



ACCOUNTING ALCHEMY AND FINANCIAL PERFORMANCE OF LISTED MONEY BANKS IN NIGERIA

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ABSTRACT

The study examines the effect of accounting alchemy on the profitability of listed deposit money banks in Nigeria. The study made use of ex-post facto research design. A sample of 13 deposit money banks were selected using Judgmental sampling techniques for a period of 2005 to 2019. The panel and quantile regressions were used in the estimation. From our evaluation of the results, the estimations reveal that DLLP has a negative effect on ROA though not significant at 5% (-0.0023, $p=0.2264$) FAGE has a positive coefficient (0.00061) though not significant ($p=0.1311$) at 5%. AGE show evidence of a negative coefficient of -0.0057 indicating a negative effect on ROA which though is not significant ($p=0.1532$). In addition, the quantile regression results reveals that for firms at high levels above average ROA quantiles; at Q[0.1], ($p=0.0652$), Q[0.2], ($p=0.4549$), Q[0.3], ($p=0.4987$) and Q[0.4], ($p=0.6863$), the p-values are all not significant at 5%. The effect of DLLP is also not significant at 5% for firms at average quantile classification levels in the sample, Q[0.5] and even below average quantile levels Q[0.6], ($P=0.1115$), Q[0.7] ($p=0.1225$), Q[0.8] ($p=0.5734$) and Q[0.9] ($p=0.7643$). The finding thus highlights that upon the level of financial performance, the effect of DLLP may not necessarily be a function of the ROA. Therefore, whether firms have relative high, average or low ROA, the effect of DLLP is not significant. In the light of the study finding, the key recommendation is the need for both external and internal monitoring of financial institutions in Nigeria as accounting alchemy



especially in the post IFRS regime may have put on more salient and not easily detectable approaches and hence the appropriate regulatory bodies need to ensure that banks financial reports are transparent and far from misleading.

Keywords: Accounting alchemy, Loan loss provision, Return on asset

1. INTRODUCTION

Accounting Alchemy is the use of accounting techniques to produce financial statements that present an overly positive view of a company's business activities and financial position. It is an attempt by management to sway or manipulate reported earnings by using specific accounting methods to beautify financial report (Kamau, 2013). Financial report is an important tool that guides investors in taking investment decisions. As such, information presented in the financial statements is expected to be relevant, reliable and comparable to permit informed decisions by the users of such information. Directors of companies relate to their stakeholders through published financial report which state the financial performance, progress, and position of the business (Ijeoma, 2014). Stakeholders of companies assesses the performance of managers through the information provided in the financial statement. Therefore, financial reports are very useful as they signify amongst others, the quality of management performance in a given period of time. Directors, quest to impress shareholders sometimes led them into account alchemy or smoothening of accounts just to portray impressive performance of their operations within a time period.

Accounting alchemy can be committed by changing the company's policy such as capitalizing costs rather than expensing. Capitalizing costs as assets delay the recognition of expenses and increases profit in the short term. A change in the accounting policy such as, first-in-first-out (FIFO), and last-in-first-out (LIFO). FIFO creates a lower cost of goods sold expenses and therefore, higher profit so the company can post higher net income in the current period. Sanusi (2010), reported that some banks engage in manipulation of their books by colluding with other banks to artificially enhance financial positions and by extension the stock prices, convert non-performing loans into commercial papers and bank acceptances so as to hide their losses. Smoothening of accounts is becoming a concern to many



researchers, especially after the case of Enron in the United State of America, and other similar accounting scandals in Nigeria particularly in deposit money banks such as the failure of Afrikbank Plc, Intercontinental Bank Plc, Bank PHB and Oceanic Bank Plc (Dibia & Onwuchekwa, 2014; Alzoubi, 2016; Saidu, Ibrahim & Muktar, 2017). This study therefore, seeks to examine the effect of Accounting Alchemy on the performance of money deposit banks in Nigeria.

