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Research Article

ACCOUNTING FLEXIBILITY AND PERFORMANCE OF MANUFACTURING FIRMS IN NIGERIA

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Abstract

This study examined the impact of creative accounting practices on the financial performance of manufacturing firms in Rivers State, with a focus on the dimensions of earnings management and window dressing, and their effects on profitability and liquidity. The study adopted a quantitative research design using an ex-post facto approach, and data were collected from the audited financial statements of thirty (30) manufacturing firms over a five-year period (2018–2022). Descriptive statistics, regression analysis, and ANOVA were employed to analyze the data using SPSS version 25. The findings reveal that both earnings management and window dressing have a significant positive effect on financial performance, indicating that firms employing these practices report higher short-term profitability and liquidity ratios. However, the study highlights that such practices may distort the true financial position of firms and creates information asymmetry for stakeholders. The results align with Agency Theory and Positive Accounting Theory, suggesting that managerial incentives and strategic responses to external pressures often drive creative accounting practices. Based on the findings, the study recommends strengthening corporate governance, enforcing ethical accounting standards, enhancing regulatory oversight, building capacity for accountants and auditors, and educating stakeholders on the potential risks of creative accounting. Implementing these recommendations will promote transparency, reliability, and sustainable financial performance in manufacturing firms.

Keywords: Creative accounting practices, Earnings management, Window dressing, financial performance, Profitability, Liquidity, Manufacturing firms, Rivers State

Introduction

In the contemporary business environment, financial reporting serves as a critical tool for decision-making by investors, creditors, regulators, and other stakeholders. It is expected to provide a true and fair view of a firm's financial position and performance (Scott, 2015). However, the increasing pressure on firms to meet financial targets, attract investment, and enhance market value has led some organizations to adopt creative accounting practices the deliberate manipulation or structuring of financial statements within the boundaries of accounting

standards to present a more favorable image than the actual financial reality (Healy & Wahlen, 1999; Jones, 2011).

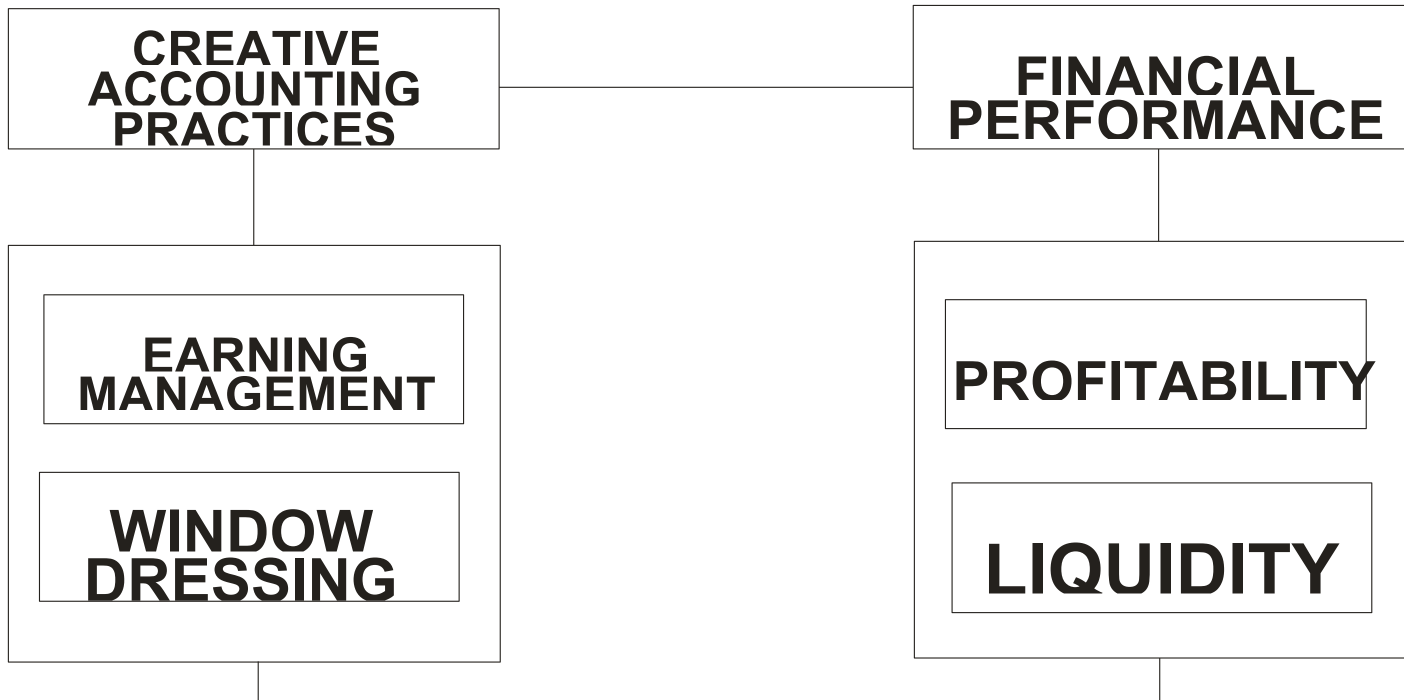
Creative accounting is particularly prevalent in developing economies, where regulatory oversight may be weaker and corporate governance less robust. Such practices include earnings management, window dressing, and the misclassification of transactions, which can significantly influence stakeholders' perception of a firm's performance. In manufacturing firms, where capital intensity and operational costs are high, and these accounting maneuvers may be employed to mask inefficiencies or inflate profitability temporarily (Khaleel et al, 2023).

