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Big Bath Charges and Shareholders' Wealth in Nigeria

Owolabi S. A.

Professor, Department of Accounting, Babcock University, Nigeria

Igbaroola Ayoola Folarin

Student, Department of Accounting, Babcock University, Nigeria

Abstract:

Big bath accounting is an earnings management technique whereby a one-time charge is taken against income in order to reduce assets to lower expenses in the future. This type of voodoo accounting technique is used by companies to deceive shareholders' in reporting an unrealistic financial report. This study examined the effect of big bath accounting on shareholders' wealth in Nigeria. Survey research design was adopted. Primary data was used in obtaining information through a well-structured questionnaire that was administered to the supervisory department of the National Deposit Insurance Corporation and Central Bank (NDIC) of Nigeria (CBN). The result showed that big bath charges had a negative significant effect of shareholders' wealth in Nigeria. This means that the more organizations apply big bath charges into their system, it will later on affect negatively the shareholders' wealth. The study recommended that other analytical model can be employed in detecting earnings manipulations in the account and also the recommendations made by the supervisory departments of regulatory bodies like NDIC and CBN to companies should be adopted by this organizations in order to protect the interest of the shareholders.

Keywords: Big bath charges, Shareholders' wealth, Voodoo accounting

1. Introduction

The value of earnings of a business is dependent on the financial management system adopted by that business and the quality of this process depends on each part of the judgement made by the management. This process may be influenced by factors related to taxes, dividend and other factors relevant in the information need of external provider of capital (Martinez-ferrero, Garcia-Sanchez & Cuadrado-Ballesteros, 2018). An organization that has achieved high financial report quality and has met the increasing needs of users, increasing the capital base of the firm and attracting new investors becomes easy. As such, the quality of financial report will help users of financial reports to know how their resources have been utilized and the rate of confidence in their shares can be known. Shehu and Ahmad (2013) posited that in order for accounting information to have the qualitative characteristics, it must be relevant, timely and predictive. Having said this, it is expected that a quality financial report should assist in making predictions on the financial performance of a business.

Shareholders expect a maximization of their investments in form of an interest on a regular basis which is expected to impress them in order to invest more in the company and also encourage potential investors to invest in the organization. Due to this notion, management will always do anything possible either legally or illegally to give a colorful and impressive accounts in order to lure the shareholders. Adaramola and Oyerinde (2014) stated in their study that the movement of earnings management influence share prices, that is, financial accounting has a positive impact on share prices which is expected to affect shareholders' wealth. Johannes (2014) reported that companies report earnings quarterly and this brought about pressure on management to deliver acceptable earnings per share performance in order to excite the shareholders.

Omar and Rizuan (2014) opined that it is hard for a greedy eye to have a lean heart and so some people's priority has been driven by money and to them, money is power where money could buy anything including time. This is why the management will do anything possible to make extra money from investors. In their study, it was stated that the motivation to smoothen dividend arises from the desire to maintain existing condition or to make it better than the previous condition to suite the shareholders. Similarly Rozycki (1997) and Karpavicius (2012) asserted that dividend paid serve as a driver to boost the firms' reserves, increase shareholders' wealth and share prices. All of these are ways of boosting the shareholders' wealth to boost the confidence of the investors and also impress the potential shareholders. Due to the constant failure of companies to report the realistic values of the firm, Nwoye, Okoye and Oraka (2013) concluded that the fight against fraud in the corporate financial statements should no longer be treated as the sole responsibilities of both the external and regulatory bodies but the public and private stakeholders should join in the movement.