2. LITERATURE REVIEW

Conceptual Clarification

Accounting Alchemy

Accounting alchemy refers to the use of accounting knowledge to influence the reported figures, while remaining within the jurisdiction of accounting rules and laws, so that instead of showing the actual performance or position of the company, they reflect what the management want to tell the shareholders. It is a purposeful intervention in the external financial reporting process with the intent of obtaining some exclusive gain. Accounting alchemy consists of accounting practices that follow required laws and regulations, but deviate from what those standards intends to accomplish. Accounting alchemy is also referred to as income smoothing, financial statement management, the number game, Reengineering the income statement, Juggling the book, financial statement manipulation, banking income for the future, earnings smoothing, cosmetic accounting and accounting magic. It is a manipulated means of misleading the stakeholders especially about an entity's performance and profitability. Companies and Banks could carry out various ugly means to achieve their aims. According to Sanusi (2010), some banks engages in manipulation of their books by colluding with other banks to artificially enhance financial positions and therefore stock prices, convert non-performing loans into commercial papers and bank acceptances so as to hide their losses. This shows the extent to which some banks could go on accounting alchemy.

Loan loss provisions

Loan loss provision is an income statement expense set aside as an allowance for uncollected loans and loan payments. This provision is used to cover different kinds of loan losses such as non-performing loans, customer bankruptcy, and renegotiated loans that incur lower-than-previously-estimated payments. Loan loss



provisions help banks manage their cash flows when a loan turns bad – and they can be great indicators not only of a bank’s financial health, but also that of the economy overall. One of the ways banks make money is off the interest payments and expenses they receive from the loans they give out. If those loans are not repaid or the interest payments are not as high as expected, the banks’ earnings can take a hit. To mitigate those losses, banks will make loan loss provisions.

Financial Performance

Financial performance is a measure of an organization’s earnings, profits, appreciation in value as evidenced by the increase in the entity’s worthiness (Asimokopoulos, Samitas & Papadugonas, 2009). Firm’s performance is a subjective measure of how well a company utilized its asset in carrying out its operations in order to earn income over a given period of time. A lot of proxies can be used to measure performance; Return on asset (ROA)- this is an important ratio that shows the profitability of a firm. It is a ratio that relates firm’s income to its total assets. This ratio measures the ability of the firm to generate income by using the firm assets. Thus, this ratio indicates how efficiently the assets of the company are employed to generate income. Wen (2010) indicates that the higher the return on asset (ROA) ratio the more effective the firm is using its own resources.

Empirical Literature

Kabiru & Aliyu (2019) examined the impact of income smoothing on the financial performance of listed deposit money banks in Nigeria. Data were extracted from the annual report and accounts of eight (8) sampled banks for the period 2012-2017. Loan loss provision was used as a proxy for income smoothing while return on assets (ROA) and return on equity (ROE) were used as a dimension for profitability to proxy banks financial performance. The study employed ordinary least square for data analysis. Findings from the study revealed that income smoothing (LLP) have negative and insignificant impacts on financial performance (ROA, ROE) of DMBs in Nigeria. They recommended that deposit money banks in Nigeria should operate in a low risky environment and should have expertise to control their lending. This is because deposit money banks that operate in riskier environments and lack the expertise to control their lending operations, will probably result in a higher loan-loss provision ratio to cover this risk.



Okeye and Nwobi (2019) scrutinized the effect of Earnings Management on Bankruptcy Risk among Deposit Money Banks listed on the Nigerian Stock Exchange (NSE). The specific objectives were to: ascertain the effect of Income Smoothing on Bankruptcy Risk of listed Deposit Money Banks on Nigerian Stock Exchange; determine the effect of Executive Compensation on Bankruptcy Risk of listed Deposit Money Banks on Nigerian Stock Exchange and ascertain the effect of Tax Planning on Bankruptcy Risk of listed Deposit Money Banks on Nigerian Stock Exchange. The study used Ex Post Facto Research design. Data were collected from fourteen (14) sampled listed Deposit Money Banks in Nigeria. The data collected were analyzed and tested using regression analysis with E-view 9.0. The result showed a significant effect of Income Smoothing on Bankruptcy Risk of listed Deposit Money Banks on Nigeria Stock Exchange (NSE). While Executive Compensation and Tax Planning has significant effect on bankruptcy risk of listed deposit money Banks on Nigeria Stock Exchange (NSE). The study recommended among others that listed Deposit Money Banks (DMBs) should adopt executive directors' cash and stock-options compensation plan that are concomitant with long-run organizational performance and should not be based on short-term earnings declarations. Also, policy makers should provide adequate regulations on the specific metrics for the determination of directors' remunerations and emoluments/bonuses of listed companies in Nigeria.