The financial performance of a firm often measured through profitability, liquidity, and return on investment is a key indicator of sustainability and growth (Atrill & McLaney, 2018). While creative accounting may enhance reported financial outcomes in the short term, it can undermine investor confidence, distort resource allocation, and increase the risk of financial scandals in the long term (Dechow et al, 1996). In the context of Rivers State, Nigeria a hub of industrial and manufacturing activities the interplay between creative accounting practices and firm

Conceptual Framework

Performance remains underexplored, yet highly relevant for policymakers, investors, and corporate managers seeking sustainable growth.

Given this backdrop, this study seeks to investigate the impact of creative accounting practices on the financial performance of manufacturing firms in Rivers State, with a focus on the dimensions of earnings management and window dressing, and their influence on profitability and liquidity. The findings are expected to contribute to the body of knowledge on accounting ethics, corporate governance, and financial management in emerging economies.



Objectives of the Study

Ho₂: Earnings Management Has A Significant Positive

1. To examine the effect of earnings management on the profitability of manufacturing firms in Rivers State. 2. To assess the impact of earnings management on the liquidity of manufacturing firms in Rivers State.
3. To evaluate the influence of window dressing on the profitability of manufacturing firms in Rivers State. 4. To determine the effect of window dressing on the liquidity of manufacturing firms in Rivers State.

Hypotheses of the Study

Ho_1: Earnings management has a significant positive effect on the profitability of manufacturing firms in Rivers State. Effect on the liquidity of manufacturing firms in Rivers State.

Ho_3: Window dressing has a significant positive effect on the profitability of manufacturing firms in Rivers State.

Ho_4: Window dressing has a significant positive effect on the liquidity of manufacturing firms in Rivers State.

Theoretical Framework

Agency Theory

Agency theory, developed by Jensen and Meckling (1976), explains the relationship between principals (owners or shareholders) and agents (managers) in a firm. According to the theory, managers may act in their own interests rather than the interests of the owners, especially when there is information asymmetry and weak monitoring mechanisms. This divergence of interest creates opportunities for creative accounting practices, such as earnings management and window dressing, as manager's attempt to present financial performance in a more favourable light to satisfy shareholders, secure bonuses, or attract investments (Scott, 2015). In the context of manufacturing firms in Rivers State, agency theory helps to understand why managers may manipulate accounting information. The lack of stringent regulatory oversight or internal controls can exacerbate this behaviour, influencing both profitability and liquidity key dimensions of financial performance. Agency theory supports the notion that creative accounting practices may not always reflect true firm performance but are driven by managerial self-interest and the need to meet stakeholder expectations.

