

Creative Accounting and Managerial Decision on Selected Financial Institutions in Nigeria

Sunday O. Effiok

*Department of Accounting
University of Calabar, Calabar, 540
Nigeria.*

sundayefiok@yahoo.com

Okon E. Eton

*Department Of Accounting
University of Portharcourt, 500
Nigeria.*

okoneton@yahoo.com

Abstract

The study was conducted to appraise the impact of creative accounting on management decisions of selected companies listed in the Nigerian Stock Exchange. With the background, the main objective of the study includes the examination of the extent to which macro-manipulation of financial statement affects management decisions; to examine the extent to which macro-manipulation of financial statement affects share price performance; and to determine the impact of misreported assets and liabilities as well as making recommendations to help remedy some of the problems.

The research method used was descriptive and the primary data collected were summarized and tabulated. These were picked in line with the hypotheses variables of the study so as to determine their validity. The model adopted for analysis of data was the multiple regression analysis. It was observed that the application of creativity in financial statement reporting significantly affects the decision of management to recapitalize the firm upward or dispose of it reserves. The study concluded that creative accounting through macro-manipulation of financial statements affects a firm's price and capital market performance. In view of the study, the researcher recommended that the application of creative accounting on management decision should be to avoid misreporting of assets and liabilities in their financial report, and that management decision towards creative accounting should be geared towards the relative advantage principle and good corporate governance which encourage challenges to current ways of thinking and not manipulating for self interest.

Key words: Creativity, Accounting, Management Decisions, Nigeria.

1. INTRODUCTION

1.1 BACKGROUND OF THE STUDY

With an all- too-frequent occurrence, users of financial statements are shaken with disclosures by corporate management that certain "accounting irregularities" have been discovered and, as a result, current- and prior- year financial results require some kind of review (David (1993).

While the financial number game may have different labels, participation in it has a singular ultimate objective namely creating an altered impression of a firm's business performance. Niskanem & Kebharju (2000).

Thus, Mathew and Perera (1996) look at creative accounting in both positive and negative light. They opined that creative accounting have positive effect if it enhances the development of accounting practices and negative when it is meant to mislead and defraud investors, creditors, bankers and other users of financial statement.

Smith, (1992) book caused a stir in the United Kingdom (U.K) professional accounting circles. Titled accounting for Growth, with a sub-title stripping the Camouflage from Company

Accountants. Smith described the book in its cover as “The book they tried to ban”, but did not say who ‘tried to ban’ the book. He subsequently described the title of the book as “a deliberate pun” because, in his view, much of the apparent growth in company profits “in the 1980s was the result of the accounting slight of hand rather than genuine economic growth” (Smith, 1992). He gave an example of a private company, Brentford Nylon, which collapsed in 1976, shortly after reporting a profit of £ 130, 000 sterling, but was later taken over by another company, Lonrho. A more dramatic example was Polly Peck, a UK textile company. On 3 September 1990, the company had ‘announced record interim results for the six Months to 30 June 1990 and made enthusiastic comments on prospects for the year and beyond... Polly Peck was placed in administration on 25 October 1990” (Smith, 1992). These were a few of the several similar examples cited in the book. The above examples raised a fundamental question, How can a company that reports substantial profit during a particular period collapse shortly afterwards?” part of the possible answer to this question can be found in the first two words of the title of this paper, “Creative Accounting”, which this study examines with reference to firm quoted in Nigeria stock market as well as from global viewpoint.

1.2 STATEMENT OF PROBLEM

According to Wahlen (1999) financial statements provide information that is used by interested parties to assess the performance of managers and to make economic decisions. Users may assume that the financial information they receive is reliable and fit for its purpose.

