EFFECT OF CREATIVE ACCOUNTING PRACTICES ON LONG TERM SURVIVAL OF FIRMS LISTED AT THE KENYAN NAIROBI SECURITIES EXCHANGE

BY

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

Sign: ……..**.....** Reg, No. KCA/08/01205

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I do hereby confirm that I have examined the master's dissertation of

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ABSTRACT

The current business environment and economic recession have recently pushed top management of many organizations into paying attention to making their financial statements look better using aggressive or creative accounting. Understanding reasons for survival and longevity of firms is central for managing financial accounts and reports. Some firms are more likely to survive longer than others are, thus some factors lead to relative longevity of some firms and cause others to fail. Complexities of creative accounting practices are fully exposed or felt only when the complete structure of a company has collapsed or failed in most of its operations. Accounting practices and scandals can destroy any organization; therefore the need to restore integrity and public confidence to accounting operations. Key motives for creative accounting are to hide a particular bad year to force an exceptionally good year, smooth-out results to give impression of stability; to avoid liquidation. The study examined effect of creative accounting practices on long-term survival of firms listed at NSE. Hence, financial statements' data; was collected for the years between 2011 and 2015 for comparative purposes for a target population of 65 firms. Failure or bankruptcy prediction model; Altman's ZETA-Score Model (1968) which allows simultaneous consideration of several variables in prediction of corporate failure was applied to predict long term survival. The study carried out statistical analysis on the financial statements of the firms and used the analyzed results to compute ratios for the analysis. Thus, 87% of the firms were found to be having Z-scores less than 1.81, indicating the presence of creative accounting. Therefore, these firms were assumed to be facing financial distress and portray a high probability of bankruptcy in the future. Whereas, 13% had Z-scores above 1.81; thus portraying long term survival. Complex measures that focus on the framework of organization and management ought to be taken so as to limit the option causes in favor of creative accounting practices. Thus if creative accounting is practiced, there is plenty of scope of maneuvering and manipulation of accounting information raising doubts on true and fair view of the financial statements and eventually firms' survival.

Key words: Creative accounting, Long-term survival, Expenses, Revenue, Assets, Liabilities

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DEDICATION

This dissertation is dedicated to my beloved family for their undying, tireless and unmatched sacrifice throughout the entire research project. You are my heroes.

Special dedication goes to the Almighty God who has guided me this far.

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ACRONYMS AND ABBREVIATIONS

CMA: Capital Markets Authority

GAAP: Generally Accepted Accounting Principles

IAS: International Accounting Standard

IASB: International Accounting Standards Board

IFRS: International Financial Reporting Standard

IFRSF: International Financial Reporting Standards Foundation

ISAC: International Accounting Standards Committee

NSE: Nairobi Securities Exchange

PPE: Plant, Property and Equipment

SEC: Securities and Exchange Commission

SPSS: Statistical Package for Social Sciences

UK: United Kingdom

USA: United States of America

OPERATIONAL DEFINITION OF TERMS

Creative Accounting: transformation of financial accounting figures from what they are to what the management desire by taking advantage of existing international accounting standards

Fraud: This is the use of false representations to gain unjust advantage and criminal deception.

Financial Statement: annually book or report that contains summarized information of organizations affairs organized systematically.

Auditor: a person assigned to carry out an independent examination of evidence supporting the financial statements of an organization.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The background of this study presents Creative Accounting practices, Long term Survival and Nairobi Securities Exchange.

1.1.1 Creative accounting practices

According to Gupta (2015) fast growing economies in recent decades had observed a high increase in corporate frauds, posing serious questions before academicians, researchers and professionals on the effectiveness of corporate governance mechanisms, government regulation mechanisms and the role of corporate and individual ethics. After every scam or fraud, the government and regulatory machinery had been strengthened to reduce the number of financial statement frauds that essentially imposed a check on the nexus between the company and professionals and between banks and administrators, which would have been achieved through more disclosures, by imposing and fixing responsibilities on each party involved. In recent time's financial statement frauds; had been discovered to pose a threat on organizations and firms survival. It is a risk, which could incur a cost leading to a lot of problems and loss of confidence of shareholders and the public.

Brendan and O'Connell (2009) postulated that the current business environment and the economic recession had in recent times pushed the top management of many organizations into paying attention on how to make the financial statements of their organizations look better. This was perpetrated in order to attract investors by manipulating figures in their financial statements, either by increasing or by decreasing the figures depending on what they wanted to achieve at that moment using aggressive or creative accounting otherwise known as financial statement

fraud. Richard, Yip and Johnson (2009) carried out investigations on high profile accounting scandals such as Enron and WorldCom (financial statement fraud) committed by management which had shown different figures so as to compete with other companies and there after collapsed.

The Securities and Exchange Commission (SEC) became more aggressive at pursuing Companies for financial statement fraud in the post-Enron environment. These frauds often crossed several reporting periods, thus creative accounting appears to be a mechanism for boosting reported earnings to appease financial analysts, investors and shareholders. The motivation for this ensured a rising stock price and thus increased executive remuneration. The continuous improper revenue recognition through recording of fictitious revenues or recording revenues prematurely remained the most preferred method for deception (Brendan & O'Connell 2009).

Gupta (2015) found out that corporate fraud and misconduct remained a constant feature posing threat both from the macro and from micro perspective of the economy. Thus, corporate frauds became a global phenomenon with the advancement of commerce and technology. Across the world today accounting procedures and choice of polices that resulted from many judgments at the same time were capable of manipulation, which resulted into creative accounting. The differences that were observed in financial reporting were legitimately prepared from the choice of varied accounting policies of the same organization for the same period and had brought about challenges of credibility to financial statements and reporting.

1.1.2 Long term survival

Bonn (2000) observed that understanding the reasons for the survival and longevity of firms was central for managing financial accounts and reports. Why were some firms more likely to survive than others? What were the factors that lead to relative longevity of some firms and cause others to fail? These questions were of importance to investors, shareholders, financial analysts, auditors and other stakeholders.

Under the International Accounting Standards Board (IASB) 2016 entities were required under International Accounting Standard 1 (IAS 1- Paragraph 25) when preparing financial statements, the management to assess an entity's ability to continue as a going concern. An entity should prepare financial statements on a going concern basis unless the management either had the intention to liquidate the entity or to cease trading. When the management was aware in making its assessment of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity should disclose those uncertainties. When an entity did not prepare financial statements on a going concern basis, it should disclose that fact, together with the basis on which it prepared the financial statements and the reason as to why the entity was not regarded as a going concern.

IAS 1- Paragraph 26 (2001) state that in assessing whether the going concern assumption was appropriate, the management should take into consideration all available information about the future, which is at least twelve months from the end of the reporting period. When an entity had a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting was appropriate without detailed analysis. In other cases, the management would need to consider a wide range of factors relating

to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it could satisfy itself that the going concern basis was appropriate.

Hayes (2005) noted that Enron Energy Services, a subsidiary of Enron Corporation used dubious accounting practices to recognize revenue (revenue manipulation). By forecasting that prices of electricity would decline in the future, Enron recorded an immediate profit on a long-term energy contract. Enron estimated what its profits would be over the full term of the contract, based on assumptions about the future energy prices, energy use and the speed at which different states would deregulate their electric market. Enron forecasted what prices would be in the nonexistent deregulated markets, based on projections it calculated its total profit for the entire contract and recorded revenue from the contract. Thus, managers manipulated reported earnings to achieve some aims such as earnings target, employee bonuses, bond covenants, stakeholder motivations and stock price motivations.

Gerald and Kathleen (2008) in their research stated that off-balance-sheet financing arrangements were allowable under the Generally Accepted Accounting Principles (GAAPs) in the United States of America (USA). These off-balance-sheet arrangements included investments in equity of other entities, transfers of financial assets, retirement arrangements, leases, and contingent obligations and guarantees. Firms engaged in these transactions to keep certain types of debt off the balance sheet in order to maintain attractive financial ratios, increased borrowing capacity, transfer risks from the parent to subsidiary and smooth financial figures from one period to another. They noted that the Sarbanes-Oxley Act of 2002 was passed to increase transparency in corporate accounting and reporting. Thus, the SEC conducted extensive study of the use of off-balance-sheet transactions by corporations with an emphasis on special purpose entities (SPEs), due to the many areas in which they were used and the substantial risks that

could be hidden in the absence of proper disclosure. While Enron's abuses were obvious, more misperceptions that firm's project on a regular basis using off-balance-sheet financing had the potential of being equally destructive.

Sabau (2013) highlighted that economic entities wished to show a stable income so that investors would not be worried about fluctuations, and that share prices would not fluctuate but be stable. Managers tried to achieve the objectives of profitability, sales volume and value of share price by manipulating accounting data. Laura and Ileana (2013) noted that the change of value and structure of internal capital; whereby the change of revenues and expenses had an impact on the size of the result and, consequently on the size of reserves. Thus, this modified the value of internal capital and of all shares calculated based on that value which would lead to the declining or shrinking market share.

Gupta (2015) stated that a Company being a congregation of various stakeholders at the micro and macro levels must have been fair and transparent to its shareholders and stakeholders in all its transactions. Globally Companies needed to access resources and compete in a global market place that essentially required that it must have embraced and demonstrated ethical conduct to grow and prosper financially in the long run.

Kamau, Mutiso and Ngui (2012) found out that Kenya similarly to other developing and developed countries, was in the grip of creative accounting, implying the need for a transparent, ethical and responsible financial reporting and disclosure structure. The global financial crisis during the recent past, along with some of the large corporation failures and financial statement frauds; revealed a continued persistent creative accounting practices and the presence of failure risk in business structures of large and medium sized organizations including banks.

Nogler (2007) noted that capital market participants expected vigilant and active management to ensure the integrity, transparency and quality of financial information. Sudden surprises that a company had cheated investors and shareholders and that the directors of the company had gone underground, shook the confidence of all shareholders and stakeholders. Kamau (2015) in his study found out that financial statement fraud affected the corporate image and going concern of a company and was a serious threat to confidence in published audited financial statements that lead to failure and collapse of companies such as Imperial Bank, Dubai Bank and recently Chase Bank. The complexity of creative accounting practices became exposed only when the complete structure of a company had collapsed.

1.1.3 Nairobi securities exchange

The Nairobi Securities Exchange (NSE) was constituted as Nairobi Stock Exchange in 1954 as a voluntary association of stockbrokers in the European community under the Societies Act. The NSE had sixty-five listed companies as at April 2016. The NSE was restructured to give rise to three market segments; the Main Investments Market Segment (MIMS), the Alternative Investment Market Segment (AIMS), and the Fixed Income Securities Market Segment (FISMS). The NSE supported trading, clearing and settlement of equities, debt, derivatives and other associated instruments. It gave investors the opportunity to access current information and provided a reliable indication of the equity markets performance through the firms listed at the NSE.

The NSE classified listed firms into twelve sectors; Telecommunication and Technology, Agricultural, Automobiles and Accessories, Commercial and Services, Banking, Investment, Investment Services, Insurance, Manufacturing and Allied, Construction and Allied, Energy and Petroleum and Real Estate Investment Trust (NSE, 2016). Among the requirements for firms to

be listed at the NSE, was that they provide audited financial statements and have a clear policy into the preparation and presentation of all financial reports. This made financial statements preparation and presentation worthy of serious management attention. The NSE provided an avenue for the buying and selling of securities or shares and bonds either from the primary market through an initial public offer (IPO) or from the secondary market (NSE, 2016).

The Capital Markets Authority (CMA) granted approval for listing to all public registered Companies and listing of securities of all publicly registered firms at NSE. The CMA is a government regulator charged with licensing and regulating capital markets in Kenya. The CMA through various acts, regulations and guidelines regulates the operations of listed companies. Listing is the admission of a company into the stock market after meeting all regulatory requirements set by the CMA that controls the NSE. The CMA issued and continuously monitored compliance to guidelines and obligations by public listed companies. For a company to be listed it had to be a public company (CMA, 2016).

Public companies were companies owned by shareholders who were members of the general public and traded shares at public exchanges. The incorporated companies were required to have current audited financial statements in the IFRS format not older than four months prior to listing application, prepared on a going concern basis. The benefits of listing include; source of cheap long-term capital, shareholder protection and positive public image. It would also provide a ready market for securities, greater transferability of securities, objective valuation of securities by market forces, greater efficiency due to more rigorous disclosure requirements, greater public profile and awareness of the institution and its products, ability to leverage corporate strength, ready succession and exit strategy (CMA, 2016).

1.2 Statement of the Problem

According to Liou (2008) 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 (Liou, 2008). Akenbor and 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.

Laura and Ileana (2013) 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.

Ijeoma and Aronu (2013) who carried out a research in Nigeria examined the contribution of creative accounting on economic development noted that modern organized sophisticated corporate fraud had been on the increase. Cenap (2014) established that 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.

Many research studies on creative accounting had been carried out in developed countries whose findings may not have been compatible with developing countries considering the environmental differences; hence, there was a need to further discover on creative accounting and long-term survival of listed companies in developing countries. There had been minimal studies on how creative accounting practices affect long-term survival of firms and how firm's management reacted to such and hence the need for the study in Kenya to advance contribution to this growing body of literature. In Kenya, few empirical studies had been carried out to establish the relationship between creative accounting and long-term survival of firms. This study therefore sought to fill the void by establishing the effect of creative accounting practices on long-term survival of firms listed at the Kenyan NSE. This study therefore intended to address the following research question: What is the relationship between creative accounting practices and long-term survival of firms listed at the Kenyan NSE?

1.3 Objectives of the Study

The general objective of the study was to examine the effect of creative accounting practices on long-term survival of firms listed at the Kenyan NSE.

Specific objectives of the study were:

a) To establish the effect of revenue manipulation on long term survival of firms listed at NSE.
b) To examine the effect of misclassification of expenses on long term survival of firms listed at NSE.
c) To establish the effect of valuation of assets and liabilities on long term survival of firms listed at NSE.

1.4 Research Questions

a) Does revenue manipulation significantly affect long term survival of firms listed at NSE?
b) What effect does misclassification of expenses has on long term survival of firms listed at NSE?
c) What relationship exists between valuation of assets and liabilities and long term survival of firms listed at NSE?

1.5 Justification of the Study

This study sought to examine the effect of creative accounting practices on long term survival of firms listed at the Kenyan NSE and therefore contribute to the existing knowledge on financial statements preparation policies, the International Accounting Standards (IASs), the International Financial Reporting Standards (IFRs), the International Standards on Auditing (ISAs) and their

extensive implications. It sought to ascertain whether a well-designed framework of accounting regulation would curb creative accounting practices in organizations financial reporting.

1.6 Significance of the Study

The study would be of great benefit to policy makers, the management of various organizations, investors, auditors, stakeholders, shareholders and academic researchers. The study would enable the management to have an in-depth understanding of the effects and costs of window dressing of financial statements. It would also benefit investors, stakeholders, shareholders and the public who may resort to audited financial statements of organizations to make investment decisions. It would also be readily available for academic researchers.

1.7 Scope of the Study

This study focused on the effect of creative accounting practices on long term survival of firms listed at the NSE. It also focused on the relationship between creative accounting and long term survival. The study took an extra mile to focus on revenue manipulation and its significant relationship with long term survival. It further took an analysis on the effects of misclassification of expenses on long term survival. The study finally examined the significant relationship that exists between valuation of assets and liabilities and long term survival. This study was limited to firms listed at the NSE that formed a strategic area for sampling and data collection for analysis purposes thus representing a good representative sample of the larger population.

1.8 Limitations of the Study

The Finance Managers, Chief Finance Officers and Chief Accountants who were the respondents to the questionnaires had tight schedules; due to this effect, some uncooperativeness was expected. If this took place, then some impact on the number of responses would be felt. Thus

the less data collected would affect the research results. Data collection was through questionnaires sent by e-mail. Due to the challenges caused by the internet, the respondents were expected to take time to respond, though the questionnaires would be as clear as possible.

Financial statements and reports contained confidential information; hence, the respondents would not feel free to provide the required information, though a confidential clause was to be included in the questionnaire. The short time frame within which all the activities of the research were to be carried and concluded, limited the research. The research was limited by, financial constraints because all the costs ware to be met from my own savings and therefore insufficient for the task.

1.9 Basic Assumptions

This research assumed that:

All firms applied the International Financial Reporting Standards and Accounting Standards.

Employees who were involved in the preparation of financial statements were designated Finance Managers, Chief Finance Officers or Chief Accountants.

The respondents were untainted in their responses to the questionnaires.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviewed literature and information from other researchers who had carried out their research in the same field of study. Specific emphasis was on the major issues concerning the effects of creative accounting practices on long term survival of firms listed at the NSE. The specific areas covered here were theoretical review, empirical review, revenue manipulation, misclassification of expenses, valuation of assets and liabilities, knowledge gap and the conceptual framework.

2.2 Theoretical Review

This section reviewed theories that would shed light, literature and information concerning the effects of creative accounting practices on long term survival of firms listed at the NSE. Specific emphases were on international accounting standards, agency theory, information asymmetry theory, ethical theory and bankruptcy theory.

2.2.1 International accounting standards

Diana and Madalina (2007) affirmed that a standard consisted of a coherent set of general propositions that explained some phenomena by describing the way other things corresponded to this phenomenon. A standard is a formal, testable explanation of some events that includes explanations of how things related to one another.

The International Financial Reporting Standards Foundation (IFRSF) (2016) in April 2001 advised the International Accounting Standards Board (IASB) to adopt International Accounting Standard 1 (IAS 1) Presentation of Financial Statements, which had originally been issued by the International Accounting Standards Committee (IASC) in September 1997. IAS 1

Presentation of Financial Statements replaced IAS 1 Disclosure of Accounting Policies (issued in 1975), IAS 5 Information to be disclosed in Financial Statements (originally approved in 1977) and IAS 13 Presentation of Current Assets and Current Liabilities (approved in 1979).

IASB (2001) IAS 1 prescribed the basis for presentation of the general-purpose financial statements that would ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. Thus, it would set out the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. An entity was to apply this standard in preparing and presenting general-purpose financial statements in accordance with IFRSs. This standard applied equally to all entities, including those that present consolidated financial statements in accordance with IFRS 10 Consolidated Financial Statements and those that presented separate financial statements in accordance with IAS 27 Separate Financial Statements.

Under IAS 1 (2001), financial statements provided information about an entity's; Assets; Liabilities; Equity; Incomes and Expenses, including gains and losses; Contributions by and distributions to owners in their capacity as owners and cash flows. This information, along with other information in the notes, assisted users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Under IAS 1 paragraph 15 (2001) financial statements should present fairly the financial position, financial performance and cash flows of an entity so as to provide information that was useful to a wide range of users in making economic decisions. Financial statements would also show the results of the management's stewardship of the resources entrusted to it. Fair presentation required the faithful representation of the effects of transactions, other events and

conditions in accordance with the definitions and recognition criteria for assets, liabilities, incomes and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, was presumed to result in financial statements that achieved a fair presentation.

Under IAS 1 paragraph 118 (2001) an entity should disclose its significant accounting policies comprising of; the measurement basis (or bases) used in preparing the financial statements (historical cost, current cost, net realizable value, fair value or recoverable amount) and other accounting policies used that were relevant to an understanding of the financial statements. The basis on which an entity prepared the financial statements significantly affected users' analysis.

In April 2001, the IASB adopted IAS 16 Property, Plant and Equipment (PPE), which had originally been issued by the IASC in December 1993. In May 2014, the IASB amended IAS 16 to prohibit the use of revenue-based depreciation method and amended the scope of the standard to include bearer (living) plants related to agricultural activity. IAS 16 prescribed the accounting treatment for PPE so that users of the financial statements could discern information about an entity's investment in its PPE and the changes in such investment.

Under IAS 16 (2001), the principal issues in accounting for PPE were the recognition of the assets, determination of their carrying amounts, depreciation charges, and impairment losses to be recognized in relation to them. The cost of an item of PPE should be recognized as an asset if, and only if; it was probable that future economic benefits associated with the item would flow to the entity and the cost of the item could be measured reliably (initial and subsequent costs). An entity should choose either the cost model (cost less any accumulated depreciation and

impairment losses) or the revaluation model (fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses) as its accounting policy and should apply that policy to an entire class of PPE. Revaluations should be made with sufficient regularity to ensure that the carrying amount did not differ materially from that which would be determined using fair value at the end of the reporting period.

Under IAS 16, paragraph 73 (2001) depreciation charges for each period should be recognized in profit or loss unless it was included in the carrying amount of another asset. A variety of depreciation methods could be used to allocate the depreciable amount of an asset on a systematic basis over its useful life, which included straight-line method, diminishing balance method and units of production method. This method should be applied consistently from period to period unless there was a change in the expected pattern of consumption of those future economic benefits. An entity cannot classify as revenue, a gain it realized on the disposal of an item of PPE. Therefore the financial statements should disclose; the measurement bases for determining the gross carrying amount; the depreciation method used; the useful lives or depreciation rates used; the gross carrying amount and the accumulated depreciation at the beginning and end of the period. They should also disclose a reconciliation of the carrying amount at the beginning and end of the period; the existence and amount of restrictions and PPE pledged as security for liabilities; amount of expenditures recognized in the carrying amount of the assets in the course of its construction; and amount of contractual commitments for the acquisition of the assets.

Diana, Victoria and Alina (2009) emphasized that the concept of creative accounting was used to describe the process through which accounting professionals used their knowledge in order to manipulate the figures to include in the financial statements. They defined creative

accounting as ‘the art of faking a balance sheet’; ‘the art of calculating benefits’; ‘the art of presenting a balance sheet’ or ‘the art of saving money’. Under the Statement of Standard Accounting Practice I (SSAP I) appropriate accounting policies should be adopted and disclosed in financial statements for the purpose of giving a true and fair view. Companies should disclose changes in accounting policies where such changes were made in the reporting period (Asuquo, 2011).

Ijeoma and Aronu (2013) in their research observed that the accounting profession had worked diligently throughout to develop the most rigorous system of accounting procedures and principles in the world. However, publicly traded firms had a great deal of discretion in choosing accounting principles and in making estimates that affected their financial reports. Under the GAAPs, two fundamental principles of accounting namely Conservatism and Objectivity controlled the amount of discretion that a firm had in preparing financial statements. These two guiding principles were sometimes stretched to the limit or even ignored. Thus, when conservatism or objectivity was impaired, creative accounting was compromised. Firms were supposed to use procedures that were objective and conservative but in practice, the management may have had many competing motivation that would drive their choice of accounting policies, which influenced their periodic estimates.

Laura and Ileana (2013) asserted that the most important issue would be finding the most appropriate policies and strategies for preventing and detecting creative accounting. Due to its systematic and diversity of information it provided, accounting was deemed to be the main supplier of information required for the decisional process. Its objective was to present information on the financial state, performance and cash flows of an economic entity.

Ijeoma and Aronu (2013) stated that creative accounting referred to the aggressive use of choices available under accounting rules, to present the most fattening view of a firm in the financial statements by pushing accounting principles to the limit of their flexibility or even beyond. They sought loopholes in financial reporting standards, which they could exploit to adjust the figures as much as was practicable to achieve their desired aim, financial reporting goals or satisfy their financial projections.

Under the IASB framework for the preparation and presentation of financial statements (2016), the analysis of the qualitative characteristics of accounting information was carried out around four vectors namely; understandability, relevance, reliability and comparability. These principal characteristics were supported by related attributes such as; the relative importance, the accurate image, the priority of economic content over the judicial nature, neutrality, prudence and sufficiency (completeness). In the convergence process initiated by IASB and Financial Accounting Standards Board (FASB) a common conceptual document entitled "Conceptual framework for financial reporting", was developed which became effective from 01/01/2011. Chapter three contained qualitative characteristics of useful financial information, which was divided into two categories: fundamental characteristics comprising of relevance and faithful representation; and enhancing characteristics comprising of comparability, verifiability, timeliness, and understandability.

Laura and Ileana (2013) concluded that relevant information, which when used could make the difference between the decisions of the users must have had predictive value and/ or confirmatory value. Information was material if its omission may influence the decisions that users undertake based on the financial information about a specific entity. The absence of relevant information may affect the decisions of external users. The application and adoption of

the international accounting standards is of great importance to financial reports preparation and presentation, as they would portray true and fair view and true status of the firm.

2.2.2 Agency Theory

Agency theory identified by Jensen and Meckling (1976), had its genesis in the idea that the interests of the managers and shareholders were not, perfectly aligned. It represented agency costs, which arose because of conflict between managers and shareholders. The conflict between managers and shareholders, because of separation of ownership and control, arose as managers tended to maximize their own utility rather than value of the firm. According to agency theory, 'the firm was a legal fiction which served as a focus for a complex process in which the objectives of individuals were brought into equilibrium within a framework of contractual relationship'. Agency provided a solid framework for the understanding of creative accounting behavior (Rajput, 2014).

The research carried out by Asuquo (2011) observed that the management was separated from the owners or shareholders of the firm. Thus, there was pressure on the management to report impressive results to shareholders or owners and other interested groups or stakeholders. The managers opted to cook the accounts with respect to sales, profitability and share prices to meet internal targets set and shareholders need for long-term survival of the firm for their own interests. Armitage (2006) noted that creative accounting could not change the failing of business but would only cover it for a moment. Earnings management occurred when managers used judgment in financial reporting and in structuring transactions to alter financial reports to mislead shareholders about the underlying economic performance of a firm.

Earnings management involved the artificial increase or decrease of revenue, profit or earnings per share figures through aggressive tactics. The main forms of earnings management would include unsuitable revenue recognition, inappropriate accruals and estimate of liabilities, excessive provisions and generous reserve accounting (Armitage, 2006). The agency relationship as set out by Jensen and Meckling (1976), individuals were seen to be rational, maximizing persons who sought to promote self-interests above all else. The conflict between managers and shareholders, on account of separation of ownership and control, arose as managers tended to maximize their own utility rather than the value of the firm. Firms necessarily existed as a means of controlling the destructive opportunism of individuals especially those who acted in the capacity of agents.

Since agents in that situation were constraint to impress shareholders, investors and lenders and were interested in high benefits, the agents were compelled to give an impressive report against their ethical values. Differences in interpretation of GAAPs and standards created loopholes for the promotion of self-interest (Jensen & Meckling, 1976). Sabau (2013) emphasized that shareholders and stakeholders were interested in the economic entity's continuity and its long-term survival; creditors wanted to be ensured that debts would be paid at maturity and that contractual relationships with the economic entity would continue on the long-term.

In their study, Diana *et al* (2009) noted that it was widely recognized that the management could use their knowledge of accounting policies to manipulate the figures reported in the financial statements. These accounting policies depended on the choices made by the firm in order to give some form or content to financial statements made naturally in compliance with existing accounting policies. In order to show the appropriateness of their conduct, management

would emphasize their role in positive outcomes. Thus, if owners were concerned that the management interests were not in congruence with their own and that managers would act in ways that would prevent profit maximization and potentially threaten the firms existence, then owners ought to believe that managers had a great deal of control over the firms long term survival. Therefore, the agency theory would be of great importance as it represents a linkage between the management and shareholders' interests, which should always be addressed to achieve the goal of the firm.

2.2.3 Information asymmetry theory

According to Rajput (2014), information perspective was a key element underpinning the study of creative accounting. Decision usefulness was an approach to the preparation of financial information emphasizing on shareholders, stakeholders and investors decision making in order to infer the nature and type of information they needed. Thus, financial reporting is the communication of financial information that had been useful for making investment, credit and other business decisions. The information perspective assumed that financial statement disclosures had information content that possessed value to shareholders and stakeholders in providing useful signals. Russ (2005) in his research noted that separation of ownership and control created an information asymmetry between the managers and shareholders, whereby owners were not 'armed' with the information to accurately assess the decisions made by those managers.

It was possible for unethical managers to take advantage of the information asymmetry and use their positions to further their own agendas rather than those of owners. The information asymmetry allowed the management to disguise the real motives for their actions by hiding or distorting information in such a way as to make their actions appear in the best interest of the

shareholders. Therefore, the temptation to artificially drive up stock prices, to invent profits and to hide losses was too great for the management whose jobs depended on the results. Rajput (2014) observed that conflicts were created by the information asymmetry that existed in complex firm structures between privileged management and a more remote body of shareholders. The managers would opt to exploit their privileged position for selfish gain, by managing financial reporting disclosures in their own favor.

Sabau (2013) claimed that in times characterized by major economic difficulties the management was most often tempted to use and even manipulate accounting figures in order to improve performance of the firm in a way that did not accurately reflect the overall picture of the economic entity. Periods of crisis-represented tests for companies and managers who were tempted to resort to inventive methods, often questionable, in order to distort the true image (true and fair view) so as to improve the presentation of financial statements. Consequences and negative impact came quickly on investors who were misled about the true overall situation as well as on companies that actually carried out the economic activities.

In their study, Ijeoma and Aronu (2013) concluded that accounting manipulations that gave a false picture of prosperity and buoyancy could be disastrous leading to a total loss of corporate image, thus corporate failure causing an overall effect on long-term survival of the firm. Information is power, thus information asymmetry theory would portray how it could be applied to send a signal to shareholders, investors and other stakeholders on the status of the firm. This would in turn affect the investment capacity of the firm and its life span.

2.2.3 Ethical theory

Oliveras and Amat (2007) found out that firms preferred to report a steady trend of growth in profit rather than to show volatile profits with a series of rises and falls. This would be achieved by making unnecessary high provisions for liabilities against assets values in good years so that these provisions could be reduced, thus improving reported profits in terrible years. This theory measured against the 'short-termism' of judging an investment on the basis of the yield achieved in the immediate following years and avoided raising expectations very high in good years that the firm was unable to achieve what was subsequently required. If trading conditions of a firm were volatile then investors and shareholders had a right to know this, thus income smoothing might conceal long-term changes in profit trend. Creative accounting raised the need to be aware of the scope for abuse of accounting policies and manipulation of transactions.

Accounting provided a mechanism for monitoring contracts between managers and shareholders, identifying the prospect of accounting policies and reflecting the appropriateness in long-term survival of the firm. Ethics is of great importance in the preparation and presentation of financial statements and reports as it would call for reports that would meet the interest of shareholders and investors. Thus, the management would always be required to observe high ethical standards (Oliveras & Amat, 2007).

2.2.4 Bankruptcy Theory

Altman (1968) asserted that corporate failure represented a situation where the management of a firm had observed for years symptoms of failure but might not have recognized it until it turned into bankruptcy. Bankruptcy described a financial failure of a firm or organization. Corporate bankruptcy prediction was attributable to the need to predict successfully the event of bankruptcy

due to its considerable social and economic costs as well as its adverse impact on shareholders, investors and stakeholders.

Appiar and Abor (2009) in their study observed that several models were used to predict bankruptcy, which would include; statistical models, which incorporated statistical techniques, univariate discriminant analysis that applied financial ratios, risk, index models, which used a simple point system to allocate points based on different important ratios. Gambler's Ruin mathematical model which used the net liquidity value of a company and artificial neural network models adopted in 1990 which were computer based for complex data relationships. Corporate failures included creditors' or voluntary liquidation, and appointment of a receiver. The most popular corporate failure prediction model was the ZETA-Score model developed in 1968 by Edward Altman (Altman, 1968). The model was used to predict the probability that a firm would go into bankruptcy. It used the income statement and balance sheet values to measure the financial health of a firm. It used multivariate discriminant analysis to construct a boundary line through a graph such that if the firm fell to the left of the line, it was likely to become bankrupt where as if to the right it was unlikely to become bankrupt (Altman, 1968).