Positive Accounting Theory (PAT)

Positive Accounting Theory, proposed by Watts and Zimmerman (1986), seeks to explain and predict actual accounting practices rather than prescribe how accounting should be done. PAT posits that managers adopt accounting policies and practices, including creative accounting, to maximize their wealth, minimize taxes, or influence reported earnings. This theory suggests that financial reporting choices are influenced by economic incentives, contractual obligations, and political pressures. For this study, PAT is relevant because it provides a framework to understand why manufacturing firms in Rivers State may engage in earnings management or window dressing. It implies that these practices are strategic responses to environmental pressures, regulatory frameworks, or performance-based contracts, which in turn affect firm profitability and liquidity. Key Implication: Positive Accounting Theory justifies the empirical investigation of the relationship between creative accounting practices and financial performance, as it treats accounting choices as economically motivated behaviours.

Concept of Creative Accounting Practices

Creative accounting refers to the manipulation or structuring of financial information within the bounds of accounting standards to present a more favourable view of a company's financial performance than actually exists (Healy & Wahlen, 1999; Jones, 2011). It is often used by management to influence stakeholders' perceptions, secure loans, attract investors, or meet regulatory and market expectations. While creative accounting does not necessarily violate the law, it can distort the true financial position of a firm and undermine the reliability of financial statements (Scott, 2015).

Creative accounting is a common practice in both developed and developing economies, particularly in organizations where corporate governance, internal controls, and regulatory oversight are weak (Ugochukwu, 2024). In manufacturing firms, where large capital investments and operational costs dominate, managers may use creative accounting techniques to manipulate reported earnings, adjust asset valuations, or restructure liabilities, thereby affecting key performance indicators such as profitability and liquidity (Paul & Olayinka, 2021).

Earnings Management

Earnings management is the deliberate manipulation of accounting entries and financial reporting to achieve a desired level of profit. Managers may accelerate or defer revenue recognition, manipulate expense reporting, or use accrual adjustments to smooth earnings over periods (Healy & Wahlen, 1999). The objective is often to meet market expectations, secure performance-based bonuses, or influence stock prices. While this practice may improve short-term financial performance metrics, it can mislead stakeholders and increase the risk of future financial instability.

Window Dressing

Window dressing refers to temporary actions taken by management to make the financial statements or position of a firm appear stronger than it actually is, usually at the end of a reporting period (Jones, 2011). Common techniques include inflating inventory values, accelerating cash collections, delaying payments, or restructuring liabilities. Unlike earnings management, which can be systematic and continuous, window dressing is often shortterm and aimed at improving the firm's appearance to outsiders such as investors, creditors, or regulators.

Concept of Financial Performance

Financial performance refers to a firm's ability to generate profits, manage resources efficiently, and maintain financial stability over time. It provides an assessment of how effectively an organization utilizes its assets and manages its liabilities to achieve its objectives and satisfy stakeholders (Atrill & McLaney, 2018). Financial performance is a critical measure for investors, managers, and regulators, as it reflects the firm's operational efficiency, profitability, and long-term sustainability (Onyema et al, 2025). In the context of manufacturing firms, financial performance is influenced by both internal factors such as operational efficiency, cost management, and accounting practices and external factors, including market conditions, competition, and regulatory

frameworks. The adoption of creative accounting practices can distort financial statements, temporarily affecting performance indicators, which makes understanding financial performance vital for evaluating true firm health (Dechow et al., 1996).

Profitability

Profitability measures the firm's ability to generate earnings relative to its revenue, assets, or equity. Common indicators include Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE) (Atrill & McLaney, 2018). High profitability indicates effective management and resource utilization, while low profitability may signal operational inefficiencies or financial distress. In relation to creative accounting, profitability can be artificially inflated through earnings management or other manipulative techniques.

Liquidity

Liquidity refers to a firm's ability to meet its short-term obligations as they become due. It is typically measured using the Current Ratio and Quick Ratio, which assess the firm's capacity to convert assets into cash quickly without affecting operations (Onyema et al, 2025). Maintaining adequate liquidity ensures operational continuity and strengthens stakeholder confidence. However, window dressing and other accounting manipulations can temporarily improve liquidity ratios, masking the true financial position of the firm.