Olotu, Salawu, Adegbe & Akinwunmi (2019) examined the relationship between earnings management and performance of quoted manufacturing companies in Nigeria. A sample of 56 companies that remained continuously listed on the NSE during the study period and that also possess usable data were purposively drawn. The study used secondary data sourced from NSE and annual reports of the companies under consideration. Data were analyzed using descriptive and inferential (Correlation and Multiple regression) statistics. The results revealed that of the three performance measures employed in the study, only inventory turnover (IT) is influenced jointly by AEM and REM 2 moderated by firms' characteristics. The study concluded that earnings management shows no evidence of enhancing the performance of Nigerian quoted manufacturing companies. They recommended that each firm should entrench as part of its process, procedure that guarantee fundamental principles of integrity, objectivity, confidentiality, independence and professional competence and due care as well as due professional behavior within the rank and file of the Organization.



Ahmad (2018) Investigated earnings management through discretionary accruals in pre and post period of convergence of IFRS and analyzed its impact on the firm value in Indonesian banking industry. Data were analyzed using the non-parametric Wilcoxon Signed Ranks and the multiple regression. The result found that accrual earnings management has no mean difference in pre and post period of convergence of IFRS. Musa and Muhammad (2018) interpolate the effect of loan loss provision on earnings management of listed DMBs in Nigeria. Using Chang, Shen and Fang (2008) model. Methodology: Earnings management variables comprises loan loss provision, total assets, loan charge off and beginning balance of loan loss. The population of the study consisted of 15 listed DMBs in Nigeria as at 2015. Annual reports were used to obtain data and accounts of banks which covers the period from 2008-2015. Panel regression technique was adopted and Stata 13 was used as tool of data analysis. The findings revealed that, all the variables (loan loss provision, total assets, loan charge off and beginning balance of loan loss) have significant effect on discretionary loan loss provision of the banks.

Okafor, Ezeagba and Onyali (2018) considered the effect of Earnings Management on Performance of Corporate Organizations in Nigeria. In order to achieve the purpose of their study, a total of 17 firms quoted in the Nigerian stock exchange market under the consumer goods sector were selected and analyzed. The data for the study were extracted from corporate annual reports and accounts of selected firms for the period 2010-2014. The study adopted Jones model, Earnings management was measured by non-discretionary accruals obtained from modified Jones model and firm's performance estimated by return on shareholders' fund (ROSF), return on capital employed (ROCE), net profit after tax (PAT) and return on assets (ROA). Four research hypotheses were formulated for the study. The study adopted simple regression techniques for analysis with the aid of Statistical Package for Social Sciences (SPSS) version 20. They found that earnings management has negative, but insignificant effect on the performance of corporate firms. Consequent upon this study, it was recommended that further research should be carried out on earnings management as it affects the performance of corporate firms in the entire sectors of the economy to ascertain the major areas where it significantly affects performance of firms.

Mohammed and Bassam (2017) assessed whether earnings management affects banks' current and future performance. They analyzed the relationship between



discretionary loan loss provision and both return on assets (ROA) and return on equity (ROE). Using a sample consists of 477 bank-year observations that representing 55 European banks over the period from 2001 to 2015, they provided new evidence that European banks with high levels of earnings management that occurs via discretionary loan loss provision experience inferior performance (measured via ROA and ROE) in the current and subsequent years. Results showed that negative impact of earnings management (which takes place in a specific year) feeds through into the following years. The results of the analysis emphasis the important implication to many interested parties across the European Union such as regulators, investors, audit firms, and standards setters who aim to improve the financial reporting quality in the banking industry.

Atu, Enegebe and Atu (2016) investigated the determinants of earnings management using selected quoted companies in Nigeria. Cross-sectional research design was adopted with an extensive reliance on secondary data from the financial statement of quoted company's annual report. The study recorded the existence of negative significant relationship between board size, audit firm type and earnings management in addition. The study also found the existence of a non-significant relationship between firm size, ROA and earnings management. It was recommended that companies should consider the need to increase their board independence. Again, companies must ensure that the auditors' they engage are credible and have a track record of delivering reports that show the actual state of affairs of a company.

