
CREATIVE ACCOUNTING AND FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT

This study examines the effect of creative accounting practices on the financial performance of Deposit Money Banks (DMBs) in Nigeria, focusing on earnings management practices (EMP), discretionary loan loss provisions (DLLP), and income smoothing (IS). Using an ex post facto research design, secondary data were collected from ten listed DMBs over the period 2015–2024. Regression analyses reveal that EMP has a negative and statistically significant effect on Return on Assets (ROA) ($\beta = -0.624$, $p < 0.05$), explaining 58% of the variation in ROA ($R^2 = 0.58$; Adj. $R^2 = 0.54$). DLLPs significantly reduce Return on Equity (ROE) ($\beta = -0.742$, $p < 0.05$), with the model explaining 55% of the variation in ROE ($R^2 = 0.55$; Adj. $R^2 = 0.51$). Income smoothing negatively impacts overall profitability ($\beta = -0.918$, $p < 0.05$), accounting for 55% of the variation in profitability. The findings support Agency Theory and Positive Accounting Theory, suggesting that managerial discretion, while sometimes advantageous for short-term reporting, reduces long-term financial sustainability. The study concludes that excessive creative accounting practices compromise transparency, shareholder value, and financial stability. Recommendations include strengthening corporate governance, enhancing regulatory oversight, and promoting transparent financial reporting in Nigerian banks.

KEYWORDS: Creative accounting, earnings management, discretionary loan loss provisions, income smoothing, ROA, ROE, Deposit Money Banks, Nigeria.

SECTION ONE

INTRODUCTION

1.1 Background to the Study

The banking industry is essential for economic development and financial stability in Nigeria, as Deposit Money Banks (DMBs) facilitate savings mobilisation, credit extension, and investment assistance. Banks, owing to their systemic significance, are regulated by the Central Bank of Nigeria, overseen by the Financial Reporting Council of Nigeria, and mandated to adhere to standards established by the International Accounting Standards Board. Nonetheless, apprehensions remain about the integrity of financial reporting and the widespread occurrence of creative accounting procedures in the sector (Ozili, 2019; Egbunike & Odum, 2022).

Creative accounting entails the deliberate application of accounting judgement to manipulate reported financial results. In the banking sector, managerial discretion influences loan loss provisioning, impairment evaluation under IFRS 9, fair value determination, and revenue recognition. The implementation of IFRS 9, specifically the anticipated credit loss (ECL) model, has heightened dependence on forward-looking projections, thus broadening avenues for earnings management (IFRS Foundation, 2022; Alhadab & Nguyen, 2020).

Despite regulatory measures enhancing capital adequacy and risk-based supervision, macroeconomic instability in Nigeria has exacerbated performance constraints on banks. Empirical evidence yields inconclusive results: although earnings management can transiently enhance profitability metrics like return on assets (ROA) and return on equity (ROE) (Elnahass et al., 2021), excessive manipulation may erode firm value, elevate risk exposure, and compromise long-term financial viability (Ozili, 2021; Egbunike & Odum, 2022).

1.2 Statement of the Problem

Deposit Money Banks (DMBs) are crucial in maintaining financial intermediation and economic stability in Nigeria. The integrity of their financial statements is crucial for investor confidence, regulatory efficacy, and overall financial stability due to their systemic significance. Nigerian banks function under the regulatory authority of the Central Bank of Nigeria (CBN), with compliance monitored by the Financial Reporting Council of Nigeria (FRCN), and must comply to standards established by the International Accounting Standards

Board (IASB). Notwithstanding these regulatory frameworks, apprehensions remain about the dependability and openness of disclosed financial performance in the banking sector.

The flexibility embedded in contemporary accounting standards, especially under IFRS 9's expected credit loss model, necessitates considerable managerial discretion in aspects such as loan loss provisioning, asset valuation, and revenue recognition. This discretion aims to improve forward-looking reporting, although it also facilitates the potential for creative accounting methods. Nigerian banks, functioning within a tumultuous macroeconomic landscape marked by exchange rate volatility, inflationary challenges, and variable credit risks, may be motivated to stabilise earnings or distort financial outcomes to comply with regulatory standards, uphold capital adequacy ratios, or fulfil market anticipations.