Empirical Literature Review

Onyema et al. (2025) examined the impact of creative accounting practices on the financial performance of commercial banks in Nigeria, focusing on unresolved complaints for the period 2020–2024. Using an ex-post facto research design, publicly available data on unresolved complaints and financial performance indicators ROE, ROA, and NIM were collected. Data were analysed using Auto-Regression Distributed Lag (ARDL) models and the Bounds Test in E-Views 10. The study found that creative accounting significantly affects financial performance in both the short and long run. It recommended that banks address unresolved complaints through internal audits and collaboration with relevant stakeholders to enhance financial performance.

Adedipe and Ayeni (2026) investigated the effects of creative accounting practices on the financial performance of listed non-financial companies in Nigeria. Using a quantitative descriptive research design, data were collected from 11 non-financial firms that consistently published audited financial statements between 2010 and 2019. Creative accounting was measured by frequent changes in inventory structure and accrued expenses, while financial performance was proxy by return on assets (ROA). Panel regression analysis revealed that changes in inventory structure had a positive and significant effect on financial performance. The study concluded that creative accounting practices significantly influence the financial performance of non-financial firms and are an important determinant of organizational performance.

Mbaekulie (2024) examined the relationship between creative accounting practices and the financial performance of listed manufacturing firms in Nigeria. Using an ex-post facto research design, the study relied on secondary data obtained from the annual reports and accounts of selected firms. The population comprised 59 listed

manufacturing firms, from which a sample of 10 firms was selected using judgmental sampling. Multiple regression analysis was employed to test the hypotheses. The findings revealed that revenue manipulation and asset valuation had significant effects on return on assets, while misclassification of expenses had no significant effect. The study concluded that creative accounting practices influence firm performance and recommended that firms avoid manipulative practices relating to revenue, expenses, earnings, liabilities, and assets. It further emphasized adherence to IFRS-based asset and liability valuation and urged accountants to uphold honesty, integrity, and professionalism to ensure long-term corporate survival. Ajinwo and Nwaba (2024) examined the effect of creative accounting on the financial performance of manufacturing firms in Rivers State. The study focused on income smoothing and aggressive earnings management as dimensions of creative accounting, and return on assets (ROA) and earnings per share (EPS) as measures of financial performance. Using a survey research design, primary data were collected via structured questionnaires from 121 managerial and non-managerial staff of four selected manufacturing firms, with respondents chosen through simple random sampling. Frequencies, percentages, and mean scores were used to analyse demographic data, while hypotheses were tested using Spearman Rank Correlation at a 5% significance level with SPSS version 21. Findings revealed strong positive and significant relationships between both dimensions of creative accounting and all measures of financial performance. The study concluded that creative accounting significantly enhances the financial performance of manufacturing firms in Rivers State and recommended strengthening accounting integrity, public confidence, and regulatory oversight to curb abuses and malpractice in accounting operations.

Ugochukwu (2024) investigated the influence of creative accounting on financial reporting and its implications for corporate governance in Nigeria. The study found that companies manipulating financial records to present a more favourable financial position experienced greater investor misjudgement and increased stock price volatility. Analysis of financial statements from leading Nigerian banks using ANOVA revealed a strong correlation between creative accounting and financial instability. The study recommended stronger regulatory oversight and corporate governance reforms to mitigate the risks associated with financial manipulation.

Paul and Olayinka (2021) examined the impact of corporate governance mechanisms on creative accounting practices in Nigeria, focusing on the effect of the Financial Reporting Council of Nigeria (FRCN) Act 2011. Using a sample of 70 firms, the study compared periods before (2005–2010) and after (2012–2017) the enactment of the Act. Data were analysed using regression and a differencein-differences estimator. Findings revealed that corporate governance mechanisms became significantly more effective in reducing creative accounting practices following the FRCN Act. The study concluded that regulatory interventions enhance corporate governance, thereby minimizing creative accounting, and highlighted the critical role of regulators in promoting transparency and good corporate reporting in emerging economies.. Healy and Wahlen (1999) conducted a comprehensive review of the earnings management literature to understand how managers manipulate financial reports to influence stakeholder perceptions. Using a qualitative synthesis of secondary data from previous studies, they