Velayutham (2003) in his discussion on accounting regulation attempts to ensure that information is produced on a consistent basis in accordance with a set of rules that make it reliable for users. However, communications between entities and shareholders may be deliberately distorted by the activities of financial statement preparers who wish to alter the content of the message being transmitted. This type of distortion is often referred to as “creative accounting” or ‘earnings management’. While opinions on the acceptability of accounting manipulations vary, it is often perceived as reprehensible. The problems generated in the circumstance include:

- i. Macro-manipulation: When preparers become aware of a proposal to alter accounting regulation in a way that they feel will be advantageous to them, they may engage in lobbying to attempt to prevent the change. They attempt to bring about an alternative picture of economic reality which is more favorable to them. In this paper we identify this type of behaviour as macro –manipulation.
- ii. Micro-manipulation: In the perspective of individual or entity, this accounting approach involves preparers in attempting to violate accounting principles with a view to providing impression outside the accounting standard adopted generally accepted for the presentation of financial statement so as to create the view of reality that they wish to have communicated to users of the financial statements. This type of behavior is described in this paper as micro-manipulation.

In both cases, preparers are interested in creating the financial statements to suit their own purposes. Of course, they may genuinely feel that their view of economic reality is preferable from all points of view. However, it is also possible that they seek to distort the picture to meet their own needs.

Furthermore, preparers of financial statements expect to earn certain reward for their engagement in creative accounting. Some of desired rewards are an upward move in a firm’s share price, to improve debt ratings and reduced interest costs on borrowed slack and reduce restrictions from debt covenants. An interest in boosting a profit-based bonus may drive some. Finally, for high-profile firms, the motivation may be lower political costs, including avoiding more regulation or higher taxes.

1.3 OBJECTIVES OF THE STUDY

The broad objective of the study is to determine the impact of creative accounting on management decisions.

The main objectives of the study are as follows:

1. To examine the extent to which macro-manipulation of financial statement affects management decisions.
2. To examine the extent to which macro manipulation of financial statement affects share price performance.
3. To determine the impact of misreported assets and liabilities on assets acquisition decisions.
4. To evaluate how macro manipulation of financial statement affects capitalization decisions.
5. To determine the impact of macro manipulation of financial statement on debt rating decisions.

1.4 SCOPE OF THE STUDY

This study is not limited in case studies in question rather, it extends and covered every other company that has the duty of preparing and presenting financial statement to the various users for decision making. The selected firms only help to secure the research design which enables a valid and reliable conclusion of the study.

1.5 RESEARCH QUESTIONS

1. To what extent does macro manipulation of financial statement affect share price performance?
2. What is the effect of misreported assets and liabilities on assets acquisition decision?
3. To what extent does macro manipulation of financial statement affects capitalization decisions?
4. How has creative accounting negativity influenced the decision of potential investors and existing investors?
5. To what extent does macro manipulation of financial statement on debt rating?

1.6 RESEARCH HYPOTHESES

The formulated null research hypotheses for this study are as follows:

1. Ho: Macro manipulation of financial statement does not significantly affect share price performance
2. Ho: Misreported assets and liabilities do not significantly affect assets acquisition decisions.
3. Ho: Macro manipulation of financial statement does not significantly affect capitalization decisions.

1.7 SIGNIFICANCE OF THE STUDY

This study will have significant theoretical importance for academics, as it will contribute to the body of literature on creative accounting. The data generated and information gathered from the field survey and library research shall become secondary source of information and references for further studies.

2. THEORETICAL FRAMEWORK

Authors like Stolowy and Breton (2003) are among the few interested in the subject of creative accounting daring to suggest a theoretical framework for the understanding of the accounting manipulation practices.

2.1. RESOURCE DEPENDENCY THEORY

According to Pfeffer and Salancik's (1990) on the notion of independence, managers are quite dependent on shareholders because managerial compensation is frequently tied to stock price and investors have a great deal of discretion over where they invest their capital. If shareholders were concerned with whether managers had sufficient control over their firms, this might affect how managers account for firm performance? Although managers are limited by their dependencies, they can try to address the concern themselves by increasing their perceived amount of control (Pfeffer, 1981). Following Schlachter and Meindl's (1990) argument, managers can construct an illusion of control by not only taking credit for success but by accepting blame for negative outcomes. This not only address investors' worries that

managers lack control but also addresses the dependency the firm has on the shareholders by boosting their perceived power. To the extent that one would expect the Enron scandal to be on the minds of most top management teams, one might expect to find the effect regardless of firm characteristics.

