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ASSESSING THE EFFECT OF CREATIVE ACCOUNTING ON CORPORATE PERFORMANCE: A CASE OF SELECTED LISTED COMMERCIAL BANKS ON THE GHANA STOCK EXCHANGE

Albert Mensah[1], Ruth Ruby[2], Daniel Osei[3], Abdul Wahab Atta Bashiru[4], Oscar Agyemang Opoku[5]
[1]Mankranso Business Resource Centre, Ghana
[2]Methodist University College, Ghana
[3,5]University of Cape Coast, Ghana
[4]University of Northampton, United Kingdom
Email: albmens@yahoo.com, ruthruby@gmail.com Daniel.osei@ucc.edu.gh, awabashiru@gmail.com oscar.opoku@stu.ucc.edu.gh

Abstract

The study examined the effect of creative accounting on the performance of commercial banks listed on the Ghana Stock Exchange. The research design chosen for this study is an ex-post facto research design, which involves examining facts that have already occurred without any interference. The research approach adopted is quantitative, focusing on objective measurements and statistical analysis of data collected through surveys. The study relies on secondary data, specifically financial reports of deposit money banks listed on the Ghana Stock Exchange. The target population includes all the listed commercial banks on the exchange. The sample size consists of 8 out of the 9 commercial banks selected based on their up-to-date financial reports. The data analysis was done with the aid of SPSS software, employing descriptive and inferential statistical techniques such as multiple regression was used to determine the cause-and-effect relationship among variables. The study found that there was a strong positive link between a bank's size, creative accounting, and sales growth and its return on assets and return on equity. Also, SIZE and SG positively affect the profitability (ROA and ROE) of the listed firms on the GSE. However, Creative Accounting negatively affects profitability (ROA and ROE). Therefore, commercial banks should be critical regarding on issues or items that they classified under creative accounting. Also, commercial banks should develop strategies to lure many shareholders to invest in the banks to improve upon their performance. Moreover, there is an urgent need for monitoring companies' activities to raise the quality of financial reporting in Ghana. This can be achieved in determining which accounting manipulation is kept within the limits of legality. Lastly, commercial banks should strengthen their internal control systems in order to deal with issues of creative accounting and misleading financial reports.

Keywords: Evaluation, Creative Accounting, Corporate Performance

INTRODUCTION

Financial accounting reports are meant to provide financial information so that stakeholders and other users of such information can use it for informed decision. Therefore, accuracy and reliability of such reports are crucial for these people in order to make appropriate decisions. This fact has become more important in recent years starting from 2001 by the collapse of Enron and its importance intensified with the recent financial crisis because of the bankruptcy of major financial institutions. Complexity and unpredictability of constantly changing environment makes it difficult to consider all possible situations in advance when setting standards. Even if the accounting standards cannot prevent manipulative behavior in advance, they can curb it afterwards (Wang, 2008).

Creative accounting and earnings management are euphemisms referring to accounting practices that should follow the letter of the rules of standard accounting practices, but certainly deviate from the spirit of these rules. According to Asuquo, (2011), they are characterized by excessive complication and the use of novel ways of characterizing income, assets or liabilities and the intent to influence readers towards the interpretations desired by the authors. The terms "innovative" or "aggressive" are sometimes used. However, inadequate or misleading income disclosure may result when income is deliberately and artificially smoothed (Nur Husna, Tan, Md Shukri, Mohd Ashari, & Wong, 2022). The effect of creative accounting may lead shareholders and investors to have inadequate information when evaluating organizations effectiveness.