Samarakoon and Hasan (2003) investigated the ability of Altman's ZETA-Score model to predict corporate failure in the emerging market in Sri Lanka; they discovered that the model had a remarkable degree of accuracy in predicting corporate failure using financial ratios computed from financial statements. Alexakis (2008) analyzed whether the Altman Z-Score could predict company failures and found out that the model performed well in predicting corporate failures up to five years and could be used by management for corporate strategic moves. The management would use the bankruptcy theory to find out the financial status of the firm to put in place the strategies that would stretch the life of the firm and increase its capital base.

2.3 Empirical Review

This section reviewed specific literature and information from other researchers who carried out research in the same field of study. The specific areas covered here were revenue manipulation, misclassification of expenses, valuation of assets and liabilities.

2.3.1 Revenue manipulation and long term survival

According to Asuquo (2011), investors require impressive results of constant growth of a firm in order to commit their resources. One commonly accepted incentive for over-reporting of corporate income, which became known in 2002, was the granting of share options as part of executive compensation packages. Since share prices reflected earnings, share options could be most profitably exercised when income was exaggerated, and the shares could be sold at an inflated profit. Thus, managers were enticed to adjust and give flattering results to reflect steady growth in order to obtain funds from investors.

Ijeoma and Aronu (2013) found out that firms manipulated their true profitability by adopting an extremely aggressive revenue recognition policy that had the effect of substantially overstating the true profitability. Much of the process of accounting had to do with allocation of both revenues and expenses to specific accounting periods, and this resulted into policies, which left some degree of discretion and call for subjective judgments. Accounting allocations were always open to debate at times creating hidden reserves when profits would be good, but also releasing these when profits would be down.

Hayes (2005) observed that Enron Company emphasized substance over form through misapplication of US GAAPs in areas related to capital stock transactions, revenue recognition and accounting disclosures. Financial statement restatements due to problems with revenue

recognition comprised the single largest category of financial statement restatements. This would be due to the gap between the guidance provided in the FASB's conceptual framework and the guidance provided in accounting pronouncements that constituted US GAAPs.

The USA SEC stated that if a transaction fell within the scope of a specific revenue recognition pronouncement, that guidance should be followed, but in the absence of such guidance, the revenue recognition principles contained in FASB concept statement No.5 should be followed. This concept stated that revenue should not be recognized until it was (a) realized or realizable and (b) earned. The realized criterion was not problematic if it was restricted to receipt of cash, but the meaning of realizable became problematic when there was revenue recognition arising from a receivable that would or would not be collectible. The earned criterion required a firm to have substantially accomplished its obligations to the buyer prior to the recognition of revenue.

Sims and Brinkmann (2003) noted that Enron recognized revenue in a number of instances where form triumphed over substance. Enron recognized revenue arising from an increase in the value of its own stock using the equity method of accounting and revenue from long-term contracts where the value of the contract was determined based on subjective mark-to-market (MTM) models created by Enron's management.

Armitage (2006) noted that MTM accounting took all trades and contracts extending out into the future and calculated their value based on current market prices. However, this became more complicated when applied to sophisticated long-term contracts. Thus, Enron would have to make its best calculation of the MTM value of its trades. In that way, the valuation of trades allowed for the manipulation of results within the accounting policies. USA GAAP's required

the use of equity method of accounting when a company had the ability to exercise significant influence over an investee company by having ownership interest of 20% to 50% of the common stock of another company, board representation, participation in policy making process and technological dependency. The equity method of consolidation provided much better detail as to the exact make-up of balance sheet items, thereby providing financial statement users with more useful information, under Statement of Financial Accounting Standards (SFAS) No.94 according to FASB.

Hayes (2005) concluded that the investment would be recorded at cost and adjusted for changes in the book value of stock-holder's equity of the investee company. MTM accounting referred to accounting methods whereby certain financial contracts were reported at fair value in an entity's financial statements. This provision allowed companies wide discretion to forecast the future and to recognize movement in the value of long-term contracts as ordinary revenue whereby there might never be any realization of revenue recognized under those contracts. The revenue recognized might be in form only with no substance underlying the transaction.

Nogler (2007) in his study noted that had there been an appropriate level of transparency in the financial statements, investors and creditors would have been provided with a more realistic view of the company's financial position and its results of operations, thus facilitating their ability to assess the viability of the company and avoid Enron's bankruptcy in December 2001.

2.3.2 Misclassification of expenses and long term survival

According to the IASB (2016) an entity that applied IAS 1-Paragraph 99; should present an analysis of expenses recognized in the income statement. It could use a classification based on

either their nature (depreciation, purchases of materials, transport costs, employee benefits and advertising costs) or their function (cost of sales) (cost of distribution or administrative activities) within the entity, whichever provided information that was reliable and more relevant. Expenses were sub-classified to highlight components of financial performance that might differ in terms of frequency, potential for gain or loss and predictability. However, because information on the nature of expenses was useful in predicting future cash flows, additional disclosure was required when the function of expense classification was used.

Sabau (2013) stated that managers manipulated accounting figures to obtain low capital costs whereby firms could increase their own capital under favorable terms if they were perceived as having low financial and operational risk, which made the managers to reduce debt effects or mitigate changes in reported incomes. A research carried out by Laura and Ileana (2013) noted that managers also avoided breaching credit contracts by manipulating key figures such as interest expenses, profit, total debt and equity. For certain assets, only the maximum number of years in which they must be depreciated would be indicated. A higher or smaller term affected the size of the result. The income statement included the effects of activities on accrual basis expressing them as the difference between revenues and expenses allocated to the relevant accounting period.

Sabau (2013) observed that; because of more or less income and inflows mismatching with expenditures and outflows for a specific period, usually the result reported in the income statement (incomes-expenses) did not match the result determined on a cash basis reported in the statement of cash flows (inflows-outflows). Firms despite the high net profit reported in the income statement had decreasing cash balances and problems with current liquidity maintaining.

As observed by Dukic and Pavlonic (2014) the WorldCom Company was an example of creative accounting practices that carried out capitalization of expenses that were typical expenses of the period. In that, way the company falsely increased net income and net cash flows from operating activities. In the period from 1997 to 1999, the Microsoft Company did not capitalize the costs of development, although it was allowed. Microsoft treated those costs as the costs of the period, which resulted in lower financial results than it was in reality. IASs provided a choice on certain operating costs in terms of whether they would be capitalized (written off gradually through amortization) or be reported as expenses at the period of their occurrence. When they were considered as expenses, they reduced net income and net cash flows from operating activities. However, by capitalization, they were presented as cash outflows within investment activities and did not affect cash flows from operating activities.

2.3.3 Valuation of assets and liabilities and long term survival

According to Hayes (2005), SPEs were defined by the FASB as entities created for some specific purpose or activity. The pressing need for profitable performance gave rise to the increased usage of SPEs, which were trusts created by the firm as a legitimate way of segregating a special risk from the firm's core operations and helped it pay less to borrow money. Banks and other financial institutions to facilitate off-balance sheet financing for mortgage loans and other types of loan receivables initially used sPEs. Thus, SPEs were a prime example of substance over form. Between 1993 and 2001, Enron created over 3000 SPEs.

Armitage (2006) noted that the SPEs structure permitted a firm to increase the size of its loan portfolio without a corresponding increase to share capital. An SPE was a trust created by an organization to hold some of the organization's assets and the SPE would then borrow against those assets at lower rates. The funding for an SPE typically came from debt provided by a bank,

financial institution or pension plan. The primary purpose of creating an SPE was to remove specific assets and liabilities from the balance sheet of the sponsor. When it became difficult to sustain Enron's profitability, the organization invented SPEs to manipulate profits and offload debt from the company's balance sheet, thereby enhancing its financial performance. Thus, it was the misuse of SPEs and subsequent need to correct misreporting in the company's accounts in 2001 that not only undermined market confidence but eventually led to the disappearance of Enron.

Research carried out by Asuquo (2011) noted that off balance sheet financing was a creative accounting method whereby debts of a firm increased but the increased borrowing was not reflected in the financial statements. This implied better gearing of the firm than it actually was, to enable it to acquire more funds or loans. Gerald and Kathleen (2008) observed several activities and arrangements that might have lead to off-balance-sheet transactions, which included investment in the equity of other firms, transfer of financial assets, retirement arrangements, leases and contingent obligations and guarantees. These transactions attracted relatively minimal scrutiny until the Enron failure in which the company spun an absurdly jumbled web of fraudulent SPEs in order to hide billions of dollars of debts.

As found out by Sabau (2013), the managers manipulated accounting figures to increase their wealth if there was a link between profits obtained by the economic entity and how they were remunerated. Asuquo (2011) noted that income-smoothing method represented the process of deflating the reported profits of a firm in good periods and deferring them to loss making periods, in an effort to have a stable stream of income over the years. This was made by flexibility of the matching concept, which investors preferred as it purported a stable, strong and growing business. Laura and Ileana (2013) observed that the matching concept represented the

change of the value and structure of revenues, whereby in certain situations the recognition of revenues could be intensified or slowed down by applying the principle of prudence or the principle of connecting costs with revenues.

Laura and Ileana (2013) asserted that change of value of assets whereby the existence of a flexibility regarding the calculation of depreciation and provisions created the possibility of increased or reduced net value of assets. Inventory or stocks could be assessed by various methods and reported at lower of cost and net realizable value. Consequently, their value might be different which has a corresponding impact on the income statement. Such changes also altered the size of current and non-current assets. Creative accounting practice could affect the amount of reported net assets. The change of the value of liabilities whereby the accounting regulations; allowed the regularization of certain liabilities such as retirement liabilities for a period of time. Consequently, a firm that aimed to enhance its results would allocate the liability for the optimum period allowed.

As concluded by Rajput (2014) firms desired to show the financial reports with steady growth in profits. These reports would therefore be achieved by manipulating liabilities and assets values, during good years so that reported profits could be improved in bad years or by the reclassification of assets or liabilities whereby there might be doubts regarding the category under which each item fell.

2.4 Knowledge Gap

In their study, Akenbor and Ibanichuka (2012) found out that creative accounting practices might arise under three different financial market conditions. The first was when a firm floated its shares to attract investors to subscribe to the shares at par or at a premium depending on the

financial market evaluation of the firm's future prospects. The second was when the firm whose shares were already listed in the stock exchange, wished to paint an attractive picture of its financial status so that the shares might be quoted at a premium. Lastly, a firm having its shares listed in the stock exchange might declare and pay high dividends based on inflated profits through over-valuation of assets, under-valuation of liabilities, misallocation of expenses and changes in systems of stock valuation that might boost the image of the firm.

Ijeoma and Aronu (2013) found out that the management often focused on four main types of creative accounting tactics: decreasing discretionary research and development expenses and decreasing discretionary advertising expenses. It would also focus on timing the sale of non-current or fixed assets to report gains, overproduction reflection and intention to cut prices or extend more lenient credit terms to increase sales and/or decrease cost of goods sold.

Studies have shown that creative accounting practices actually existed and occurred for various reasons. Ijeoma and Aronu (2013) analyzed the reasons such as influencing capital market expectations and valuation, to increase management's compensation, to avoid violating contracts written in terms of accounting figures and reduce regulatory costs. The use of accounting information by financial analysts and investors to value stock had created an incentive for managers to manipulate earnings to influence the short term performance of the stock. Compensation and lending contracts gave an incentive for firms to manage earnings to increase bonuses, improve job security and mitigate potential violation of debt covenants.

Studies suggested that regulatory considerations could induce firms to manage earnings. The key motives for creative accounting practices were to hide a particular bad year for a firm to force an exceptionally good year or continue the pressure to always be the best. Also to smooth-

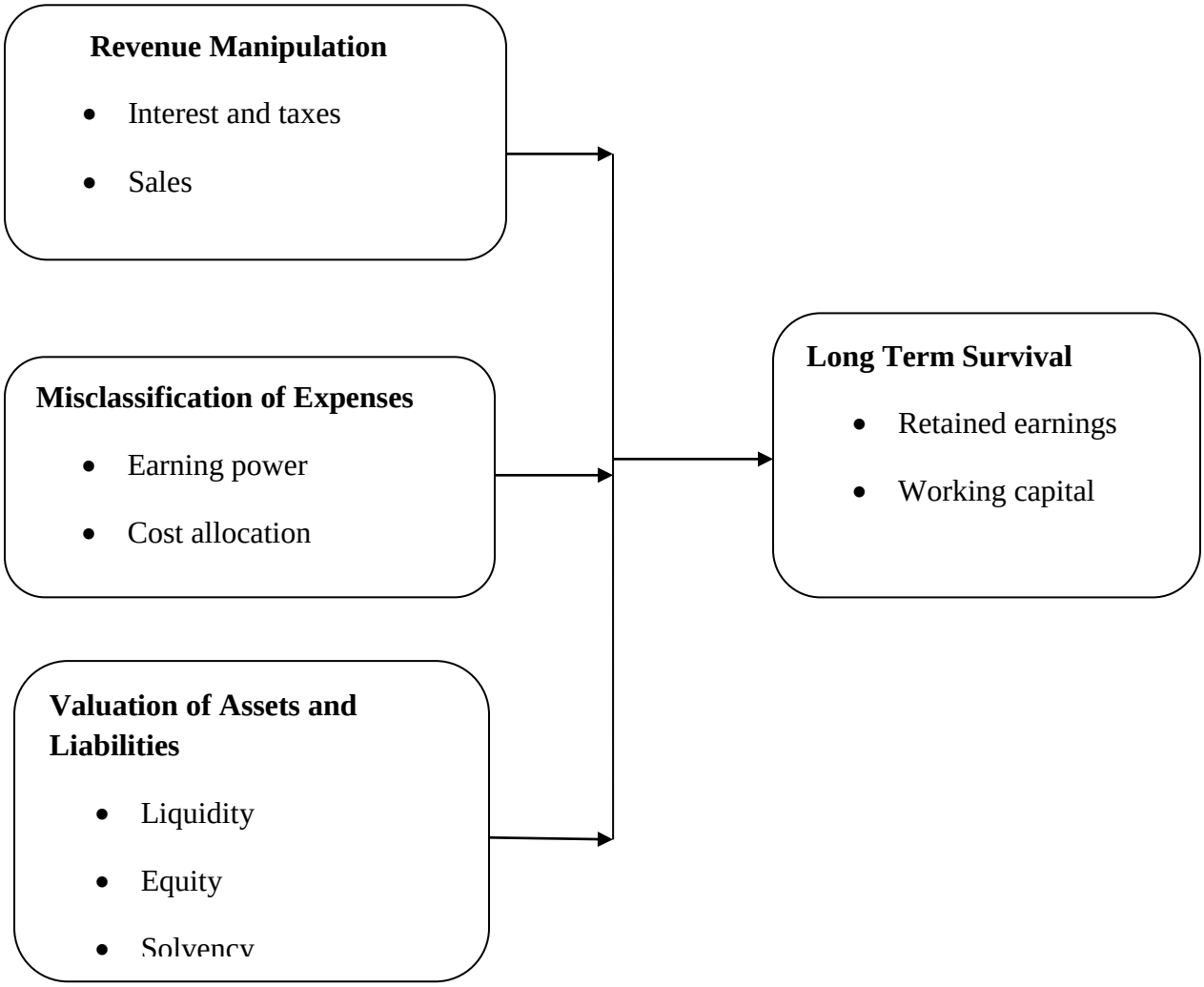
out results to give impression of stability or sustained improvement and hide large profits by monopolies under anti-trust threat, and to boost assets to avoid liquidation or take over. Early warning signs of creative accounting practices included cash flows that had no correlation with earnings. Debt balances that were not correlated with revenues as well as allowances for bad debts that had no correlation with debtors balances; reserves that were not correlated with balance sheet items; acquisitions with apparently no business purpose; and earnings that consistently and precisely met the expectations of analysis. Therefore, what would be the effect of creative accounting practices on firms' long-term survival?

2.5 Conceptual Framework

A conceptual framework would be used in research to outline possible courses of action or to present a preferred approach to an idea or thought. A conceptual framework would present a schematic presentation which would identify the variables that when put together explain the issues of concern. The conceptual framework would therefore represent the set of broad ideas used to explain the relationship between the independent variables (factors) and dependent variables (outcome). It provides the link between the research title, the objectives, the study methodology and the literature review. This study would adopt some concepts generated by service quality theories and models and conceptualize them in the framework explaining the relationship between creative accounting practices, misclassification of expenses, manipulation of revenue, assets and liabilities (independent variables) and long term survival (dependent variable) as shown in the schematic figure below.

FIGURE 1

Conceptual Framework



Independent Variables **Dependent Variable**

Source: Author (2016)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter set out the various stages and phases that were followed in completing the study. It outlined the general methodology that was used in the study. It also served as the operational plan of the study. Therefore, the chapter discussed the research design, the target population, unit of analysis, sampling design, instrumentation, data collection procedures, and data analysis and presentation techniques.

3.2 Research Design

Cooper, Schindler and Sun (2006) stated that a research design was a plan or strategy conceived to obtain answers to research questions and to control variances. The choice of a research design depended on the nature of the study. This study was conducted using a descriptive research design. Thus, the descriptive survey was deemed the best strategy to fulfill the objectives of this study. It represents a design that would be undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in a situation. It formed a descriptive research in which there was a critical examination of events, subjects or ideas whose intention would be to provide information about the condition of the phenomenon (Occurrence). This study was able to generalize the findings on the effects of creative accounting practices on long-term survival of firms listed at the NSE.

3.3 Target Population and Unit of Analysis

Mugenda and Mugenda (2003) described a population to be an entire group of individuals, events or objects having a common observable characteristic. It would involve the aggregate of all that conforms to a given specification. Target population was the specific population about

which information was desired. Mugenda and Mugenda (2003) stated that, if the target population was less than 100 units, then a census survey ought to be carried out. If the target population was greater than 100 units, the sample size of at least 15% of the population was considered representative. For the purpose of this study, the target population was the 65 firms listed at the NSE that were trading over the study period as indicated in appendix iii (NSE, 2016). The study was a census survey targeting all the 65 firms listed at the NSE, which forms 100% of the target population.

The unit of analysis was the finance managers, chief accountants and chief finance officers of the 65 firms listed in the NSE. The methodology applied was by use of e-mail to all my respondents and data was collected through the distribution of sixty-five questionnaires to all listed firms at the NSE sent by e-mail. The study targeted all listed firms, which were required to apply the IFRSs.

3.4 Instrumentation

The instrument for data collection was a structured questionnaire; which was sent to selected respondents to collect primary data and then analyzed through quantitative technique. Descriptive statistics such as frequency distribution and percentages was used to facilitate change of raw data into a form that would be easy to understand and interpret. Questionnaires are predetermined questions where the respondents would be served with the questionnaires and given a chance to fill in the answers. This instrument was preferred due to its simplicity, fixed response, minimal cost involved and ease in coding. Appropriate steps were taken to ensure validity and reliability of the measuring instrument.

3.5 Data Collection

The primary data was collected by way of a properly formulated questionnaire that was send by e-mail to the respondents, thus 65 questionnaires were distributed to the finance managers, chief accountants and chief finance officers. This type of data collection was chosen due to the geographical location and vast distance between the respondents. The researcher followed up by sending a reminder and the feedback was used for the analysis to answer the set objectives of the study. The secondary data was collected from the audited financial statements and reports of the firms listed at the NSE available from the CMA website and respective firms' annual reports most of which were publicly available, the central bureau of statistics and the NSE website.

Financial statements' data was collected for the period of 5 years, between 2011 and 2015 for comparative purposes. This secondary data included profit before tax, assets, liabilities, expenses, turnover, revenue, debt level and equity. Primary data was used to ascertain the presence of creative accounting and secondary data was used to determine the relationship of the variables. To ensure that the respondents were willing to provide rich and correct information the researcher had a request for an introductory letter from the KCA University in which the purpose of the research and their consent to participate was stated.

3.5 Data Analysis Technique

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. The information gathered from secondary sources was sorted, coded and input into the Statistical Package for Social Sciences (SPSS) and STATA software for the production of descriptive statistics and inferential statistics. Data collected was purely quantitative and was analyzed by descriptive analysis. Quantitative data was analyzed using, STATA program and

Excel Spread Sheet and helped the researcher to describe the data and determine the extent to which it would be used. This generated descriptive statistics such as percentages and frequencies. The data collected was run through various models to clearly bring out the effect of creative accounting practices on long-term survival of firms listed at the Kenyan NSE. The results obtained from the models were presented in tables, graphs, charts, percentages and tabulations.

3.5.1 Analytical model

Panel data methodology was used which involved pooling of observations on firms over five years' time-periods. A general model for panel data analysis that allowed the study to be estimated with great flexibility and formulate the difference in behavior of the cross section elements was adopted. The multiple regression models below would be used in determining the relationship between the dependent and independent variables. The most famous failure or bankruptcy prediction model was the Altman's ZETA-Score Model (developed in 1968) which allowed simultaneous consideration of several variables in the prediction of corporate failure. The approach was that of the multiple discriminant analysis (MDA) which was a statistical technique used to construct classification schemes so as to assign previous unclassified observations to the appropriate group. Altman based his work on a sample of appropriate financial statements extracted from 66 manufacturing companies (Altman, 1968).

A number of variables were tested to determine whether they influence long term survival of firms listed at the NSE. These would include; expenses (earnings), revenue (sales), assets, liabilities (independent variables) and long term survival (dependent variable).

The ZETA-Score model is a linear combination of five common business ratios, weighted by coefficients. The Altman's ZETA-Score model predicted a company's financial health based on a discriminant function of the form:

$Zit= \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it}$

$Zit= 0.012 X_{1it} + 0.014 X_{2it} + 0.033 X_{3it} + 0.006 X_{4it} + 0.999 X_{5it}$

Where:

Zit = the overall solvency index (dependent variable) and X_1 to X_5 are the independent variables.

Zit = Long term survival

X_1= Working capital (Current assets-Current liabilities)/Total assets (Liquidity)

X_2= Retained earnings/Total assets (Earned surplus)

X_3= Earnings before interest and taxes/Total assets (Earning power)

X_4= Market value of equity/Book value of total liabilities (Solvency)

X_5= Sales/Total assets (Revenue generating capability)

Where the Z-score was below 1.81, the company was considered to be failing thus long term survival would be in question; and where it was above 2.99 it was considered to be healthy. The model assumed that the variables used to describe members of the group of companies being investigated were normally distributed (Altman, 1968).

From the collected data, ratios were computed for the analysis due to their reasonableness, general acceptability in development of a discriminant function, usage in

financial analysis and in measurement of financial status of firms. Thus, ratios would act as a control for the size, industry and asset base effects of the firms.

Thus, the model was of the form:

$\Sigma it = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \varepsilon$

Where:

Σit=Long Term Survival

$\beta_0, \beta_1, \beta_2, \beta_3$ = Correlation Coefficients

X_{1it} = Revenue Manipulation (Retained earnings/Total assets (Earned surplus) = Retained Earnings

X_{2it} = Misclassification of Expenses (Earnings before interest and taxes/Total assets (Earning power) = EBIT

X_{3it} = Valuation of Assets and Liabilities (Sales/Total assets) =Sales

ε= Error Term

Long Term Survival= $\beta_0 + \beta_1$ (Revenue Manipulation) + β_2 (Misclassification of Expenses) + β_3 (Valuation of Assets and Liabilities) + ε

3.5.2 Test of significance

The model assisted in determining the relationship that exists between creative accounting practices and long-term survival of firms. Collected data was subjected to STATA analysis software at 95% confidence interval.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the results of data analysis of the assessment of the effect of creative accounting practices on long-term survival of firms listed at the Kenyan NSE. The chapter contains general information and tries to find out the relationship between revenue manipulation, misclassification of expenses, valuation of assets and liabilities and long-term survival of firms. Descriptive and inferential statistics were used to discuss the findings of the study.

4.2 Response Rate

The study sought to gather information from individuals working in the firms listed at the NSE. A total of 65 questionnaires were distributed and 61 questionnaires were collected having been filled completely. This made a response rate of 93.8%, which was sufficient for data analysis and significant enough to answer the objectives of the study. According to Mugenda and Mugenda (2003) this response rate was excellent since a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response of 70% and above is excellent. The data generated was analyzed using excel sheet percentage method, tables, pie chart and graphs.

TABLE 1

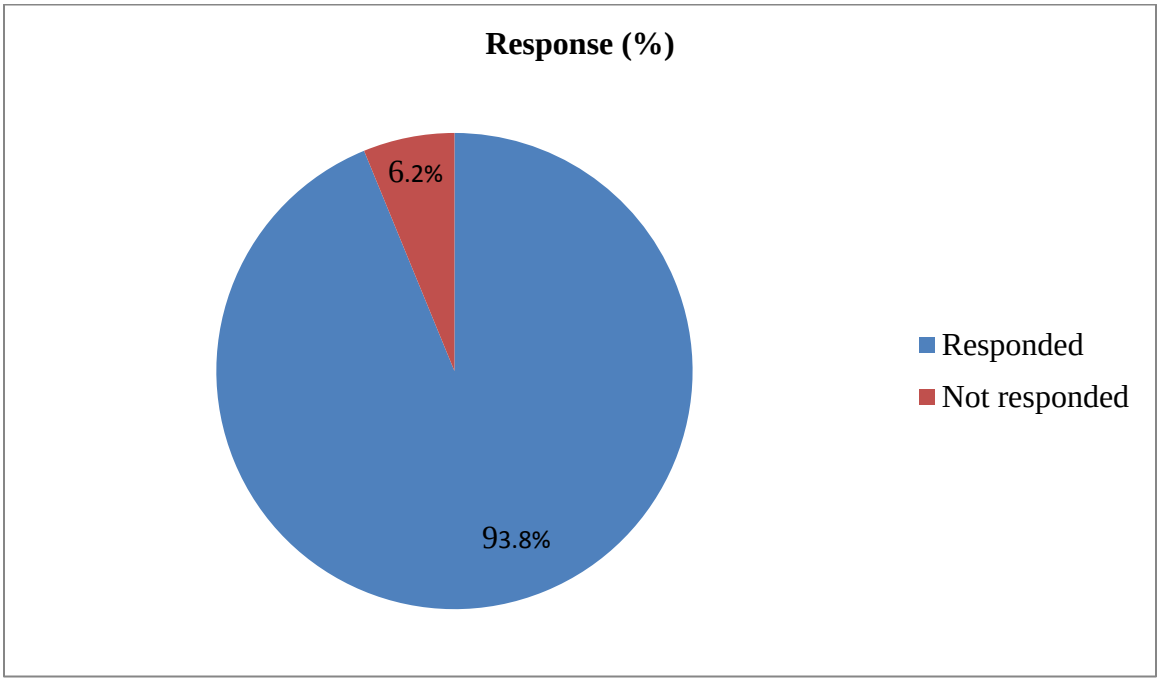
Response Rate

	Frequency	Percentage
Responded	61	93.8%
Not responded	4	6.2%
Total	65	100%

Source: Author (2016)

FIGURE 2

Response Rate



Source: Author (2016)

4.3 General Information

The study sought to find out the general characteristics of the respondents that included the duration that the firms had been in business and the period that they had served in these firms.

4.3.1 Number of years the organization has been in business

The study sought to find out how long the firm had operated. The results are presented in the table and the figure below.

TABLE 2

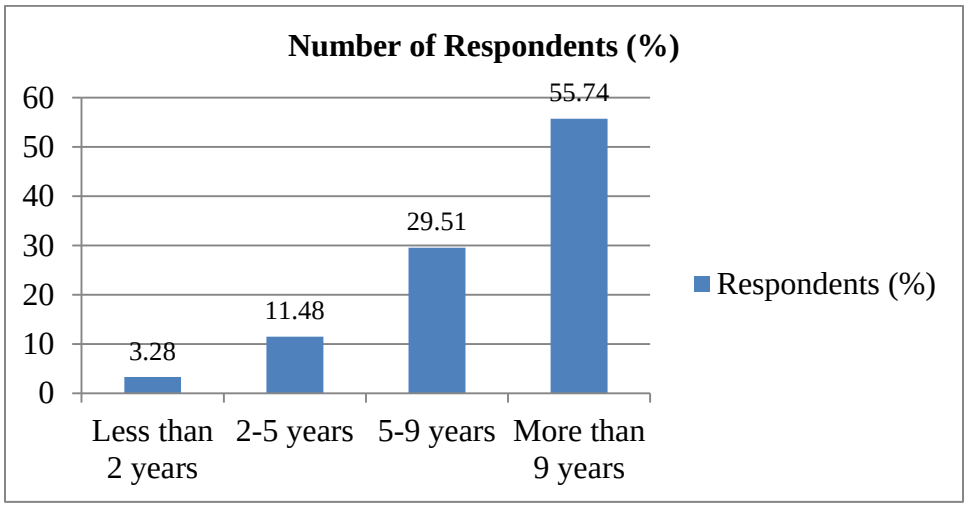
Length of business operation

Duration	Frequency	Percentage (%)
Less than 2 years	2	3.28%
2-5 years	7	11.48%
5-9 years	18	29.51%
More than 9 years	34	55.74%
Total	61	100%

Source: Author (2016)

FIGURE 3

Length of business operation



Source: Author (2016)

From the findings, majority of the firms, 55.74% had been in operation for over 9 years, 29.51% had been in operation for between 5 to 9 years, 11.48% had been in operation for 2 to 5 years while 3.28% had been in operation for less than 2 years.

4.3.2 Number of years employed in the organization

The study sought to find out how long the employee had been employed in the organization. The results are presented in the table and figure below.

TABLE 3

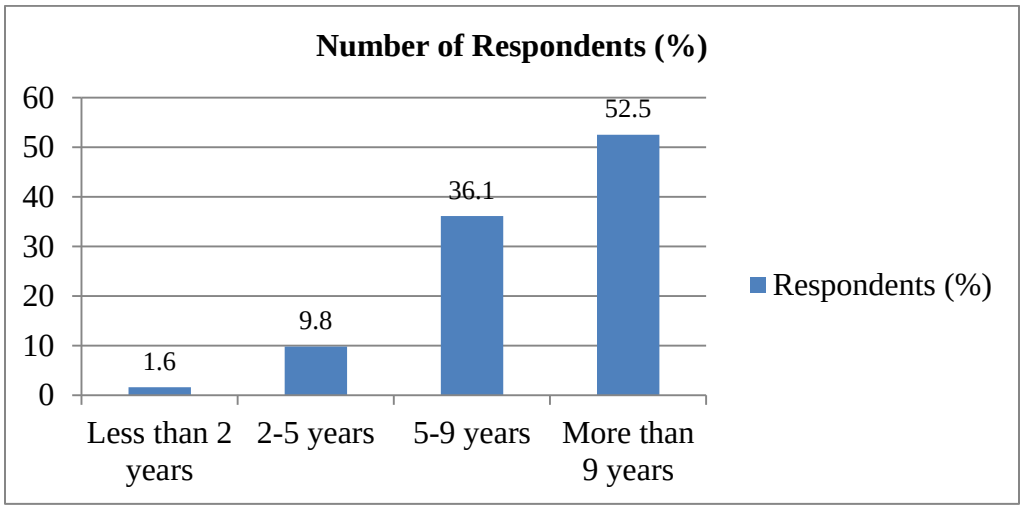
Number of Years Employed

Duration	Frequency	Percentage (%)
Less than 2 years	1	1.6%
2-5 years	6	9.8%
5-9 years	22	36.1%
More than 9 years	32	52.5%
Total	61	100%

Source: Author (2016)

FIGURE 4

Number of Years Employed



Source: Author (2016)

From the findings, majority of the employees, 52.5% had been in employment for over 9 years, 36.1% had been in employment for between 5 to 9 years, 9.8% had been in employment for 2 to 5 years while 1.6% had been in employment for less than 2 years.