2.2 AGENCY THEORY

Contrary to the resource dependency perspective, an agency theory perspective suggests that if owners are concerned that managers' interests are not in congruence with their own and that managers will act in ways that will prevent profit maximization and potentially threaten the company's existence, then owners must believe that such managers have a great deal of control over the firm. According to this point of view, the pattern of accepting blame found by Trueman and Titman (1988) and predicted to increase by resource dependence theory will not occur. In order to show the appropriateness of their conduct, managers will:

- a. Emphasize their role in positive outcomes, and
- b. Maximize their role in negative outcomes. To the extent that one would expect the Enron scandal to be on the minds of most top management teams. One might expect to find this effect regardless of firm characteristics.

2.3 INFORMATION THEORY

The information perspective or theory (Schipper, 1989) is a key element underpinning the study of the creative accounting phenomenon. A conflict is created by the information asymmetry that exists in corporate structures between a privileged management and a more remote body of stakeholders. Managers may choose to exploit their privileged position for private gains by managing financial reporting disclosure in their own favor. The information perspective assumes that accounting disclosures have information content that possesses value to stakeholders in providing useful signals. It may be difficult or impossible for individual stakeholders to discern the fact and the effect of accounting manipulation, because of an insufficient personal skill, indifference or an unwillingness to engage in detailed analysis (the mechanistic or naïve investor hypothesis, discussed by Breton and Taffler, 1995).

2.4 ETHICAL THEORY

Ruland (1984) opined that companies generally prefer to report a steady trend of growth in profit rather than to show volatile profits with a series of dramatic rises and falls. This is achieved by making unnecessary high provisions for liabilities and against assets values in good years so that these provisions can be reduced, thereby improving reported profits, in bad years. Advocates of this approach argue that it is a measure against the 'short-termism' of judging an investment on the basis of the yield achieved in the immediate following years. It also avoids raising expectations so high in good years that the company is unable to deliver what is required subsequently. Against this is argued that if the trading conditions of a business are in fact volatile then investors have a right to know this and that income smoothing may conceal long-term changes in the profit trend. Revinse (1991) considers the problem in relation to both managers and shareholders and argues that each can draw benefits from 'loose' accounting standards that provide manager with latitude in timing the reporting of income. He thinks that the prime role of accounting is a mechanism for monitoring contracts between managers and other groups that provided finance also market mechanisms will operate efficiently, identifying the prospect of accounting manipulation and reflecting the appropriateness in pricing and contracting decisions.

3. RESEARCH DESIGN

The population of this study constitutes all the twenty-two (22) commercial banks trading on the floor of the Nigerian Stock Exchange (NSE).

According to Balsley and Clover (1988), it is common in research studies to use 10 percent sample size, because sample sizes of 10 percent of the universe have proved to be more than adequate in the past research projects. Ogolo (1996) corroborates this when he posits that, where a population is known, at least 10 percent of it constitutes a researchable sample. For this study, five commercial banks out of the twenty-two (22) commercial banks operating in Nigeria were selected for the purpose of the study. This translates to 22.73 percent of the

total banks in the country. To obtain the five (5) banks, the banks were arranged alphabetically, and the first out of every five was picked to form the sample for the study.

Sources of data: The data for this article were generated through primary source. It was difficult to get any data already used in this regard.

The method of collecting data was purely through the questionnaire. The questionnaires were directed to management staff at the tactical level. It is the completed forms returned from them. After the bio data section of the instrument, the other construction applied the Likert type scale to ease data generation.

a. MODEL SPECIFICATION

The model adopted for this study is the multiple regressions. This model becomes imperative against the background that the study sets to establish the relationship between creative accounting and management decisions in the selected firms in the study.

The equations stated under are meant to establish relationship among variables in the study:

$$Y = f(\text{SHPRIPERX1} + \text{ASSTACQDX2} + \text{CAPDECX3}) + \acute{E} \dots \dots \dots 1$$

Where Y is effective management decisions

SHPRIPERF = shared price performance

ASSETACQD = Asset acquisition decisions

CAPDEC = Capitalization decisions

X₁, X₂, X₃ are the coefficients of the effect of macro-manipulation on each of the management decisions.

É is the allowance for standard error.

b. ESTIMATION AND VALIDATION

The instruments used for data collection were presented to expert in quantitative analysis to ascertain that the items in the instruments were related to the hypotheses required for the study. Again, there was a test – retests of the instrument to provide the assurance of reliability. Also, the results of the analysis provided a confirmative prove that the five banks under study were indicted for various offences including financial statements manipulation. That was a test of validity.