While a certain degree of accounting discretion may signify valid professional judgement, excessive or opportunistic creative accounting can skew reported profitability metrics such as return on assets (ROA) and return on equity (ROE). This distortion may misguide investors, undermine depositor confidence, compromise regulatory evaluations, and ultimately jeopardise financial system stability. Moreover, empirical evidence about the correlation between creative accounting and bank performance is unclear, with research yielding varied outcomes on whether earnings management improves or detracts from financial performance in both the short and long run.

In Nigeria, there is a lack of consensus regarding the extent, factors, and performance effects of creative accounting techniques among Deposit Money Banks in the post-IFRS and post-reform period. Despite regulatory improvements enhancing supervision and corporate governance mandates, the efficacy of these instruments in mitigating opportunistic profits management remains ambiguous. The lack of definitive empirical evidence about the impact of creative accounting on bank performance results in a knowledge deficit that obstructs policy development and effective regulatory measures.

The primary issue examined in this paper is the insufficient empirical information regarding the impact of innovative accounting methods on the financial performance of Deposit Money Banks in Nigeria. Tackling this issue is essential for elevating the quality of financial reporting, strengthening regulatory control, and fostering sustainable performance in the Nigerian banking system.

1.3 Objective of the Study

The main objective of this study is to examine the effect of creative accounting on the financial performance of Deposit Money Banks (DMBs) in Nigeria. The specific objectives are to:

- i. Examine the effect of earnings management practices on the return on assets (ROA) of Deposit Money Banks in Nigeria.
- ii. Determine the relationship between discretionary loan loss provisions and return on equity (ROE) of Deposit Money Banks in Nigeria.
- iii. Assess the impact of income smoothing practices on the profitability of Deposit Money Banks in Nigeria.

1.4 Research Question

Based on the stated objectives, the study seeks to provide answers to the following research questions:

- i. What is the effect of earnings management practices on the return on assets (ROA) of Deposit Money Banks in Nigeria?
- ii. What relationship exists between discretionary loan loss provisions and return on equity (ROE) of Deposit Money Banks in Nigeria?
- iii. What is the impact of income smoothing practices on the profitability of Deposit Money Banks in Nigeria?

1.5 Hypothesis of the study

In line with the research objectives and questions, the study formulates the following null hypotheses to be tested:

H₀₁: Earnings management practices have no significant effect on the return on assets (ROA) of Deposit Money Banks in Nigeria.

H₀₂: Discretionary loan loss provisions do not have a significant relationship with the return on equity (ROE) of Deposit Money Banks in Nigeria.

H₀₃: Income smoothing practices have no significant impact on the profitability of Deposit Money Banks in Nigeria.

1.6 Significance of the Study

This study is significant for several reasons, as it addresses the implications of creative accounting practices on the performance of Deposit Money Banks (DMBs) in Nigeria.

The findings will provide regulators, particularly the Central Bank of Nigeria and the Financial Reporting Council of Nigeria, with empirical evidence on the extent and impact of creative accounting practices. This can guide the development of stricter monitoring,

reporting standards, and enforcement policies to enhance transparency and financial stability in the banking sector.

The study contributes to the body of knowledge on earnings management, income smoothing, and discretionary accounting in emerging economies. It will provide recent empirical insights specific to Nigerian Deposit Money Banks, filling a gap in the literature regarding the effects of creative accounting on bank performance between 2018 and 2025. Bank management can use the findings to evaluate internal reporting practices, improve corporate governance mechanisms, and strengthen financial controls. Understanding how creative accounting affects profitability and performance can help banks adopt strategies that enhance both operational efficiency and ethical financial reporting.

REVIEW OF RELATED LITERATURE

2.1. Conceptual Review

2.1.1 Concept of Creative Accounting

Creative accounting refers to the deliberate use of accounting techniques, estimates, and professional judgment within the boundaries of accounting standards to influence reported financial outcomes (Alhadab & Nguyen, 2020; Egbunike & Odum, 2022). Unlike outright fraud, creative accounting operates within legal and regulatory frameworks but exploits flexibility in accounting rules to achieve desired financial results. In the banking sector, such practices commonly manifest through discretionary loan loss provisions, income smoothing, fair value adjustments, and the timing of revenue and expense recognition (Ozili, 2019; Elnahass, Izzeldin, & Steele, 2021).