4.4 Descriptive Statistics

4.4.1 Relationship between revenue manipulation and long term survival

TABLE 4

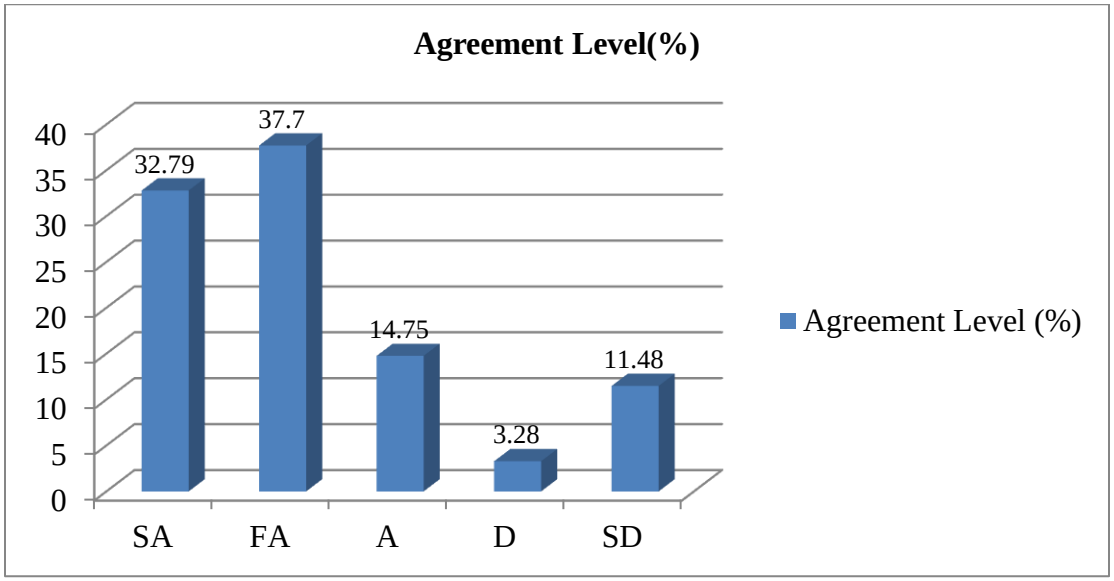
Decreasing Cash Flow Was Reported Despite Increasing Revenue

Agreement Level	Frequency	Percentage (%)
Strongly Agree	20	32.79%
Fairly Agree	23	37.70%
Agree	9	14.75%
Disagree	2	3.28%
Strongly Disagree	7	11.48%
Total	61	100%

Source: Author (2016)

FIGURE 5

Decreasing Cash Flow Was Reported Despite Increasing Revenue



Source: Author (2016)

From the findings, 32.79% were strongly in agreement that decreasing cash flow was reported despite increasing revenue, 37.70% fairly agreed, 14.75% were in agreement, 3.28% were in disagreement while 11.48% strongly disagreed.

TABLE 5

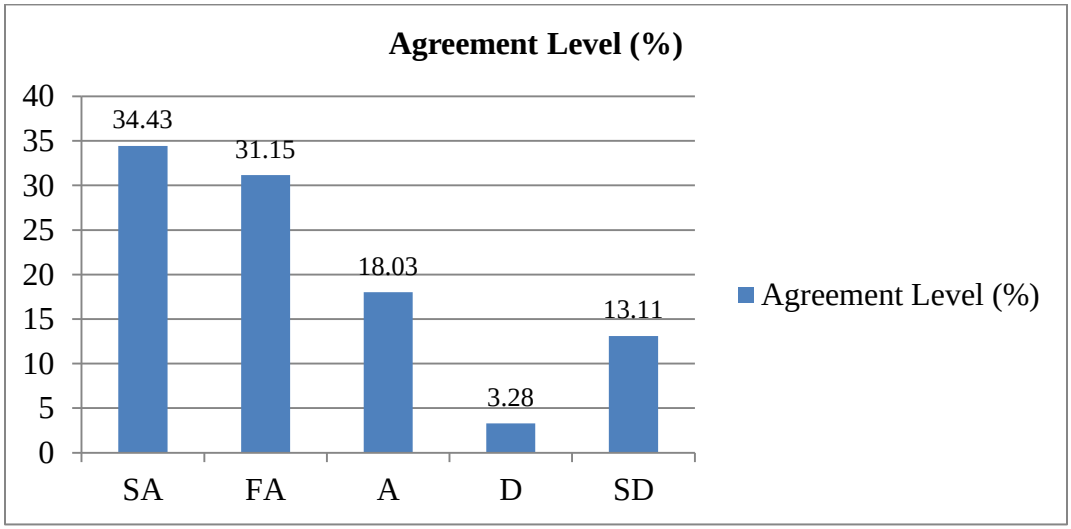
Increasing Tax Penalties and Fines Were Experienced Despite Increasing Sales

Agreement Level	Frequency	Percentage (%)
Strongly Agree	21	34.43%
Fairly Agree	19	31.15%
Agree	11	18.03%
Disagree	2	3.28%
Strongly Disagree	8	13.11%
Total	61	100%

Source: Author (2016)

FIGURE 6

Increasing Tax Penalties and Fines Were Experienced Despite Increasing Sales



Source: Author (2016)

From the findings, 34.43% were strongly in agreement that increased tax penalties and fines were experienced despite increased sales, 31.15% fairly agreed, 18.03% were in agreement, 3.28% were in disagreement while 13.11% strongly disagreed.

TABLE 6

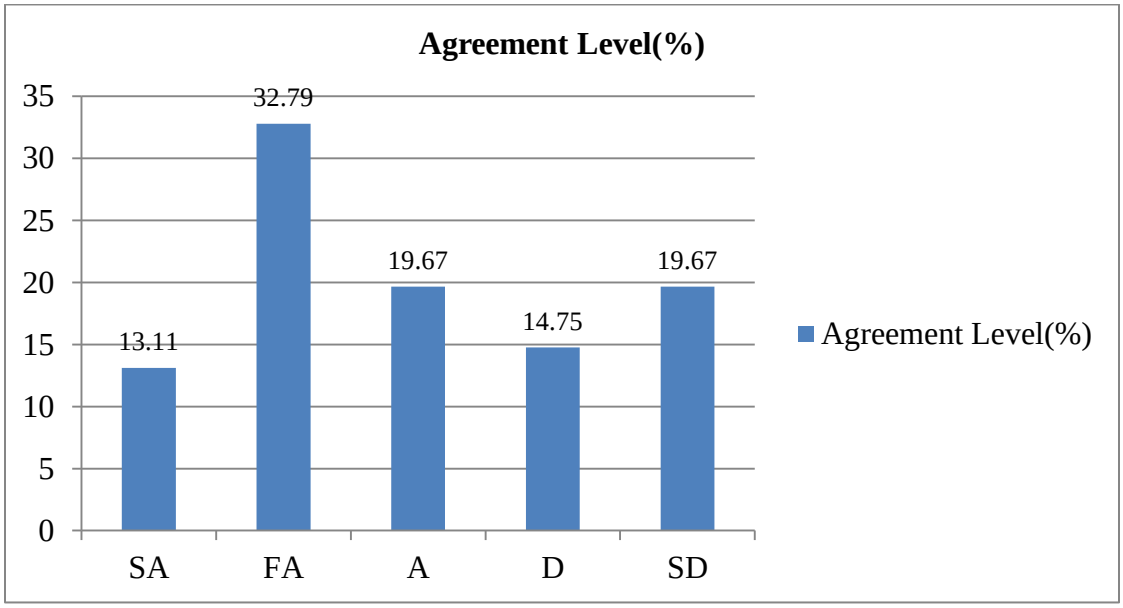
Provision for Bad Debts Has Increased Though the Actual Losses Were Less

Agreement Level	Frequency	Percentage (%)
Strongly Agree	8	13.11%
Fairly Agree	20	32.79%
Agree	12	19.67%
Disagree	9	14.75%
Strongly Disagree	12	19.67%
Total	61	100%

Source: Author (2016)

FIGURE 7

Provision for Bad Debts Has Increased Though the Actual Losses Were Less



Source: Author (2016)

From the findings, 13.11% were strongly in agreement that provision for bad debts increased though the actual losses were less, 32.79% fairly agreed, 19.67% were in agreement, 14.75% were in disagreement while 19.67% strongly disagreed.

TABLE 7

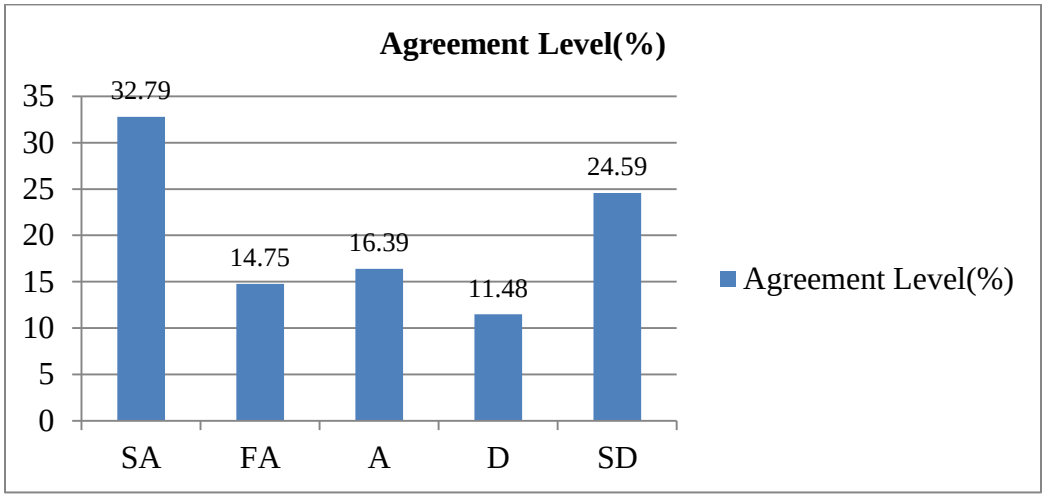
Additional Annual Depreciation Charge Carried Out Only in the Years of High Profits

Agreement Level	Frequency	Percentage (%)
Strongly Agree	20	32.79%
Fairly Agree	9	14.75%
Agree	10	16.39%
Disagree	7	11.48%
Strongly Disagree	15	24.59%
Total	61	100%

Source: Author (2016)

FIGURE 8

Additional Annual Depreciation Charge Carried Out Only in the Years of High Profits



Source: Author (2016)

From the findings, 32.79% were strongly in agreement that additional annual depreciation charge was carried out only in the years of high profits, 14.75% fairly agreed, 16.39% were in agreement, 11.48% were in disagreement while 24.59% strongly disagreed.

TABLE 8

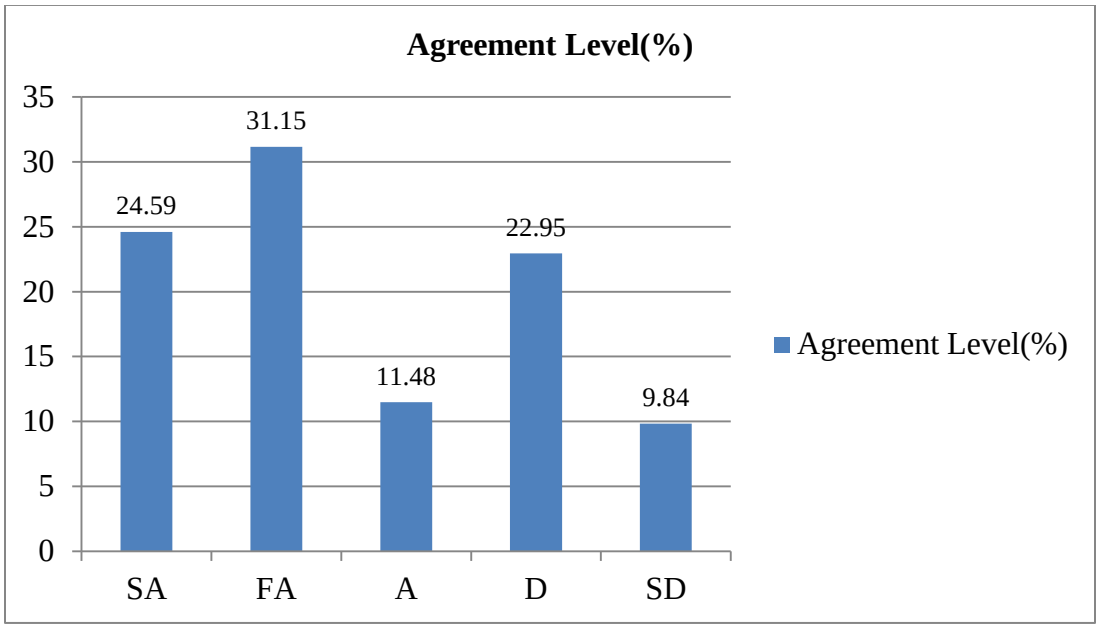
Increasing Stock Prices Had Resulted into Increase in Profits

Agreement Level	Frequency	Percentage (%)
Strongly Agree	15	24.59%
Fairly Agree	19	31.15%
Agree	7	11.48%
Disagree	14	22.95%
Strongly Disagree	6	9.84%
Total	61	100%

Source: Author (2016)

FIGURE 9

Increasing Stock Prices Had Resulted into Increase in Profits



Source: Author (2016)

From the findings, 24.59% were strongly in agreement that increased stock prices had resulted into increase in profits, 31.15% fairly agreed, 11.48% were in agreement, 22.95% were in disagreement while 9.84% strongly disagreed.

TABLE 9

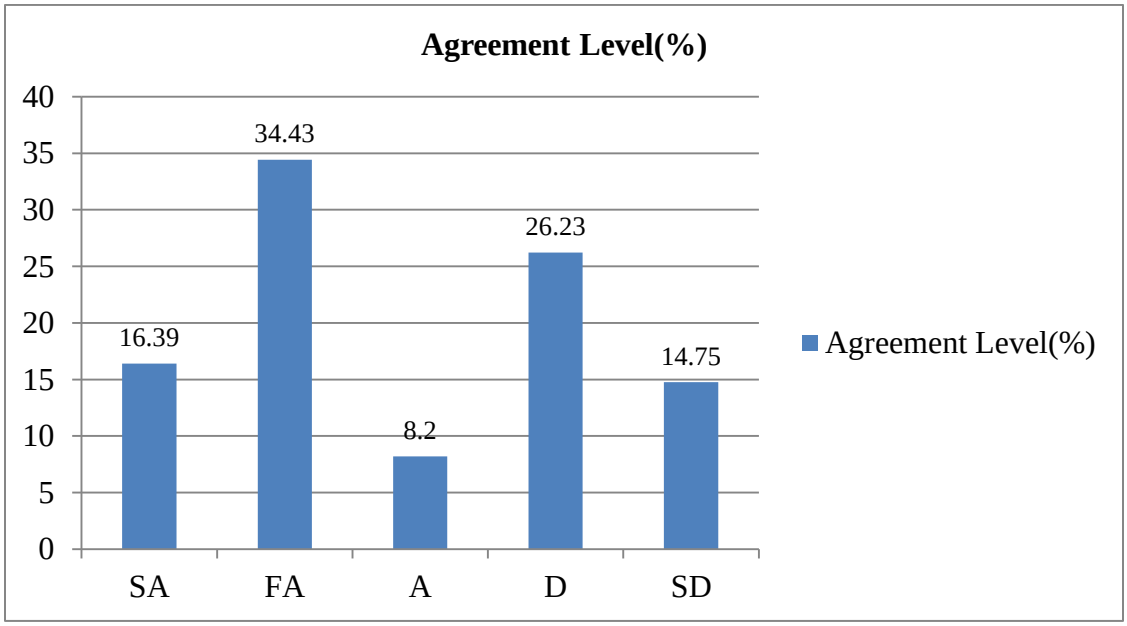
Huge Profits Observed Towards the End of Financial Year Due To Massive Sales

Agreement Level	Frequency	Percentage (%)
Strongly Agree	10	16.39%
Fairly Agree	21	34.43%
Agree	5	8.20%
Disagree	16	26.23%
Strongly Disagree	9	14.75%
Total	61	100%

Source: Author (2016)

FIGURE 10

Huge Profits Observed Towards the End of Financial Year Due To Massive Sales



Source: Author (2016)

From the findings, 16.39% were strongly in agreement that huge profits had been observed towards the end of the financial year due to massive sales, 34.43% fairly agreed, 8.20% were in agreement, 26.23% were in disagreement while 14.75% strongly disagreed.

TABLE 10

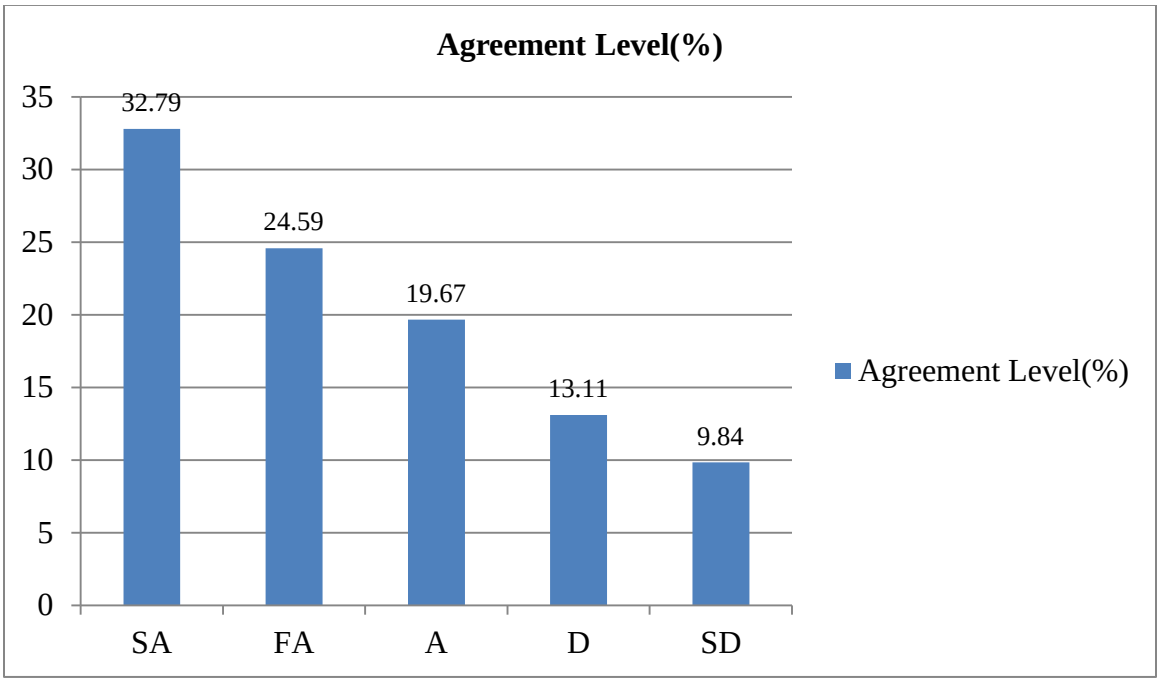
Increasing Sales Had Resulted into Increased Management Bonus and Commission

Agreement Level	Frequency	Percentage (%)
Strongly Agree	20	32.79%
Fairly Agree	15	24.59%
Agree	12	19.67%
Disagree	8	13.11%
Strongly Disagree	6	9.84%
Total	61	100%

Source: Author (2016)

FIGURE 11

Increasing Sales Had Resulted into Increased Management Bonus and Commission



Source: Author (2016)

From the findings, 32.79% were strongly in agreement that increased sales had resulted into increased management bonus and commission, 24.59% fairly agreed, 19.67% were in agreement, 13.11% were in disagreement while 9.84% strongly disagreed.

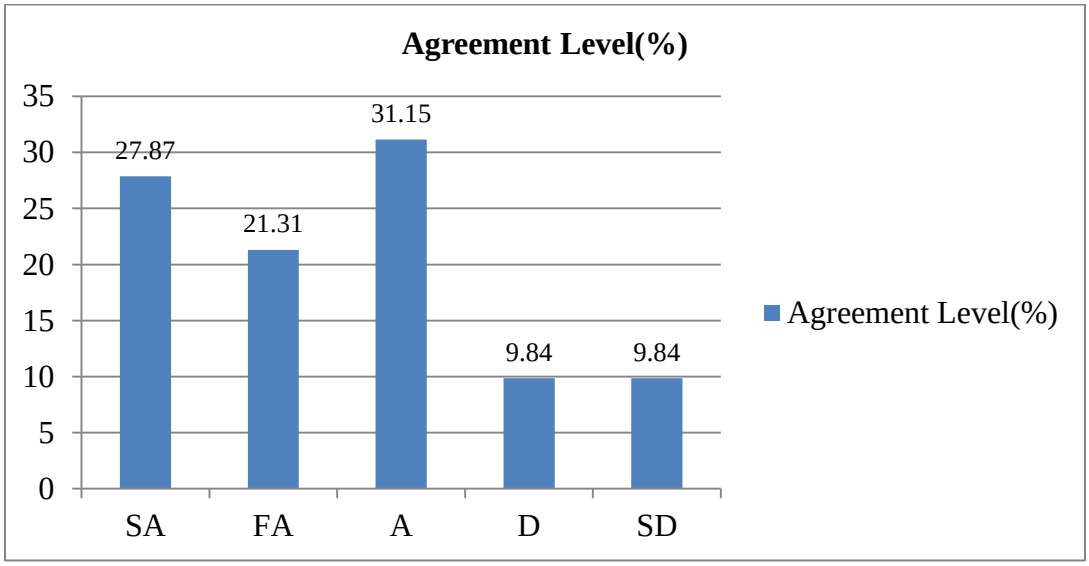
TABLE 11

Constant Profits Were Reported Despite the Increasing Sales and Advertising Costs

Agreement Level	Frequency	Percentage (%)
Strongly Agree	17	27.87%
Fairly Agree	13	21.31%
Agree	19	31.15%
Disagree	6	9.84%
Strongly Disagree	6	9.84%
Total	61	100%

Source: Author (2016)

FIGURE 12
Constant Profits Were Reported Despite the Increasing Sales and Advertising Costs



Source: Author (2016)

From the findings, 27.87% were strongly in agreement that constant profits were reported despite the increasing sales and advertising costs, 21.31% fairly agreed, 31.15% were in agreement, 9.84% were in disagreement while 9.84% strongly disagreed.

TABLE 12

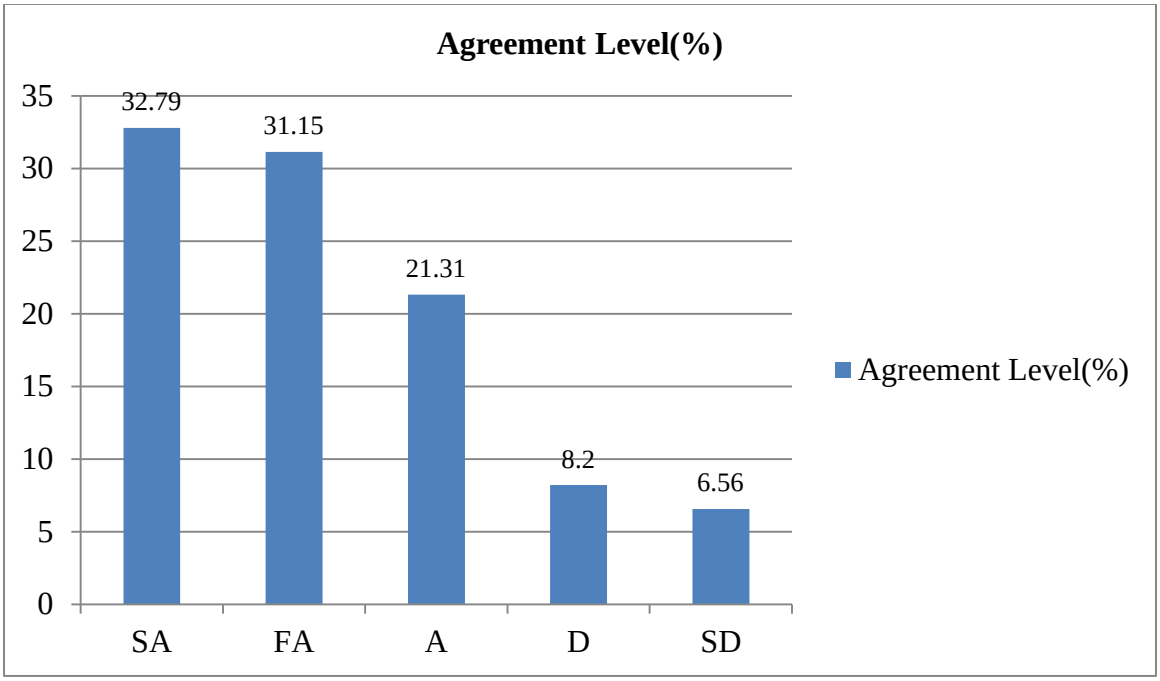
Inter-Company Trading Had Lead to Extraordinary Profits

Agreement Level	Frequency	Percentage (%)
Strongly Agree	20	32.79%
Fairly Agree	19	31.15%
Agree	13	21.31%
Disagree	5	8.20%
Strongly Disagree	4	6.56%
Total	61	100%

Source: Author (2016)

FIGURE 13

Inter-Company Trading Had Lead to Extraordinary Profits



Source: Author (2016)

From the findings, 32.79% were strongly in agreement that inter-company trading had lead to extraordinary profits, 31.15% fairly agreed, 21.31% were in agreement, 8.20% were in disagreement while 6.56% strongly disagreed.

TABLE 13

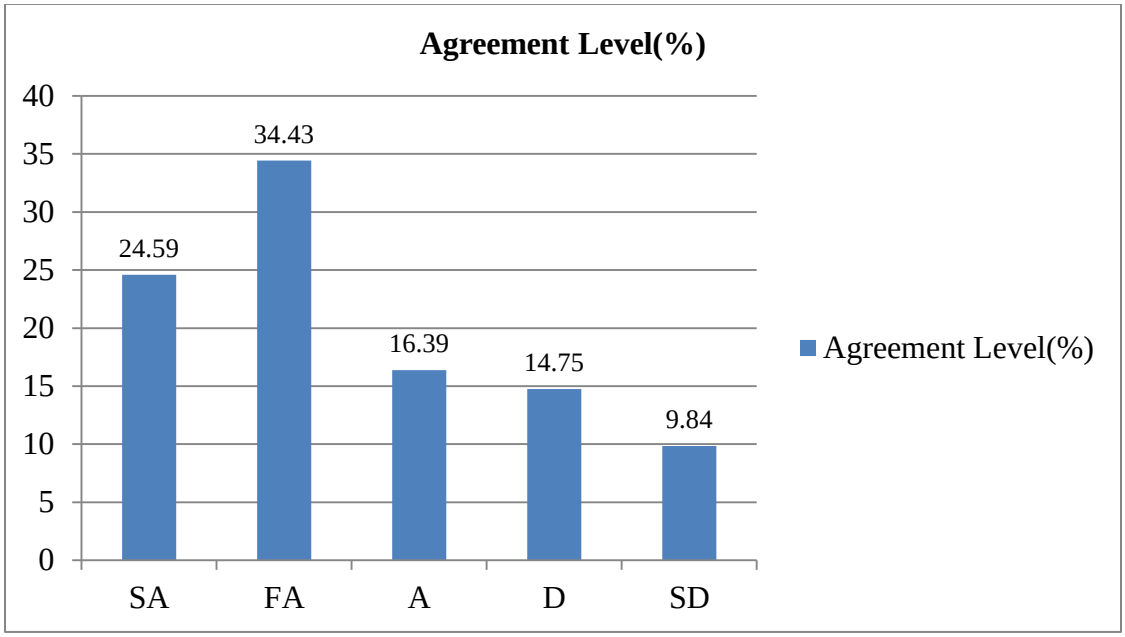
Reported Revenue Was Increasing Even Though the Market Share Was Declining

Agreement Level	Frequency	Percentage (%)
Strongly Agree	15	24.59%
Fairly Agree	21	34.43%
Agree	10	16.39%
Disagree	9	14.75%
Strongly Disagree	6	9.84%
Total	61	100%

Source: Author (2016)

FIGURE 14

Reported Revenue Was Increasing Even Though the Market Share Was Declining



Source: Author (2016)

From the findings, 24.59% were strongly in agreement that reported revenue was increasing even though the market share was declining, 34.43% fairly agreed, 16.39% were in agreement, 14.75% were in disagreement while 9.84% strongly disagreed.

TABLE 14

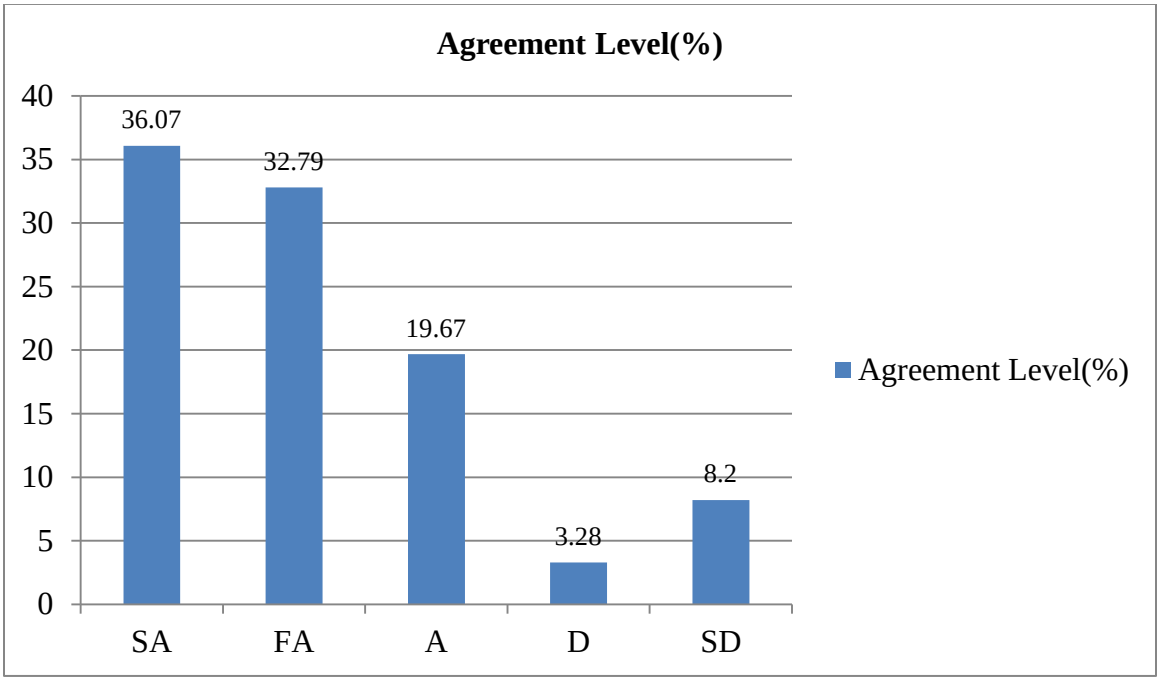
Higher Share Prices Were Reported Despite the Reported Decreasing Earnings

Agreement Level	Frequency	Percentage (%)
Strongly Agree	22	36.07%
Fairly Agree	20	32.79%
Agree	12	19.67%
Disagree	2	3.28%
Strongly Disagree	5	8.20%
Total	61	100%

Source: Author (2016)

FIGURE 15

Higher Share Prices Were Reported Despite the Reported Decreasing Earnings



Source: Author (2016)

From the findings, 36.07% were strongly in agreement that higher share prices were reported despite the reported decreasing earnings, 32.79% fairly agreed, 19.67% were in agreement, 3.28% were in disagreement while 8.20% strongly disagreed.