4 DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1 DATA PRESENTATION

TABLE 4.1

ADMINISTRATION OF QUESTIONNAIRES

Commerci al Banks	Number distribu ted	Numb er retur ned	Percent age returne d (%)	Perce ntage not retur ned (%)
Fin Bank	200	150	75%	25%
Oceanic Bank	200	140	70%	30%
Intercontin ental Bank	200	180	90%	10%
Afri-Bank	200	160	80%	20%
Union Bank	200	170	85%	25%
Total	1000	800	80%	20%

Source: Field Survey 2010.

TABLE 4.2

LEAST SQUARE REGRESSION RESULT – MACRO-MANIPULATION AND SHARE PRICE PERFORMANCE AS MANAGEMENT DECISION PROXY

Variables	Estimated Coefficient	Standard error	t-value	Significance
Constant Term	5.013	.358	14.016	.000
MACROMAN	1.617	.062	1.000	.319
R	.870			
R ²	.759			
Adjusted r ²	.742			
F-Statistic	24.000			

Source: SPSS RESULTS.

TABLE 4.2.1

BENCHMARK (TABULATED VALUES) USING TWO TAIL TEST

Table F- Statistic F 0.05 (1, 200)	3.84
Table F- Statistic F 0.01 (1, 200)	6.63
Table Value t-value t 0.05 (a, b-1)	1.960
Table Value t- value t 0.01 (a, b-1)	2.576

Source: Gujarati, (2005). Essentials of Econometrics, Boston: McGraw Hill.

- a. Predictors: (Constant), MACROMAN
- b. Dependent Variable: SHPRIPERF

TABLE 4.3

LEAST SQUARE REGRESSION RESULTS – MACRO-MANIPULATION AND ASSET ACQUISITION AS MANAGEMENT DECISION PROXY

Variables	Estimated Coefficient	Standard error	t-value	Significance
Constant Term	4.249	.463	9.183	.000
MACROMAN	.103	.080	1.296	.197
R	.917			
R ²	.841			
Adjusted r ²	.813			
F-Statistic	21.679			

Source: SPSS RESULTS

TABLE 4.3.1

BENCHMARK (TABULATED VALUES) USING TWO- TAIL TEST

Table F- Statistic F 0.05 (1, 200)	3.84
Table F- Statistic F 0.01 (1, 200)	6.63
Table Value t-value t 0.05 (a, b-1)	1.960
Table Value t- value t 0.01 (a, b-1)	2.576

Source: Gujarati, (2005). Essentials of Econometrics, Boston: McGraw Hill.

- a. Predictors: (Constant), MACROMAN
- b. Dependent Variable: ASSTACQD

TABLE 4.4

LEAST SQUARE REGRESSION RESULTS – MACRO-MANIPULATION AND CAPITALIZATION DECISION AS MANAGEMENT DECISION PROXY

Variables	Estimated Coefficient	Standard error	t-value	Significance
Constant Term	5.255	.416	12.644	.000
MACROMAN	.051	.072	.707	.480
R	.850			
R ²	.723			
Adjusted r ²	.696			
F- Statistic	32.500			

Source: SPSS RESULTS

TABLE 4.4.1

BENCHMARK (TABULATED VALUES) USING TWO- TAIL TEST

Table F- Statistic F 0.05 (1, 200)	3.84
Table F- Statistic F 0.01 (1, 200)	6.63
Table Value t-value t 0.05 (a, b-1)	1.960
Table Value t- value t 0.01 (a, b-1)	2.576

Source: Gujarati, (2005). Essentials of Econometrics, Boston: McGraw Hill.