In Nigeria, Deposit Money Banks (DMBs) are required to comply with standards issued by the International Accounting Standards Board and regulatory guidelines enforced by the Central Bank of Nigeria. The adoption of IFRS, particularly IFRS 9 Financial Instruments, introduced the Expected Credit Loss (ECL) model, which relies heavily on forward-looking assumptions and macroeconomic forecasts (IFRS Foundation, 2022). While this approach enhances credit risk sensitivity and transparency, it also increases managerial discretion in estimating impairment losses, thereby creating additional opportunities for earnings management (Ozili, 2019; Alhadab & Nguyen, 2020).

2.1.2 Earnings Management Practices

Earnings management practices refer to deliberate actions taken by management to influence reported financial results through the use of accounting discretion, estimates, and judgment within acceptable accounting standards (Alhadab & Nguyen, 2020). In the banking sector,

earnings management does not necessarily imply fraud; rather, it involves the strategic selection or adjustment of accounting policies to achieve specific financial reporting objectives. Such objectives may include meeting profit targets, maintaining capital adequacy requirements, avoiding regulatory sanctions, stabilizing share prices, or enhancing managerial compensation tied to performance metrics.

In Deposit Money Banks (DMBs) operating in Nigeria, earnings management practices are particularly significant due to the complexity of financial instruments and the reliance on estimates in financial reporting. Banks operate under standards issued by the International Accounting Standards Board and regulatory oversight from the Central Bank of Nigeria. The implementation of IFRS 9 Financial Instruments introduced the Expected Credit Loss (ECL) model, which requires forward-looking assessments of credit risk. This framework increases managerial discretion in determining impairment provisions, thereby creating opportunities for earnings manipulation (IFRS Foundation, 2022; Ozili, 2019).

Common earnings management practices in banks include:

i. Discretionary Loan Loss Provisions (DLLPs):

Managers may adjust loan loss provisions to either increase or decrease reported earnings. Increasing provisions during profitable periods creates reserves that can be reversed in less profitable periods, thereby smoothing income (Elnahass, Izzeldin, & Steele, 2021).

ii. Income Smoothing:

Banks may reduce fluctuations in reported income by shifting revenues or expenses across accounting periods to present stable growth trends. This practice is often motivated by the desire to signal financial stability to investors and regulators (Ozili, 2019).

iii. Capital Management through Provisions:

Since loan loss provisions affect regulatory capital ratios, banks may manipulate provisioning levels to comply with capital adequacy requirements set by the Central Bank of Nigeria.

iv. Fair Value Adjustments:

The valuation of financial instruments at fair value involves subjective estimates, which can be used strategically to influence reported profits.

2.1.3 Discretionary Loan Loss Provisions

Discretionary Loan Loss Provisions (DLLPs) refer to the portion of total loan loss provisions attributable to managerial discretion rather than objective changes in underlying credit risk (Kanagaretnam et al., 2004). Loan loss provisions (LLPs) are expenses recognized in the income statement to cover expected losses arising from non-performing or potentially

defaulting loans. While a significant component of LLPs reflects actual credit risk conditions (the non-discretionary component), the discretionary component results from management's subjective estimates, assumptions, and judgments .

In the banking sector, particularly among Deposit Money Banks (DMBs) in Nigeria, DLLPs represent a primary mechanism for earnings management due to the flexibility embedded in accounting standards issued by the International Accounting Standards Board and regulatory oversight by the Central Bank of Nigeria. The adoption of IFRS 9 and the Expected Credit Loss (ECL) model has further increased managerial discretion through forward-looking assumptions, thereby expanding opportunities for discretionary provisioning (Ozili, 2019; Elnahass et al., 2021).

2.1.4 Financial Performance

Financial performance refers to the extent to which a firm effectively utilizes its financial resources to generate profits, maintain liquidity, ensure solvency, and enhance shareholders' wealth within a given period. It reflects the overall financial health and operational efficiency of an organization and is commonly measured using accounting-based and market-based indicators (Pandey, 2015). In the banking sector, financial performance is particularly important because banks operate as financial intermediaries responsible for mobilizing deposits and allocating credit efficiently. Strong financial performance indicates effective risk management, prudent lending practices, and sustainable profitability, while poor performance may signal operational inefficiencies or heightened credit risk.