For instance, in the United States, Enron company which grew in just 15 years to be America's seventh largest company went underground after it was discovered that the company has been fiddling with profit figure (Amatorio, 2005). There are many reports of price manipulation, profit overstatement, and accounts falsification by some dubious stewards which rendered the financial reporting ineffective. This represents the transformation of the accounting figures from what they are in accordance with the economic reality into what the managers want using the advantages of the existing regulations and/or ignoring some of them. Okoye Emma & James Obioma, (2020) put it in his so-called bible of the business world "Creative Accounting:" "It is the biggest con trick since the Trojan horse. They are of the opinion that Creative accounting is the root of numerous accounting scandals. But real-world experience reveals that it is in most cases practiced in an undesirable way to attract investors by presenting an exaggerated financial report. Thus, two perspectives of this term may be identified. The first one recognizes genuine changes in the business accounting practices while the second one reflects undesirable window-dressing that tends to distort financial information. According to the creative accounting theories, there is a connection between the use of creative accounting techniques and managers' incompetence. A company that has reached an unstable situation will undoubtedly begin to use creative accounting techniques in order to artificially increase profit, and thus, the financial situation to be temporarily concealed. This theory according to Micah & Chinwe, (2014) is that incompetent managers try to hide the lack of performance by using creative accounting techniques, which leads to the idea that sometimes, creative accounting may be associated with failure of the company and to postpone the "fatal" day. Creative accounting was among the major factors that resulted in the recent banking crisis in Ghana. Therefore, this study is to examine the effect of creative accounting on corporate performance.

According to Shibley, (2018) creative accounting or financial statement fraud remained one of the most controversial and unresolved issues in corporate finance. Creative accounting and long-term survival were practices that tended to manipulate the rules of standard accounting practices or the spirit of those values. Accounting practice and scandal could destroy any organization; therefore, there was the need to restore integrity and public confidence to accounting operations. They were characterized by dubious complications and use of „novel" (work of fiction) ways of presenting income, assets and liabilities. References to creative accounting or false financial statements were increasingly frequent over the last few years.

Falsifying financial statements primarily consisted of manipulating elements by overstating assets, sales and profit, or understating liabilities, expenses and losses. The company failures of the past decade however, had been closely associated with financial statement frauds, which involve a number of parties, the management and board of directors (Shibley, 2018). Akenbor & Ibanichuka, (2012) asserted that current accounting practices allowed a degree of choice of policies and professional judgment in determining the measurement method and criteria of recognition. This involved a deliberate non-disclosure of information and manipulation of accounting figures, thus made the firm appeared to be more profitable (or less profitable for tax purposes) and financially stable than it was supposed to be.

Bhasin, (2016) examined on detecting creative accounting practices and their impact on the quality of information presented in the financial statements in Romania. They noted that;

the insufficiency of accounting regulations and the on-going process of harmonization that in the end, translated into a freedom of decision permitted by every regulatory body, were a series of factors that encouraged the proliferation of accounting creativity. Experience showed that every time a new regulation was issued, entities found a way to minimize its impact. Therefore, no matter how many rules of the profession were implemented, there would always be persons who would find a way to „beat" the system.

Imo, (2022) who carried out research in Nigeria examined the contribution of creative accounting on economic development noted that modern organized sophisticated corporate fraud had been on the increase. Ilter, (2016) established those severe consequences resulted when companies committed financial statement fraud, including bankruptcy, significant changes in ownership and suspension from trading in national exchanges. Most business organizations that had always been connected with creative accounting or financial statement fraud had always been affected by financial collapses leading to collapse or liquidation of the companies.

There had been minimal studies on how creative accounting practices affect performance of commercial banks. In Ghana, few empirical studies had been carried out to establish the relationship between creative accounting and corporate performance of firms. It is at the backdrop of this that the study sought to fill this gap in Ghanaian literature by considering the effect of creative accounting on the performance of commercial banks listed on the Ghana Stock Exchange. This permitted the study to; examine the effect of creative accounting on listed commercial banks' performance; evaluate the effect of creative accounting on listed commercial banks' performance; assess the effect of size on listed commercial banks' performance; and assess the effect of SG on listed commercial banks' performance.