Dabor and Ibadin (2013) ascertained the determinants of earnings management and evaluated their implications in the banking industry. The study covered a period of 2005-2010. There were a total of twenty-three banks quoted on the stock exchange within the period. The study selected a sample of all eighteen of the banks quoted on the Stock exchange as at 2010. Pearson Product Moment Correlation was used to identify the determinants of earnings management. The results showed that audit committee size (AUDCOM), audit fee (AUDFEE), bank asset quality (BANKQUA), bank size and board size (BSIZE) were all negatively correlated with abnormal loan loss provisions (ABBL). Other variables including auditor change (AUDCH), bank complexity (BANKCOMP), bank performance (BANKPER), board composition (BCOMP), director shareholding (DSHAR), and bank leverage (LEV) were positively correlated. The study recommended that audit



committee size should be increased, bank inspector should focus on asset quality and leverage of the bank, and both bank size and board size should be increased.

Theoretical Framework

Agency Theory

Separation of ownership and control leads to potential conflicts of interest between both parties. This may be because the parties may have different goals, and the managers may not act on behalf of the best interests of the shareholders (Jenson & Meckling, 1976). Agency theory has its origins in the risk-sharing problem resulting from situations where co-operating parties have different viewpoints towards risks. This risk distribution problem is extended to contracting parties under the agency theory. The agency theory addresses agency associations in which one party called the principal gives work to another called the agent. The agency theory aims at resolving the agency problem and the risk sharing problem. The agency problem arises because in an agency arrangement the goal of the principal is at variance with that of the agent, and it is difficult or costly for the principal to monitor the activities of the agent.

On the other hand, the risk-sharing problem occurs because the agent and the principal have different risk attitudes, and they will therefore act differently when faced with same risk. To resolve these conflicts, the agency theory proposes a contract that will lead to a goal congruence between principal and agent. From an agency theory viewpoint, accounting alchemy is cunning. The dichotomy between owners and managers creates moral hazard and adverse selection challenges. These situations motivate managers to engage in accounting alchemy. Furthermore, agency theory is being selected because it shows the relationship between the managers and the owners (shareholders) and other stakeholders. In an attempt to please the owners and also to show their efficiency in managing the owner's resources they tend to engage in accounting alchemy practices or account smoothening.

3. METHODOLOGY

Ex-post facto research design was used for this study, the ex-post facto research design was adopted to examine the relationship between accounting alchemy and financial performance of deposit money banks in Nigeria. The research design is



appropriate as it allows for the determination of the relationship between accounting alchemy and financial performance. The population comprises of all the twenty-four (24) listed deposit money banks in Nigeria on the floor of the stock exchange as at 31thDecember 2019. A total of Thirteen (13) deposit money banks were selected using Judgmental sampling techniques based on assets of the banks within the periods of 2005 to 2019. The pooled data covers the period of Fifteen years (2005-2019). Banks with regular annual report and account were selected for the study period. This is because the bank without consistent financial report covering the period under consideration will invalidate the findings of the study. According to Kabir (2002) banks without regular financial report will distort the conclusion of the research if selected as part of the sample. Also, banks were selected based on availability of the required data for the study. After the application of the above filter, only banks with data for the period were included in the sample and these comprises the following banks: Access bank plc., Fidelity bank plc., First city monument bank, first bank Nigeria ltd, Guaranty trust bank plc., Union bank of Nigeria plc., United bank of Africa plc., Zenith bank plc., Sterling bank plc., Wema bank plc., Stanbic Ibtc holding, Eco bank plc and unity bank plc.

A simple model was employed to determine Accounting Alchemy practice on the Performance of Deposit Money banks in Nigeria. This study used Loan Loss Provision as a proxy for accounting alchemy and return on assets as proxy for performance. The quality of Accounting Alchemy could be estimated as a function of the firm's agency characteristics, which have been defined in this study as loans loss provision. This is expressed as $EM = f(LLP)$. The panel data regressions that are used to estimate the relationship are as follows: $ROA = \alpha_0 + \alpha_1 DAC + \alpha_2 SIZE + \alpha_3 AGE + e$ as adopted from the work of James (2009) but was modified in this study because of the fact that the sector under consideration is deposit money banks which differ from the sector studied by (James, 2009). The modified model is therefore as follows: $ROA = \alpha_0 + \alpha_1 LLP + \alpha_2 BANK-SIZE + \alpha_3 BANK-AGE + e$.