Voodoo accounting on the other hand has defined by Kenton (2018) is the application of accounting gimmicks and techniques to increase the revenue or reduce the expenses of a company with the sole purpose of deceiving investors. These are the practices which these collapsed and failed companies adopt in bloating their earnings to deceive tons of

investors and even attract more. Voodoo accounting was identified by United States Security and Exchange Commission boss in 1999 during the Dot Com case. The Dot com case was popular in the United States (US) in the year 1999 which affected majority of the internet providing companies causing them to collapse a year after granting them license to trade on the New York Stock Exchange. Hayes (2019) explained that these companies raised billions of dollars at the floor of the stock exchange even though they were running at a loss before going public. The bubble busted in the year 2000 when they could not keep inflating their profits which dropped the share price from as high as \$5,000 to \$4. According to Kenton (2018), the origin of the term voodoo accounting lies in the fact that profits can be made to appear like magic with certain accounting tricks. The same profit also disappear like magic when those manipulated earnings are removed and hidden expenses are also added thereby showcasing the true financial status of the company.

Since the popular Enron case, a lot of voodoo accounting cases in corporate world have happened right from the developed economies to the developing countries eroding billions of dollars of stakeholder's wealth with nothing to show for it. In the United States, Valeant Pharmaceuticals, a drugs company, tried to rebut claims it was massaging its figures. A day later IBM said regulators were investigating how it books its sales. Tesco, a British grocer, was jailed after admitting inflating its profits. Shares in Noble Group, a Singapore-listed commodities firm accused of questionable book-keeping, have collapsed. In May 2017, Hong Kong's regulators suspended trading in Hanergy, a solar-panel firm controlled by the richest man in China as at 2015 according to Forbes (Matt, 2017). In 2019 alone, more than three companies in the United Kingdom (UK) including Carillion, Patisserie Valerie and Thomas Cook have all collapsed due to corporate failures. The most Recent of them Thomas Cook, a travelling agency business that have been in existence for more than 150 years with over 22,000 staff around the world filed for liquidation in August, 2019. The moment the company was declared ineligible, all stakeholders in the company were left stranded including clients that have travelled far away expecting the company the schedule their transportation back to the United States. This is a company everyone believed was doing well not knowing it has been struggling in all aspects with auditors pampering their reports.

1.1. Statement of the Problem

Stakeholders entrusting their funds with management in order to receive returns and also maximize those returns has been an issue raised by investors for some time and also management's inability to account for their investment to the extent that the companies they manage closing down completely (Ajina & Habib, 2017). Their inability to account for the investment has been tagged to be due to financial manipulations which make them result into inflating revenues in order to look healthy for both existing and potential investors. According to the ACFE (2014), financial statement fraud is a deliberate fraud performed by a manager or employee with no report on actual financial statement information, for example, fictitious revenues, too low expenses report. The big bath accounting is one of the techniques used by management to deceive stakeholders. This technique is common in the bank when they face rising misbehavior and defaulting rates on loans when there is a downturn in the economy. They will write off the loans to customers beforehand in anticipation of the losses and create a loan loss reserve. When the economy recovers and loan payments are paid on time, the bank can reverse the losses in the loan loss reserve that were not realized and boost earnings in future years

In Nigeria, similar cases have occurred over time starting from the Savannah Bank collapse in 1997. Also, the case of Cadbury Nigeria Plc will always remaining unforgotten in the corporate world where the company was found to be falsifying its financial reports by inflating its profit figures with millions of Naira. Instead of the management to show the true status of the company, over a billion naira was inputted into the profit for it to be overstated. Other cases have also occurred in Nigeria like the Oceanic Bank and Intercontinental Bank where the executives of these banks were convicted of money laundering and mismanagement of depositors' funds and the figures stated in the financial reports were just mere numbers. This discovery led to the takeovers and mergers in 2014.

Detecting financial fraud seems tiring because there has been a lot of research on fraud detection. The result of investigations by Bishop (2004) to 450 companies, which are victims of fraud in 2004 years since the ACFE report, on how fraud was initially detected, indicate that there are several ways of doing so, such as internal audit, tip from employees, by accident, internal control, external audit, tip from customers, tip from vendors, anonymous tip, and notified by police. In Nigeria, majority of these methods have failed due to one reason or the other but majorly because it is been carried out internally and that is why this study is important because the various ways in which voodoo accounting can be applied on the financials of companies will be discussed and the Beneish M-Score model to be used for this study will be able to predict at a reliability of 75% if their revenues are been manipulated. Hence, this study will empirically evaluate the impact of voodoo accounting on shareholders' wealth in Nigeria. This study therefore examined the effect of big bath charges on shareholders' wealth in Nigeria.