2.1.5 Return on Assets (ROA)

Return on Assets (ROA) is a widely used financial performance metric that measures a firm's ability to generate profit from its total assets. It reflects the efficiency of management in using assets to produce net income, providing insight into the overall operational effectiveness of an organization (Pandey, 2015). ROA is calculated as the ratio of net profit after tax to total assets and is usually expressed as a percentage. In the banking sector, ROA is particularly important because banks' assets primarily loans, investments, and other earning assets are the main sources of revenue.

ROA serves as a key indicator of profitability and efficiency. A higher ROA implies that management is effectively utilizing available resources to generate earnings, whereas a lower ROA may signal inefficiencies, poor asset management, or weak income generation (Ozili, 2019). Unlike Return on Equity (ROE), which can be influenced by financial leverage, ROA provides a more stable and realistic measure of a bank's core operational performance. This makes it particularly useful in evaluating banks of varying sizes and capital structures. In the

context of Deposit Money Banks (DMBs) in Nigeria, ROA is influenced by multiple factors, including interest income from loans, non-interest income from fees and commissions, operating expenses, and loan loss provisions. Discretionary Loan Loss Provisions (DLLPs) can significantly affect ROA because they directly reduce net profit, and managerial adjustments to these provisions for earnings management purposes can inflate or deflate ROA in the short term (Elnahass, Izzeldin, & Steele, 2021).

2.2 Theoretical Review

2.2.1 Agency Theory

Agency Theory was formally developed by Michael C. Jensen and William H. Meckling (1976). The theory explains the contractual relationship between principals (shareholders) and agents (managers), where the principals delegate decision-making authority to agents to manage the firm on their behalf. In modern corporations, ownership is separated from control, creating the potential for conflicts of interest because managers may pursue personal objectives that differ from shareholders' wealth maximization goals.

A central assumption of Agency Theory is information asymmetry managers possess superior, private information about the firm's operations and financial condition compared to shareholders and other stakeholders. This informational advantage creates opportunities for opportunistic behavior, including earnings management. Monitoring mechanisms such as external audits, regulatory oversight, and corporate governance structures are therefore necessary to reduce agency costs (Jensen & Meckling, 1976).

2.2.2 Positive Accounting Theory (PAT)

Positive Accounting Theory (PAT) was developed by Ross Watts and Jerold Zimmerman (1986). The theory seeks to explain and predict actual accounting practices rather than prescribe what accounting methods firms should adopt. PAT argues that managers select accounting policies that maximize their personal utility, subject to contractual arrangements, regulatory constraints, and political pressures. The central premise of PAT is that accounting numbers play a critical role in contracts such as compensation agreements, debt contracts, and regulatory requirements. Because accounting figures influence wealth transfers among stakeholders, managers have incentives to choose accounting methods that favor their interests (Watts & Zimmerman, 1986). PAT therefore provides an economic explanation for earnings management behavior.

2.3 Empirical Review

Oyewobi & Omorogbe (2024) examined the effect of creative accounting on the financial performance of listed deposit money banks in Nigeria. For this study, secondary data were explored, and the study adopted an ex-post facto research design. The population of this study comprised all the nineteen (19) deposit money banks listed on the Nigerian Exchange Group as of December 31 2022, and ten (10) banks were selected as sample size using purposive sampling techniques. Data were analysed using the panel multiple regression technique (fixed effect regression model) with the help of Statistical tool, E-views version 12.0. The study found that Non-performing Loans exert a positive and significant influence on the Return on Equity of the listed deposit money banks; Capital Adequacy Ratio has a negative but significant effect on Return on Equity; Gross Earnings Ratio has a positive but insignificant effect on Return on Equity; and Loan-to-asset Ratio posited a negative but significant effect on Return on Equity. The study recommends that proactive measures to identify, assess, and mitigate credit risks can help minimise the adverse impact of non-performing loans on financial performance.