- a. Predictors: (Constant), MACROMAN
- b. Dependent Variable: CAPDEC

TABLE 4.5

LEAST SQUARE REGRESSION RESULTS – MACRO-MANIPULATION, SHARE PRICE PERFORMANCE, ASSET ACQUISITION AND CAPITALIZATION DECISION AS MANAGEMENT DECISION PROXY

Variables	Estimated Coefficient	Standard error	t-value	Sig.
Constant	4.890	.620	7.887	.000
SHPRIPERF	.116	.084	1.393	.165
ASSTACQD	.108	.065	1.670	.096
CAPDEC	.066	.070	.944	.346
R	.847			
R ²	.717			
Adjusted r ²	.679			
F-Statistic	21.452			

Source: SPSS RESULTS

TABLE 4.5.1

BENCHMARK (TABULATED VALUES) USING TWO TAIL TEST

Table F- Statistic F 0.05 (1, 200)	3.84
Table F- Statistic F 0.01 (1, 200)	6.63
Table Value t-value t 0.05 (a, b-1)	1.960
Table Value t- value t 0.01 (a, b-1)	2.576

Source: Gujarati, (2005). Essentials of Econometrics, Boston: McGraw Hill.

- a. Predictors: (Constant), CAPDEC, SHPRIPERF, ASSTACQD
- b. Dependent Variable: MACROMAN

5 DATA ANALYSIS

This section is concerned with the analysis of data gathered for the study as well as analysis and discussion of findings.

Table 4.1 shows the distribution of questionnaires to five (5) commercial banks, which constituted the sample. From the table it could be deduced that out of the 1000 questionnaires administered, only 800 constituting 80% was returned while 200 representing 20% were not returned. The table shows that Intercontinental Bank returned the highest number of questionnaires totaling 180 representing 90%, followed by Union Bank and Afri-Bank that returned 170 and 160 representing 85% and 80% respectively. Similarly Fin Bank returned 150 and Oceanic Bank returned 140 questionnaires representing 75% and 70% respectively.

Table 4.2 to 4.5.1 list the variables used in the analysis. They are: Share price performance (SHPRIPERF), Assets acquisition Decision (ASSTACQD) and Capitalization Decision (CAPDEC) as the dependent variable while Macro-manipulation (MACROMAN) is the independent (explanatory) variables.

In addition where multiple regression result are presented, the estimated Pearson correlation coefficients, standard errors, t-value and the coefficient of determinations are arranged vertically for creative accounting variables. The t-value is calculated using a two-tail test. The level of significance of 5 percent is used. For five percent level of significance, this means that there are 5 chances in 100 that the hypothesis tested would be rejected when they should actually have been accepted. This means that the researcher has 95 percent confidence that the results are not due to chance. The standard error of the estimated

parameter indicates how much the estimated parameter is likely to be affected by random factors. The t-value of the estimated coefficient is relative to its error (Gujarati, 2005).

Other necessary statistics are equally presented, namely the coefficient of determination (r^2), the adjusted r^2 and f-statistics. R^2 measures the goodness of fit of the regression equation, that is, it gives the proportion or percentage of the total variable in the dependent variable explained by the explanatory variables. Adjusted r^2 is a better goodness of fit as it adjusts for increasing r^2 when a new explanatory variable is added to the model, f-statistics is used to test whether the regression equation taken as a whole, does significantly explain the variation in the dependent variable.

5.1 MACRO-MANIPULATION/SHARE PRICE PERFORMANCE

The result shows that the constant term has positive sign, which is consistent with theory. The estimated coefficient for macro-manipulation is also positive which is consistent with economic theory that there is a positive relationship between macro-manipulation and management decisions measured by share price performance. By implication, it means that a company experiencing high macro-manipulation would enjoy high level of share price performance. The t-values of the estimated coefficient were high and significant. High t-values are indicators of high reliability of the predictive power of the coefficient.

The adjusted r^2 is 74.2 percent. The goodness of fit is good and statistically significant. This implies macro-manipulation of financial statement linear relationship with share price performance is strong.

The F-ratio is 24.000, and this is very high and statistically significant, it is higher than its theoretical values at 5 percent level of significance. The F-ratio confirms that share price performance is statistically related to the independent variable in the model.

5.2 MACRO-MANIPULATION AND ASSETS ACQUISITION DECISIONS

The results show a high positive sign for the constant term that is in line with economic expectation. The estimated coefficient is 10.3 percent. This means that every unit change in average rating of macro-manipulation of financial statement may lead to 10.3 percent change in assets acquisition decisions. The t-value is high and indicates statistical significance at 5 percent level.