TABLE 15

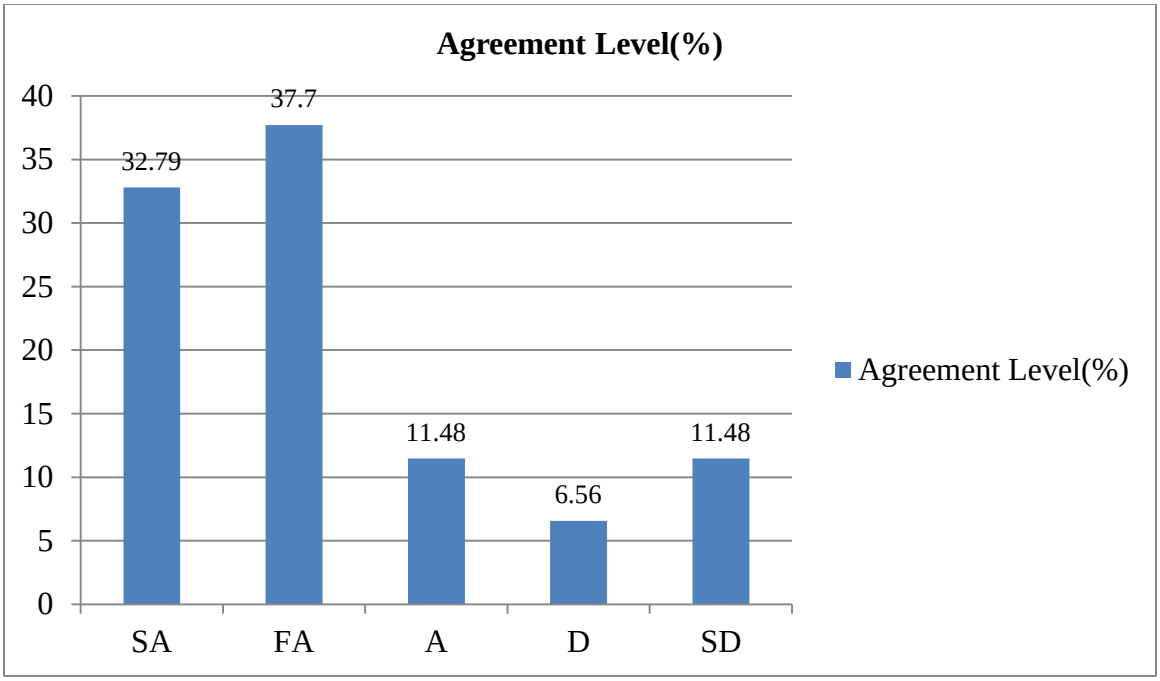
Decreasing Share Prices Were Experienced Even Though There Were Increasing Bonuses

Agreement Level	Frequency	Percentage (%)
Strongly Agree	20	32.79%
Fairly Agree	23	37.70%
Agree	7	11.48%
Disagree	4	6.56%
Strongly Disagree	7	11.48%
Total	61	100%

Source: Author (2016)

FIGURE 16

Decreasing Share Prices Were Experienced Even Though There Were Increasing Bonuses



Source: Author (2016)

From the findings, 32.79% were strongly in agreement that decreasing share prices were experienced even though there were increasing bonuses, 37.70% fairly agreed, 11.48% were in agreement, 6.56% were in disagreement while 11.48% strongly disagreed.

4.4.2 Relationship between misclassification of expenses and long term survival

TABLE 16

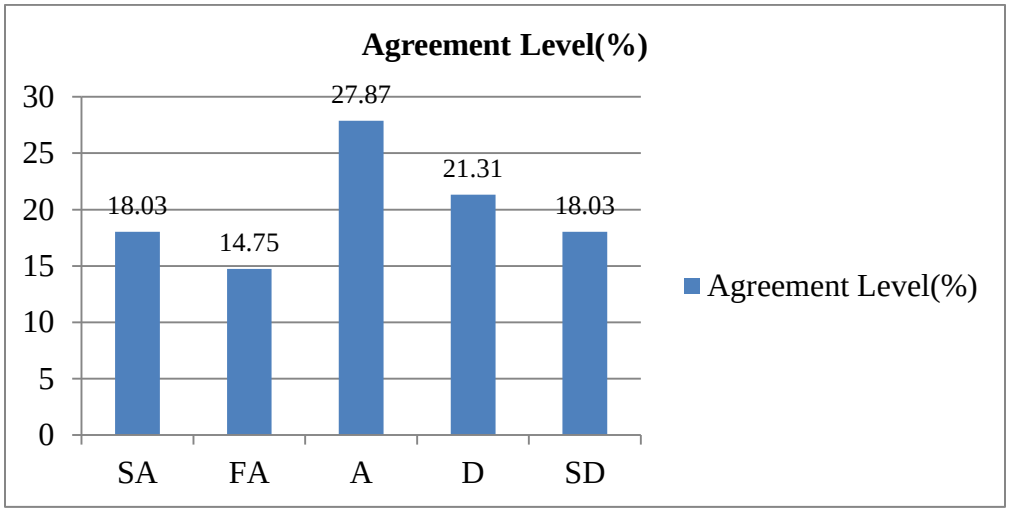
Accrued Expenses Had Been Carried to the Next Period Instead of Being Expensed Off in the Current Period

Agreement Level	Frequency	Percentage (%)
Strongly Agree	11	18.03%
Fairly Agree	9	14.75%
Agree	17	27.87%
Disagree	13	21.31%
Strongly Disagree	11	18.03%
Total	61	100%

Source: Author (2016)

FIGURE 17

Accrued Expenses Had Been Carried to the Next Period Instead of Being Expensed Off in the Current Period



Source: Author (2016)

From the findings, 18.03% were strongly in agreement that accrued expenses had been carried to the next period instead of being expensed off in the current period, 14.75% fairly agreed, 27.87% were in agreement, 21.31% were in disagreement while 18.03% strongly disagreed.

TABLE 17

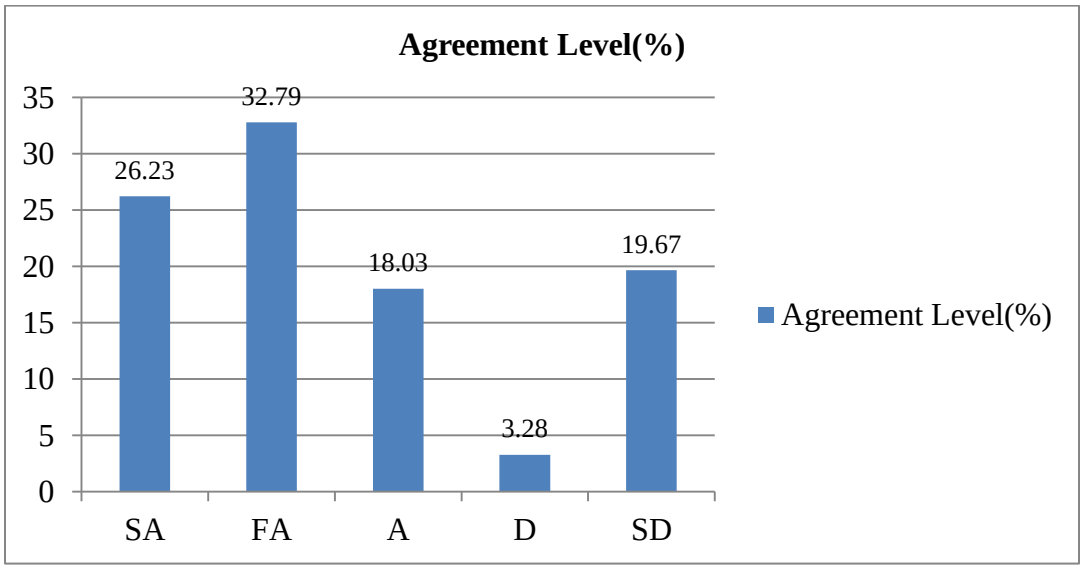
Provision for Employee Retirement Compensation Had Increased Despite the Higher Rate of Employee Turnover

Agreement Level	Frequency	Percentage (%)
Strongly Agree	16	26.23%
Fairly Agree	20	32.79%
Agree	11	18.03%
Disagree	2	3.28%
Strongly Disagree	12	19.67%
Total	61	100%

Source: Author (2016)

FIGURE 18

Provision for Employee Retirement Compensation Had Increased Despite the Higher Rate of Employee Turnover



Source: Author (2016)

From the findings, 26.23% were strongly in agreement that provision for employee retirement compensation had increased despite the higher rate of employee turnover, 32.79% fairly agreed, 18.03% were in agreement, 3.28% were in disagreement while 19.67% strongly disagreed.

TABLE 18

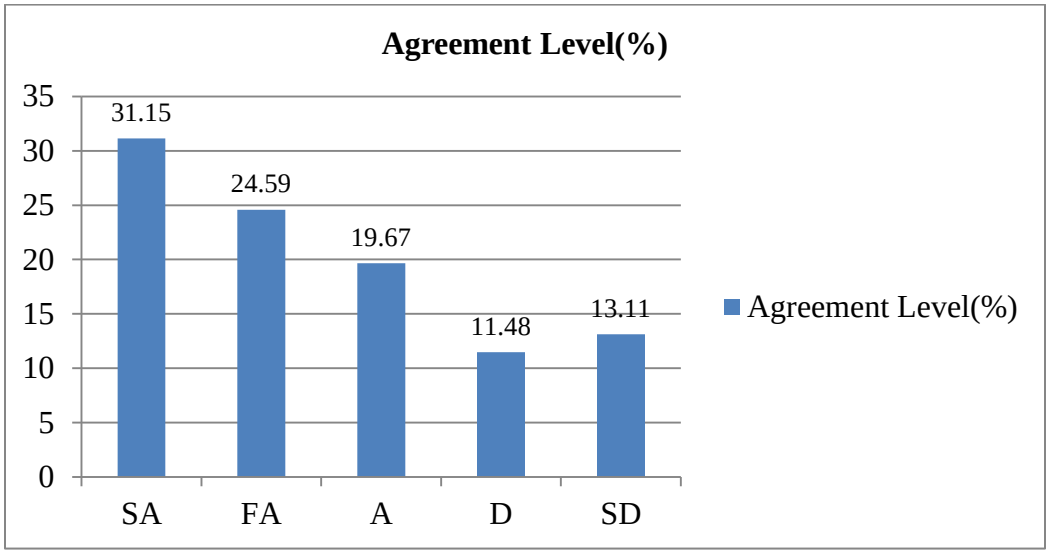
Repair and Maintenance Expenses Increased Whereas Replacement Costs of New Fixed Assets Also Increased

Agreement Level	Frequency	Percentage (%)
Strongly Agree	19	31.15%
Fairly Agree	15	24.59%
Agree	12	19.67%
Disagree	7	11.48%
Strongly Disagree	8	13.11%
Total	61	100%

Source: Author (2016)

FIGURE 19

Repair and Maintenance Expenses Increased Whereas Replacement Costs of New Fixed Assets Also Increased



Source: Author (2016)

From the findings, 31.15% were strongly in agreement that repair and maintenance expenses increased whereas the replacement costs of new fixed assets increased, 24.59% fairly agreed, 19.67% were in agreement, 11.48% were in disagreement while 13.11% strongly disagreed.

TABLE 19

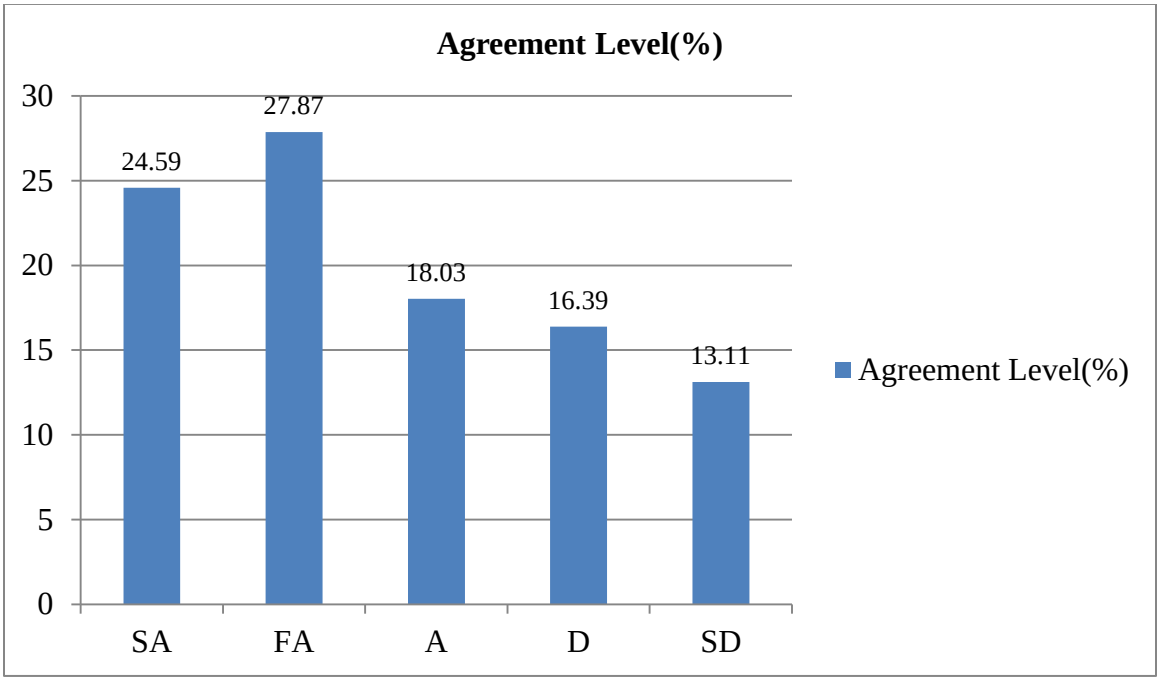
Reduced Rental Charges Had Resulted to Increased Reported Revenue

Agreement Level	Frequency	Percentage (%)
Strongly Agree	15	24.59%
Fairly Agree	17	27.87%
Agree	11	18.03%
Disagree	10	16.39%
Strongly Disagree	8	13.11%
Total	61	100%

Source: Author (2016)

FIGURE 20

Reduced Rental Charges Had Resulted to Increased Reported Revenue



Source: Author (2016)

From the findings, 24.59% were strongly in agreement that reduced rental charges had resulted to increased reported revenue, 27.87% fairly agreed, 18.03% were in agreement, 16.39% were in disagreement while 13.11% strongly disagreed.

TABLE 20

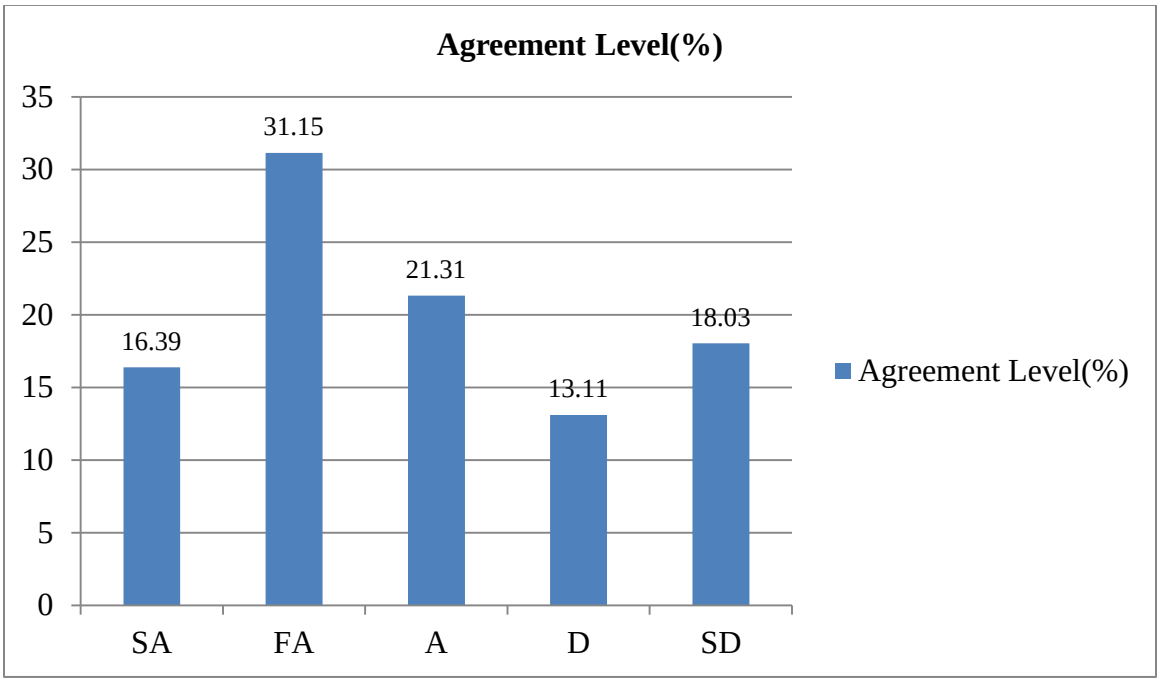
Increased Sales and Advertising Costs Had Lead to Increased Reported Earnings

Agreement Level	Frequency	Percentage (%)
Strongly Agree	10	16.39%
Fairly Agree	19	31.15%
Agree	13	21.31%
Disagree	8	13.11%
Strongly Disagree	11	18.03%
Total	61	100%

Source: Author (2016)

FIGURE 21

Increased Sales and Advertising Costs Had Lead to Increased Reported Earnings



Source: Author (2016)

From the findings, 16.39% were strongly in agreement that increased sales and advertising costs lead to increased reported earnings, 31.15% fairly agreed, 21.31% were in agreement, 13.11% were in disagreement while 18.03% strongly disagreed.

TABLE 21

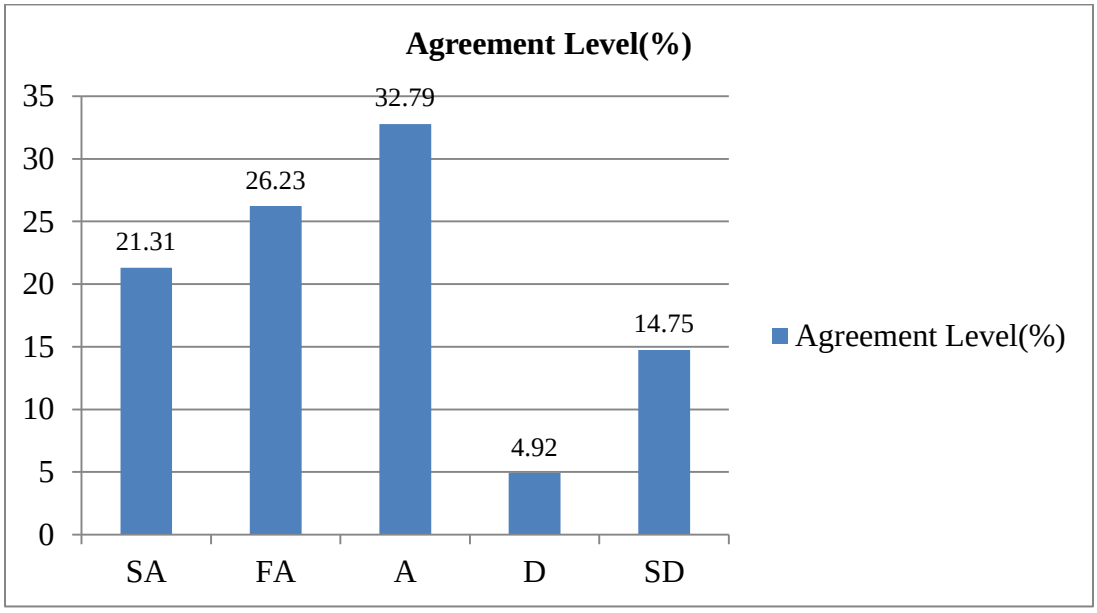
Constant Earnings Were Reported Despite the Increasing Expenses

Agreement Level	Frequency	Percentage (%)
Strongly Agree	13	21.31%
Fairly Agree	16	26.23%
Agree	20	32.79%
Disagree	3	4.92%
Strongly Disagree	9	14.75%
Total	61	100%

Source: Author (2016)

FIGURE 22

Constant Earnings Were Reported Despite the Increasing Expenses



Source: Author (2016)

From the findings, 21.31% were strongly in agreement that constant earnings were reported despite the increasing expenses, 26.23% fairly agreed, 32.79% were in agreement, 4.92% were in disagreement while 14.75% strongly disagreed.

TABLE 22

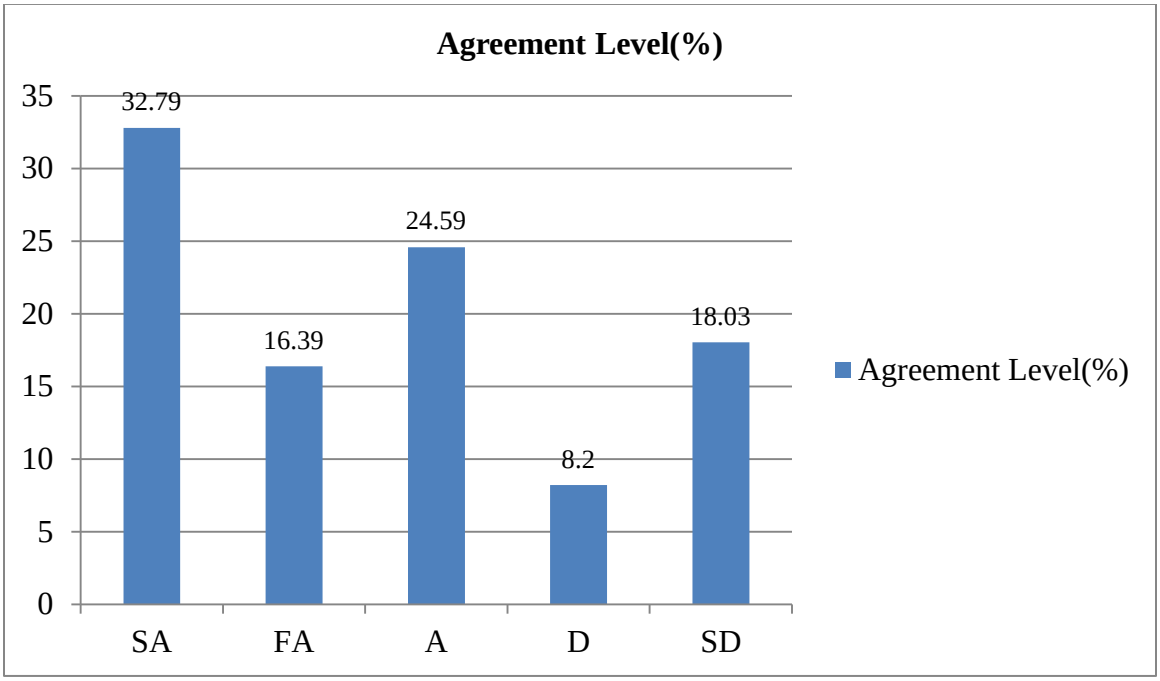
Expenses from Previous Periods Had Reduced Reported Earnings

Agreement Level	Frequency	Percentage (%)
Strongly Agree	20	32.79%
Fairly Agree	10	16.39%
Agree	15	24.59%
Disagree	5	8.20%
Strongly Disagree	11	18.03%
Total	61	100%

Source: Author (2016)

FIGURE 23

Expenses from Previous Periods Had Reduced Reported Earnings



Source: Author (2016)

From the findings, 32.79% were strongly in agreement that expenses from previous periods had reduced reported earnings, 16.39% fairly agreed, 24.59% were in agreement, 8.20% were in disagreement while 18.03% strongly disagreed.

TABLE 23

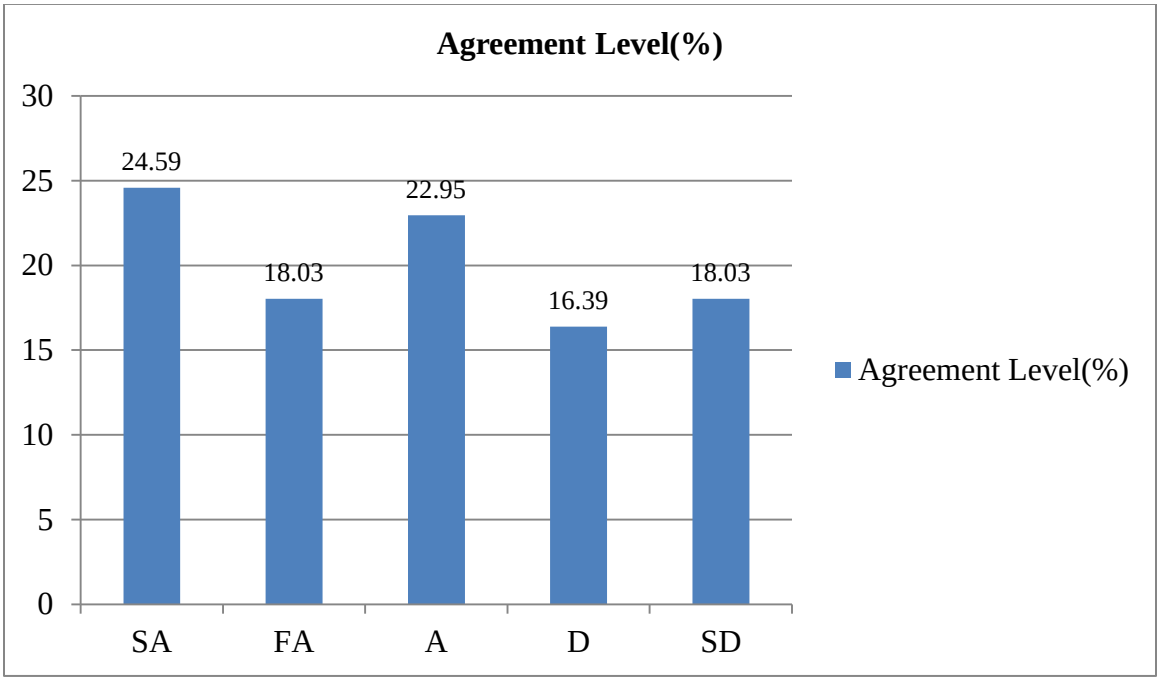
Increasing Expenses Had Caused Constant Variations in Reported Earnings

Agreement Level	Frequency	Percentage (%)
Strongly Agree	19	31.15%
Fairly Agree	17	27.87%
Agree	19	31.15%
Disagree	4	6.56%
Strongly Disagree	2	3.28%
Total	61	100%

Source: Author (2016)

FIGURE 24

Increasing Expenses Had Caused Constant Variations in Reported Earnings



Source: Author (2016)

From the findings, 31.15% were strongly in agreement that increasing expenses had caused constant variations in reported earnings, 27.87% fairly agreed, 31.15% were in agreement, 6.56% were in disagreement while 3.28% strongly disagreed.

TABLE 24

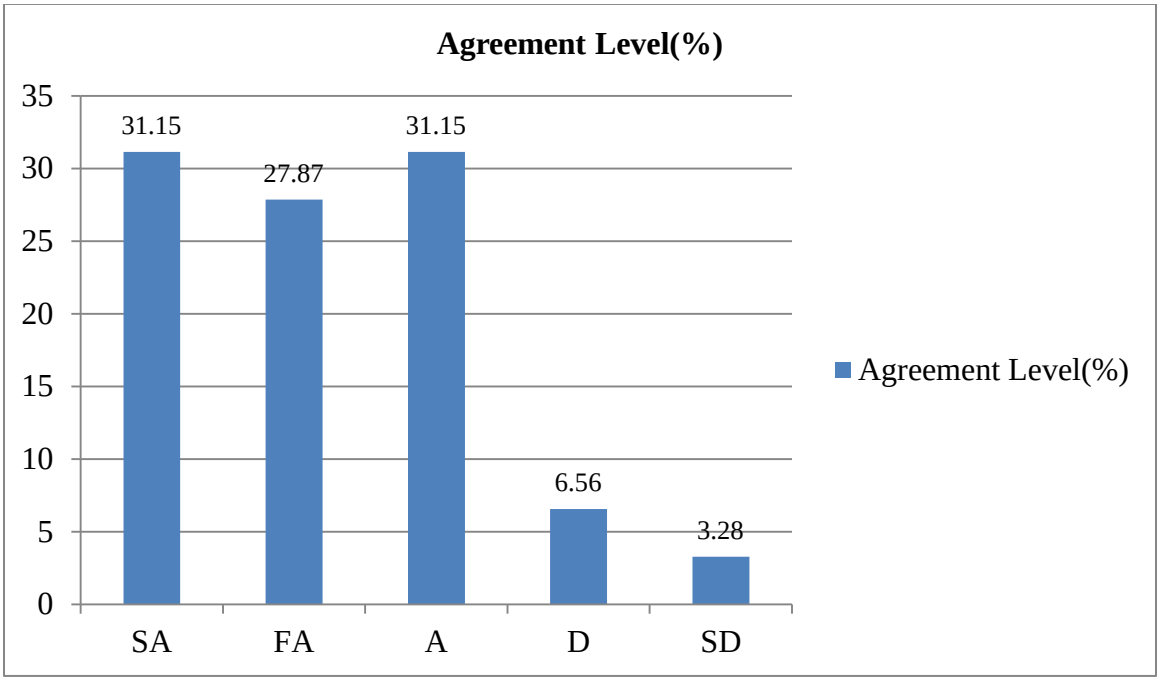
Variations in Reported Profits Were as a Result of Anticipated Expenses

Agreement Level	Frequency	Percentage (%)
Strongly Agree	15	24.59%
Fairly Agree	11	18.03%
Agree	14	22.95%
Disagree	10	16.39%
Strongly Disagree	11	18.03%
Total	61	100%

Source: Author (2016)

FIGURE 25

Variations in Reported Profits Were as a Result of Anticipated Expenses



Source: Author (2016)

From the findings, 24.59% were strongly in agreement that variations in reported profits were as a result of anticipated expenses, 18.03% fairly agreed, 22.95% were in agreement, 16.39% were in disagreement while 18.03% strongly disagreed.