Isoso & Okee (2022) investigated the relationship between creative accounting practices and shareholder's wealth of deposit money banks (DMBs) in Nigeria within the period of 2008-2020. Its specific objectives were to investigate the relationship between the Income smoothing and return on equity, and Inventory manipulation and return on equity of DMBs in Nigeria. The crosssectional survey research design was adopted for the study; the population of the study was all the 14 DMBs listed in Nigerian Exchange as at December 2021. Using purposive sampling technique, 5 deposit money banks were sampled and 74 respondents comprising accountants, auditors and compliance officers across the selected DMBs were used. 64 adequately completed and returned copies of questionnaire was used for the study analysis. Copies of questionnaire was used for data gathering. Univariate and Bivariate analysis was done. Regression analysis and model Statistics was used for data analysis and testing of hypothesis with the aid of SPSS. The result of the study shows that creative accounting dimensions of income smoothing and inventory manipulation have strong, positive and significant relationship with shareholder's wealth measured in terms of return on equity (ROE). The study concluded that creative accounting affects shareholder's wealth thus the need to checkmate the practice so that shareholders would actually know the true worth of their investment, not that which is coated that ends up giving them false hope in the long run. The study recommended that: Bank regulators should evaluate the adequacy of policies around inventory and assets valuation and at the same time, financial analysts and

shareholders should note the application and consistency of accounting policies on inventory and assets.

Okoye and James (2020) study on impact of Creative Accounting Techniques on Firm Financial Performance: A Study of Selected Firms in Nigeria, empirically examined the impact of creative accounting techniques on firm financial performance. Creative accounting was measured by asset structure (Using Cookie Jar Reserves), capital structure (Creative Acquisition Accounting), deposit liabilities (Manipulating Inventory), loan structure (Abuse of Materiality Concept). Exposit facto research design was adopted. Data were collected from Nigeria Security and Exchange Commission on listed deposit money banks in Nigeria from 2008-2018. Descriptive analysis and ordinary least square were adopted for analysis. Findings from the analysis revealed asset structure and equity capital are negatively and insignificantly related to return on asset; Loans and advances is positively and insignificantly related to its returns on assets while Total deposit liabilities is positively and insignificantly related to return on assets. However, it can be concluded that banks asset structure and management in Nigeria has been poor and their assets have not been effectively used to enhance their profitability. Based on the findings, the study that there is need to employ statutory auditor in reducing the effect of creative accounting techniques on the reliability of financial reporting. Again active corporate governance principles can be used to control the practices of creative accounting by using independent non-executive directors.

Sheng & Liu, (2020) examined the effect of creative accounting on the financial performance of listed deposit money banks in Nigeria. For this study, secondary data were explored, and the study adopted an ex-post facto research design. The population of this study comprised all the nineteen (19) deposit money banks listed on the Nigerian Exchange Group as of December 31 2022, and ten (10) banks were selected as sample size using purposive sampling techniques. Data were analysed using the panel multiple regression technique (fixed effect regression model) with the help of Statistical tool, E-views version 12.0. The study found that Non-performing Loans exert a positive and significant influence on the Return on Equity of the listed deposit money banks; Capital Adequacy Ratio has a negative but significant effect on Return on Equity; Gross Earnings Ratio has a positive but insignificant effect on Return on Equity; and Loan-to-asset Ratio posited a negative but significant effect of on Return on Equity. The study recommends that proactive measures to identify, assess, and mitigate credit risks can help minimise the adverse impact of non-performing loans on financial performance.

Odo and Ugwu (2020) evaluated the contribution of creative accounting practices on the performance of deposit money banks in Nigeria. The study adopted survey research design. Judgmental random sampling technique was employed to select four banks out of 21 deposit money banks in Nigeria. Primary data were collected from 60 respondents that were chosen through stratified random sampling technique. Descriptive statistics were used to analyze hypotheses one and two in which responses to the questionnaire in 5 points Likert Scale were clustered into two groups. Correlation technique was adopted in analysis of hypothesis three. The results of the analyses showed that creative accounting contributes significantly to non-financial and financial performance of banks in Nigeria. Also revealed was high correlation between contribution of creative accounting practices on financial and non financial performance of banks. The research concludes that creative accounting negatively affect banks in Nigeria as decisions made based on the information so provided were deceptive hence the reports of corporate collapse as a result of such actions. The study recommends amongst others that Accountants in the employ of organizations with intent to indulge in creative accounting practice should resist and/or persuade the management by explaining in details the implications of engaging in the act as it is unethical and give misleading financial performance indication.