1.2. Conceptual Review

1.2.1. Shareholders Wealth

Maximizing shareholders' wealth is a major reason why companies function and operate because these shareholders have invested their funds in these companies. According to Adaramola and Oyerinde (2014), shareholders' wealth is the projected future earnings to the firm owners calculated in their present value. This projected future earnings are usually in the form of dividends distributed periodically and proceeds from the trading of share. They also highlighted that dividends are paid to ordinary shareholders out of corporate profits. In their study carried out on listed companies in Nigeria, it revealed that changes in dividend payment could be used to predict share price movement which consequently affects shareholders wealth. However, share prices are dependent on stability and growth of the economy. Johannes

(2014) expressed that companies report earnings quarterly and this brought about pressure on management to deliver acceptable earnings per share performance. Recent corporate scandals have been attributed to managers' over-emphasis on short-term EPS performance. EPS growth is determined by incomes retained in reserves, loan liabilities, operating leverage and financial leverage. It succor decisions on valuation of share, incentive schemes based on performance of managers and negotiations regarding mergers and acquisitions. Big share price movements are driven by short-term earnings in response to earnings surprises, an objection to the perception of long-term cash flow expectations driving the share price changes.

Shareholders' wealth is influenced by various factors. These factors include dividend policy, earnings after tax and interests, changes in share prices and market forces. The assumption is that creation of shareholders' wealth is the primary objective of most listed companies; therefore existing and potential shareholders focus on maintaining and building of wealth they have invested in a listed company for an economic gain.

1.2.2. Voodoo Accounting

Voodoo accounting refers to any aggressive accounting practice used to improve a company's financial results. Most of these moves step over the ethical line; the accountant is purposely bending the truth with the numbers getting reported (Shmoop, 2018). Typically, the goal is to increase profitability, often in an attempt to attract further investment. It might include things like hiding expenses or boosting revenue figures. According to Kenton (2019), voodoo accounting is creative rather than conservative. Voodoo accounting employs numerous accounting gimmicks to artificially boost the bottom line by inflating revenue or concealing expenses or both. The origin of voodoo accounting started when profits started appearing like magic with certain accounting tricks. Investor's reaction to news that a company has been engaging in voodoo accounting depends on the magnitude of the offence which at the end of the burst, will have effect on the company's market value, investors' interest and reputation. The pressure of meeting quarterly earnings expectations of investors is usually the primary motivator of voodoo accounting. For companies that are subjected to higher levels of analysis, accounting tricks are hard to pull off.

1.2.2.1. Big Bath Charges

Big bath charges or accounting was one of the earnings management techniques identified by the United States Security Exchange Commission official in 1998 during the DOT-COM bubble burst. This technique pose a threat to the integrity of the financial statements is the overstatement of restructuring charges in order to reduce assets and future expenses (Schroeder, Clark & Cathey 2011). Stolowy and Breton (2004) opined that an example of big bath accounting is reducing write-offs or decreasing discretionary accruals in income statements especially when a new CEO is appointed so that the new CEO cleans the accounts to be able to use it in the future to smooth earnings. Also, Healy (1985) stated that big bath accounting represents a particular drop in accounting data which precedes manipulation. There are also cases where companies may restructure debt, write-down assets or change and even close down an operating segment. In these instances, expenses are generally unavoidable (Rahman, Moniruzzaman & Sharif, 2013). If the management record estimated a loss against earnings for the cost of implementing the change then it will negatively affect the cost of the share price. But the share price may go up rapidly if the charge for restructuring and related operational changes is viewed as positive. In a situation where the manager have to report bad news, that is, a loss from substantial restructuring, it is better to report it at once.

