibility was also recommended, so that someone could be held responsible in event of failure. In addition, Sanusi and Izedonmi (2013), carried out an empirical investigation on the opinions of experienced staff of commercial banks on creative accounting practices in Nigerian commercial banks. Findings revealed that, the major reason for creative accounting practices in Nigerian commercial banks is to boost the market value of shares; users of accounting information are adversely affected by this practice of creative accounting; they recommended the streamlining of accounting principles and rules to reduce diversities of professional judgment in financial reporting to help minimize creative accounting practices, also that creative accounting should be considered as a serious crime, therefore effort be made to stop it.Finally, Valentine (2014), examined Why Corporation fail: An exploration and Theory in the Recurring Themes in Corporate Failure. The findings and discussion indicate that a lack of liquidity, bad-management, rapid-expansion, externalities, fraud and the economic cycle are all causes and recurrent themes in failures.

Voluntary disclosure theory

This study is anchored on the voluntary disclosure theory. Disclosure of information useful to financial statements users is a key requirement in financial reporting as clearly stated in international accounting standards 'IAS 1', like the theory pointed out, some pieces of information remain mandatory and must be seen to be disclosed if the financial reports would be decision useful, even though some information disclosure may be voluntary. Rankin, Stanton, Mcgowan, Ferlauto and Tilling (2012), where vocal about voluntary disclosure and assert, theory predicts shareholders optimize disclosure policy, corporate governance and management incentives to maximize firm value. They argued, Increase disclosure lowers information asymmetry, though it does not mean credible or unbiased disclosure because it is too costly to eliminate all the ways that managers can use to add some bias. But they remain optimistic that the theory predicts that even though disclosure is somewhat biased, on average it will be credible.

III. Methodology

The research design adopted in this study is a blend of exploratory and explanatory research (cross sectional survey and purposive sampling) designs. The nature and source of data for this study was from primary source, with the help of well-structured questionnaire. To establish the relationship between the independent and the dependent variables, multiple regression analysis tool was used and the results obtained form the basis for our discussion and conclusions. However, a functional form of the model used in this research is specified as follows:

CFE = f [ING, APC, OVS] …………………………………………………………… (1)

Where

CFE = Business Failure

ING = Income Smoothing

APC = Accounting Policy Choice

OVS = =Other Variables

Accordingly, we specify:

$CFE = Bo+B_1ING+B_2APC+B_3OVS+ut$……………………………………… (2)

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

$Log (CFE) = Bo + B_1log(ING) + B_2log(APC) +B_3log(OVS)+u\tau$…………. (3)

Where

Bo = Intercept term (parameter)

B1-B3 = Parameter known as partial regression coefficient

Ut = Error term or unexplained variable.

We employed the face and content validity in this research, we involved the experts to look at the items in the questionnaire and agreeing that the test is a valid measure of the concept which is being measured just on the face of it. The content validity was achieved by subjecting our questionnaire for review of all the items in the questionnaire for readability, clarity and comprehensiveness and come to some level of agreement as to which items should be included in the final questionnaire. We achieved reliability by ensuring internal consistency, as evidenced from our structured questionnaire, odd/even items like strongly disagree = 1 to strongly agree = 5. Relevant experts were consulted to critically examine the instrument used in this research exercise, and experts' opinion affirmed the reliability of the instrument used in this study. Bolarinwa (2016), painted a clear picture of the need for validity and reliability of instruments in research, the author asserts thus; Validity expresses the degree to which a measurement measures what it purports to measure, and described several varieties, including face validity, construct validity, content validity and criterion validity. While on reliability the author opined that, reliability refers to the degree to which the results obtained by a measurement and procedure can be replicated.

Regression

Table1

Descriptive Statistics

	Mean	Std. Deviation	N
LOGCFE	2.0416	.00934	92
LOGING	1.4709	.02704	92
LOGAPC	1.5172	.02192	92

Table2

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	LOGAPC, LOGING[b]	.	Enter

a. Dependent Variable: LOGCFE
b. All requested variables entered.

Table3

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.753[a]	.567	.557	.00622	.567	58.201	2	89	.000	1.766

a. Predictors: (Constant), LOGAPC, LOGING
b. Dependent Variable: LOGCFE

Table4

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.004	2	.002	58.201	.000[b]
	Residual	.003	89	.000		
	Total	.008	91			

a. Dependent Variable: LOGCFE
b. Predictors: (Constant), LOGAPC, LOGING

Table5

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.558	.047		33.354	.000
	LOGING	.164	.029	.475	5.622	.000
	LOGAPC	.160	.036	.375	4.443	.000

a. Dependent Variable: LOGCFE

IV. Results and Discussion

This is to enable us present a concise form of the relationship between creative accounting practice and business failure otherwise corporate failure.

Descriptive statistics

Presented below is the descriptive statistics of the data set collected for this study. These data were keyed into the SPSS version 20 statistical package which generated the result as presented in tables.