Model specification

$$ROA = \alpha_0 + \alpha_1 LLP + \alpha_2 BANK-SIZE + \alpha_3 BANK-AGE + e$$

Where:

ROA = return on asset.



LLP = an income statement expense set aside as an allowance for uncollected loans and loan payments.

BK-SIZE = bank size is measured by natural logarithm of the value of total assets.

BK-AGE = bank age is measured by natural logarithm of number of years since the listing of the bank on Nigeria stock exchange to the observation date.

α_1 = Parameters to be estimated (is the average amount the dependent variable increases when the independent increases by one unit).

e = an error terms assumed to satisfy the standard regression assumption.

4. DATA ANALYSIS AND DISCUSSION OF FINDINGS

Descriptive Analysis

The analysis of descriptive statistics has been performed so as to find out the properties of the data. Table 4.1 shows the data characteristics including total number of observations, means, standard deviation, Jarque-Beta statistics and their respective minimum and maximum values of deposit money banks in Nigeria listed on the deposit banks in Nigeria.

Table 1
Descriptive Statistic for Dependent and Independent Variables

	LLP	BK-AGE	BK-SIZE	ROA
Mean	-0.110697	30.69231	8.943735	0.018984
Median	-0.245880	28.00000	9.003960	0.015081
Maximum	3.252439	59.00000	9.935600	0.371897
Minimum	-2.814330	15.00000	7.329230	-0.253118
Std. Dev.	0.588918	11.12755	0.522520	0.053918
Skewness	0.723265	0.918665	-0.309741	1.683895
Kurtosis	10.57941	2.887153	2.718135	21.74081
Jarque-Bera	483.7612	27.53167	3.763539	2945.800
Probability	0.000000	0.000001	0.152320	0.000000
Observations	195	195	195	195

Source: Researchers' compilation (2021)



Table 1 shows the descriptive statistics for the variables and as observed, the mean for loan loss provision (LLP) estimated using the discretionary loan loss (DLLP) model stood at -0.111 with maximum and minimum values of 3.252 and -2.8143 respectively and a standard deviation of 0.570. The value for skewness shows that the distribution is positively skewed at 0.7232. The mean for bank size (BK-SIZE) as measured using the log of total assets is 8.94, with a standard deviation of 0.522 and maximum and minimum values of 9.93 and 7.329 respectively. The value for skewness shows that the distribution is negatively skewed at -0.309. The mean for bank age (BK-AGE) for banks in the sample stood at approximately 31yrs with a standard deviation of 11.1275. The maximum and minimum values stood at 59yrs and 15yrs respectively. The value for skewness shows that the distribution is positively skewed at 0.918. The mean for return on asset (ROA) stood at 0.0189 with maximum and minimum values of 0.372 and -0.253 respectively. The value for skewness shows that the distribution is positively skewed at 1.683. The Jacquebera statistics of all of the variables have p-values less than 0.05 and thus suggests that the dominance of outliers in the estimations are unlikely.

Pearson Correlation Statistics

The correlation results provide some preliminary insight into the nature and direction of the relationship between the dependent and independent variables. Though the correlation coefficient does not in itself imply functional dependence between the variables, it nevertheless, is a good starting point to examine the degree and direction of relationship between the variables. The results are presented and discussed below:

Table 2
Pearson Correlation Statistics

Probability	LLP	BK-AGE	BK-SIZE	ROA
LLP	1			
BK-AGE	-0.0843	1		
P-value	0.2413			
BK-SIZE	-0.0671	0.265	1	
p-value	0.3510	0.000		
ROA	-0.0009	-0.1440	-0.0237	1
p-value	0.9898	0.0445	0.742	

Source: Researchers' compilation (2021)



The correlation statistics gives an indication of the direction and magnitude of relationships between the variables. Positive correlations indicate that increase in one variable is associated with increases in the other and vice-versa. The Pearson correlation results show the correlations between return on asset(ROA) which is the dependent variable and the independent variables in the study. The results reveal that return on asset (ROA) is negatively correlated with loan loss provision (LLP) ($r = -0.0009$) though not significant at 5% ($p = 0.9898$), negatively correlated with bank age(BK-AGE) ($r = -0.1440$) though at 5% ($p = 0.0445$) and also negatively correlated with bank size(BK-SIZE)($r = -0.0237$) but not significant at 5% ($p = 0.742$).