Also, Oyedokun (2016) described big bath as recognizing all the bad news in one year so that later years can look stronger. The study expressed that if a company expects disappointing results, it might decide to make them even worse by writing down assets and recognizing liabilities. In future years, the assets could be used without any corresponding cost and a decision made that the liabilities are no longer required. They would then be reversed through the statement of profit or loss. Companies make provisions simply based on 'management intent' and used the argument of prudence to support their accounting treatment of provisions. Creating a provision would reduce profit in the current year. However, by creating a provision for expenses that would otherwise be charged in future years and the company would be able to improve reported profits in future years.

1.3. Theoretical Review

1.3.1. White Collar Crime Theory

Michael (2004) discussed that white collar crime theory started in 1939 but was stated by Sutherland in 1949. Sutherland was the first to coin the term and hypothesis white collar criminals and attributed different motives and characteristics than typical street criminals. In his research, he studied crime and high society which had no previous empirical correlation which is crime committed by a person respectability and high social status in the course of his occupation. The major aim of his study was to prove that there is a relationship between money, social status and likelihood of going to jail for a white collar crime compared to more visible, typical crimes. Sutherland tried defining and distinguishing white collar crimes and blue collar crimes. Blue collar crimes are crimes such as theft, rape, stealing, vandalism, hooliganism which are blamed on psychological, environmental factors but on the other hand, white collar crimes are carried out by educated, intelligent, smart and most times rich and comfortable people who are qualified enough to get a reasonable job with good salary package. White collar crime criminals are opportunists who take advantage of their current state to accumulate financial wealth because they have unmonitored access to large sum of money in the organization in which they are working.

Sutherland's (1939, 1949) concept of white-collar crime was influential because there is Sutherland's engagement with criminology's neglect of the kinds of crime of the powerful and influential members of the elite in society and the extent of damage caused by white-collar crime. Sutherland emphasized the disproportionate extent of harm caused by the crime of the wealthy in comparison to the much researched and popular focus on crime by the poor, and the equally disproportionate level of social control responses. Third, there is the focus on organizational offenders, where crime occurs in the course of their occupations.

A white-collar criminal is a person who, through the course of his or her occupation, utilizes respectability and high social status to perpetrate an offense. Fourth, the construction of the corporation as an offender indicates that organizations can also be held accountable for misconduct and crime. Finally, there is the ability to theorize the deviant behaviors of elite members. Many researchers have been inspired by Sutherland's groundbreaking challenge that mainstream criminology neglects the crime of the upper class and has a dominating focus on the crime of the poor. This was a major insight that began a dramatic shift and broadening in the subject matter of criminology that continues today.

The act of engaging voodoo accounting practices to deceive shareholders and boost shareholders' wealth to impress the public is the work of the managers and directors of companies. These are learned people believed to know better and be filled with integrity to do the right thing. This set of people are well paid and to an extent comfortable bit due to greed and dishonesty, they engage in this white collar crimes.

1.4. Empirical Review

Theiss, Portulhak, Kuhl and Colauto (2019) studied the relationship between big bath accounting and turnover executives with the purpose of identifying to what extent the change of executives in companies listed on the B3 is associated with earnings management. 254 companies were studied from 2009 to 2014 with a total of 1407 observations and using a 2012 model propounded by Dechow, Hutton, Kim and Sloan for earnings management detection. The study, which had a concentration executives over 50 years with a high turnover in this position showed that no evidence exist that big bath accounting changes due to the variation in the accrual of discretionary period. Also, it was noted the existence not confirmed differences between hiring executives' insider and outsiders for the use of more discretionary spending. The study helped in understanding the concept of big bath accounting and encourages the breaking of paradigm through empirical evidences with respect to this earnings management mode. This study is not in line with the study of Chia-Feng (2012) where he concluded that big bath accounting is most likely to occur when the outgoing CEO is forced to leave and incoming CEO is promoted internally and also manipulate earnings of the organizations. This happened in 2015 when the CEO of Hynaergy, the most successful solar panel company in China diverting shareholders' wealth to himself. Carvalho and Kalatzis (2018) studied earnings quality, investment decisions and financial constraint and discovered how the quality of financial information and the level of financial constraint impact a firm's investment decisions. The major objective of the study was to investigate the relationship between accruals quality, financial constraint and investment decisions and if earnings quality affects investment-cash flow sensitivities. Data was obtained from 7 countries between 1992 and 2009 with a total of 10,318 observations and analyzed using the Generalized Method of Moments (GMM). The result showed that poor accruals was positively associated with investment rates for firms with overinvestment and negatively related to investment rates for firms with underinvestment. The study concluded that poor quality could worsen the problems and shareholders or other stakeholders. This study validates the studies of Almeida and Campello (2007); Bassetto and Kalatzis (2011) and Hovakimian and Titman (2006) where they all related financial constraint to investment decisions by analyzing investment cash flow sensitivity as a proxy for the existence of financial constraint.