RESEARCH METHOD

The research design chosen for this study is an ex-post facto research design, which involves examining facts that have already occurred without any interference. The research approach adopted is quantitative, focusing on objective measurements and statistical analysis of data collected through surveys. The study relied on secondary data; specifically financial reports of deposit money banks listed on the Ghana Stock Exchange. The target population includes all the listed commercial banks on the exchange. The sample size consists of 8 out of the 9 commercial banks selected based on their up-to-date financial reports. The sampling technique used is purposive sampling, selecting elements from the population that suit the purpose of the study. With the aid of SPSS software, the data analysis was mainly quantitative, employing descriptive such means, standard deviations and inferential statistical techniques such as multiple regression was used to determine the cause and effect relationship among variables.

RESULT AND DISCUSSION

This part of the study analyses and discusses the results from various tests which tests aim at finding answers to research questions as set out in this study. Thus, to examine the effect of creative accounting on the performance of commercial banks listed on the Ghana Stock Exchange. Basically, it was presented in two themes: descriptive statistics and inferential statistics that covered the research objectives.

Table 1: Descriptive Statistics

	Mean	Standard Deviation	N
ROA	2.3240	2.22489	40
ROE	2.5612	1.09232	40
SIZE	22.1065	0.63274	40
SG	0.1761	0.32189	40
CA	1.9821	0.12782	40

Source: Financial Statement of selected banks (2015-2020)

The Table 1 shows the descriptive statistics for the data set used for the study. The descriptive statistics describe the basic features of the dataset. From Table 1.0, the mean return on asset (ROA) of banks listed on the Ghana Stock Exchange is 2.3240. This means the average bank listed on the GSE has an ROA of 2.3240 with a deviation of 2.22489. From table, the ROE of banks listed on the GSE is 2.5612. The average sales growth rate of banks listed on the GSE is 0.1695. This translates into some 17.61%. This is quite good. Moreover, Firm Size was averagely 22.10 with a deviation of 0.63. lastly, the Creative Accounting was averagely 1.98. This tells the deviation between the actual reporting values and the falsification or fabricated reported values.

Table 2: Correlational Matrix of the variables

	ROA	ROE	SIZE	SG	CA
ROA	1.000	0.341	.362	.354	-.161
ROE	0.341	1.000	.045	1.000	-.179
SIZE	.362*	.231	1.000	.045	-.215
SG	.354*	.351	.045	1.000	-.179
CA	-.161	-.341	-.215	-.179	1.000

(Source: Financial Statement of selected banks- 2015-2020) * p-value 0.05 (significance)

Table 2 summarizes the strength and nature of the relationship between the study's variables. As can be seen from the Table 2, comparing a variable to itself results in a perfect correlation. The direction of the link is indicated by the sign against the figures, whilst the intensity of the link is indicated by the values. A positive sign indicates that the variables have a positive association, implying that they move in the same direction. A minus sign indicates that the variables are moving in the opposite direction. As shown in Table 2, the correlation coefficient between ROA and size is 0.362, indicating that the size and ROA of banks listed on the GSE move in the same direction.

However, 0.362 means that the relationship is weak. The correlation between ROA and ROE and CA is -0.161 and -0.341. This means that ROA, ROE and CA of banks on the GSE move in opposite directions, thus, a weak relationship among the variables. From Table 2, the correlation between ROA and sales growth of banks listed on the GSE is 0.354. This depicts a weak positive relationship between sales growth and ROA.

This result was contrary to that of Konadu (2009) who examined the relationship between liquidity and profitability using selected commercial banks on the GSE. He found that there was a negative relationship between liquidity and profitability. Similarly, Moein-Addin (2013) investigated the relationship between liquidity measures and firm stock returns listed on the Tehran Stock Exchange and found positive relationship between liquidity and profitability.

Table 3: Model Summary

R	R-Square	Adjusted R-Square	Std. Error of the Estimate	Durbin-Watson
.651	.62	.59	1.87222	1.560

(Source: Financial Statement of selected banks 2015-2020)

According to Table 3, the R value of 0.651 demonstrates the existence of a link between the dependent and independent variables (all put together). Thus, there is a strong positive link

(0.651) between a bank's size, creative accounting and sales growth (all of which are independent factors) and its return on assets and return on equity (dependent variable).