Multicollinearity Analysis

Multicollinearity among the independent variables implies that they are perfectly correlated. If there exists perfect correlation between the independent variables, the parameter coefficients will be indeterminate. It is worth noting that accounting variables are influenced once the variables then show the same broad pattern of behavior over time. In the presence of multicollinearity, there will be large standard errors of the estimated coefficients. In this study, the variance inflation factor test is constructed to test for multicollinearity. The result is presented below;

Table3
Variance Inflation Factor Test

Variable	VIF
LLP	1.348595
BK-AGE	1.272032
BK-SIZE	1.153696

Source: Researchers' compilation (2021)

Before proceeding to conduct the regression, the test for multicollinearity between the variables is conducted using the variance inflation factor (VIF). Basically, the VIF explains how much of the variance of a coefficient estimate of a regressor has been inflated, as a result of collinearity with the other regressors. Essentially, VIFs above 10 are seen as a cause of concern as observed, none of the variables have



VIF's values more than 10 and hence none gave serious indication of multicollinearity.

Panel Regressions

The focus of the study is to examine the impact of accounting alchemy on financial performance of listed banks in Nigeria. The study utilizes the Panel regression and difference in difference analysis. The results are presented below;

Table 4
Regression Result

	Aprori sign	Fixed effects Estimates	Random effects estimates
C		0.04659 (0.0262) {0.0769}	0.02711 (0.0668) {0.6855}
LLP	+	-0.0023 (0.0019) {0.2264}	0.00114 (0.0066) {0.8628}
BK-AGE	+	0.00061 (0.0004) {0.1311}	-0.0007* (0.0004) {0.0473}
BK-SIZE	+	-0.0057 (0.0039) {0.1532}	0.00156 (0.0076) {0.8399}
Ar(1)		0.02922 {0.02456} {0.2360}	
Model Parameters			
R ²		0.567	0.0211
Adjusted R ²		0.506	0.0057
F-statistic		5.992	1.374
Prob(F-stat)		0.000	0.251
Durbin-Watson		1.99	1.416
Model Diagnostics			
χ^2_{Hetero} $\chi^2_{\text{Serial/Corr}}$	0.621 0.095	$\chi^2_{\text{Ramsey-Reset}}$ χ^2_{Hausman}	0.725 11.526(0.022)

Source: Researchers' compilation (2021) using Eviews 10. * sig @10%, ** sig @ 5% *** sig @ 1% Standard error; p-values.



Table 4 shows the regression results examining the impact of financial alchemy measured using discretionary loan loss estimates alongside bank age and bank size on financial performance of listed banks in Nigeria. The model diagnostics reveal that the χ^2_{Hausman} statistic (11.526) and p-value (0.022) indicates that the fixed effects model estimation is the appropriate estimation for the model indicating the existence of significant correlations between firm's specific disturbances and the beta's hence the R^2 and Adj R^2 stood at 56.7% and 50.6% respectively. The F-stat of 5.992 (p-value = 0.00) which is significant at 1% and suggest that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected. It is also indicative of the joint statistical significance of the model. The estimations reveal that loan loss provision (LLP) has a negative effect on return on asset (ROA) though not significant at 5% (-0.0023, p=0.2264) bank age (BK-AGE) has a positive coefficient (0.00061) though not significant (p=0.1311) at 5%. Bank size (BK-SIZE) show evidence of a negative coefficient of -0.0057 indicating a negative effect on return on asset(ROA) which though is not significant (p=0.1532) at 5%. The χ^2_{Hetero} p-value (0.621) implies the homoscedastic behaviour of the errors and the $\chi^2_{\text{Serial/Corr}}$ p-value (0.095) also reveals the absence of serial correlation. In addition, $\chi^2_{\text{ramsey-reset}}$ (0.725) reveals that the series follow a normal distribution.