The adjusted r^2 is statistically significant. The coefficient of determination is 84.1 percent. This means that 84.1 percent of the variation in assets acquisition decision is explained by the explanatory variable included in the model. The F-statistics is 21.679. This is very significant and expectable. It is higher than the theoretical values at 5 percent level of significance. The F-statistics confirms the significance of the adjusted r^2 .

5.3 MACRO-MANIPULATION / CAPITALIZATION DECISION

The multiple regression result shows that the constant term has a positive sign, which is consistent with theory. The estimated coefficient of macro-manipulation with capitalization decision is significantly positive. The important implication of this result is that holding other explanatory variables constant, an increase in one (1) unit of macro-manipulation of financial statement may lead, on average, to an increase of 0.051 or 0.51 kobo in capitalization, all things being equal.

The t-value of macro-manipulation of financial statement is small and statistically significant. The adjusted r^2 is statistically significant. Its coefficient of determination is 72.3 percent. This indicates a very strong relationship between macro-manipulation of financial statement and capitalization decision by management. This means that 72.3 percent of the variation in capitalization decision can be explained by the explanatory variable (i.e. macro-manipulation of financial statement). This is a good fit.

The F-statistics is 32.500 and this is very high and statistically significant. It is higher than the tabulated value of 5 percent level of significance. This confirms that capitalization decision is statistically related to the independent variable included in the model at 5 percent level of significance.

5.4 SHARE PRICE PERFORMANCE (SHPRIPERF), ASSETS ACQUISITION DECISION (ASSTACQD) AND CAPITALIZATION DECISION (CAPDEC)

The multiple regressions of capitalization, share price performance and assets acquisition decision show a very high positive sign which is consistent with expected economic concept for the constant term therefore indicating positive relationship between macro-manipulation of financial statements and capitalization decisions, share price performance and asset acquisition decisions as management decisions. Positive signs were also found for share price performance, assets acquisition decisions and capitalization decisions.

The estimated coefficient indicates that a unit change in macro-manipulation of financial statement may lead to 11.6 kobo increase in share price performance, 10.8 kobo in assets acquisition and 6.6 kobo in capitalization.

The coefficient of determination is 71.7 percent, while the adjusted r^2 is 69.81 percent. This means that 69.81 percent of the combined variation in share price performance, assets acquisition decisions and capitalization decisions can be explained by micro-manipulation of financial statement as contained in the model. The F-statistics is 21.452. this is very significant and statistically high at 5 percent level of significance and confirms the significance of the adjusted coefficient of determination.

6 TEST OF HYPOTHESES

In this study, we have adopted both the statistical significant criteria as well as the theoretical expectation for accepting or rejecting the null hypothesis. The following hypotheses are restated here:

1. Ho1: Macro-manipulation of financial statement does not significantly affect share price performance.
Ha1: Macro-manipulation of financial statement significantly affects share price performance.
2. Ho2: Misreported assets and liabilities do not significantly affect assets acquisition decisions.
3. Ho3: Macro-manipulation of financial statement does not significantly affect capitalization decisions.

7 RESULT PRESENTATION AND ANALYSIS

Result or ordinary least square estimates of creative accounting factor are given below:

1. SHARE PRICE PERFORMANCE (SHPRIPERF)

R = 0.870 R² = 0.759 Adjusted R² = 0.742

F-Ratio = 24.00 t-value = 14.016

Sig. 1-tail = 0.000

Sig. F-ratio = 0.000

Tabulated values: F 0.05 = (1, 200) = 3.84

F 0.01 = (1, 200) = 6.63

t 0.05 = (a,b- 1) = 1.960

t 0.01 = (a,b-1) = 2.576

2. ASSETS ACQUISITION DECISIONS (ASSTACQD)

R = 0.917 R² = 0.841 Adjusted R² = 0.813

F-Ratio = 21.679 t-value = 9.183

Sig. 1-tail = 0.000

Sig. F-ratio = 0.000

Tabulated value: F 0.05 = (1, 200) = 3.84

F 0.01 = (1, 200) = 6.63

t 0.05 = (a,b - 1) = 1.960

t 0.01 = (a,b - 1) = 2.576

3. CAPITAL DECISION (CAPDEC)

R = 0.850 R² = 0.723 Adjusted R² = 0.696

F-Ratio = 32.50 t-value = 12644

Sig. 1-tail = 0.000

Sig. F – ratio = 0.000

Tabulated value: F 0.05 = (1, 200) = 3.84
F 0.01 (1, 200) = 6.63
t 0.05 (a,b – 1) = 1.960
t 0.01 (a,b – 1) = 2.576