Bankole, Ukolobi and Mcdubus (2018) opined that financial reports are produced in order to show the true and fair state of affairs of business entities so that stakeholders and other users of the financials can make informed decisions but a situation whereby the decisions made by stakeholders are negating the information provided by the managers, it shows there could have been creative accounting in action. This was provided from their study on creative accounting practices and shareholders' wealth which was carried out to establish the effect of creative accounting proxy by inventory valuation, depreciation policy and debtors ageing schedule on shareholders' wealth. Survey research design was adopted for the study and employees of financial institutions was administered the questionnaire. From the findings, frequent changes in method of inventory valuation and depreciation policy are used to give a positive image to the financial statements. Though alternative permissible methods are adopted in preparing financial statements for the case of using ageing schedule to make provision for bad and doubtful debts but it has been discovered that it is an avenue for manipulations in the financial statements. The study recommends that adoption of accounting standards, giving importance to ethics and managing the flexibility of the different accounting methods can help reduce the negative effect of creative accounting or earnings management.

Abu-Jledan (2016) studied earnings management behavior of Islamic Banks and Conventional Banks by using the banks in Jordan and Gulf focusing on how bank characteristics such as bank size, board size, non-executive and country effect affect earnings management. The study made use of 15 Islamic banks from 2011-2014 with data obtained from the annual report submitted to the exchange securities website of the two countries under study. The result showed that Islamic banks make use of earnings management. Similarly, the study of Zainuldin and Lui (2018) concluded that Islamic banks engage in earnings management through abnormal loan loss provision. This signifies that Islamic banks with large size of board of directors and which all CEO members are separated from the board of directors are likely to engage in earnings management. Also, Islamic banks with large size and large number of Shariah board members are likely to practice earnings management. The study recommends that the bank regulators and government will have to change rules and regulations in their countries in order to decrease earnings management practices and provide accurate information

about the banks in their regions. This is very important because bank characteristics affect the quality of earnings when earnings is manipulated.

Ozkaya (2014) concluded that persistent hidden liabilities may create structural effects on emerging markets with open capital accounts where financial markets, interest rates and exchange rates go through fluctuations associated with boom-bust cycles in international capital flows. This was made after studying creative accounting practices and measurement methods in Turkey. It stated that when budget is not transparent, there is a likelihood that creative accounting has been applied which will circumvent it and less fiscal adjustment, generating hidden deficits or debts. The purpose of the study was on creative accounting practices of government and also add to existing literature on creative accounting by measuring hidden debts of the Turkish public sector from 189 to 2010. The findings of the study revealed that the Turkish government have a lot of hidden items in their accounts and that public sector enjoys various political instruments to generate contingent liabilities however, creates special budgetary laws to convert stock of contingent liabilities to direct liabilities, hiding the deficits generating the converted liabilities. This findings showed that the speculations and forecast of the International Monetary Funds (IMF) for that period were wrong because they were misinformed by the Turkish authorities regarding magnitude of public debt stock. According to the researcher, this mis-information might be the main reason for the failure of the IMF's planned fiscal consolidation at the outset of 2000-2001 crisis.