The R-square indicates how much variance occurs in the dependent variable as a result of the independent factors. As a result of the findings, there is a 59 percent difference in the return on assets and return on equity of banks listed on the Ghana Stock Exchange (GSE), as well as in their creative accounting, size, and sales growth. The residual accounts for the remaining 41 percent of the difference in the return on assets of banks listed on the GSE. The Adjusted R value of 59 percent accounts for variance in the return on assets and return on equity of banks listed on the GSE that is explained by an adjustment to an independent variable in the regression model or equation. The Durbin Watson statistic of 1.560 indicates that there is no autocorrelation between the residuals in the regression model or equation, as it is larger than 1.5 but less than 2.5. Autocorrelation is detrimental to the performance of linear regression models.

Table 4: ANOVA Results

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	75.547	4	18.887	12.325	0.003
Residual	116.359	35	3.325		
Total	191.906	39			

a. Dependent variable: ROA, ROE

b. Predictors: (Constant), SG, SIZE, CA

The ANOVA Table 4 indicates whether the variation in return on assets of banks listed on the GSE can be explained by a regression model or equation. The F-statistic of 12.325 has a sig value of 0.003. We reject the null hypothesis in favor of the alternate hypothesis because this value is less than 0.05. In conclusion, the return on assets of banks listed on the GSE is explained by their creative accounting, size, and sales growth.

Table 5: Multicollinearity of the variables

Variable	Tolerance	VIF
SIZE	.842	1.012
SG	.790	1.218
CA	.981	1.445

Source: Financial Statement of selected banks (2015-2020)

The Tolerance and VIF (Variance Inflation Factors) from the collinearity diagnostic section can be used to analyze the test of multicollinearity. Due to the fact that all tolerance values are more than 0.10, there is no evidence of multicollinearity among the independent variables (Table 6). Additionally, the VIF demonstrates that there is no multicollinearity across the independent variables, as all VIF values are less than 10. In conclusion, the independent variables do not exhibit a high degree of correlation with one another.

Table 6: Effect of Creative Accounting on ROA

	Unstandardized Coefficients		Standardized Coefficients	t-test	p-value
	β	Std. Error	Beta		
(Constant)	-32.820	10.799		-3.039	.004
SIZE	1.590	.476	.454	3.337	.002
SG	1.482	1.004	.211	1.477	.049
CA	-.195	.214	-.132	-.912	.038

Source: Financial Statement of selected banks (2015-2020)

The study's purpose is to determine effect of CA on ROA, the study employed standardized coefficients. As can be observed from the Table 6, size as defined by natural total assets has a statistically significant effect on the ROA of banks listed on the GSE, as does creative accounting and sales growth. This is because the sig values of all of these variables are less than 0.05.

Estimating the Final Regression Equation Model becomes

ROA = -32.820 + 1.482SIZE + 1.482SG -.195CA + ε

According to the equation above, a unit increase in the size of a bank results in a 1.59 rise in its profitability. That is, the larger a bank is, the higher its ROA. With all other variables remaining constant, a unit change in a bank's sales growth rate situation results in a 1.48 rise in its profitability (ROA). Finally, if all other variables remain constant, a unit change in a creative accounting result in a 0.195 fall in the bank's profitability (ROA).

Moreover, standardized coefficients of the result shows that SIZE and SG positively affect the profitability (ROA) of the listed firms on the GSE. However, Creative Accounting negatively affect the profitability (ROA) of the listed firms on the GSE. These relationships were statistically significant.

On firm size, Abeyrathna & Priyadarshana, (2019) explored the relationship between firm size and profitability in the Nigerian manufacturing industry by utilizing data from that industry between 2005 and 2012. The study found that there was a positive effect of firm size on profitability. This study is in line with Akinyome and Adebayo (2013). Similarly, work done by Islik et al. (2017) was an examination of the effect of the size of a corporation on profitability in the Turkish manufacturing sector and the findings indicated that there was a positive effect of firm size on profitability.