TABLE 25

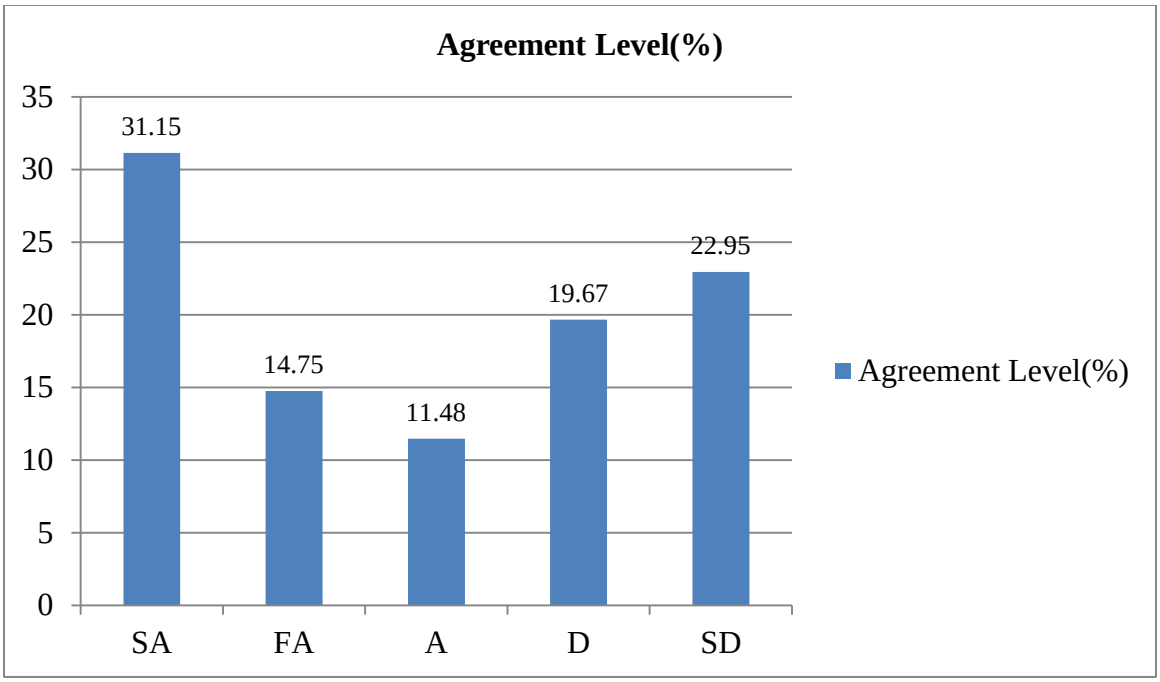
Salaries and Remuneration Expenses Increased Despite the High Rate of Employee Exit

Agreement Level	Frequency	Percentage (%)
Strongly Agree	19	31.15%
Fairly Agree	9	14.75%
Agree	7	11.48%
Disagree	12	19.67%
Strongly Disagree	14	22.95%
Total	61	100%

Source: Author (2016)

FIGURE 26

Salaries and Remuneration Expenses Increased Despite the High Rate of Employee Exit



Source: Author (2016)

From the findings, 31.15% were strongly in agreement that salaries and remuneration expenses were increasing despite the high rate of employee exit, 14.75% fairly agreed, 11.48% were in agreement, 19.67% were in disagreement while 22.95% strongly disagreed.

4.4.3 Relationship between valuation of assets and liabilities and long term survival

TABLE 26

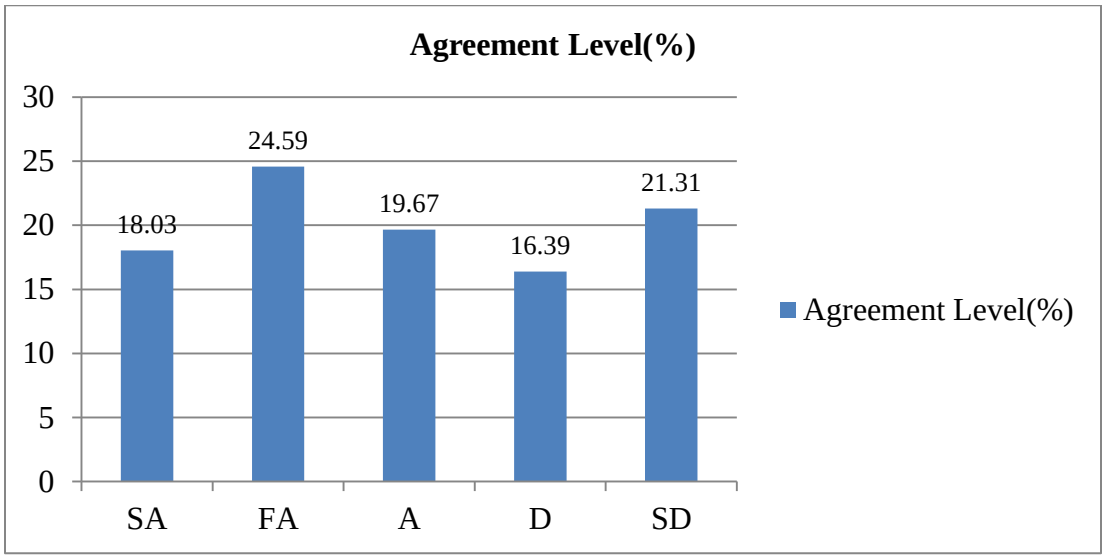
Inventory Valuation Method Had Been Changed Despite the Decreasing Stock

Agreement Level	Frequency	Percentage (%)
Strongly Agree	11	18.03%
Fairly Agree	15	24.59%
Agree	12	19.67%
Disagree	10	16.39%
Strongly Disagree	13	21.31%
Total	61	100%

Source: Author (2016)

FIGURE 27

Inventory Valuation Method Had Been Changed Despite the Decreasing Stock



Source: Author (2016)

From the findings, 18.03% were strongly in agreement that inventory valuation method had been changed despite the decreasing stock, 24.59% fairly agreed, 19.67% were in agreement, 16.39% were in disagreement while 21.31% strongly disagreed.

TABLE 27

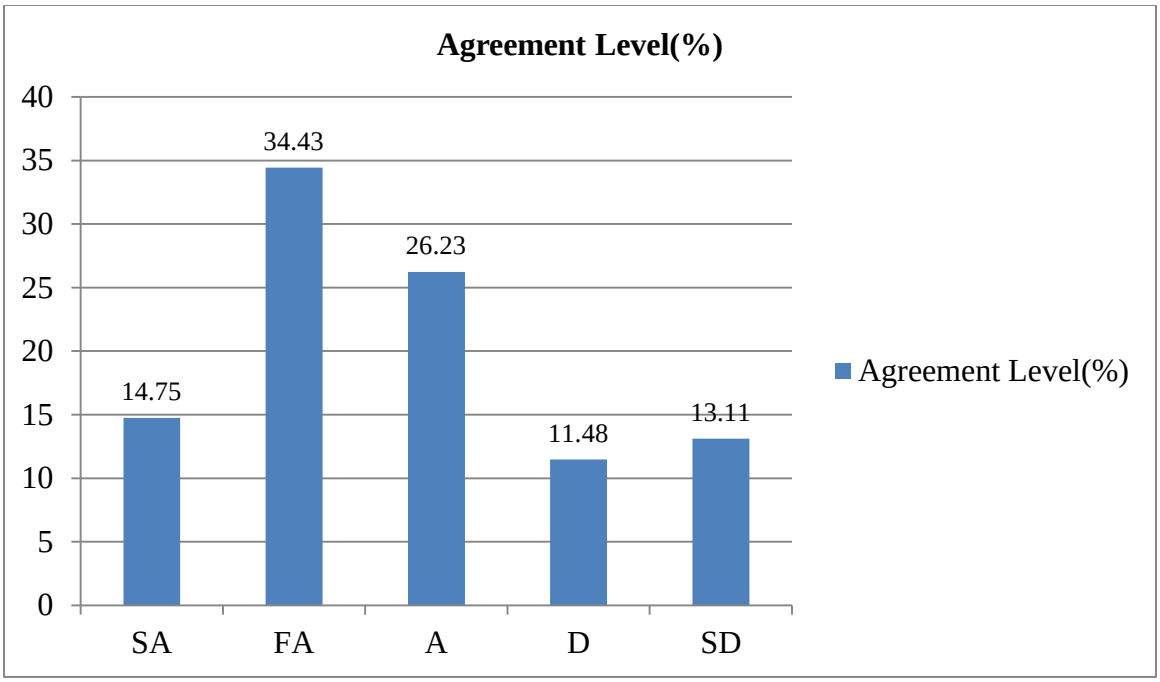
Valuation of Inventory Was Carried Out at Cost Instead of the Lower of Market Value

Agreement Level	Frequency	Percentage (%)
Strongly Agree	9	14.75%
Fairly Agree	21	34.43%
Agree	16	26.23%
Disagree	7	11.48%
Strongly Disagree	8	13.11%
Total	61	100%

Source: Author (2016)

FIGURE 28

Valuation of Inventory Was Carried Out at Cost Instead of the Lower of Market Value



Source: Author (2016)

From the findings, 14.75% were strongly in agreement that valuation of inventory had been carried out at cost instead of the lower of market value, 34.43% fairly agreed, 26.23% were in agreement, 11.48% were in disagreement while 13.11% strongly disagreed.

TABLE 28

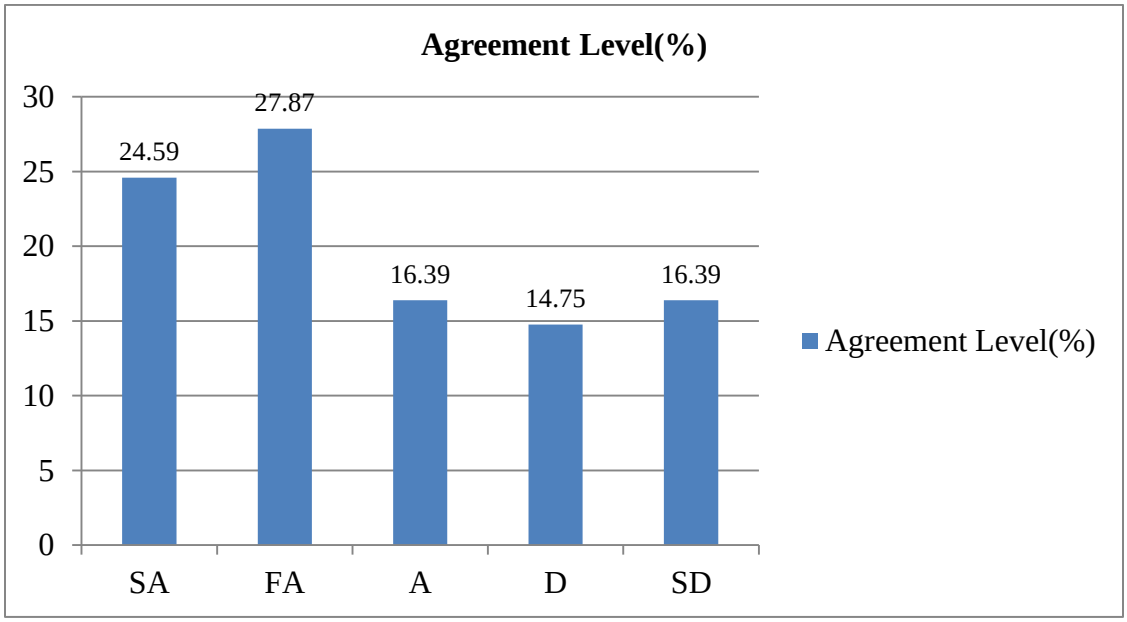
Assets Increased Due to Internal Revaluation of Existing Assets by Management

Agreement Level	Frequency	Percentage (%)
Strongly Agree	15	24.59%
Fairly Agree	17	27.87%
Agree	10	16.39%
Disagree	9	14.75%
Strongly Disagree	10	16.39%
Total	61	100%

Source: Author (2016)

FIGURE 29

Assets Increased Due to Internal Revaluation of Existing Assets by Management



Source: Author (2016)

From the findings, 24.59% were strongly in agreement that assets had increased due to internal revaluation of existing assets carried out by management, 27.87% fairly agreed, 16.39% were in agreement, 14.75% were in disagreement while 16.39% strongly disagreed.

TABLE 29

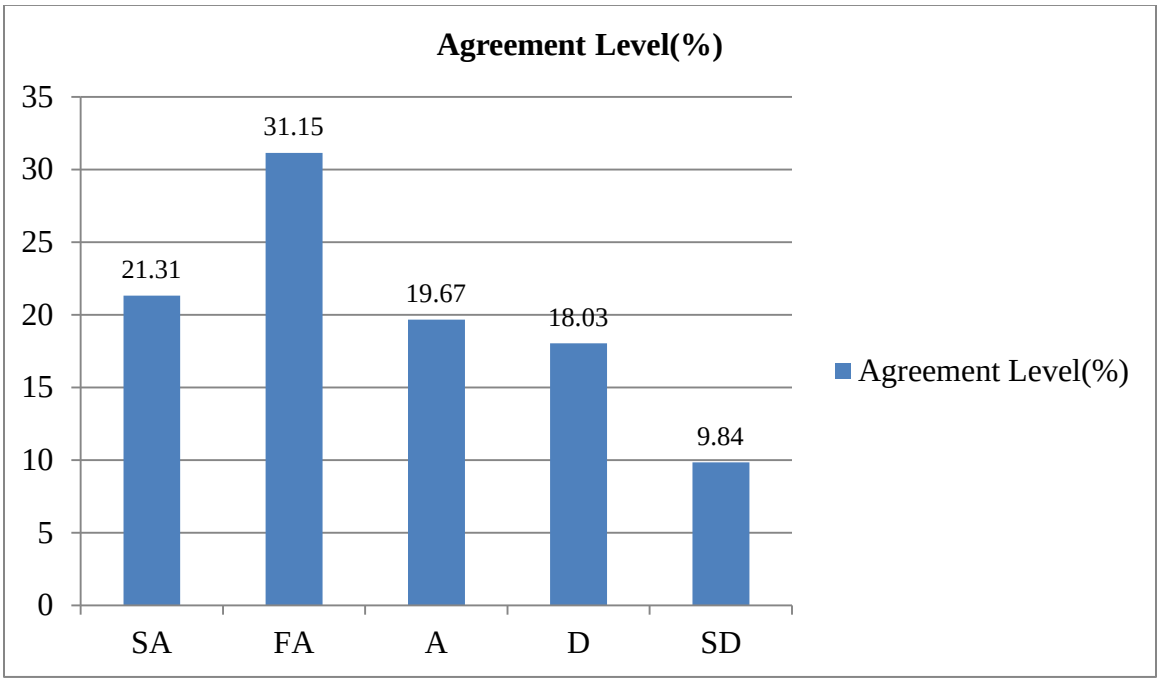
Increase in Inventory Had Been Experienced Despite Reported Increase in Revenue

Agreement Level	Frequency	Percentage (%)
Strongly Agree	13	21.31%
Fairly Agree	19	31.15%
Agree	12	19.67%
Disagree	11	18.03%
Strongly Disagree	6	9.84%
Total	61	100%

Source: Author (2016)

FIGURE 30

Increase in Inventory Had Been Experienced Despite Reported Increase in Revenue



Source: Author (2016)

From the findings, 21.31% were strongly in agreement that increase in inventory had been experienced despite reported increase in revenue, 31.15% fairly agreed, 19.67% were in agreement, 18.03% were in disagreement while 9.84% strongly disagreed.

TABLE 30

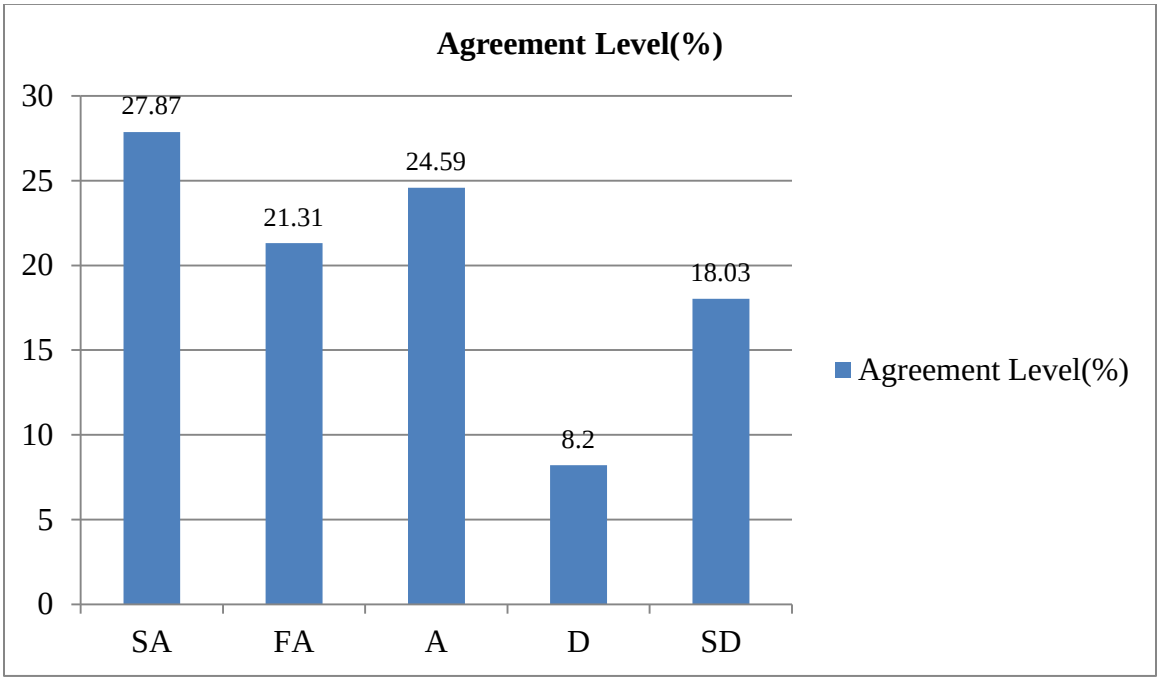
Increased Borrowing Costs Was Experienced Though Borrowed Funds Were Reducing

Agreement Level	Frequency	Percentage (%)
Strongly Agree	17	27.87%
Fairly Agree	13	21.31%
Agree	15	24.59%
Disagree	5	8.20%
Strongly Disagree	11	18.03%
Total	61	100%

Source: Author (2016)

FIGURE 31

Increased Borrowing Costs Was Experienced Though Borrowed Funds Were Reducing



Source: Author (2016)

From the findings, 27.87% were strongly in agreement that increased borrowing costs had been experienced even though borrowed funds were reducing, 21.31% fairly agreed, 24.59% were in agreement, 8.20% were in disagreement while 18.03% strongly disagreed.

TABLE 31

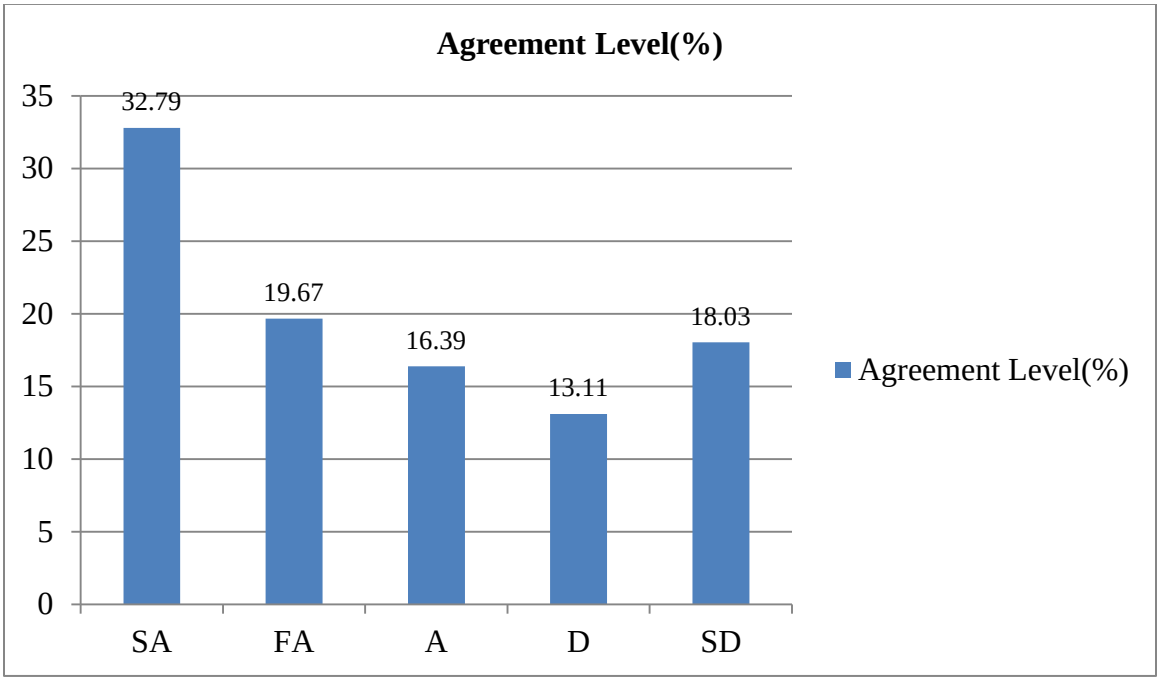
Increasing Bank Overdraft Observed Despite Reported Increasing Earnings

Agreement Level	Frequency	Percentage (%)
Strongly Agree	20	32.79%
Fairly Agree	12	19.67%
Agree	10	16.39%
Disagree	8	13.11%
Strongly Disagree	11	18.03%
Total	61	100%

Source: Author (2016)

FIGURE 32

Increasing Bank Overdraft Observed Despite Reported Increasing Earnings



Source: Author (2016)

From the findings, 32.79% were strongly in agreement that increasing bank overdraft observed despite reported increasing earnings, 19.67% fairly agreed, 16.39% were in agreement, 13.11% were in disagreement while 18.03% strongly disagreed.

TABLE 32

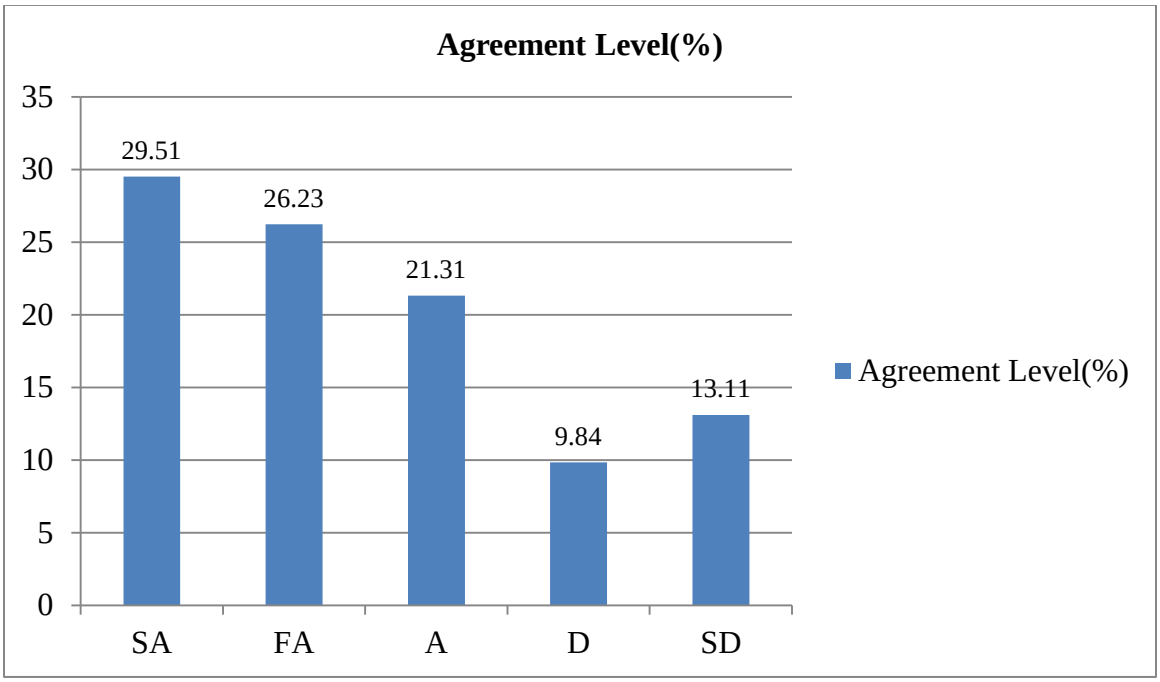
Increased Sale of Fixed Assets Was Experienced Despite Increased Depreciation Charges

Agreement Level	Frequency	Percentage (%)
Strongly Agree	18	29.51%
Fairly Agree	16	26.23%
Agree	13	21.31%
Disagree	6	9.84%
Strongly Disagree	8	13.11%
Total	61	100%

Source: Author (2016)

FIGURE 33

Increased Sale of Fixed Assets Was Experienced Despite Increased Depreciation Charges



Source: Author (2016)

From the findings, 29.51% were strongly in agreement that increased sale of fixed assets had been experienced despite the increased depreciation charges, 26.23% fairly agreed, 21.31% were in agreement, 9.84% were in disagreement while 13.11% strongly disagreed.

TABLE 33

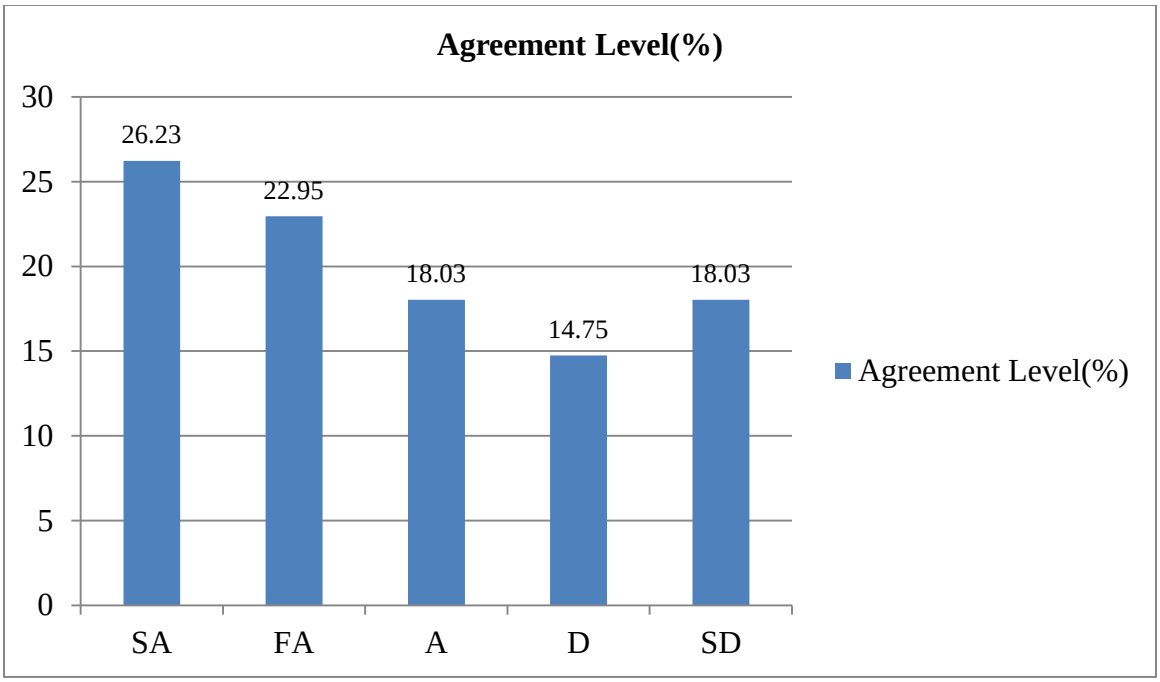
Revaluation of Selected Fixed Assets Was Carried Out Though No New Assets Purchased

Agreement Level	Frequency	Percentage (%)
Strongly Agree	16	26.23%
Fairly Agree	14	22.95%
Agree	11	18.03%
Disagree	9	14.75%
Strongly Disagree	11	18.03%
Total	61	100%

Source: Author (2016)

FIGURE 34

Revaluation of Selected Fixed Assets Was Carried Out Though No New Assets Purchased



Source: Author (2016)

From the findings, 26.23% were strongly in agreement that revaluation of selected fixed assets had been carried out even though no new assets had been purchased, 22.95% fairly agreed, 18.03% were in agreement, 14.75% were in disagreement while 18.03% strongly disagreed.

TABLE 34

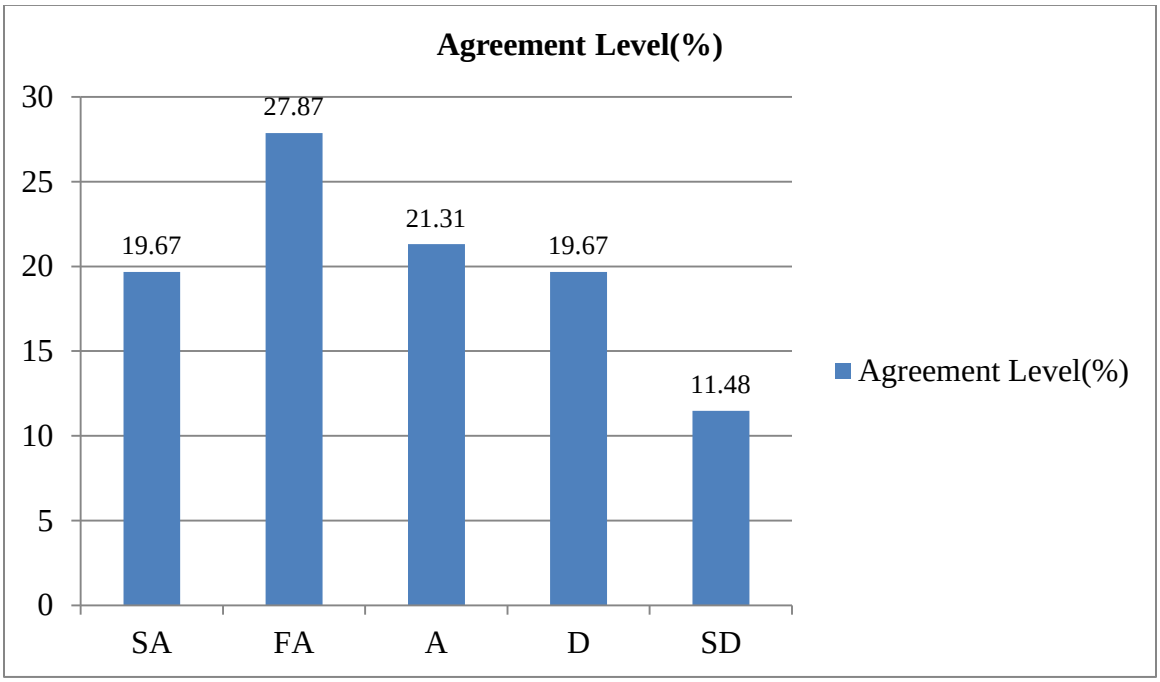
Provision for Depreciation Had Increased Despite the Increased Disposal of Assets

Agreement Level	Frequency	Percentage (%)
Strongly Agree	12	19.67%
Fairly Agree	17	27.87%
Agree	13	21.31%
Disagree	12	19.67%
Strongly Disagree	7	11.48%
Total	61	100%

Source: Author (2016)

FIGURE 35

Provision for Depreciation Had Increased Despite the Increased Disposal of Assets



Source: Author (2016)

From the findings, 19.67% were strongly in agreement that provision for depreciation had increased despite the increased disposal of assets, 27.87% fairly agreed, 21.31% were in agreement, 19.67% were in disagreement while 11.48% strongly disagreed.