Chandra, Ipseeta and Chandrabhanu (2014) studied creative accounting and window dressing with empirical analysis with the sole purpose of knowing the rate at which companies practice window dressing and how deep it as infiltrated into the corporate world. In an attempt to understand the various tools that are used for the creative accounting, the researcher tried to empirically analyze by undertaking a survey in some selected private sector in the Kolkota of West Bengal and Bhubaneswar and Cuttack of Odisha. After receiving 87 out of the 196 copies of questionnaire administered, it was discovered that window dressing practices are prevalent in majority of corporate bodies under study but it also depends upon the expertise knowledge of the accounting department. That is level at which window dressing is understood by the person in charge of the accounts will explain the level at which the act is practiced in that organization. Also, all the variables or attributes considered for the study are having enough support base and these variables are been practices as part of creative accounting through window dressing. The major recommendation made by the study was that since creativity may be misused for fraud, companies have to accept moral responsibility to be first ethical before been creative.

Fraudulent financial reporting usually depends on a conspiracy among multiple parties (Trompeter, Carpenter, Desai, Jones, & Riley, 2013). According to Boyle, Carpenter and Hermanson (2012), CEOs, CFOs and upper management are the driving force behind financial statement fraud. They note that either the CEO or the CFO was involved 89% of the time in accounting fraud cases and lower level personnel were forced to comply with the requests of top management even if it meant conducting fraudulent behavior. In the same study performed a decade earlier, either the CEO or the CFO was involved in 83% of the cases. These studies imply that detection of financial statement fraud should focus on the tendencies and characteristics of the CEO and CFO. One study noted that financial statement fraud may be more prevalent when top management has a narcissistic personality as narcissists tend to have an inflated sense of self-importance with a lack of compassion for others (Boyle, Carpenter, & Hermanson, 2012; Johnson, Kuhn, Apostolou, & Hassell, 2013). Because the CEO and CFO can manipulate earnings, revenue and income, a ratio analysis to include operating income would be beneficial to detect fraud.

2. Methodology

The study adopted the survey research design. The population of the study consist of all staff in the regulatory department of the Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Commission (NDIC). The study made use of primary data and a well-structured questionnaire was used as the source of the data. These data were collected, organized and coded for processing. On the completion of data gathering, it was analyzed with the use of Statistical Package for Service Solution (SPSS) and presented. This software is believed to be suitable for analyzing primary data because the Simple Linear Regression analysis was done for the inferential statistics.

Operationalization of Variables

$$Y = f(X)$$

Y = Shareholders' Wealth

$$Y = y_1$$

X = Voodoo Accounting

$$X = x_1$$

Where:

y_1 = Shareholder's Wealth

x_1 = Big Bath Charges (BBC)

3. Findings

Variable	MODEL			
	Coefficient	Standard Error	t- stat	Prob.
Constant	1.455	.190	7.663	.000
BBC	-.642	.047	-13.668	.000
R^2	0.609			
Adjusted R^2 : Overall	0.606			
F-Stat	186.823(0.000)			

Table 1: Regression Estimate

Dependent Variable: Shw

* Significant at 5%

Source: Researcher's Study, 2020

Model

$$SHW = \beta_0 - \beta_1 BBC + \varepsilon_i$$

$$BC = 1.455 - 0.642 BBC$$

The regression estimates of model shows that voodoo accounting measured by big bath charges (BBC), negatively shareholders' wealth of investors in Nigeria.

3.1. Interpretation of Result

The result of the regression analysis on Table 1 shows that voodoo accounting proxied by big bathe charges have negative effect on shareholders' wealth of investors in Nigeria. This is indicated by the signs of the coefficients that, $\beta_0 = -0.642 < 0$. This result is consistent with a priori expectation as it is expected that voodoo accounting practice of big bath charges will have negative effects on shareholders' wealth in Nigeria. Also, the coefficient of the independent variable shows that a 1 unit increase in BBC will cause 0.642 unit decrease in the mean of shareholders' wealth. Likewise, the probability of the individual t-statistics shows that BBC have significant effect on SHW at 5% level of significance acceptable in this study.