found that earnings management is widely practiced, enabling managers to adjust reported profits, meet market expectations, and secure personal incentives. The study concluded that earnings management, although often within accounting standards, can distort the true financial performance of firms. It recommended stronger internal controls, robust audit procedures, and effective corporate governance mechanisms to limit manipulative practices. Dechow, et al, (1996) investigated the causes and consequences of earnings manipulation among firms subject to SEC enforcement actions. This ex-post facto causal-comparative study utilized archival data from financial statements and regulatory reports, analyzed with regression techniques. The study found that firms manipulated earnings to meet analyst forecasts and contractual obligations, leading to temporary improvements in profitability ratios. However, such manipulations often resulted in regulatory sanctions and long-term financial risks. The study concluded that earnings manipulation affects reported financial performance and recommended improved monitoring and oversight by auditors and regulators to ensure financial statement reliability.

Methodology

This study adopts a quantitative research design to examine the impact of creative accounting practices on the financial performance of manufacturing firms in Rivers State. An ex-post facto (causal-comparative) approach was used to analyse existing financial data, as the independent variables earnings management and window dressing cannot be manipulated experimentally (Creswell, 2014; Sekaran & Bougie, 2016). The population consists of all manufacturing firms in Rivers State listed by the Manufacturers Association of Nigeria (MAN). Using purposive sampling, 32 firms with complete audited financial statements over the five-year period (2018–2022) were selected, while firms with incomplete records were

Descriptive Statistics of Variables

Excluded. Secondary data were collected from audited financial statements, annual reports, and publications. Data were analysed using descriptive and inferential statistics with SPSS version 25, ensuring reliability and accuracy in testing the hypotheses (Hair et al., 2017).

Data Presentation, Analysis, and Discussion of Findings

This presents the results of the study on the impact of creative accounting practices on the financial performance of manufacturing firms in Rivers State. The analysis covers descriptive statistics of the study variables, and inferential analysis to test the research hypotheses. The discussion of findings is linked to prior empirical studies. A total of 160 questionnaires were distributed out of which 150 were returned and found usable, representing a response rate of

93.75%, which is adequate for analysis

ANOVA Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	325.456	2	162.728	106.78	0.000

		1.920
Residual	282.128	147
Total	607.584	149

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	1.214	0.543		2.234	0.027
Earnings Management	0.452	0.071	0.541	6.366	0.000
Window Dressing	0.317	0.059	0.398	5.368	0.000

Source: SPSS Output, 2026

Variable N Sum Mean Std. Dev Skewness Kurtosis

Source: SPSS Output, 2026

The mean values indicate moderate levels of arnings management and window dressing across the firms. Standard deviations are relatively small, suggesting limited variability in the practices and financial performance indicators. Skewness values are close to zero, implying approximately symmetrical distributions. Kurtosis values near 3 suggest that data distributions are roughly normal, meeting regression assumptions.

Regression Model Summary

Regression Analysis

Regression analysis was conducted to examine the influence of earnings management (EM) and window dressing (WD) on financial performance (profitability and liquidity).

Model R	R^2	Adjusted R^2	Std. Error of Estimate	Durbin-Watson		
Financial Performance	0.732	0.536	0.529	1.235	1.912	
Earnings Management (EM)	150	1125.34	7.50	1.82	0.45	2.10
Window Dressing (WD)	150	975.67	6.50	1.34	0.32	1.95
Profitability (ROA/NPM)	150	1120.12	7.47	1.76	0.40	2.05
Liquidity (Current Ratio)	150	1128.50	7.52	1.81	0.38	2.01

Source: SPSS Output, 2026

Earnings management has a positive and significant effect on financial performance ($\beta = 0.541$, $p < 0.05$). Window dressing also has a positive and significant effect ($\beta = 0.398$, $p < 0.05$). This suggests that both dimensions of creative accounting practices significantly influence profitability and liquidity of manufacturing firms in Rivers State.