TABLE 35

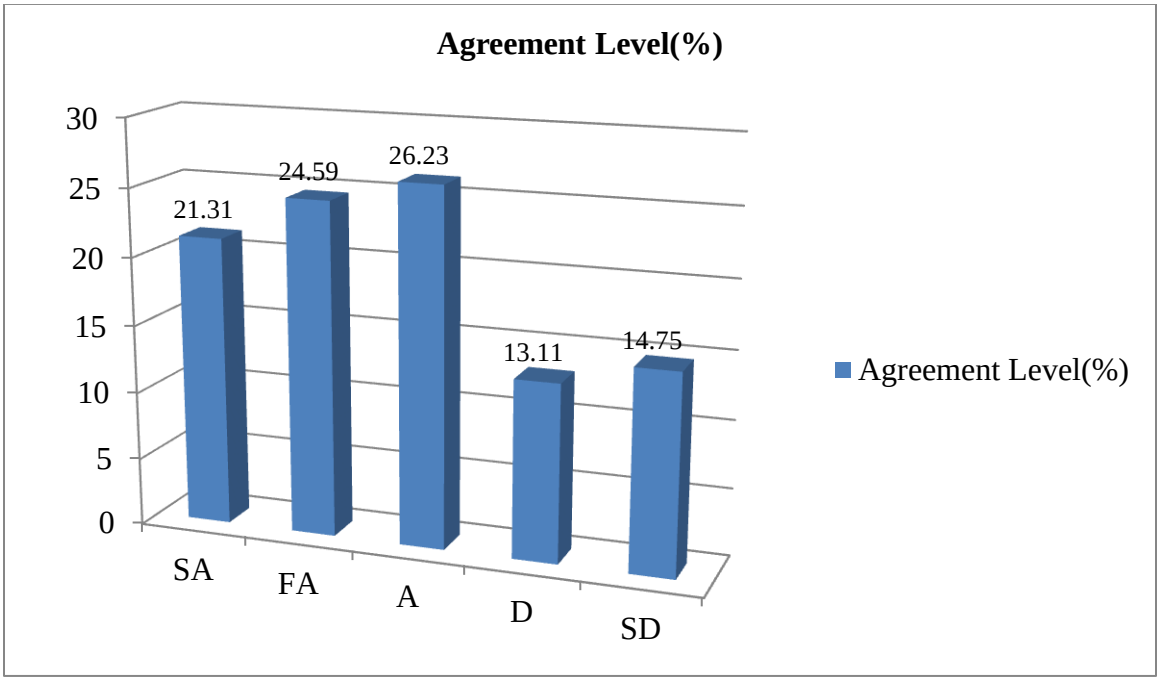
Off-Balance Sheet Financing Had Increased Despite Decreasing Reported Liabilities

Agreement Level	Frequency	Percentage (%)
Strongly Agree	13	21.31%
Fairly Agree	15	24.59
Agree	16	26.23%
Disagree	8	13.11%
Strongly Disagree	9	14.75%
Total	61	100%

Source: Author (2016)

FIGURE 36

Off-Balance Sheet Financing Had Increased Despite Decreasing Reported Liabilities



Source: Author (2016)

From the findings, 21.31% were strongly in agreement that off-balance sheet financing had increased despite decreasing reported liabilities, 24.59 fairly agreed, 26.23% were in agreement, 13.11% were in disagreement while 14.75% strongly disagreed.

TABLE 36

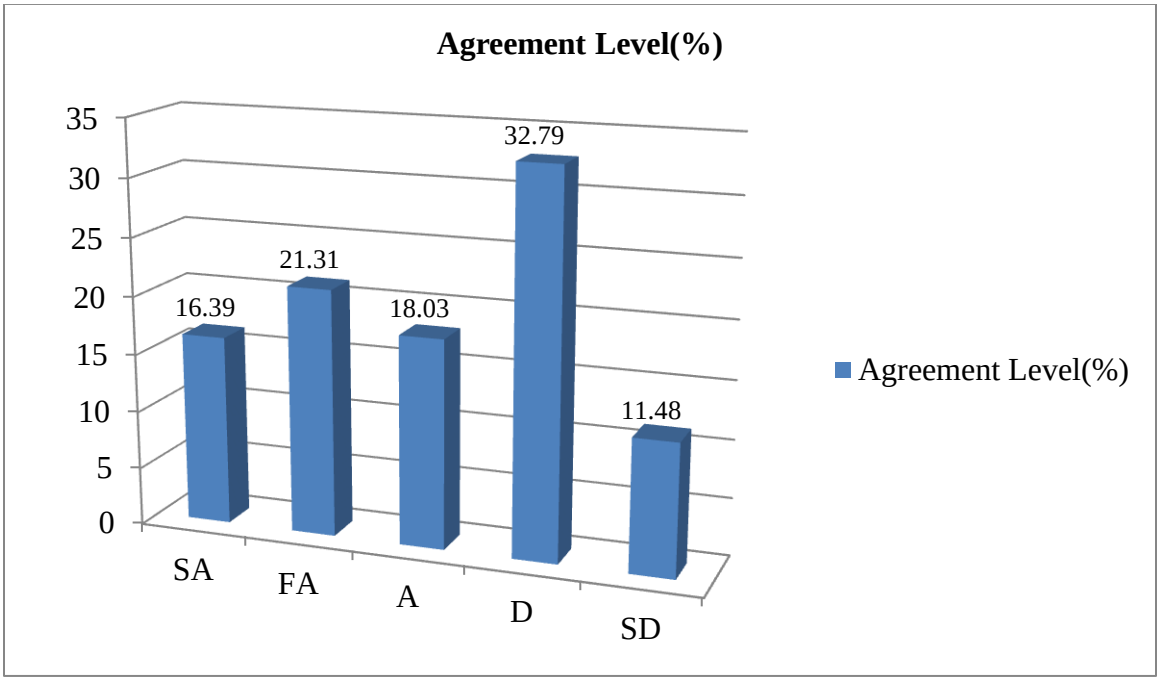
Cash Flows Reduced Due to Current Liquidity Maintaining

Agreement Level	Frequency	Percentage (%)
Strongly Agree	10	16.39%
Fairly Agree	13	21.31%
Agree	11	18.03%
Disagree	20	32.79%
Strongly Disagree	7	11.48%
Total	61	100%

Source: Author (2016)

FIGURE 37

Cash Flows Reduced Due to Current Liquidity Maintaining



Source: Author (2016)

From the findings, 16.39% were strongly in agreement that cash flows reduced due to current liquidity maintaining, 21.31% fairly agreed, 18.03% were in agreement, 32.79% were in disagreement while 11.48% strongly disagreed.

TABLE 37

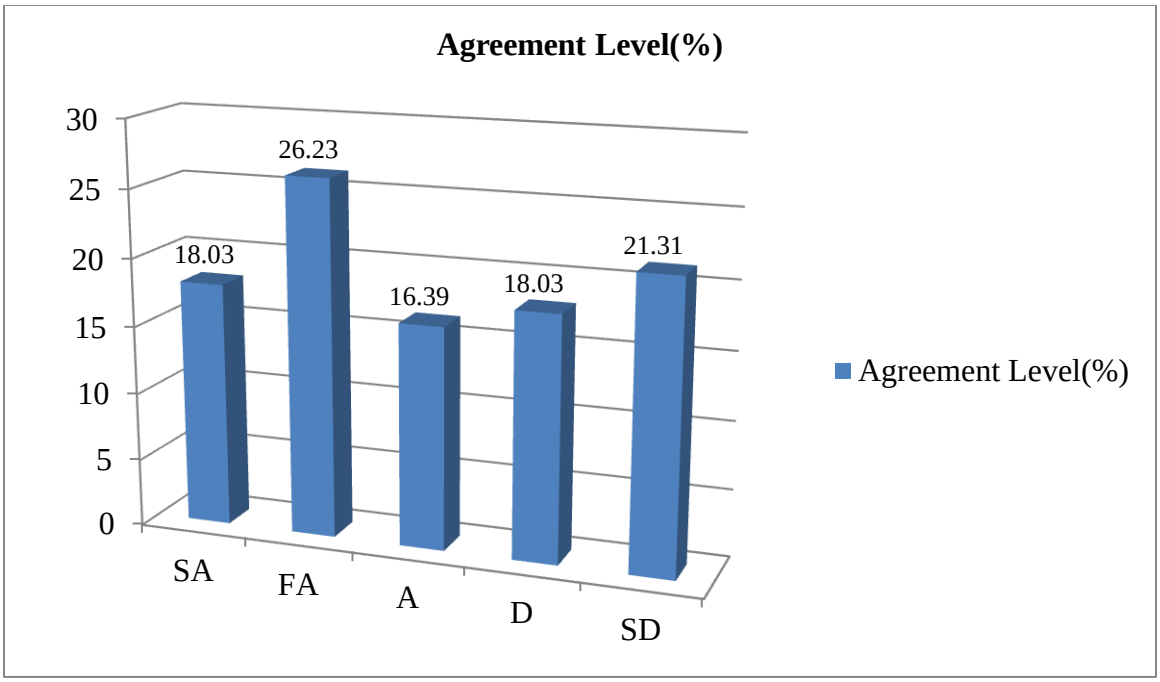
Steady Growth in Profit Had Resulted From Increasing Assets

Agreement Level	Frequency	Percentage (%)
Strongly Agree	11	18.03%
Fairly Agree	16	26.23%
Agree	10	16.39%
Disagree	11	18.03%
Strongly Disagree	13	21.31%
Total	61	100%

Source: Author (2016)

FIGURE 38

Steady Growth in Profit Had Resulted From Increasing Assets



Source: Author (2016)

From the findings, 18.03% were strongly in agreement that steady growth in profit had resulted from increasing assets, 26.23% fairly agreed, 16.39% were in agreement, 18.03% were in disagreement while 21.31% strongly disagreed.

TABLE 38

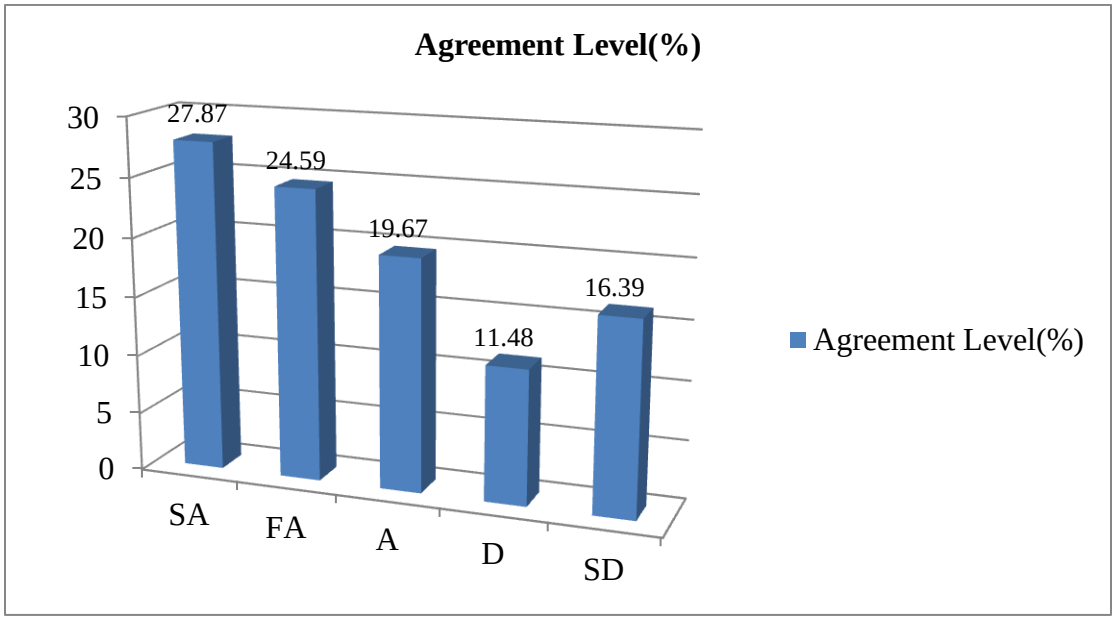
Reduced Liabilities Had Lead to Steady Growth in Profit

Agreement Level	Frequency	Percentage (%)
Strongly Agree	17	27.87%
Fairly Agree	15	24.59%
Agree	12	19.67%
Disagree	7	11.48%
Strongly Disagree	10	16.39%
Total	61	100%

Source: Author (2016)

FIGURE 39

Reduced Liabilities Had Lead to Steady Growth in Profit



Source: Author (2016)

From the findings, 27.87% were strongly in agreement that reduced liabilities had lead to steady growth in profit, 24.59% fairly agreed, 19.67% were in agreement, 11.48% were in disagreement while 16.39% strongly disagreed.

4.4.4 Long term survival of firms

TABLE 39

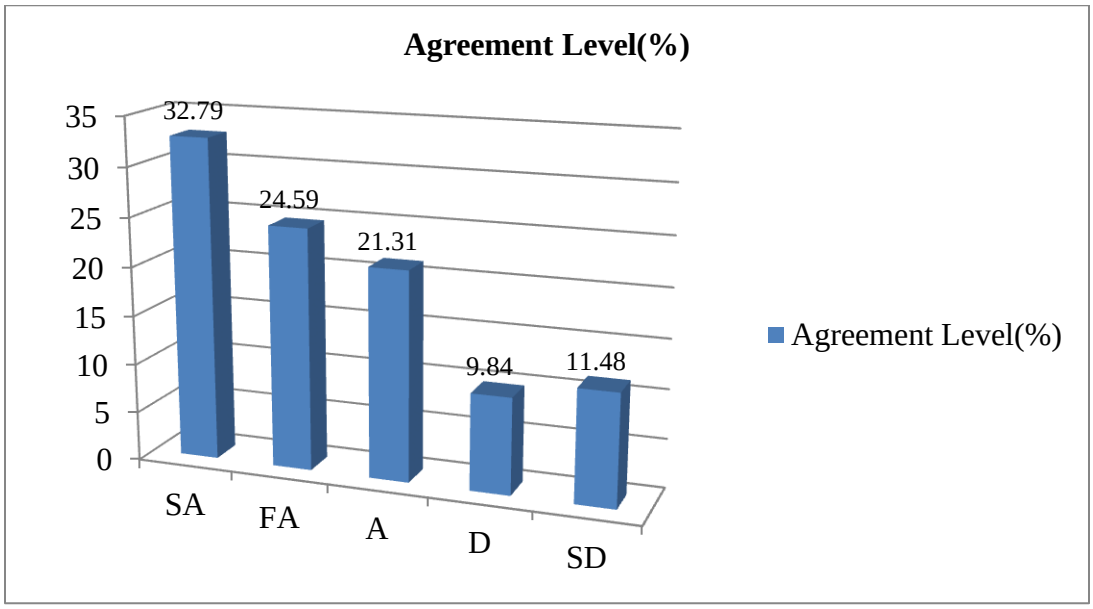
Payment Was Made to Suppliers Even Though They Faced Prolonged Periods

Agreement Level	Frequency	Percentage (%)
Strongly Agree	20	32.79%
Fairly Agree	15	24.59%
Agree	13	21.31%
Disagree	6	9.84%
Strongly Disagree	7	11.48%
Total	61	100%

Source: Author (2016)

FIGURE 40

Payment Was Made to Suppliers Even Though They Faced Prolonged Periods



Source: Author (2016)

From the findings, 32.79% were strongly in agreement that payment was made to suppliers even though they faced prolonged periods, 24.59% fairly agreed, 21.31% were in agreement, 9.84% were in disagreement while 11.48% strongly disagreed.

TABLE 40

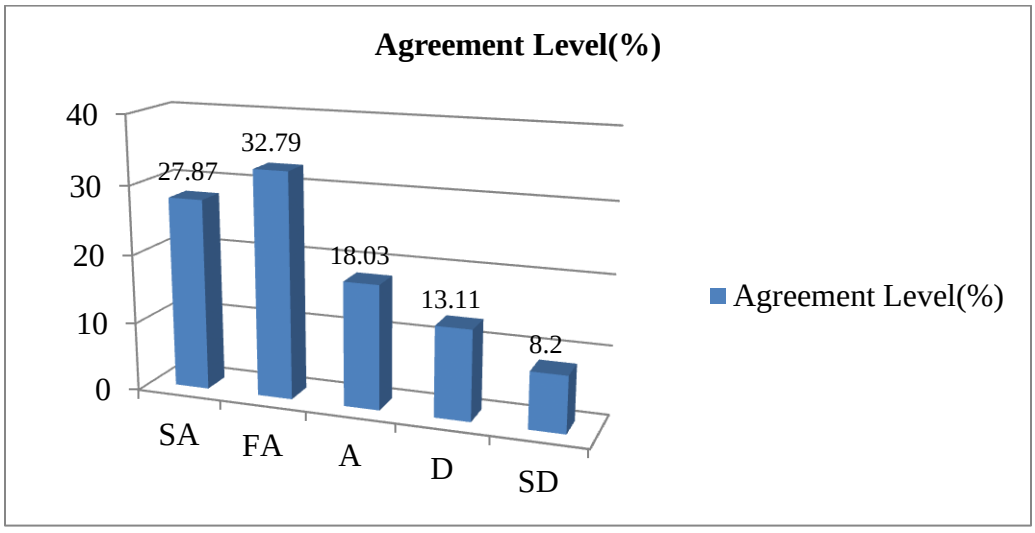
Lower Pay Packages to Employees Were Continuously Observed Even Though There Was Increased Employee Turnover

Agreement Level	Frequency	Percentage (%)
Strongly Agree	17	27.87%
Fairly Agree	20	32.79%
Agree	11	18.03%
Disagree	8	13.11%
Strongly Disagree	5	8.20%
Total	61	100%

Source: Author (2016)

FIGURE 41

Lower Pay Packages to Employees Were Continuously Observed Even Though There Was Increased Employee Turnover



Source: Author (2016)

From the findings, 27.87% were strongly in agreement that lower pay packages to employees were continuously observed even though there was increased employee turnover, 32.79% fairly agreed, 18.03% were in agreement, 13.11% were in disagreement while 8.20% strongly disagreed.

TABLE 41

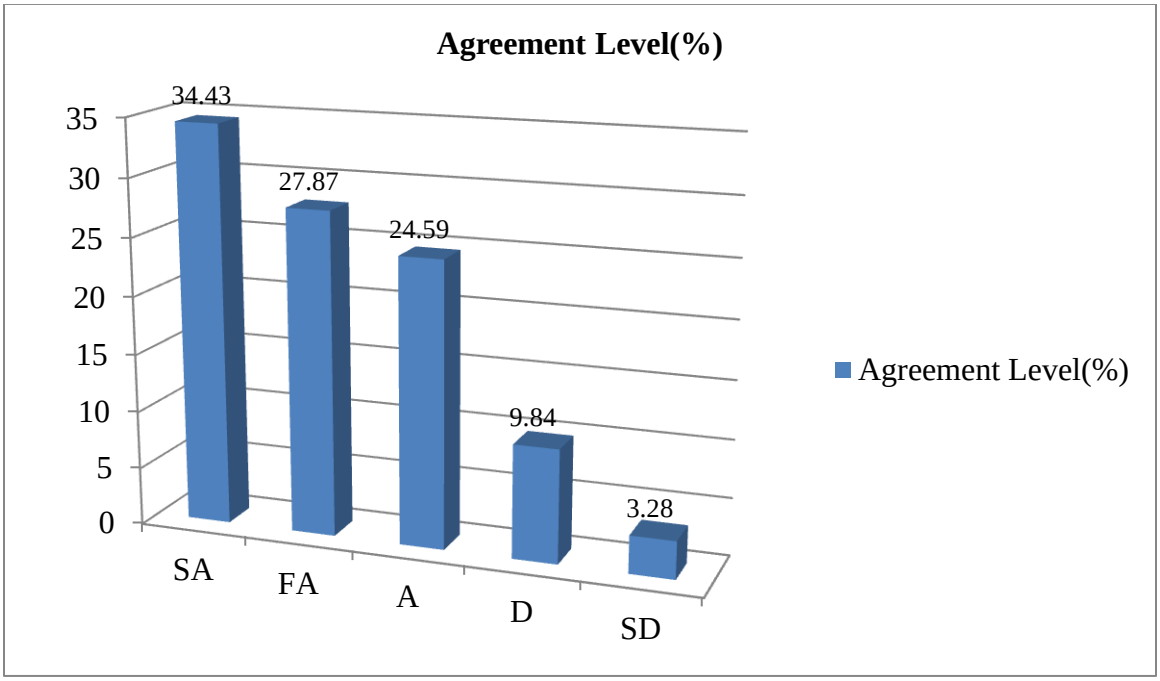
Debtors Were Pressed to Pay Their Invoices as Their Payment Period Was Shortened

Agreement Level	Frequency	Percentage (%)
Strongly Agree	21	34.43%
Fairly Agree	17	27.87%
Agree	15	24.59%
Disagree	6	9.84%
Strongly Disagree	2	3.28%
Total	61	100%

Source: Author (2016)

FIGURE 42

Debtors Were Pressed to Pay Their Invoices as Their Payment Period Was Shortened



Source: Author (2016)

From the findings, 34.43% were strongly in agreement that debtors were pressed to pay their invoices as their payment period was shortened, 27.87% fairly agreed, 24.59% were in agreement, 9.84% were in disagreement while 3.28% strongly disagreed.

TABLE 42

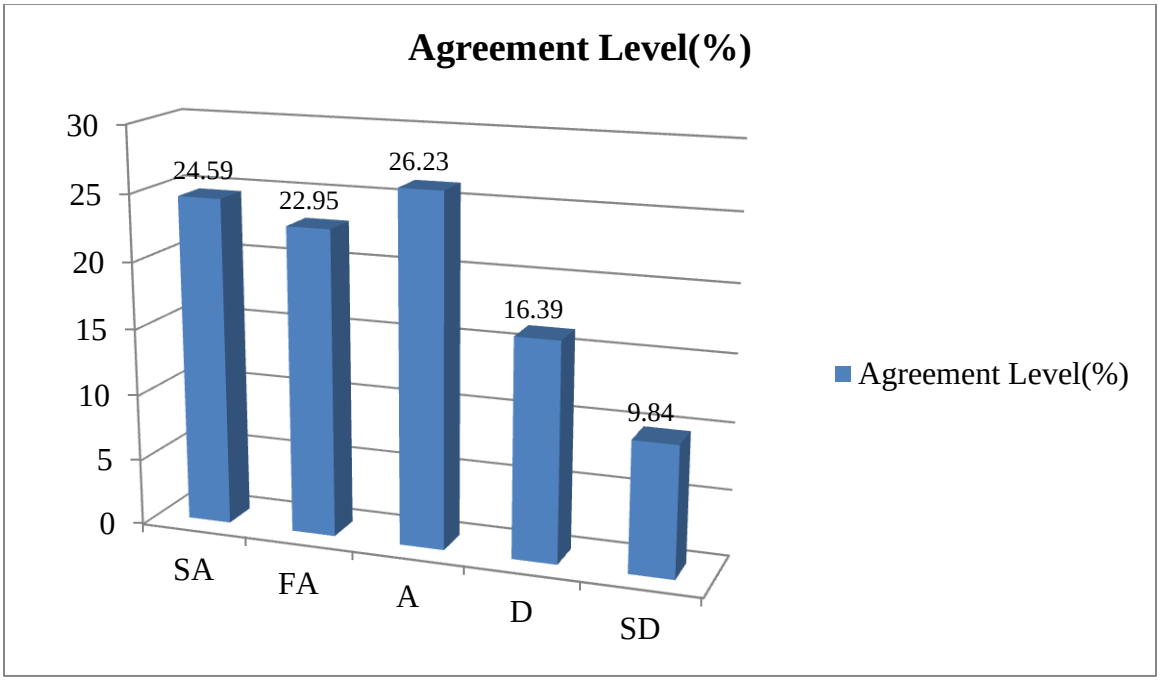
Maintenance of Plant Was Delayed to Lower Costs

Agreement Level	Frequency	Percentage (%)
Strongly Agree	15	24.59%
Fairly Agree	14	22.95%
Agree	16	26.23%
Disagree	10	16.39%
Strongly Disagree	6	9.84%
Total	61	100%

Source: Author (2016)

FIGURE 43

Maintenance of Plant Was Delayed to Lower Costs



Source: Author (2016)

From the findings, 24.59% were strongly in agreement that maintenance of plant was delayed to lower costs, 22.95% fairly agreed, 26.23% were in agreement, 16.39% were in disagreement while 9.84% strongly disagreed.

TABLE 43

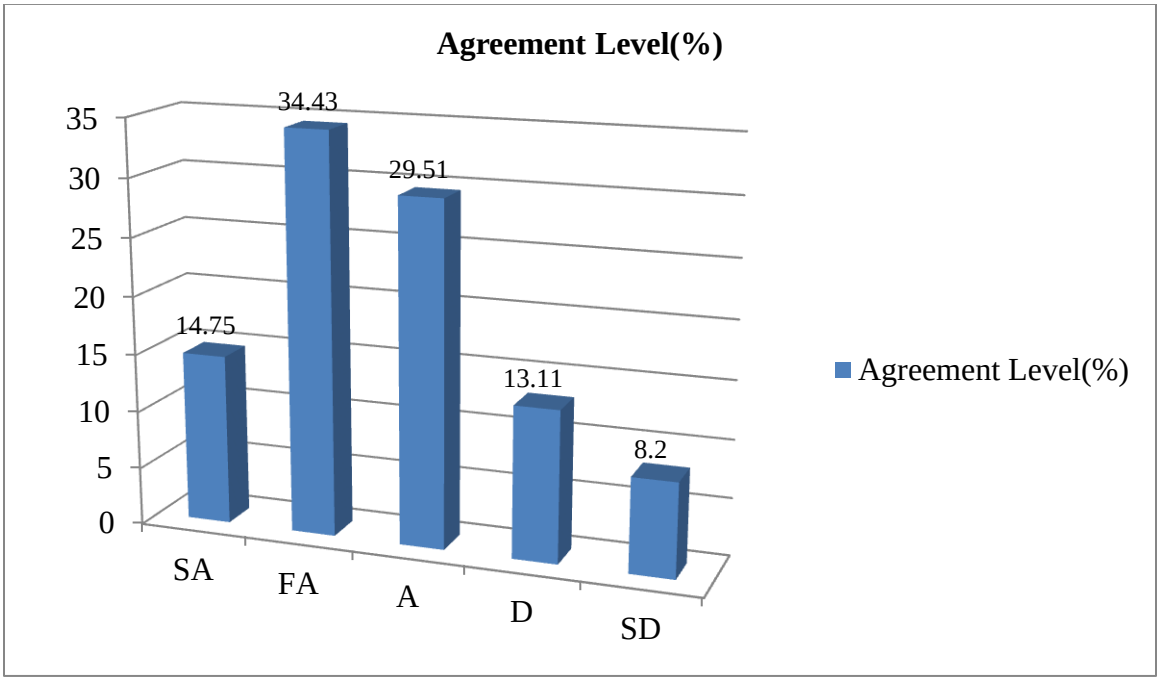
Postponement of Expenditure Authorization Was Observed to Reduce Expenses

Agreement Level	Frequency	Percentage (%)
Strongly Agree	9	14.75%
Fairly Agree	21	34.43%
Agree	18	29.51%
Disagree	8	13.11%
Strongly Disagree	5	8.20%
Total	61	

Source: Author (2016)

FIGURE 44

Postponement of Expenditure Authorization Was Observed to Reduce Expenses



Source: Author (2016)

From the findings, 14.75% were strongly in agreement that postponement of expenditure authorization was observed to reduce expenses, 34.43% fairly agreed, 29.51% were in agreement, 13.11% were in disagreement while 8.20% strongly disagreed.

TABLE 44

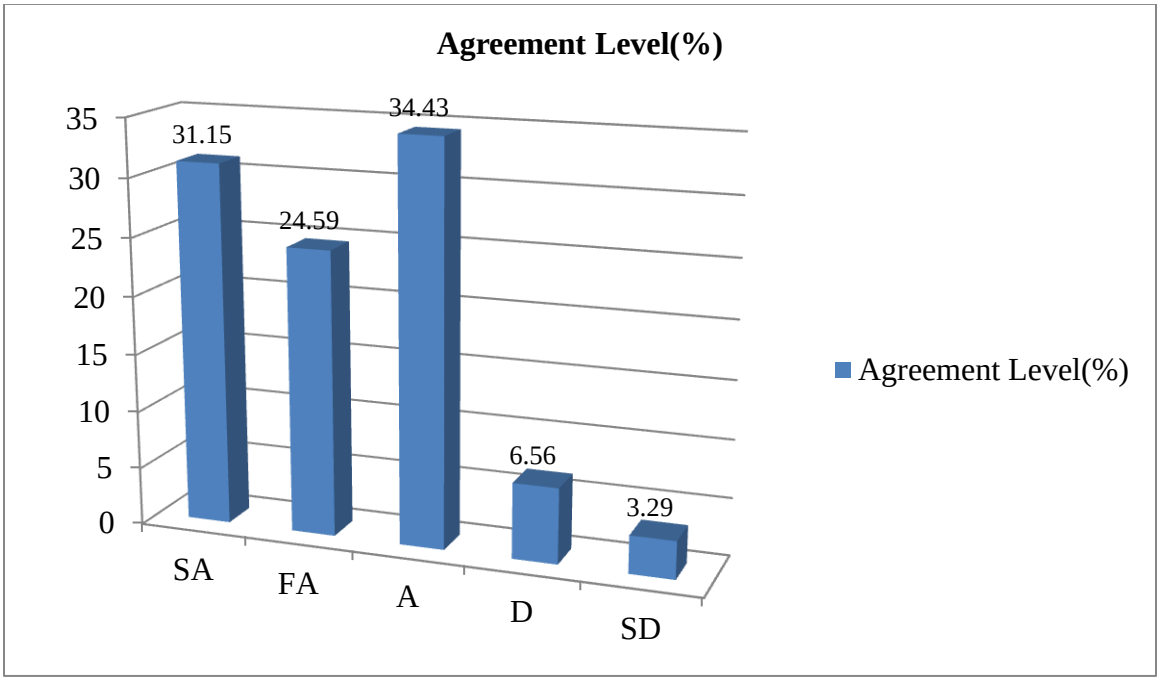
Payment to Creditors Was Made Even Though at Longer Periods

Agreement Level	Frequency	Percentage (%)
Strongly Agree	19	31.15%
Fairly Agree	15	24.59%
Agree	21	34.43%
Disagree	4	6.56%
Strongly Disagree	2	3.29%
Total	61	100%

Source: Author (2016)

FIGURE 45

Payment to Creditors Was Made Even Though at Longer Periods



Source: Author (2016)

From the findings, 31.15% were strongly in agreement that payment to creditors was made even though at longer periods, 24.59% fairly agreed, 34.43% were in agreement,6.56% were in disagreement while 3.29% strongly disagreed.