Additionally, R-squared showed that 60.9% variations in voodoo accounting measured by BBC can be attributed to the measures of voodoo accounting practices while the remaining 39.1% variations in BBC are caused by other factors not included in the model. Hence, the coefficient of determination shows that the main model has a strong explanatory power. This is further emphasized by the probability of the F-Statistics of 0.00 which shows that the regression result is statistically significant because this is less than 5% which is the level of significance adopted for this study. Therefore, regression estimates showed that big bath charges have significant negative effect on shareholders' wealth in Nigeria.

4. Discussion of Findings

This study was purposely set out to examine the effect of big bath accounting on shareholders wealth in Nigeria. The model showed that big bath charges when regressed with shareholders' wealth in Table 1 showed a negative significant effect on shareholders' wealth. This suggest that when big bath charges which is a voodoo accounting practice is ingested by companies into their financials, it is going to negatively affect the shareholders' wealth in that company. This result is consistent with that of Goto and Yamamoto (2018) and that of Chia-Feng (2012) that big bath accounting has a negative effect on shareholders' wealth. Goto and Yamamoto (2018) specifically cited where the Greek government used big bath accounting in order to hide the debts of the government but later but the country into a big mess. Similarly, Ozkaya (2014) also noted that hidden liabilities, which is what big bath accounting does, may create structural effects on emerging markets with open capital accounts where financial markets, interest rates and exchange rates go through fluctuations associated with boom-bust cycles in international capital flows. On the other hand, Theiss et al (2019) had a contrary view that there is no relationship between big bath accounting and turnover executives in influencing earnings management. This conclusion was arrived at after they have observed over 250 companies for a period of 50 years considering a high turnover in the position of the executives. Studies are currently been worked on in order to overturn the result of this study.

This study also supports the work of Zemankova (2015) on big bath as a determinant of creative accounting that big bath accounting is a short term drop in certain financial indicators. Therefore, the moment it is noticed through a trend that there is a sharp change in some key financial indicator, there is likelihood of manipulations through voodoo accounting. This study opined that big bath accounting is one of the indicators that can be used to detect changes in the approach of creative accounting. In addition, Oyedokun (2016) opined that big bath charges helps companies to create a provision in order to hide profit which be released back into the profit for subsequent years. This is evidently done by companies because there is no rule against using provisions to move profit from one year to subsequent years thereby capitalizing on the loopholes and exist in the Generally Accepted Accounting Principles.

This result can also be linked to legitimacy theory propounded by Dowling and Pfeffer (1975) but later modified by Deegan and Unerman (2006) that organizations will always do anything possible in order to make the public perceive that their operations are legitimate and follows that right principle and practices. Due to this perception, organizations will always do anything possible like engaging big bath accounting in order to deceive the public and their shareholders for

them to invest more and also attract new shareholders. Debt covenant theory is also related to the study which was developed by Watts and Zimmerman (1986) that organizations with high debt profile are likely going to be creative with their financials to make it suitable to obtain other forms of debts and be able to look as if they can pay up their existing debts.

The result of regression estimates of the model revealed that big bath charges have a significant negative effect on shareholders' wealth. This is evident from the coefficient of -0.642. The R^2 model shows 60.9% variations in big bath charges (BBC) is attributed to shareholders' wealth while the remaining 39.1% is caused by other explanatory factors outside this model, the p-value of its F-statistics of 0.000 which is less than the acceptable 0.05 level of significance; implying that the model is statistically significant.

5. Conclusion and Recommendation

The study examined the effect of big bath charges on shareholders' wealth in Nigeria. The regression estimates show the effect of big bath charges on shareholders' wealth which indicates that the big bath charges had a negative significant effect on shareholders' wealth. It also provides an affirmation of the extent to which the variations in the dependent variable are caused by the independent variable covered in the model as depicted by the R-squared. The study concluded that big bath charges causes havoc to the shareholders' wealth which means that investors are at great risk when big bath charges are used. The study recommended that more analytical tools should be employed in the analysis of financial statement of companies in order to discover discrepancies and protect the interest of stakeholders. Also, recommendations made by regulatory agencies to companies should be carefully followed in order to ensure that financials are prepared and presented to stakeholders.

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