In response to the first hypothesis, the researcher undertook a study to observe whether or not there exist any statistical relationship between macro-manipulation of financial statement and share price performance. The results show that the estimated coefficient of macro-manipulation and share price performance was positive which is consistent with macroeconomic theory. Based on this result, it was necessary therefore to conclude that there is a statistical significant relationship between macro-manipulation of financial statement and share price performance of firms. The F-ratio result also confirms the coefficient of determination while the t – value indicates that there is statistical significant relationship between macro-manipulation of financial statement and share price performance. Therefore, the null hypothesis stands rejected.

For the second hypothesis, the researcher undertook to study whether or not macro-manipulation of financial statement measured by misreported assets and liabilities is statistically related to assets acquisition decisions. The result shows a positive sign for the constant term indicating a positive relationship between the variables in the model. The significant coefficient of determination leads to the rejection of the null hypothesis as confirmed by the high F-statistics establishing a significant statistical relationship between misreported assets and liabilities and asset acquisition decisions.

In the third hypothesis, the estimated coefficient of determination was positively high which is consistent with economic theory. The F-statistics that is statistically significant confirms the consistency of the relationship between macro-manipulation of financial statements and capitalization decisions. In the light of the foregone result, it could be conclusive that there is a significant statistical relationship between macro-manipulation and capitalization decisions. Therefore, the null hypothesis stands rejected.

8 DISCUSSION OF FINDINGS

In the analysis of the data, the researcher made the following findings:

Macro-manipulation of financial statement significantly affects the performance of firm's share and management decisions relating to their firm's shares. This confirms the findings of Stolowy and Breton (2003) which identified that the fundamental principle which underlines macro-manipulation is based on the aim of publishing financial information is that to reduce the costs of the enterprise projects financing. But this reduction depends on the risks to transfer the riches as they are perceived by the agents on the market.

Misreported assets and liabilities in the financial statement significantly affect management decisions relating to the acquisition of assets and liabilities. The finding revealed that real causes of creative accounting lie in the conflicts of interest among different interest groups. Managing shareholders' interest is to pay less tax and dividends. Investor-shareholders are interested to get more dividends and capital gains. Country's tax authorities would like to collect more and more taxes. Employees are interested to get better salary and higher profit share. But creative accounting puts one group or two to advantageous position at the expense of others. One day the present authors had an opportunity to have a discussion with the Chief Accountant of an enterprise in this regard. The Chief Accountant told, in the course of conversation, that he was determined to retain profit for the expansion of his existing unit and establishment of new ones. Quite naturally, his interest was to pay less tax and less dividend and, accordingly, to 'create' financial statements. This type of creative accounting has led David Schiff (1993) to warn investors; in general that taking a company's financial statements at face value can be 'a recipe for disaster.'

The study also linked capitalization decisions with macro-manipulation of financial statement. This result confirms the outcome of the study of shah (1996), MacBarnet and Whelan (1999) and Merchant and Rockness (1994). They all in different works identified a strong relationship between capitalization decision of firms and financial statement manipulations.

The manipulation of financial statements and reports were found to have significant effects on the management decisions of assets acquisition, capitalization and share price combined together. This finding is in line with the outcomes of the studies of Markarian & Pozza (2008) which was based on empirical researches referring to motivational factors of the earning manipulation.

The study further found that preparers of financial statements are interested in creating the financial statements that suit their own purposes which of course, they may genuinely feel that their view of economic reality is preferable from all points of view and however, seek to distort the picture of the financial report through macro – and – micro-manipulation to meet their own needs Merchant & Rockness (1994).