TABLE 45

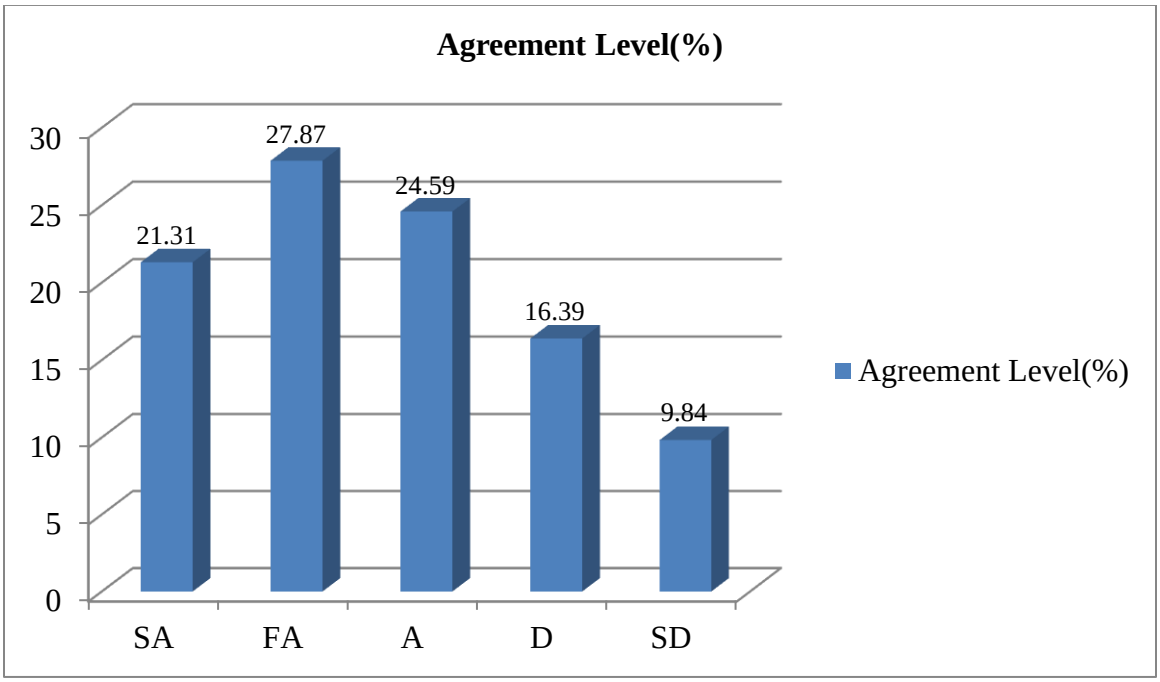
Increased Assets Were Reported Though Liabilities Were Also Increasing at a Lower Rate

Agreement Level	Frequency	Percentage (%)
Strongly Agree	13	21.31%
Fairly Agree	17	27.87%
Agree	15	24.59%
Disagree	10	16.39%
Strongly Disagree	6	9.84%
Total	61	100%

Source: Author (2016)

FIGURE 46

Increased Assets Were Reported Though Liabilities Were Also Increasing at a Lower Rate



Source: Author (2016)

From the findings, 21.31% were strongly in agreement that increased assets were reported though liabilities were also increasing at a lower rate, 27.87% fairly agreed, 24.59% were in agreement, 16.39% were in disagreement while 9.84% strongly disagreed.

TABLE 46

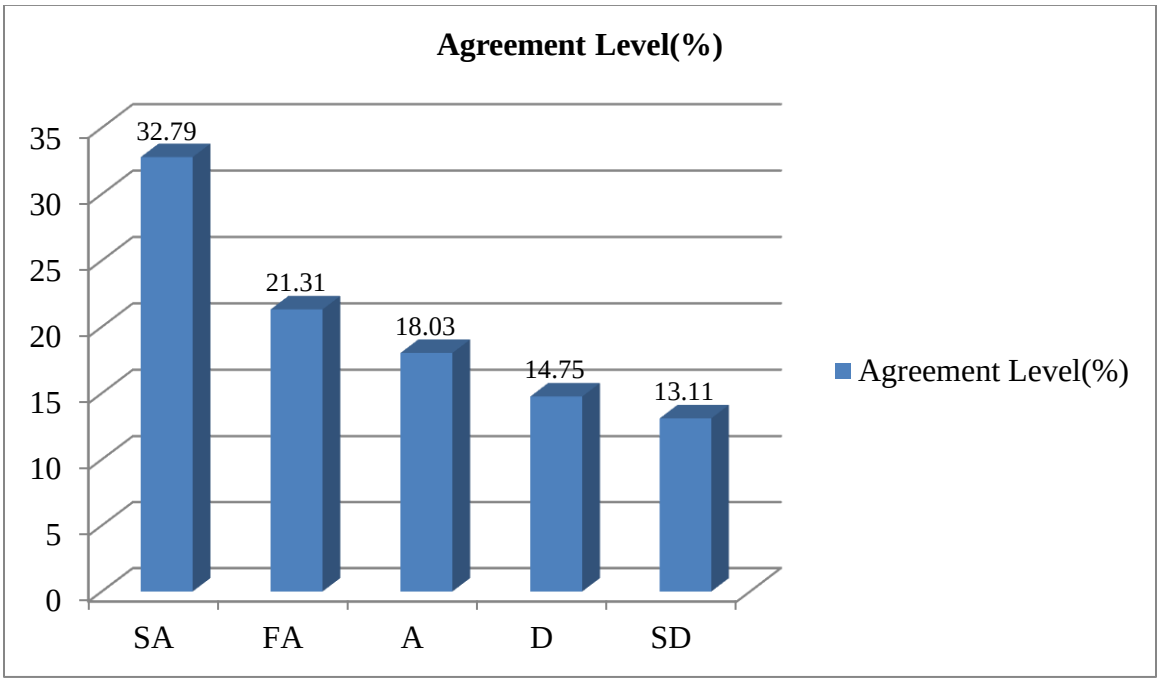
A Major Supplier Had Become Bankrupt Though There Were Other Minor Suppliers

Agreement Level	Frequency	Percentage (%)
Strongly Agree	20	32.79%
Fairly Agree	13	21.31%
Agree	11	18.03%
Disagree	9	14.75%
Strongly Disagree	8	13.11%
Total	61	100%

Source: Author (2016)

FIGURE 47

A Major Supplier Had Become Bankrupt Though There Were Other Minor Suppliers



Source: Author (2016)

From the findings, 32.79% were strongly in agreement that a major supplier had become bankrupt even though there were other minor suppliers, 21.31% fairly agreed, 18.03% were in agreement, 14.75% were in disagreement while 13.11% strongly disagreed.

TABLE 47

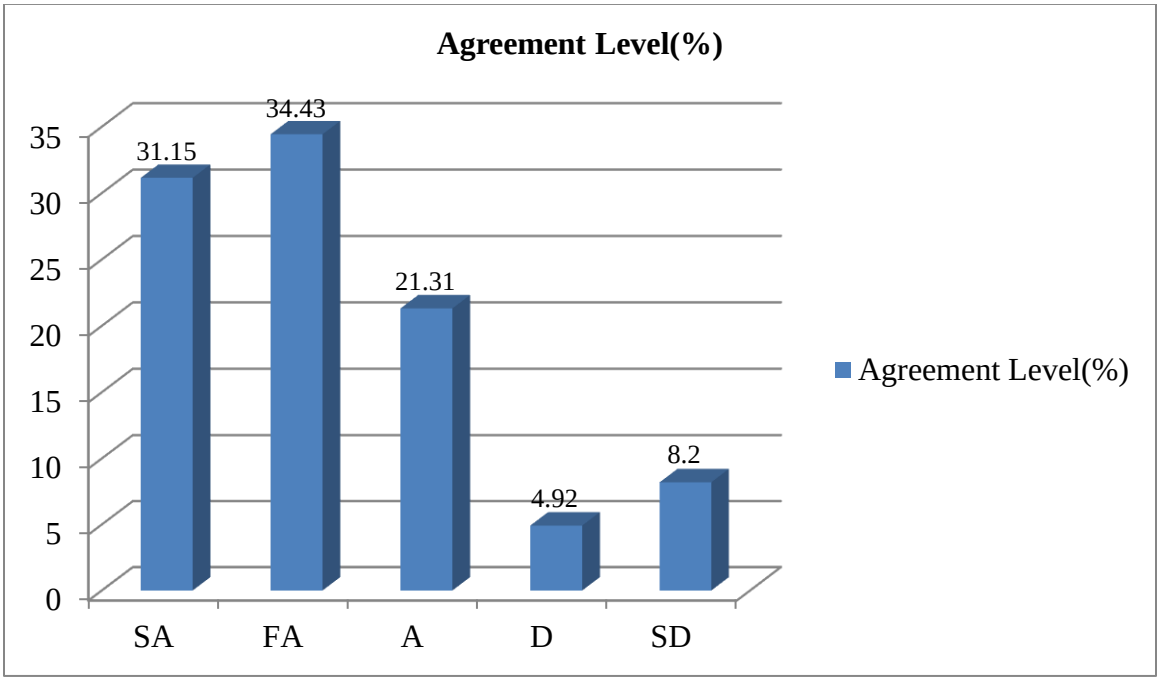
There Was Unexpected Rise in Interest Rate for the Long Term Bank Loans

Agreement Level	Frequency	Percentage (%)
Strongly Agree	19	31.15%
Fairly Agree	21	34.43%
Agree	13	21.31%
Disagree	3	4.92%
Strongly Disagree	5	8.20%
Total	61	100%

Source: Author (2016)

FIGURE 48

There Was Unexpected Rise in Interest Rate for the Long Term Bank Loans



Source: Author (2016)

From the findings, 31.15% were strongly in agreement that there was unexpected rise in interest rate for the long term bank loans, 34.43% fairly agreed, 21.31% were in agreement, 4.92% were in disagreement while 8.20% strongly disagreed.

TABLE 48

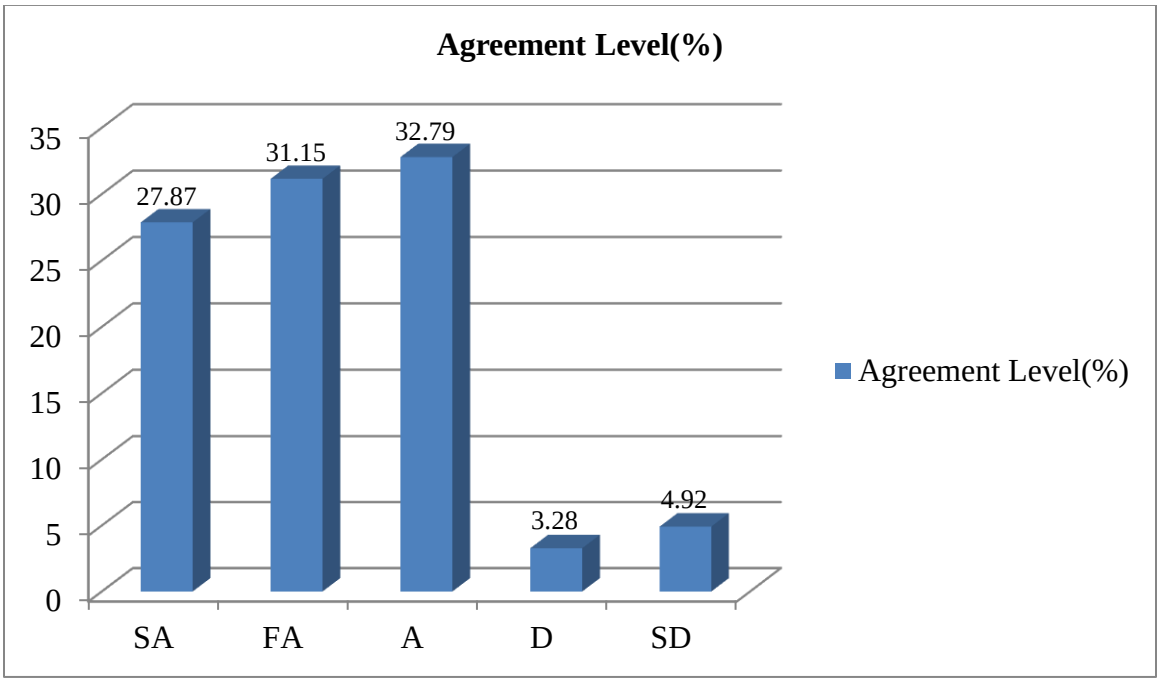
Increased Sale of Shares Was Observed Despite the Reduction in Share Prices

Agreement Level	Frequency	Percentage (%)
Strongly Agree	17	27.87%
Fairly Agree	19	31.15%
Agree	20	32.79%
Disagree	2	3.28%
Strongly Disagree	3	4.92%
Total	61	100%

Source: Author (2016)

FIGURE 49

Increased Sale of Shares Was Observed Despite the Reduction in Share Prices

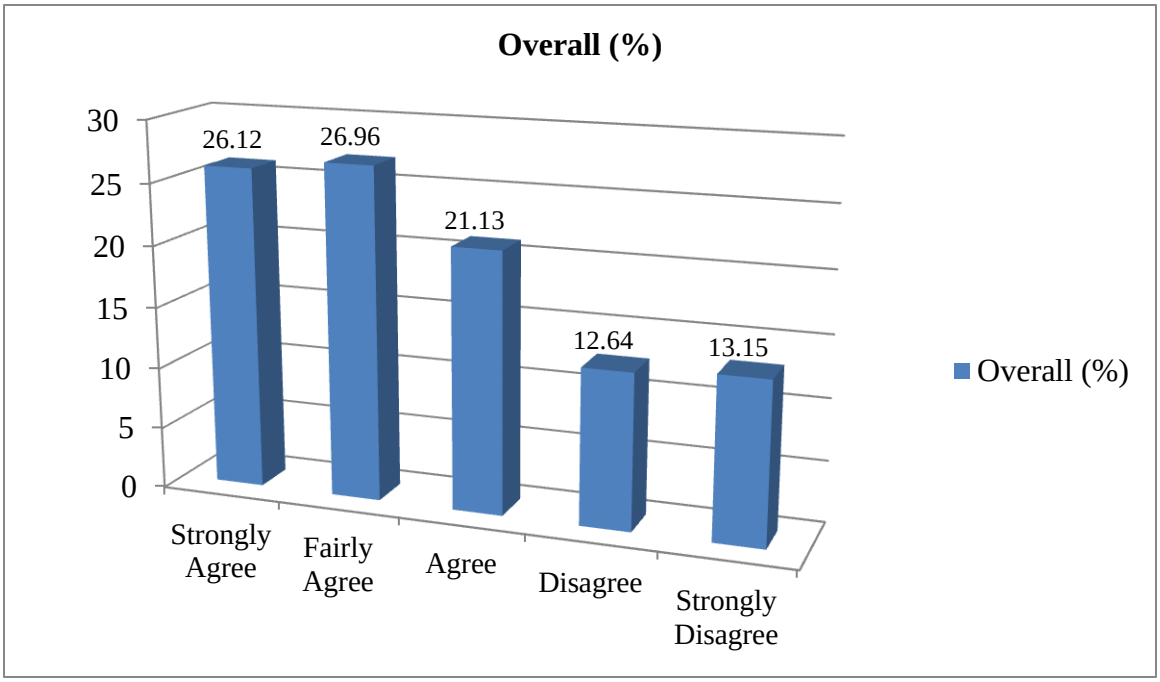


Source: Author (2016)

From the research findings, 27.87% were strongly in agreement that increased sale of shares was observed despite the reduction in share prices, 31.15% fairly agreed, 32.79% were in agreement, 3.28% were in disagreement while 4.92% strongly disagreed.

FIGURE 50

Overall Findings from Collected Primary Data

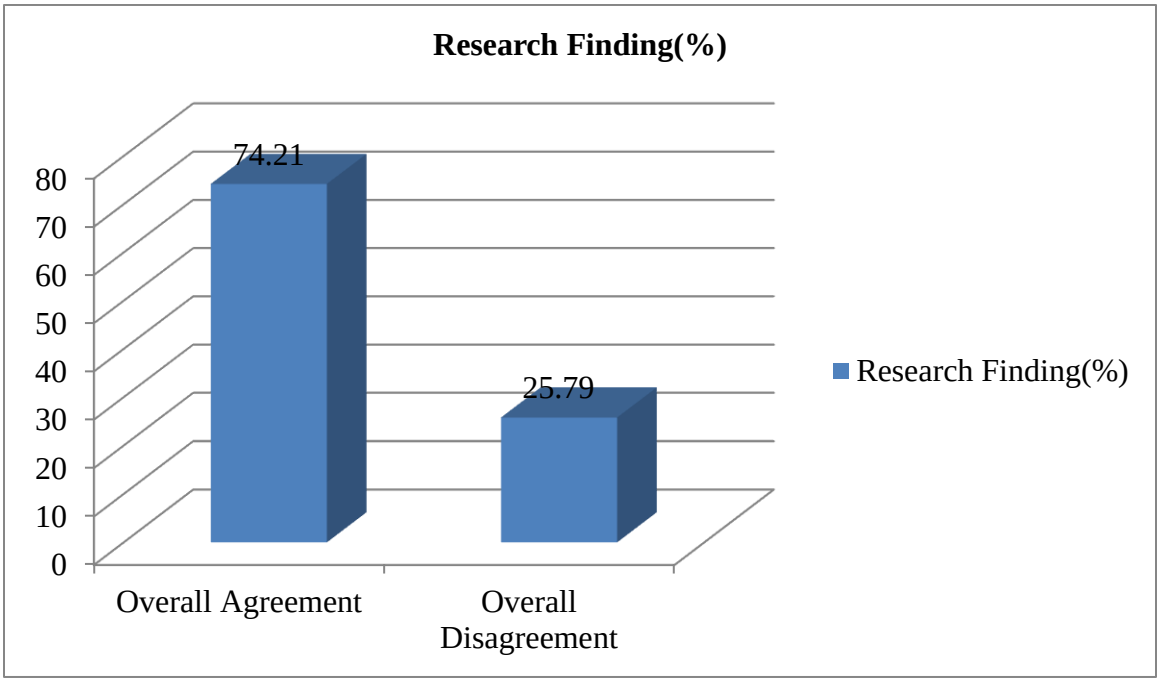


Source: Author (2016)

From the research findings, 26.12% were strongly in agreement to the statements, 26.96% fairly agreed, 21.13% were in agreement, 12.64% were in disagreement while 13.15% strongly disagreed.

FIGURE 51

Consolidated Research Findings



Source: Author (2016)

From the research findings, 74.21% agreed to the statements, while 25.79% were in disagreement.

4.5 Critical Observation of the Presence of Creative Accounting Practices and their Consequences to the Firms Financial Statements Data for Statistical analysis

There are various effects that the use of creative accounting practices which the study observed from the findings above (figure 3 to figure 51); may have on the presentation of information in the financial statements explained as below.

The study found out that the increased adoption of creative accounting practice played a bigger role in the ongoing financial crises and caused a negative effect on financial reporting. This study found out that this practice of creative accounting presented itself in the form of share

price manipulation, profit misstatement, insider trading, accounts misstatement; thus could be part of the explanation to the inconsistency of the financial statements. Creative accounting practices could be used in the change of value and structure of revenues, thus the recognition of revenues could be intensified or slowed down by the application of the principle of prudence or the principle of connecting costs with revenues. There were different options to choose an accounting policy, thus a firm could abuse this choice by choosing the policy that would give preferred image or results. Using creative accounting practices, the management may alter impressions about their firms' financial performance since firms are evaluated by their level of profitability.

Provisions for liabilities provided an effective tool for leveling outcome. Thus, establishment of provisions in years of more profits lead to decreased net profit while neglecting the provision in times of deficits or lesser profits increased the reported net profit. Thus, firms charge provision for liabilities against assets to reduce profits in good years to smooth results. Genuine transactions could be timed so as to give the desired impression in the financial statements. Firms keep income boosting alternatives in hand so as to avoid unfavorable news or negative information. The management may choose revenue boosting accounting policies that will aid the manipulation of the financial figures to report high sales figure.

Creative accounting practices could be applied by the firms to maintain or boost the share prices by reducing the apparent levels of borrowing; thus making the firm to appear less risky or by creating the upward good profit trend. Therefore, the firms raise capital from the issue of new shares. Artificial transactions could be entered for the purpose of manipulating the balance sheet amounts and increase profits between accounting periods which is achieved by two or more related transactions. Firms prefer to show steady growth in profit rather than fluctuating profit.

Revaluation of tangible assets leads into increased asset value and increased depreciation expenses. Some entries in accounting involve an unavoidable degree of estimation, judgment and prediction. Subjective depreciation of assets create room for creative accounting practice of estimates that recoverable value is lower than net realizable amount of assets which are considered impaired for the difference. The resultant factor will be recording depreciation expenses.

Creative accounting could be applied in the change of the value of assets whereby there is the existence of flexibility in the calculation of depreciation and provisions creating the possibility of increasing or reducing the net value of assets. Inventory could be assessed by various methods and their value may be different which has a corresponding effect on the profit and loss statement. The inventory provides sufficient opportunities for creative accounting through subjectivity. The under or over estimation of the inventory has an impact on the current and following year's financial statements.

Balance sheet amounts are manipulated and profits moved between accounting periods for the purpose of reporting financial results that would win and constantly increase investors and shareholders confidence in their firm. The option for depreciation method has an impact on the profit and loss during useful economic life of an asset. A different method of depreciation causes different impact on the outcome. The option on different useful life of the assets leads to different amounts of expenditure.

Creative accounting could be applied in the change of the value of liabilities whereby the accounting policies allow the regularization of certain liabilities such as retirement benefits for a period of time. Thus, firms aiming to enhance its results would allocate the liability for the

maximum period allowed. Creative accounting could be applied in the change of the value and structure of the internal capital in that; changes in revenue and expenses have an impact on the reported profits and reserves forming the equity function. The use of creative accounting practices shows that the management under financial pressure sought for solutions without taking into account and consideration of their significant and extensive effect on the financial statements, which eventually affect the long-term survival of the firm. Therefore, the study carried out statistical analysis to determine the magnitude and significant effect that creative accounting practices had on long-term survival as the findings indicate below.

4.5.1 Inferential Statistics

Five common business ratios weighted by the coefficients were used to calculate the ZETA-Scores of the collected financial statements of individual firms for the span of five years composing the panel data. Thus, ratios would act as a control for the size, industry and asset base effects of the firms. STATA software was subjected to the analysis of the panel data to compute the regression analysis, Fixed Effects and Random Effects and for the formation of the overall model, analyzing for its applicability as well as its usefulness and fitting it to the overall study. The variables were tested to determine their influence on long-term survival of firms listed at the NSE and their magnitude as well as their relationship.

The ZETA-Score model is a linear combination of five common business ratios, weighted by coefficients. The Altman's ZETA-Score model predicted a company's financial health based on a function of the form:

$$\Sigma it = B_{0i} + 0.012X_{1it} + 0.014X_{2it} + 0.033X_{3it} + 0.006X_{4it} + 0.999X_{5it}$$

Where:

Σit = the overall solvency index (dependent variable) and X_1 to X_5 are the independent variables.

Σit = Long term survival

X_1= Working capital (Current assets-Current liabilities)/Total assets (Liquidity)

X_2= Retained earnings/Total assets (Earned surplus)

X_3= Earnings before interest and taxes/Total assets (Earning power)

X_4= Market value of equity/Book value of total liabilities (Solvency)

X_5= Sales/Total assets (Revenue generating capability)

Where the Z-score was below 1.81, the firm was considered to be failing or in distress zone thus long term survival would be in question. Where the Z-score was between 1.81 and 2.9 it was considered to be in a grey zone or moderately placed. Where it was above 2.99 it was considered to be in a healthy or safe zone. In a distress zone, there is a high probability of bankruptcy, in a grey zone there is uncertainty whether the firm would be bankrupt or not; while in a safe zone there is a low probability of bankruptcy.

TABLE 49

Fixed Effects Regression

Survival	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]
working capital	.0119516	.0002243	53.29	0.000	.0115096 .0123936
retained earnings	.0139411	.0004834	28.84	0.000	.0129884 .0148938
ebit	.0328395	.0003538	92.81	0.000	.0321421 .0335369
equity	.0060497	.000033	183.30	0.000	.0059846 .0061147
sales	.9990319	.0000697	1.4e+04	0.000	.9988945 .9991694
_cons	-.0000191	.0001293	-0.15	0.883	-.000274 .0002358
sigma_u	.0002586				
sigma_e	.00044867				
rho	.24936328	(fraction of variance due to u_i)			

Source: Author (2016)

F test that all u_i=0: F(55, 219) =1.46 Prob > F = 0.0310

R-sq: within = 1.0000

Between = 1.0000

Overall = 1.0000

$\Sigma it = -0.0000191_{0i} + 0.0119516X_{1it} + 0.0139411X_{2it} + 0.0328395X_{3it} + 0.0060497X_{4it} + 0.9990319X_{5it}$

TABLE 50

Random Effects GLS Regression

Survival	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]
working capital	.0120343	.0001468	82.00	0.000	.0117467 .012322
retained earnings	.0137917	.0001397	98.70	0.000	.0135179 .0140656
ebit	.0331336	.0002372	139.66	0.000	.0326686 .0335986
equity	.0060251	.000023	262.40	0.000	.0059801 .0060701
sales	.9989847	.0000285	3.5e+04	0.000	.9989288 .9990407
_cons	.0000577	.000051	1.13	0.258	-.0000422 .0001575
sigma_u	.00014008				
sigma_e	.00044867				
rho	.08882213 (fraction of variance due to u_i)				

Source: Author (2016)

R-sq: within = 1.0000

Between = 1.0000

Overall = 1.0000

$\Sigma it = 0.0000577_{0i} + 0.0120343X_{1it} + 0.0137917X_{2it} + 0.0331336X_{3it} + 0.0060251X_{4it} + 0.9989847X_{5it}$

TABLE 51

Multiple Regression Analysis

Survival	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]
working capital	.0120529	.000136	88.60	0.000	.0117851 .0123207
retained earnings	.0137873	.0001253	110.08	0.000	.0135408 .0140339
Ebit	.0331988	.0002212	150.10	0.000	.0327634 .0336343
Equity	.0060202	.0000217	277.82	0.000	.0059775 .0060628
Sales	.9989786	.0000254	3.9e+04	0.000	.9989285 .9990286
_cons	.000063	.0000444	1.42	0.158	-.0000245 .0001504

	SS	df	MS	R Squared	Adj R- squared	Root MSE
				1.0000	1.0000	0.00047
Model	381.101865	5	76.2203729			
Residual	.000060212	274	2.1975e-07			
Total	381.101925	279	1.36595672			

Source: Author (2016)

R^2 which is the coefficient of determination, explains the extent to which changes in the dependent variable can be explained by the changes in the independent variables or the percentage of variation in the dependent variable that can be explained by the independent variables. The independent variables of the study explained 100% of long term survival as also presented by the adjusted R^2.

$\Sigma it = 0.000063_{0i} + 0.0120529X_{1it} + 0.0137873X_{2it} + 0.0331988X_{3it} + 0.0060202X_{4it} + 0.9989786X_{5it}$

Thus, the overall formula was of the form:

$\Sigma it = 0.0121X_{1it} + 0.0138X_{2it} + 0.0332X_{3it} + 0.0060X_{4it} + 0.9910X_{5it}$

TABLE 52

Pair Wise Correlation

	Survival	Working capital	Retained earnings	EBIT	Equity	Sales
Survival	1.0000					
Working capital	0.1529*	1.0000				
Retained earnings	0.1092	0.2462*	1.0000			
EBIT	0.3011*	0.3685*	0.4583*	1.0000		
Equity	-0.0536	0.2634*	0.5138*	0.1845*	1.0000	
Sales	0.9999*	0.1462*	0.0993	0.2932*	-0.0649	1.0000

Source: Author (2016)

The study conducted a multiple regression analysis in order to establish the relationship between long-term survival (dependent variable) and independent variables expenses (earnings), revenue, assets, liabilities as measured by working capital, retained earnings, EBIT, equity and sales. Thus working capital, retained earnings and EBIT were positively correlated where as sales was highly positively correlated; equity was found to be negatively correlated to long-term survival. This implies that effective management of these variables will increase the firm's long-term survival.

Thus, the analysis provided a link between the Z-score values (Dependent variable) and the independent variables as stipulated in the model of the form:

$\Sigma it = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it}$

Where:

Σit= Long Term Survival

$\beta_0, \beta_1, \beta_2, \beta_3$ = Correlation Coefficients

X_{1it} = Revenue Manipulation (Retained earnings)

X_{2it} = Misclassification of Expenses (EBIT)

X_{3it} = Valuation of Assets and Liabilities (Sales)

Long Term Survival= β_0 + β_1 (Revenue Manipulation) + β_2 (Misclassification of Expenses) + β_3 (Valuation of Assets and Liabilities)

Valuation of Assets and Liabilities (Sales) had a positive correlation coefficient of 0.9999, implying that it plays a major role in the firms long term survival thus higher sales volume have to be targeted to increase the firms life span. There was a positive relationship between working capital, retained earnings, EBIT, equity and sales with correlation coefficients of 0.2462, 0.3685, 0.2634 and 0.1462 respectively. Thus, proper monitoring and control of these variables would lead to increased life span of the firm.

TABLE 53

Statistical Tabulation

stats	Survival	Working capital	Retained earnings	EBIT	Equity	Sales
mean	.9439821	.0930429	.2467311	.0910864	1.239114	.9298622
sd	1.168742	.2278138	.2895643	.1552285	1.5562	1.168131
p50	.5705	.04805	.1977	.0602	.7039	.5562
min	.043	-1.6409	-1.0256	-.6949	.0018	.0402
max	7.831	.5414	.7686	.5706	11.5674	7.8453

Source: Author (2016)

The findings indicate that long-term survival obtained an overall standard deviation of 1.1687 and a mean of 0.944. The study found out the overall Z-Sore for all firms listed at NSE to be 0.944.

4.6 Discussion of Findings

From the research findings, figure 5 to figure 51 on creative accounting practices show that 74.21% were in agreement to the statements, 25.79% were in disagreement. This indicated the presence of creative accounting practices, which affects long-term survival of firms. The independent variables expenses (earnings), revenue (sales), assets, liabilities as measured by liquidity, earned surplus, earning power, solvency and revenue generating capability were tested and found to influence long term survival of firms listed at the NSE.

From the statistical analysis, the study revealed that the model was statistically significant as the significance level was less than 0.05, which depicts the data to be ideal for making conclusions on the population's parameter as the value of significance (p-value). The p-value in the study was found to be less than 5% level of significance. From the findings of F-statistics, expenses (earnings), revenue, assets, liabilities as measured by working capital, retained

earnings, EBIT, equity and sales; significantly influence long term survival of firms listed at the NSE. The established regression equation was:

$$\Sigma it = 0.0121X_{1it} + 0.0138X_{2it} + 0.0332X_{3it} + 0.9910X_{4it}$$

The ZETA-Score model being a linear combination of four or five common business ratios, weighted by coefficients was applied in predicting the company's financial health. From the equation obtained, holding other factors constant; long-term survival would be zero. A unit change in working capital holding other factors constant will change long-term survival by 0.0121. A unit change in Revenue Manipulation (Retained earnings) holding other factors constant will change long-term survival by 0.0138. A unit change in Misclassification of Expenses (EBIT) holding other factors constant will change long-term survival by 0.0332. A unit change in equity holding other factors constant will change long-term survival by 0.0060. A unit change in Valuation of Assets and Liabilities (Sales) holding other factors constant will change long-term survival by 0.9910. Sales had the highest influence on long-term survival followed by EBIT, retained earnings, working capital and lastly equity.

From the findings, the study found out that the value of Adjusted R squared was 1; this was an indication that there was a variation of 100% on long term survival of firms listed at the NSE due to changes in expenses, earnings, revenue, assets and liabilities. This shows that 100% changes in long term survival of firms listed at the NSE could be accounted for by changes in expenses, earnings, revenue, assets and liabilities.

Expenses were sub-classified to highlight components of financial performance that might differ in terms of frequency, potential for gain or loss and predictability. However, because information on the nature of expenses was useful in predicting future cash flows,

additional disclosure was required when the function of expense classification was used. The income statement included the effects of activities on accrual basis expressing them as the difference between revenues and expenses allocated to the relevant accounting period. Firms despite the high net profit reported in the income statement had decreasing cash balances and problems with current liquidity maintaining. When expenses were considered as expenses, they reduced net income and net cash flows from operating activities. However, by capitalization, they were presented as cash outflows within investment activities and did not affect cash flows from operating activities.