This is to enable us understand the impact of creative accounting practices on business failure. Table 1 shows the result of the descriptive statistics. From the result, it can be observed that the mean values of CFE, ING and APC respectively are 2.0416, 1.4709, and 1.5172 with their corresponding standard deviations of .00934, .02704 and .02192. Ideally the mean averages of creative accounting as seen in the above table are high in comparism with their corresponding standard deviations that are lower. The implication is that creative accounting practices otherwise manipulative activities have impacted on business failure in the industry. The result also indicates that, from the respondents sampled in this study, majority of them tilt towards the same line of reasoning as regards the questions posed to them. While mean is used to find the convergence of variables, standard deviation is to find the dispersion of the data. From the descriptive statistics, the mean showed that majority of the respondents, responded alike and the dispersion proved to be minimal. Implying that majority of the firms sampled in the aviation industry are engaged in creative accounting practices, except for few firms that are free from creative accounting practices as revealed by the standard deviation values.

Table 3, is model summary, this showed the extent to which the independent variable is able to explain the dependent variable. Statistically, model fitness of 51% and above is considered suitable. From the above result, 'R' denotes the relationship between the combined independent variables with the dependent variable, which ishere presented at 75% between creative accounting variables and business failure. R Square is simply the coefficient of variation that shows the extent to which the combined independent variables predict a change or variation in the dependent variable. Our model summary has revealed that, creative accounting variables triggered a 57% variation in businessfailure at a standard error of .00622, with adjusted R Square of 56% this implies that our model is statistically fit for the study. Again, the Durbin Watson normality test preferred at 2.1

and between (1.6 – 2.2) statistically, from the regression result Durbin Watson test as shown is 1.766 meaning that there is no serial correlation and is statistically relevant for this study

Table 4, further affirms the fitness of our model, with a model sig value of 0.000 suggests that our model specification is statistically fit and satisfies the regression line. It means that a model with a sig value of less than 0.05 levels is considered fit. Table 5 showed positive coefficient of .164 and .160 respectively for income smoothing and accounting policy choice, meaning that there is positive relationship between creative accounting and business failure in the industry.

Test of Hypothesis

Hypothesis one

H_O: Income smoothing does not have significant relationship with business failure

Decision Rule

Accept H_0: if calculated T-statistics value <Tabulated T-Statistic value

Reject H_0: if calculated T-statistics value >tabulated T-Statistics value.

From the regression result,

Calculated T-statistics value = 5.622

Tabulated T-Statistics critical value = 1.984

Since the tabulated T-Statistics value of 1.984 is less than the calculated T-statistics value of 5.622 at 5 percent level of significance, we reject the null hypothesis and accept the alternative hypothesis. It therefore means that Income smoothing does have a significant impact on business failure in the aviation industry in Nigeria.

Hypothesis two

H_O: Accounting Policy Choice does not have any significant relationship with business failure

Decision Rule

Accept H_0: if calculated T-statistics value <Tabulated T-Statistics Value

Reject H_1: if calculated T-statistics value >Tabulated T-Statistics Value.

From the regression result,

Calculated T-statistics value = 4.443

Tabulated T-Statistics critical value = 1.984

Since the calculated T-statistics value of 4.443 is greater than the Tabulated T-Statistics value of 1.984 at 5 percent level of significance, we reject the null hypothesis. Implying that Accounting Policy Choice does have a significant effect on business failure in Nigeria aviation industry

V. Discussion of findings

This study is unique and specifically focuses on creative accounting practices, as measured by income smoothing and accounting policy choice. The variables considered for the study shows positive mean values to business failure. Therefore, the resultindicates the presence of creative accounting practices in the aviation industry, a cursory look at the mean values of the variables sampled suggest that the mean values tilt to each other. This is not surprising, because array of respondents for this study were experienced people in the industry so that their responses seem alike. Hence, most respondents were similar in thoughts, however, this provided a veritable platform to enable us establish the presence of creative accounting practice in the industry. The descriptive statistics Table with the mean values as shown of CFE, ING, APC, respectively 2.0416, 1.4709, and 1.5172 with their standard deviations of .00934, .02704, and .02192. The essence of using descriptive statistics was to check the raw data for outliers, and confirm if the samples were normally distributed, this was confirmed that the samples were normally distributed. It was revealed that, the combined independent variables with the dependent variable, is 75% between creative accounting variables and business failure from the descriptive statistics result. Our model summary revealed that, creative accounting variables triggered a 557% variation in business failure at a standard error of .00622, with adjusted R Square of 56% affirming our model is statistically fit for the study. Two null hypothesis were tested, and rejected to accept the alternative hypothesis, Ultimately, our findings revealed that there is evidence of creative accounting practice in the Nigerian aviation industry.

VI. Conclusion /Recommendation

This study was carried out to determine the impact of creative accounting practice on business failure specifically in the Nigerian aviation industry. Strictly, the study investigated whether there is a relationship between income smoothing and business failure, Investigate the relationship between accounting policy choice and business failure, the results revealed thatthere is evidence of creative accounting practice in the industry, meaning that most of the businesses that have failed could be traced creative accounting practices. We recommend that; There is need for a Nigerian model of air transport policy(s), the managers of the industry should adopt a model peculiar to the Nigeria situation. Bearing in mind its unique cultural diversity, politics, economy and social life of the people. This would help to domesticate air transportation in Nigeria and adopt a model that would work, to achieve desired results. Also, Companies in the industry should adhere strictly to international financial reporting standards to avoid the negative impact of creative accounting practices in the industry.

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Essien, Etim Ndu,, et. al. "Impact of Creative Accounting Practices on Business Failure In The Nigerian Aviation Industry." *IOSR Journal of Economics and Finance (IOSR-JEF)*, 12(4), 2021, pp. 46-51.