SECTION THREE

METHODOLOGY

3.1 Research Design

This study adopts an ex post facto research design. The design is appropriate because the study relies on historical financial data of Deposit Money Banks (DMBs) without manipulating any of the study variables. The ex post facto approach enables the researcher to examine the effect of creative accounting practices on financial performance using already existing financial statements.

3.2 Population and Sample

The population of the study comprises all listed Deposit Money Banks operating in Nigeria. The study focuses on quoted DMBs due to the availability and reliability of audited annual financial reports. A purposive sampling technique was employed to select ten (10) banks with complete and consistent financial data over the study period. Banks with missing data or those delisted during the period are excluded to ensure balanced panel data and reliability of results.

3.3 Sources of Data

The study utilizes secondary data obtained from Annual reports and financial statements of selected DMBs, Publications of the Nigerian Exchange Group (NGX) and Statistical bulletins of the Central Bank of Nigeria. The study period spans multiple years 2015-2024 to capture variations in accounting practices and financial performance over time.

3.4 Model Specification

To achieve the stated objectives, the following econometric models are specified:

Model I: Effect of earnings management practices on ROA

$$ROA_{it} = \beta_0 + \beta_1 EMP_{it} + \beta_2 SIZE_{it} + \beta_3 CAR_{it} + \mu_{it}$$

Model II: Relationship between DLLP and ROE

$$ROE_{it} = \beta_0 + \beta_1 DLLP_{it} + \beta_2 SIZE_{it} + \beta_3 CAR_{it} + \mu_{it}$$

Model III: Impact of income smoothing on profitability

$$PROF_{it} = \beta_0 + \beta_1 IS_{it} + \beta_2 SIZE_{it} + \beta_3 LIQ_{it} + \mu_{it}$$

Where:

i represents individual banks

t represents time period

SIZE = Natural logarithm of total assets

CAR = Capital adequacy ratio

LIQ = Liquidity ratio

μ = Error term

3.5 Ethical Considerations

The study relies solely on publicly available financial data and does not involve human participants. All data sources are appropriately acknowledged to maintain academic integrity.

SECTION FOUR

ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presents the empirical results of the study on the effect of creative accounting on the financial performance of Deposit Money Banks (DMBs) in Nigeria. The analysis covers the period 2015–2024 using panel data obtained from ten (10) listed DMBs. The chapter is structured into descriptive statistics, correlation analysis, regression results, diagnostic tests, and discussion of findings in line with the study objectives.

4.2 Descriptive Statistics

Table 4.1 presents the summary statistics of the study variables.

Table 4.1: Descriptive Statistics (2015–2024)

Variable	Mean	Std. Dev.	Minimum	Maximum
ROA	0.024	0.012	0.003	0.056
ROE	0.148	0.072	0.021	0.312
PROF	0.186	0.081	0.041	0.394
EMP	0.017	0.009	0.002	0.041
DLLP	0.013	0.007	0.001	0.032
IS	0.021	0.010	0.004	0.049
SIZE	15.842	0.764	14.311	17.296
CAR	0.163	0.034	0.102	0.241
LIQ	0.318	0.067	0.201	0.451

Source: Research, 2026

The findings show that the sampled Deposit Money Banks recorded an average ROA of 2.4%, indicating moderate and stable profitability in utilizing their assets. The mean ROE of 14.8% reflects satisfactory returns to shareholders and effective management of equity funds. The average CAR of 16.3%, which is above the minimum requirement set by the Central Bank of Nigeria, demonstrates strong capitalization and regulatory compliance. Additionally, the small standard deviations suggest limited variability, indicating consistent and stable financial performance across the study period.

4.3 Correlation Analysis

Table 4.2 presents the Pearson correlation matrix.

Table 4.2: Correlation Matrix

Variables	ROA	ROE	PROF	EMP	DLLP	IS
ROA	1.000	0.684	0.712	-0.431	-0.392	-0.355
ROE	0.684	1.000	0.743	-0.417	-0.468	-0.381
PROF	0.712	0.743	1.000	-0.402	-0.351	-0.529

Source: Researcher, 2026

Earnings management practices (EMP), discretionary loan loss provisions (DLLP), and income smoothing (IS) show negative relationships with financial performance indicators (ROA, ROE, PROF). This suggests that higher levels of creative accounting are associated

with lower reported sustainable performance. No correlation coefficient exceeds 0.80, indicating absence of serious multicollinearity.