Table 7: Effect of Creative Accounting on ROE

	Unstandardized Coefficients		Standardized Coefficients	t-test	p-value
	β	Std. Error	Beta		
(Constant)	-18.134	12.201		-4.218	.001
SIZE	1.223	.476	.454	2.431	.011
SG	1.561	1.004	.211	2.341	.003
CA	-.132	.342	-.403	-.672	.012

Source: Financial Statement of selected banks (2015-2020)

Objective two was to examine the effect of creative accounting on the performance of listed firms on the GSE. As can be observed from the Table 7, size as defined by natural total assets has a statistically significant effect on the ROE of banks listed on the GSE, as does creative accounting and sales growth. This is because the sig values of all these variables are less than 0.05.

Estimating the Final Regression Equation Model becomes

ROA = -18.134 + 1.223SIZE + 1.561SG -.132CA + ε

According to the equation above, a unit increase in the size of a bank results in a 1.223 rise in its profitability. That is, the larger a bank is, the higher its ROE. With all other variables remaining constant, a unit change in a bank's sales growth rate situation results in a 1.56 rise in its profitability (ROE). Finally, if all other variables remain constant, a unit change in a creative accounting result in a 0.132 fall in the bank's profitability (ROE).

Moreover, standardized coefficients of the result shows that SIZE and SG positively affect the profitability (ROE) of the listed firms on the GSE. However, Creative Accounting negatively affect the profitability (ROE) of the listed firms on the GSE. These relationships were statistically significant. These findings were similar to the following empirical studies:

Micah & Chinwe, (2014) examined whether creative accounting and organisational Effectiveness has any significant relationship, using correlation statistics, all the hypotheses were found to be statistically significant and positively correlated. However, they found weak evidence of a positive correlation between income smoothing, artificial transaction and market share. Ijeoma & Prisca, (2014) examined the effect of creative accounting on the Nigerian banking industry and attributed the major reason for creative accounting practices in the Nigerian banking industry inflating the operating costs to reduce taxable profits.

Tassadaq & Malik, (2015) empirically and essentially investigated the problem of creative accounting in financial reporting. Both descriptive and inferential statistics were used to simplify the results and concluded the findings. The finding revealed that creative accounting plays significant role in financial reporting but has been negatively correlated, which implies that the higher the number of managers involved it, the lower the value of financial information disseminated to investors and other users.

Tunji, Benjamin, Bintu, & Flomo, (2020) examined creative accounting and firms' financial performance using seasonal trading reports. The findings showed that seasonal trading reports had no significant relationship with Return on Assets (ROA), Return on Equity (ROE) and Earnings Per Share (EPS) and not used to manipulate ROA, ROE and EPS. Seasonal trading report had negative relationships with performance variables and they concluded that an increase in seasonal trading report decreases performance. While Nangih, (2017) examined empirically the effect of creative accounting practices on the quality of financial statements of oil servicing companies in Nigeria using ordinary least squares regression techniques. Results of the findings revealed that creative accounting practices by oil servicing companies influenced the quality of their financial statements negatively.

CONCLUSION

There was a strong positive link among a bank's size, creative accounting and sales growth (all of which are independent factors) and its return on assets and return on equity (dependent variable). Also, SIZE and SG positively affect the profitability (ROA and ROE) of the listed firms on the GSE. However, Creative Accounting negatively affect the profitability (ROA and ROE) of the listed firms on the GSE. Therefore, ccommercial banks should be critical regarding on issues or items that they classified under creative accounting. Also, commercial banks should develop strategies to lure many shareholders to invest in the banks in order to improve upon their performance. Moreover, there is urgent need for monitoring companies' activities in order to raise the quality of financial reporting in Ghana. This can be achieved in determining which accounting manipulation is kept within the limits of legality. Lastly, commercial banks should strengthen their internal control systems in order to deal with issues of creative accounting and misleading financial reports. For future studies, this study found that Creative Accounting negatively affect financial performance of listed commercial banks on the GSE in Ghana. Therefore, other researchers can consider other sectors or industry listed on the Ghana Stock Exchange to examine the relationship between creative accounting and their performance. Also, others can consider the effect of creative accounting on investment of listed firms on the Ghana Stock Exchange.

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