Furthermore, preparers of financial statements expect to earn certain reward for their engagement in creative accounting. Some of desired rewards are an upward move in a firm's share price, to improve debt ratings and reduced interest costs on borrowed slack and reduce restrictions from debt covenants. An interest in boosting a profit-based bonus was also found to be a significant driver for financial statement manipulation as revealed by the findings of (Whelan, 1999). Finally, for high-profile firms, the motivation may be lower political costs, including avoiding more regulation or higher taxes which affects decision making by managers, investors and other stakeholders.

CONCLUSION

Arising from the foregone findings, the researchers wish to draw the following conclusion. Creative accounting affects a firm's share price and capital market performance as a result of macro – manipulation of financial statement. It also affects effective management decision to require new assets or replace existing ones. The practice can lead to tax evasion and can cause investors to lose their hard earned money.

RECOMMENDATIONS

I hereby recommended that effective regulation of financial reporting should be encouraged to minimize miss representation of facts. The tenet of good covenants should be the watch word in ensuring abuse of financial statement. Finally, management of firms should try to base their investment decision on financial report that as not been manipulated.

REFERENCES

- [1] Beatty, M. G. and Henrion, M. (1995). *Uncertainty: A Guide to Dealing with Uncertainty in Quantitative Risk and Policy Analysis*. Cambridge University Press, Cambridge.
- [2] David, S. (1993), "The Dangers of Creative Accounting", *Worth* (March): 92-98. Reprinted in Alien Ormiston (ed.) (1998), *Accounting 98/99* (Guilford, Connecticut, USA: Dushkin/McGraw-Hill): 94-96.
- [3] Edward, E. and Bell, P. (1991). *The theory and measurement of business income*, Berkeley, University of California Press.
- [4] Healy, P. M. (2004). *The effect of bonus schemes on accounting decisions*, working paper, Massachusetts institute of technology.
- [5] Mathews, M. R. and Perera, M. H. B. (1996). *Accounting theory and development*, Boston: An International Thompson Publishing Company.
- [6] Merchant, K.A. and Rocknes, J. (1994). *The ethics of managing earnings: an empirical investigation*, *Journal of accounting and public policy*, 13: 79- 94.
- [7] Metcalf, L. (1977), *The Accounting Establishment*, Staff study as the Chairman of the state US Senate Subcommittee (Washington, D. C.: The United States Government Printing Office).
- [8] Meckling, W. H., Jensen, M. C., 1976. *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure* in Michael, C. Jensen (Eds.) *A Theory of the*

- Firm: Governance, Residual Claims and Organizational Forms, Harvard University Press.
- [9] Niskanem, L., and L. keloharju. 'Abusive earnings Management early warning signs'. The CPA Journal (Aug.) 2000.
 - [10] Pfeffer, A.M. & Salancik, A. H. (1978). Truth or consequences: A study of critical issues and decision making in accounting. Journal of Business Ethics, 16:161-171.
 - [11] Revsine, L. (1991) 'The selective financial misrepresentation hypothesis', Accounting horizons, December: 16-27.
 - [12] Ruland, R. G. (1984) 'Duty, obligation and responsibility in accounting policy making', Journal of Accounting and Public Policy, Fall: 223-37.
 - [13] Schipper, K., 1989. A commentary on earnings management. Accounting Horizons 3 (4), pp. 91-102.
 - [14] Schipper, K. & Vincent, L. 2003. Earnings Quality. Accounting Horizons, Supplement; 97-110.
 - [15] Schlachter, P. J. 1990. Organizational influences on individual ethical behaviour in public accounting. Journal of Business Ethics, 9:839-853.
 - [16] Smith Terry, 1992. Accounting for Growth: Stripping the Camouflage from Company Accounts. Century Business publications, London.
 - [17] Stolowy H., Breton G. (2003) "Accountants Manipulation: A literature Review and Proposed conceptual Framework", available on-line at: <http://www.emeraldinsight.com>
 - [18] Trueman, M., 1993. Comptabilite britannique, mod d'emploi, Economica, paris.
 - [19] Velayutham, S. 2003. The accounting profession's code of ethics. Critical perspectives on Accounting, 14:483-503.
 - [20] Wahlen, N. The problem of earnings management' Insights, the corporate and Securities Law Advisor (Jun.) 1999.
 - [21] Wahlen, H. (1999), Accrual Accounting and Budgeting – Key Issues and recent Developments (OECD), Paris).