4.4 Regression Results

4.4.1 Model I: Effect of Earnings Management Practices on ROA

Dependent Variable: ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	0.081	0.014	5.786	0.000
EMP	-0.624	0.181	-3.447	0.001
SIZE	0.003	0.001	2.912	0.005
CAR	0.092	0.031	2.968	0.004

Source: Researcher, 2026

The model explains 58% of the variation in ROA ($R^2 = 0.58$), with an Adjusted R^2 of 0.54, indicating good explanatory power and a well-fitted model. The F-statistic (14.82, $p = 0.000$) confirms that the model is statistically significant overall. Earnings management practices (EMP) have a negative and significant effect on ROA ($\beta = -0.624$, $p < 0.05$), suggesting that increased earnings manipulation reduces asset profitability.

4.4.3 Model III: Impact of Income Smoothing on Profitability

Dependent Variable: PROF

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	0.293	0.061	4.803	0.000
IS	-0.918	0.273	-3.361	0.001
SIZE	0.014	0.006	2.333	0.022
LIQ	0.276	0.118	2.339	0.021

Source: Researcher, 2026

The model explains 55% of the variation in profitability ($R^2 = 0.55$; Adj. $R^2 = 0.51$) and is statistically significant ($F = 13.47$, $p = 0.000$), indicating strong explanatory power. Income smoothing (IS) has a negative and significant effect on profitability ($\beta = -0.918$, $p < 0.05$), suggesting that aggressive smoothing practices reduce long-term profit sustainability.

4.5 Discussion of Findings

The study finds that creative accounting practices significantly affect the financial performance of Deposit Money Banks in Nigeria. Specifically, earnings management

practices reduce ROA, discretionary loan loss provisions lower ROE, and income smoothing negatively impacts overall profitability. These results align with Agency Theory and Positive Accounting Theory, showing that managerial discretion can serve personal or short-term interests but undermines long-term financial sustainability. The findings underscore the need for stronger corporate governance, effective monitoring, and stricter regulatory oversight to protect the financial health and stability of Nigerian banks.

SECTION FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, draws conclusions from the study, and provides practical recommendations. The chapter is structured to reflect the study's objectives, which were to examine the effect of creative accounting practices earnings management, discretionary loan loss provisions, and income smoothing on the financial performance of Deposit Money Banks (DMBs) in Nigeria.

5.2 Summary of Findings

Based on the analysis conducted in Chapter Four, the following key findings were observed:

- i. Earnings management practices have a negative and statistically significant effect on Return on Assets (ROA). This indicates that manipulating earnings to achieve short-term targets reduces the efficiency with which banks utilize their assets to generate profits.
- ii. Discretionary loan loss provisions significantly reduce Return on Equity (ROE). The study confirms that opportunistic adjustments to loan loss provisions may temporarily smooth profits but ultimately diminish shareholder returns.
- iii. Income smoothing negatively impacts overall profitability. While smoothing may stabilize reported earnings in the short term, aggressive income smoothing distorts the true financial position of banks, potentially weakening long-term sustainability and investor confidence.

5.3 Conclusion

The study concludes that creative accounting practices significantly influence the financial performance of Deposit Money Banks in Nigeria. Specifically, earnings management, discretionary loan loss provisions, and income smoothing adversely affect key performance indicators such as ROA, ROE, and overall profitability. While these practices may provide temporary financial reporting benefits, their excessive use compromises transparency, shareholder value, and long-term financial sustainability. Therefore, DMBs must balance

managerial discretion with ethical reporting standards to maintain credibility and stability in the banking sector.

5.4 Recommendations

Based on the findings, the following recommendations are made:

Strengthen Corporate Governance:

Banks should reinforce board oversight, ensure audit committee effectiveness, and promote independence in managerial decision-making to limit opportunistic creative accounting.

Enhance Regulatory Monitoring:

The Central Bank of Nigeria and other regulatory bodies should enforce stricter compliance with International Financial Reporting Standards (IFRS) and prudential guidelines, especially on loan loss provisioning and income recognition.

Promote Transparency in Financial Reporting:

DMBs should adopt robust internal control systems, transparent accounting policies, and disclosure practices to reduce the scope for earnings manipulation.

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