From the study carried out on the financial statements of 56 firms listed at the NSE which were used to compute the ratios, 87% (49 firms) were found to be less than Z-score of 1.81, indicating the presence of creative accounting. Thus, these firms were assumed to face financial distress and portray a high probability of failure or bankruptcy in the future. Whereas, only 13% (7 firms) of the firms had Z-score above 1.81; thus portraying long term survival.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of findings, conclusions and recommendations that were deduced from the study findings.

5.2 Summary of Findings

This study sought to find out the relationship between long-term survival and the predictor variables, which included revenue manipulation, misclassification of expenses, and valuation of assets and liabilities. This study adopted a descriptive research design and carried out inferential statistical analysis. The population of this study involved all the 65 listed firms at the NSE.

The study collected primary data by use of questionnaires to ascertain the presence of creative accounting practices in the firms that would have an effect to the financial statements used for secondary data analysis and the results obtained were presented by use of tables, graphs and charts. The study used secondary data which was collected from the financial statements posted the NSE website, CMA website and the individual firms' website for the period from 2011 to 2015. The data was analyzed using STATA and results obtained from the model presented in tables.

The study found out that revenue manipulation significantly affected long term survival of firms as was represented by the presence of creative accounting practices. In most firms, decreased cash flow was reported despite increased revenue, increased tax penalties and fines were experienced despite increased sales. Provision for bad debts had increased though the actual losses were less; additional annual depreciation charge was carried out only in the years of high profits where as increased stock prices had resulted into increased profits. Huge profits had been

observed towards the end of the financial year due to massive sales, increased sales had resulted into increased management bonus and commission, and increased sales had resulted into increased management bonus and commission. Constant profits were reported despite the increased sales and advertising costs, inter-company trading had lead to extraordinary profits, reported revenue increased even though the market share was declining, higher share prices were reported despite the reported decreased earnings; and decreased share prices were experienced even though bonuses increased. All these activities influenced the profit and loss statement.

The study examined that misclassification of expenses significantly affected long-term survival of firms as was represented by the presence of creative accounting practices in the following areas. In most of the firms accrued expenses had been carried to the next period instead of being expensed off in the current period, provision for employee retirement compensation had increased despite the higher rate of employee turnover; repair and maintenance expenses had increased whereas the replacement costs of new fixed assets had increased.

Reduced rental charges had resulted to increased reported revenue, increased sales and advertising costs had lead to increased reported earnings, constant earnings were reported despite the increased expenses, expenses from previous periods had reduced reported earnings and increased expenses had caused constant variations in reported earnings. Variations in reported profits were as a result of anticipated expenses; and salaries and remuneration expenses had increased despite the high rate of employee exit. These transactions caused variations in the reported earnings in the income statement as well as the statement of financial position in the equity section.

Assets and liabilities determine the direction and nature of the firm as stipulated in statement of financial position. The study found out that valuation of assets and liabilities significantly affected long term survival of firms as was represented by the presence of creative accounting practices majoring the following areas. In most firms inventory valuation method had been changed despite the decreased stock, valuation of inventory had been carried out at cost instead of the lower of market value and assets had increased due to internal revaluation of existing assets carried out by management. Increased inventory had been experienced despite reported increased revenue, increased borrowing costs had been experienced even though borrowed funds had reduced and increased bank overdraft was observed despite reported increased earnings.

Increased sale of fixed assets had been experienced despite the increased depreciation charges, revaluation of selected fixed assets had been carried out even though no new assets had been purchased and provision for depreciation had increased despite the increased disposal of assets. Off-balance sheet financing had increased despite decreased reported liabilities, cash flows reduced due to current liquidity maintaining; steady growth in profit had resulted from increased assets and reduced liabilities had lead to steady growth in profit. These transactions caused variations in the statement of financial position.

The study ascertained that revenue manipulation, misclassification of expenses; and the valuation of assets and liabilities significantly affect long term survival of firms listed at NSE, thus answering questions to the study. The study found out that creative accounting practices significantly affected long term survival of firms as was represented by the presence of creative accounting practices majoring the following areas. In many firms payment was made to suppliers even though they faced prolonged periods, lower pay packages to employees were continuously

observed even though there was increased employee turnover and debtors were pressed to pay their invoices as their payment period was shortened. Maintenance of plant was delayed to lower costs, postponement of expenditure authorization was observed to reduce expenses and payment to creditors was made even though at longer periods. Increased assets were reported though liabilities were also increasing at a lower rate, a major supplier had become bankrupt even though there were other minor suppliers, there was unexpected rise in interest rate for the long-term bank loans and increased sale of shares was observed despite the reduction in share prices.

From the study results, it is evident that most firms carried out creative accounting practices that were found to affect the firms' long-term survival. Most of the respondents confirmed the presence of creative accounting practices in their firms. Thus, the data obtained from their financial statements depicted a lesser Z-score than 1.81 concluding that most of the firms were facing failure.

5.3 Conclusion

Edward Altman's financial distress prediction model was applied to predict the firms' long term survival. From the study results, it is evident that creative accounting does influence long term survival of firms. From the data obtained, this study concludes that there is a strong and significant relationship between long term survival and expenses (earnings), revenue, assets and liabilities as measured by working capital, retained earnings, EBIT, equity and sales. According to the study valuation of assets and liabilities (Sales) had a great impact on long term survival.

Change of value of assets whereby the existence of a flexibility regarding the calculation of depreciation and provisions created the possibility of increased or reduced net value of assets. The income statement included the effects of activities on accrual basis expressing them as the

difference between revenues and expenses allocated to the relevant accounting period. Firms despite the high net profit reported in the income statement had decreasing cash balances and problems with current liquidity maintaining. The study concluded that, firms should monitor and observe the expenses and revenue.

From the study results, working capital, retained earnings and EBIT were positively correlated where as sales was highly positively correlated; equity was found to be negatively correlated to long-term survival. The study concludes that effective management of these variables will increase the firm's long-term survival.

From the data obtained, sales had the highest positive correlation coefficient implying that it plays a major role in the firm's long-term survival. The study concludes that, higher sales volumes have to be targeted to increase the firm's life span. There was a positive relationship between expenses (earnings), revenue, assets and liabilities (working capital, retained earnings, EBIT, equity and sales). Thus, proper monitoring and control of these variables would lead to long-term survival.

Complex measures must be taken to limit the option causes in favor of creative accounting, which are measures that focus on the framework of organization and management of the company in its entirety. If any firm practices creative accounting, there is plenty of scope of maneuvering and manipulation of accounting information, such manipulation might have the shareholders, public, the government and any interested party absolutely confused as to the true and fair view of the published financial statements.

As observed by Laura and Ileana (2013) creative accounting practices will disappear only with the disappearance of their underlying causes, therefore the desire of accounting regulators to

curb creative accounting must take into account the circumstances that allow its manifestation. Every time a new policy is issued, firms find a way to minimize its impact.

5.4 Recommendations

The study recommends that firms at NSE should avoid creative accounting practices on expenses, revenue, earnings, liabilities and assets as these affects their future long term survival. Artificial transactions are often entered into to manipulate balance sheet amounts and to move profits between accounting periods. The study would recommend proper revaluation to assets and liabilities to be carried out in accordance to the IFRs to avoid creative accounting as it was found in the study to be affecting the long term survival. Accountants should be straightforward, honest and sincere in their approach to professionalism.

The study recommends that firms should avoid revenue-smoothing practices to depict steady growth in profit rather than fluctuating or volatile profits as these would affect their long-term survival as confirmed in the study. Thus, creative accounting practices should be considered as a criminal offense; therefore accounting bodies and other regulatory authorities should adopt strict measures to curb the practice and punish offenders. The study would also recommend consistency in accounting policies application in both favorable and unfavorable financial years in order to curb creative accounting. Accounting principles and rules should be streamlined to reduce diversities of professional judgment in financial reporting.

5.5 Limitations of the Study

The researcher encountered quite a number of challenges when carrying out the study. Due to inadequate resources, the researcher conducted this research under financial constraints. Due to the sensitivity and confidentiality of information contained in the financial statements, some

firms were reluctant to produce them or took longer time after several communication reminders were made.

Some firms had not posted their financial statements in the NSE website, CMA website or in the firms respective website, thus making it difficult accessing them. Due to the short time frame for carrying out the study, some respondents did not respond to the questionnaire sent to them even after several reminders, thus time constraint was experienced. Since this study used secondary and primary data, the quality of the data may be a weakness of this study. It is not possible to tell from this research whether the results are simply due to the nature and quality of data used or whether it is the true and fair view of the firm.

5.6 Suggestions for Further Research

The results of this study are not conclusive; hence, further research work could be carried out. This study focused on the data collected from the firms listed at the NSE, thus excluding data from other non-listed firms at the NSE. Therefore, further research could be carried out incorporating listed and non-listed firms at the NSE.

The study was carried out for a five-year period, thus further research could be carried out incorporating a longer period to determine the effect of time frame. A study could be undertaken to establish the effect of corporate governance practices on long-term survival of firms.

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APPENDICES

Appendix I: Letter of Introduction

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To whom it may concern

Dear Respondent

RE: RESEARCH ASSISTANCE

I am Peter Nyamari Sianyo, a masters' of Science (MSc) in Commerce Degree student at KCA University majoring in Finance and Accounting currently undertaking a research entitled, EFFECTS OF CREATIVE ACCOUNTING PRACTICES ON LONG TERM SURVIVAL OF FIRMS LISTED AT THE KENYAN NAIROBI SECURITIES EXCHANGE. The research is purely academic and the data you provide will be used only for the specific research and will assist in gaining a better understanding of the effect of creative accounting practices on long term survival of firms listed at the Kenyan NSE. Your response will be strictly kept confidential. Only members of the research team will have access to the data collected and the completed questionnaires will not be made available to anyone other than the research team. The research will be for academic purposes only. Your kind cooperation in this research is highly appreciated.

Thank you in advance

Yours faithfully

PETER NYAMARI SIANYO

petersianyo@yahoo.com

Appendix II: Research Questionnaire

This questionnaire is meant to gather information that will be used in writing up the research entitled, ‘’**EFFECT OF CREATIVE ACCOUNTING PRACTICES ON LONG TERM SURVIVAL OF FIRMS LISTED AT THE KENYAN NAIROBI SECURITIES EXCHANGE.**’’

PART A: GENERAL INFORMATION

Please answer the questions to your utmost knowledge and tick (√) in the appropriate box.

i. Number of years the organization has been in business.

Less than 2 years ☐ 2-5 years ☐ 5-9 years ☐ More than 9 years ☐

ii. Number of years you have been employed in the organization.

Less than 2 years ☐ 2-5 years ☐ 5-9 years ☐ More than 9 years ☐

PART B: EFFECT OF CREATIVE ACCOUNTING PRACTICES ON LONG TERM SURVIVAL

Relationship between Revenue Manipulation and Long Term Survival

Kindly state your agreement levels with each of the following statements.

KEY

1. SD=Strongly Disagree
2. D=Disagree
3. A=Agree
4. FA=Fairly Agree
5. SA=Strongly Agree

(5)SA=Strongly Agree, (4) FA=Fairly Agree, (3) A=Agree, (2) D=Disagree, (1) SD=Strongly Disagree

STATEMENT	SA 5	FA 4	A 3	D 2	SD 1
Decreasing cash flow is reported despite increasing revenue.					
Increasing tax penalties and fines are experienced despite increasing sales.					
Provision for bad debts has increased though the actual losses are less.					
Additional annual depreciation charge is carried out only in the years of high profits.					
Increasing stock prices have resulted into increase in profits.					
Huge profits have been observed towards the end of the financial year due to massive sales.					
Increasing sales has resulted into increased management bonus and commission.					
Constant profits are reported despite the increasing sales and advertising costs.					
Inter-company trading has lead to extraordinary profits.					
Reported revenue is increasing even though the market share is declining.					
Higher share prices are reported despite the reported decreasing earnings.					
Decreasing share prices are experienced even though there are increasing bonuses.					

Relationship between Misclassification of Expenses and Long Term Survival

Kindly state your agreement levels with each of the following statements.

(5)SA=Strongly Agree, (4) FA=Fairly Agree, (3) A=Agree, (2) D=Disagree, (1) SD=Strongly Disagree

STATEMENT	SA 5	FA 4	A 3	D 2	SD 1
Accrued expenses have been carried to the next period instead of being expensed off in the current period.					
Provision for employee retirement compensation has increased despite the higher rate of employee turnover.					
Repair and maintenance expenses have increased whereas the replacement costs of new fixed assets have increased.					
Reduced rental charges have resulted to increased reported revenue.					
Increased sales and advertising costs have lead to increased reported earnings.					
Constant earnings are reported despite the increasing expenses.					
Expenses from previous periods have reduced reported earnings.					
Increasing expenses have caused constant variations in reported earnings.					
Variations in reported profits are as a result of anticipated expenses.					
Salaries and remuneration expenses are increasing despite the high rate of employee exit.					

Relationship between Valuation of Assets and Liabilities and Long Term Survival

Kindly state your agreement levels with each of the following statements.

(5)SA=Strongly Agree, (4) FA=Fairly Agree, (3) A=Agree, (2) D=Disagree, (1) SD=Strongly Disagree

STATEMENT	SA 5	FA 4	A 3	D 2	SD 1
Inventory valuation method has been changed despite the decreasing stock.					
Valuation of inventory has been carried out at cost instead of the lower of market value.					
Assets have increased due to internal revaluation of existing assets carried out by management.					
Increase in inventory has been experienced despite reported increase in revenue.					
Increased borrowing costs have been experienced even though borrowed funds are reducing.					
Increasing bank overdraft observed despite reported increasing earnings.					
Increased sale of fixed assets has been experienced despite the increasing depreciation charges.					
Revaluation of selected fixed assets has been carried out even though no new assets have been bought.					
Provision for depreciation has increased despite the increased disposal of assets.					
Off-balance sheet financing has increased despite decreasing reported liabilities.					
Cash flows reduced due to current liquidity maintaining.					
Steady growth in profit has resulted from increasing assets.					
Reduced liabilities have lead to steady growth in profit.					

Long Term Survival of Firms

Kindly state your agreement levels with each of the following statements.

(5)SA=Strongly Agree, (4) FA=Fairly Agree, (3) A=Agree, (2) D=Disagree, (1) SD=Strongly Disagree

STATEMENT	SA 5	FA 4	A 3	D 2	SD 1
Payment is made to suppliers even though they face prolonged periods.					
Lower pay packages to employees are continuously observed even though there is increased employee turnover.					
Debtors are pressed to pay their invoices as their payment period is shortened.					
Maintenance of plant is delayed to lower costs.					
Postponement of expenditure authorization is observed to reduce expenses.					
Payment to creditors is made even though at longer periods.					
Increased assets are reported though liabilities are also increasing at a lower rate.					
A major supplier has become bankrupt even though there are other minor suppliers.					
There is unexpected rise in interest rate for the long term bank loans.					
Increased sale of shares is observed despite the reduction in share prices.					

Thank you for your participation and response

Appendix III: Listed Firms in the Nairobi Securities Exchange as at March 2016

Agricultural

1. Eaagads Ltd
2. Kapchorua Tea Company Ltd
3. Kakuzi
4. Limuru Tea Company Ltd
5. Rea Vipingo Plantations Ltd
6. Sasini Ltd
7. Williamson Tea Kenya Ltd

Automobiles and Accessories

8. Car and General (K) Ltd
9. Sameer Africa Ltd
10. Marshalls (E.A.) Ltd

Banking

11. Barclays Bank Ltd
12. CFC Stanbic Holdings Ltd
13. I&M Holdings Ltd
14. Diamond Trust Bank Kenya Ltd
15. Housing Finance Company Ltd
16. Kenya Commercial Bank Ltd
17. National Bank of Kenya Ltd
18. NIC Bank Ltd
19. Standard Chartered Bank Ltd
20. Equity Bank Ltd
21. The Co-operative Bank of Kenya Ltd

Construction and Allied

22. Athi River Mining
23. Bamburi Cement Ltd
24. Crown Berger Ltd
25. E.A. Cables Ltd
26. E.A. Portland Cement Ltd

Commercial and Services

27. Express Ltd
28. Kenya Airways Ltd
29. National Media Group

30. Standard Group Ltd
31. TPS Eastern Africa (Serena) Ltd
32. Scangroup Ltd
33. Uchumi Supermarket Ltd
34. Hutchings Biemer Ltd
35. Longhorn Kenya Ltd
36. Atlas Development and Support Services

Energy and Petroleum

37. KenolKobil Ltd
38. Total Kenya Ltd
39. Kengen Ltd
40. Kenya Power & Lighting Company Ltd
41. Umeme Ltd

Insurance

42. Jubilee Holdings Ltd
43. Pan Africa Insurance Holdings Ltd
44. Kenya Re-Insurance Corporation Ltd
45. Liberty Kenya Holdings Ltd
46. British-American Investments Company (Kenya) Ltd
47. CIC Insurance Group Ltd

Investment

48. Olympia Capital Holdings Ltd
49. Centum Investment Company Ltd
50. Trans-Century Ltd
51. Home Africa Ltd
52. Kurwitu Ventures

Investment Services

53. Nairobi Securities Exchange Ltd

Manufacturing and Allied

54. B.O.C Kenya Ltd
55. British American Tobacco Kenya Ltd
56. Carbacid Investments Ltd
57. East African Breweries Ltd
58. Mumias Sugar Company Ltd

59. Unga Group Ltd
60. Eveready East Africa Ltd
61. Kenya Orchards Ltd
62. A.Baumann Company Ltd
63. Flame Tree Group Holdings Ltd

Telecommunication and Technology

64. Safaricom Ltd

Real Estate Investment Trust

65. Stanlib Fahari I-REIT

Appendix IV: Complete set of financial statements

1. A statement of financial position as at the end of the period
2. A statement of profit or loss and other comprehensive income for the period
3. A statement of changes in equity for the period
4. A statement of cash flows for the period
5. Notes, comprising significant accounting policies and other explanatory information
6. Comparative information in respect of the preceding period
7. A statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

Methods of detection

A. Comparison of accounting policies used in the current financial year compared to previous financial years
B. Comparison with accounting policies and methods used by competitors
C. Analyzing the existence of opinions with reserves in auditors' reports
D. Examining accounting registers
E. Analysis of the extraordinary results and previous extraordinary results
F. Analysis of the evolution of the period of rotation of client receivables, stocks and providers
G. Analysis of transactions with the enterprises from the group

TABLE 54

Detecting Creative Accounting Techniques

Creative accounting practices	**Impact on financial statements**	**Methods of detection**
Increasing or reducing expenses with provisions and adjustments for depreciation	Reducing or increasing profit, internal capital, assets and liabilities	A,B,C
Changing various elements of depreciation policy such as the method, duration or residual value	Reducing or increasing profit, internal capital and assets	A,B,C
Including or not certain expenses in the asset production or purchase cost	Reducing or increasing profit, internal capital and assets	A,B,C,D
Selecting fixed assets that will be included in the revaluation process	Reducing or increasing profit, internal capital and assets	A,B,C,D,E
Taking into account research and development costs, after the commissioning of assets or costs of debt, as expenses for the period or their capitalization	Reducing or increasing profit, internal capital and assets	A,BC
Accounting expenses on the basis of retained earnings instead of including them in the income statement	Increased profit	C,D,G
Extra-balance financing on account of branches not included in the consolidated statements	Reducing liabilities	D,G
Changes in stock valuation methods	Reducing or increasing profit, internal capital and assets	A,B,C,D
Accounting transactions by making future optimistic or pessimistic estimates	Increasing or reducing profits, internal capital of other assets or liabilities	A,B,C,D
Creating extraordinary results (sales of fixed assets, costs or revenues from previous years)	Increasing or reducing profits, internal capital of other assets or liabilities	E
Anticipating the	Increasing profits and internal	A,B,D,F

recognition or postponing the identification of expenses	capital	
Postponing the recognition of revenues or anticipating the identification of expenses	Reducing profit and internal capital	A,B,D,F
Fictitious sales	Increasing profits, internal capital and assets	B,C,D,F,G
Compensating assets with liabilities or expenses with revenues	Increasing or reducing profit, internal capital of other expenses and revenues	C,D
Assessing transactions with entities from the group at different prices than market prices or price falsification	Increasing or reducing the profit, internal capital of other assets and liabilities	B,C,D,F,G
Temporary assignment of holdings at a very high market value compared to their purchase and immediate redemption price	Increasing profit, internal capitals and assets	C,D,E
Lease-back operations, sales of assets and immediate takeover	Increasing profit, internal capital and reducing assets	C,D,E,G

Source: Laura & Ileana (2013)

Appendix V: STATA Output

```
. ed

. *(8 variables, 280 observations pasted into data editor)

. xtset firm year, yearly
      panel variable:  firm (strongly balanced)
       time variable:  year, 2011 to 2015
               delta:  1 year

.
. xtdescribe

    firm:  1, 2, ..., 56                                   n =         56
    year:  2011, 2012, ..., 2015                           T =          5
           Delta(year) = 1 year
           Span(year)  = 5 periods
           (firm*year uniquely identifies each observation)

Distribution of T_i:   min      5%     25%       50%       75%     95%     max
                         5       5       5         5         5       5       5

     Freq.  Percent    Cum.  |  Pattern
 ---------------------------+---------
        56   100.00  100.00  |  11111
 ---------------------------+---------
        56   100.00          |  XXXXX

.
```

```
. xtreg survival workingcapital retainedearnings ebit equity sales, fe

Fixed-effects (within) regression               Number of obs      =       280
Group variable: firm                            Number of groups   =        56

R-sq:  within  = 1.0000                         Obs per group: min =         5
       between = 1.0000                                        avg =       5.0
       overall = 1.0000                                        max =         5

                                                F(5,219)           =  4.45e+07
corr(u_i, Xb)  = -0.1731                        Prob > F           =    0.0000
```

survival	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
workingcapital	.0119516	.0002243	53.29	0.000	.0115096	.0123936
retainedearnings	.0139411	.0004834	28.84	0.000	.0129884	.0148938
ebit	.0328395	.0003538	92.81	0.000	.0321421	.0335369
equity	.0060497	.000033	183.30	0.000	.0059846	.0061147
sales	.9990319	.0000697	1.4e+04	0.000	.9988945	.9991694
_cons	-.0000191	.0001293	-0.15	0.883	-.000274	.0002358
sigma_u	.0002586					
sigma_e	.00044867					
rho	.24936328	(fraction of variance due to u_i)				

```
F test that all u_i=0:     F(55, 219) =     1.46                 Prob > F = 0.0310

.

. xtreg survival workingcapital retainedearnings ebit equity sales, re

Random-effects GLS regression                   Number of obs      =       280
Group variable: firm                            Number of groups   =        56

R-sq:  within  = 1.0000                         Obs per group: min =         5
       between = 1.0000                                        avg =       5.0
       overall = 1.0000                                        max =         5

                                                Wald chi2(5)       =  1.35e+09
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000
```

survival	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
workingcapital	.0120343	.0001468	82.00	0.000	.0117467	.012322
retainedearnings	.0137917	.0001397	98.70	0.000	.0135179	.0140656
ebit	.0331336	.0002372	139.66	0.000	.0326686	.0335986
equity	.0060251	.000023	262.40	0.000	.0059801	.0060701
sales	.9989847	.0000285	3.5e+04	0.000	.9989288	.9990407
_cons	.0000577	.000051	1.13	0.258	-.0000422	.0001575
sigma_u	.00014008					
sigma_e	.00044867					
rho	.08882213	(fraction of variance due to u_i)				

```
.
```

```
. xtabond survival workingcapital retainedearnings ebit equity sales, lags(1) artests(2)

Arellano-Bond dynamic panel-data estimation  Number of obs         =       168
Group variable: firm                         Number of groups      =        56
Time variable: year
                                             Obs per group:    min =         3
                                                               avg =         3
                                                               max =         3

Number of instruments =     12               Wald chi2(6)          =  1.76e+08
                                             Prob > chi2           =    0.0000
One-step results
```

survival	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
survival						
L1.	.0000979	.0001324	0.74	0.459	-.0001616	.0003575
workingcapital	.0121074	.000295	41.04	0.000	.0115292	.0126856
retainedearnings	.0143931	.0006992	20.59	0.000	.0130227	.0157635
ebit	.0329964	.000497	66.39	0.000	.0320222	.0339705
equity	.0060674	.0000449	135.14	0.000	.0059794	.0061554
sales	.9990341	.0000819	1.2e+04	0.000	.9988737	.9991946
_cons	-.0002851	.0002264	-1.26	0.208	-.0007287	.0001586

```
Instruments for differenced equation
        GMM-type: L(2/.).survival
        Standard: D.workingcapital D.retainedearnings D.ebit D.equity D.sales
Instruments for level equation
        Standard: _cons

.

Breusch and Pagan Lagrangian multiplier test for random effects

        survival[firm,t] = Xb + u[firm] + e[firm,t]

        Estimated results:
                         |       Var     sd = sqrt(Var)
                ---------+------------------------------
                survival |    1.365957       1.168742
                       e |    2.01e-07       .0004487
                       u |    1.96e-08       .0001401

        Test:   Var(u) = 0
                             chibar2(01) =     2.83
                          Prob > chibar2 =   0.0464

.
```

```
. tabstat survival workingcapital retainedearnings ebit equity sales, statistics(mean, sd, median, min, max)
```

stats	survival	workin~l	retain~s	ebit	equity	sales
mean	.9439821	.0930429	.2467311	.0910864	1.239114	.9298622
sd	1.168742	.2278138	.2895643	.1552285	1.5562	1.168131
p50	.5705	.04805	.1977	.0602	.7039	.5562
min	.043	-1.6409	-1.0256	-.6949	.0018	.0402
max	7.831	.5414	.7686	.5706	11.5674	7.8453

```
. pwcorr survival workingcapital retainedearnings ebit equity sales, star(0.05)
```

	survival	workin~l	retain~s	ebit	equity	sales
survival	1.0000					
workingcap~l	0.1529*	1.0000				
retainedea~s	0.1092	0.2462*	1.0000			
ebit	0.3011*	0.3685*	0.4583*	1.0000		
equity	-0.0536	0.2634*	0.5138*	0.1845*	1.0000	
sales	0.9999*	0.1462*	0.0993	0.2932*	-0.0649	1.0000

```
. reg survival workingcapital retainedearnings ebit equity sales
```

Source	SS	df	MS	Number of obs	= 280
				F(5, 274)	= .
Model	381.101865	5	76.2203729	Prob > F	= 0.0000
Residual	.000060212	274	2.1975e-07	R-squared	= 1.0000
				Adj R-squared	= 1.0000
Total	381.101925	279	1.36595672	Root MSE	= .00047

survival	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
workingcapital	.0120529	.000136	88.60	0.000	.0117851	.0123207
retainedearnings	.0137873	.0001253	110.08	0.000	.0135408	.0140339
ebit	.0331988	.0002212	150.10	0.000	.0327634	.0336343
equity	.0060202	.0000217	277.82	0.000	.0059775	.0060628
sales	.9989786	.0000254	3.9e+04	0.000	.9989285	.9990286
_cons	.000063	.0000444	1.42	0.158	-.0000245	.0001504

```
. vif
```

Variable	VIF	1/VIF
retainedea~s	1.67	0.598783
ebit	1.50	0.668167
equity	1.44	0.692644
workingcap~l	1.22	0.820161
sales	1.12	0.894131
Mean VIF	1.39	

```
.


. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of survival

         chi2(1)      =    54.16
         Prob > chi2  =   0.0000

.

. ovtest

Ramsey RESET test using powers of the fitted values of survival
       Ho:  model has no omitted variables
                 F(3, 271) =      1.66
                  Prob > F =      0.1750


. xttab year
```

	Overall		Between		Within
year	Freq.	Percent	Freq.	Percent	Percent
2011	56	20.00	56	100.00	20.00
2012	56	20.00	56	100.00	20.00
2013	56	20.00	56	100.00	20.00
2014	56	20.00	56	100.00	20.00
2015	56	20.00	56	100.00	20.00
Total	280	100.00	280	500.00	20.00
			(n = 56)		

```
. xtpoisson survival workingcapital retainedearnings ebit equity sales, re collinear
note: you are responsible for interpretation of non-count dep. variable

Fitting Poisson model:

Iteration 0:   log likelihood = -566.25346
Iteration 1:   log likelihood = -421.43988
Iteration 2:   log likelihood = -255.16858
Iteration 3:   log likelihood = -251.16837
Iteration 4:   log likelihood = -251.11764
Iteration 5:   log likelihood = -251.11763

Fitting full model:

Iteration 0:   log likelihood = -278.50681
Iteration 1:   log likelihood =  -258.5276
Iteration 2:   log likelihood = -252.81863
Iteration 3:   log likelihood =  -251.6298
Iteration 4:   log likelihood = -251.25049
Iteration 5:   log likelihood = -251.14876
Iteration 6:   log likelihood = -251.12378
Iteration 7:   log likelihood = -251.11874
Iteration 8:   log likelihood = -251.11789
Iteration 9:   log likelihood = -251.11769
Iteration 10:  log likelihood = -251.11764
Iteration 11:  log likelihood = -251.11763

Random-effects Poisson regression               Number of obs      =       280
Group variable: firm                            Number of groups   =        56

Random effects u_i ~ Gamma                      Obs per group: min =         5
                                                               avg =       5.0
                                                               max =         5

                                                Wald chi2(5)       =    306.26
Log likelihood  = -251.11763                    Prob > chi2        =    0.0000
```

survival	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
workingcapital	.0564139	.3255373	0.17	0.862	-.5816275	.6944553
retainedearnings	.5017959	.3401171	1.48	0.140	-.1648213	1.168413
ebit	.4858717	.3649416	1.33	0.183	-.2294007	1.201144
equity	-.0033248	.0583985	-0.06	0.955	-.1177838	.1111342
sales	.4761865	.0293435	16.23	0.000	.4186743	.5336988
_cons	-.9715418	.1301313	-7.47	0.000	-1.226594	-.7164893
/lnalpha	-16.36615	463.4328			-924.6777	891.9454
alpha	7.80e-08	.0000362			0	.

```
Likelihood-ratio test of alpha=0: chibar2(01) =     0.00 Prob>=chibar2 = 1.000

.
```

```
. xtpoisson survival workingcapital retainedearnings ebit equity sales, fe collinear
note: you are responsible for interpretation of non-count dep. variable

Iteration 0:   log likelihood = -150.25942
Iteration 1:   log likelihood = -143.81265
Iteration 2:   log likelihood = -143.63996
Iteration 3:   log likelihood = -143.63984
Iteration 4:   log likelihood = -143.63984

Conditional fixed-effects Poisson regression    Number of obs      =       280
Group variable: firm                            Number of groups   =        56

                                                Obs per group: min =         5
                                                               avg =       5.0
                                                               max =         5

                                                Wald chi2(5)       =     13.60
Log likelihood  = -143.63984                    Prob > chi2        =    0.0184
```

survival	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
workingcapital	-.0619865	.5102122	-0.12	0.903	-1.061984	.9380111
retainedearnings	.4115628	1.04577	0.39	0.694	-1.638108	2.461233
ebit	.1323449	.683535	0.19	0.846	-1.207359	1.472049
equity	-.0077957	.0972651	-0.08	0.936	-.1984318	.1828404
sales	.2697411	.0838764	3.22	0.001	.1053464	.4341358

.

Source: Author (2016)