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Discussion of Findings

The findings of this study provide empirical evidence on the impact of creative accounting practices on the financial performance of manufacturing firms in Rivers State. The study specifically examined the two dimensions of creative accounting practices earnings management and window dressing and their effects on the financial performance dimensions of profitability and liquidity.

The regression analysis revealed that earnings management significantly and positively affects financial performance, supporting the study hypotheses H_1 and H_2. .This suggests that firms engaging in earnings management tend to report higher profitability and improved liquidity ratios, at least in the short term. This finding aligns with Healy and Wahlen (1999), who reported that earnings management is often used by managers to meet financial targets, influence investor perceptions, and secure performance-based incentives. It also confirms Onyema et al, (2025) observations that firms employing aggressive accounting strategies can artificially enhance reported earnings. However, consistent with Agency Theory (Jensen & Meckling, 1976), while earnings management improves reported financial performance, it may not reflect the true economic health of the firm and could create information asymmetry between management and stakeholders.

Similarly, window dressing was found to have a significant positive effect on financial performance, confirming hypotheses H_3 and H_4. The results indicate that firms that engage in window dressing techniques, such as manipulating end-of-period balances or temporarily restructuring liabilities, can report higher short-term liquidity and profitability ratios. This finding is consistent with Jones (2011); Adedipe and Ayeni, (2026), who noted that window dressing is a common practice used to enhance the appearance of financial statements and attract investor confidence. From the perspective of Positive Accounting Theory (Watts & Zimmerman, 1986), managers strategically use window dressing to respond to market pressures or contractual obligations, demonstrating the economic motivations behind creative accounting practices.

Overall, the study confirms that creative accounting practices significantly influence financial performance, explaining over 50% of the variation in profitability and liquidity among the sampled manufacturing firms. This finding suggests that while such practices may improve reported financial metrics in the short term, they pose potential risks for long-term sustainability, transparency, and stakeholder trust. Stakeholders relying solely on reported financial statements may be misled about the firm's true performance, emphasizing the need for ethical accounting practices and strong regulatory oversight. In summary, the discussion indicates that creative accounting practices in Rivers State's manufacturing sector are prevalent and have a measurable impact on reported financial performance. The findings corroborate prior studies and theoretical frameworks, highlighting the dual nature of these practices: they can enhance reported financial indicators but may compromise the integrity and reliability of financial reporting.

Conclusion and Recommendations

This study examined the impact of creative accounting practices on the financial performance of manufacturing firms in Rivers State, focusing on the dimensions of earnings management and window dressing, and their effects on profitability and liquidity. The findings indicate that both earnings management and window dressing have a significant positive effect on financial performance. Firms that engage in these practices tend to report higher short-term profitability and liquidity ratios. However, the study also reveals that while creative accounting may temporarily enhance reported financial performance, it does not necessarily reflect the true economic position of the firm. Such practices may create information asymmetry, mislead stakeholders, and compromise the transparency and reliability of financial reporting. The results support both Agency Theory and Positive Accounting Theory, suggesting that managerial incentives and strategic responses to external pressures often drive creative accounting practices.

In conclusion, while creative accounting can improve reported performance in the short term, it carries long-term risks for corporate governance, stakeholder confidence, and sustainable financial management. Based on the findings of this study, the following recommendations are made:

1. Strengthen Corporate Governance and Oversight: Manufacturing firms should enhance the roles of boards, audit committees, and internal control systems to reduce the prevalence of earnings management and window dressing.
2. Promote Ethical Accounting Practices: Firms should adopt and enforce ethical standards in financial reporting, ensuring that accounting practices reflect the true financial position and performance of the firm.
3. Enhance Regulatory Monitoring: Regulatory authorities should enforce strict compliance with accounting standards and conduct regular audits to detect and deter manipulative practices.
4. Capacity Building for Accountants and Auditors: Continuous training and professional development should be provided to accounting and audit personnel to improve skills in identifying and preventing creative accounting practices.
5. Stakeholder Education: Investors, creditors, and other stakeholders should be educated on the potential risks of relying solely on reported financial statements and encouraged to conduct thorough financial analysis before making decisions.

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