Distributional dynamics using Quantile Regressions

The usefulness of the quantile regression technique is that unlike the panel regression which does not show the effect of an independent variable on different level of the dependent but is regarded as a mean regression, the quantile regression parameter estimates the change in a specified quantile of the response variable. The conditional quantile regression traces the entire distribution



Table 5
Quantile Regression Result

	Quantile	Coefficient	Std. Error	t-Statistic	Prob.
C	0.100	-0.325982	0.113233	-2.878871	0.0044
	0.200	-0.042519	0.035531	-1.196663	0.2329
	0.300	-0.015735	0.029439	-0.534505	0.5936
	0.400	0.001425	0.027040	0.052707	0.9580
	0.500	-0.012284	0.027327	-0.449518	0.6536
	0.600	0.004419	0.027296	0.161887	0.8716
	0.700	0.017180	0.029468	0.583008	0.5606
	0.800	0.051652	0.045678	1.130786	0.2596
	0.900	0.178116	0.060654	2.936605	0.0037
LLP	0.100	0.009086	0.004898	1.854856	0.0652
	0.200	-0.003433	0.004585	-0.748722	0.4549
	0.300	-0.002496	0.003682	-0.677819	0.4987
	0.400	-0.000956	0.002365	-0.404499	0.6863
	0.500	-0.003299	0.001966	-1.677584	0.0951
	0.600	-0.002447	0.001530	-1.598891	0.1115
	0.700	-0.002310	0.001489	-1.551283	0.1225
	0.800	0.001728	0.003063	0.564000	0.5734
	0.900	-0.002564	0.008541	-0.300234	0.7643

Source: Researchers' compilation (2021).

As observed, using the distributional dynamics provided by quantile regression, we examine of the effect of financial alchemy will depend on profitability quantile of the firm such that probably firms in the high profitability quantile may show evidence of significant effects of alchemy than those in low quantile regions. From our evaluation of the results, the study finds that for firms at high levels above average return on asset(ROA)at Q[0.1], (p=0.0652), Q[0.2], (p=0.4549), Q[0.3], (p=0.4987) and Q[0.4], (p=0.6863), the p-values are all not significant at 5%. The effect of loan loss provision (LLP)is also not significant at 5% for firms at average quantile classification levels; Q[0.5] and even below average quantile levels Q[0.6], (P=0.1115), Q[0.7] (p=0.1225), Q[0.8] (p=0.5734) and Q[0.9] (p=0.7643). The



finding thus highlights that in spite the level of financial performance, the effect of loan loss provision (LLP) may not necessarily be a function of the return on asset (ROA). Therefore, whether banks have relatively high, average or low return on asset (ROA), the effect of loan loss provision (LLP) is not significant.

Test of Hypothesis

H0₁: Loan loss provision has no significant impact on return on asset of listed deposit money banks in Nigeria. As shown in the regression table hypothesis one is accepted because loan loss provision has a negative effect on return on asset which though is not significant with a coefficient of -0.0023 and a p-value of 0.2264 at 5%.

H0₂: Bank size does not have any significant effect on the return on asset of listed deposit money banks in Nigeria. Hypothesis two is accepted because bank size show evidence of a negative effect on return on asset which though is not significant with a coefficient of -0.00057 and p-value of 0.1532 at 5%.

H0₃: Bank age does not significantly influence the return on asset of listed deposit money banks in Nigeria. Hypothesis three is also accepted though bank age has a positive coefficient 0.00061 though not significant p-value 0.1311 at 5%.

Discussion of Findings

The results of the study reveal that both the panel regression and the distributional dynamics from quantile regression are in agreement. This implies that both estimation results provide evidence that accounting alchemy has no significant impact on profitability of listed Nigerian banks. In addition, the finding thus highlights that the effect of loan loss provision may not necessarily be a function of the Return on asset. Therefore, whether banks have relatively high, average or low return on asset (ROA), the effect of loan loss provision {LLP} is not significant. Our finding is in tandem with Kabiru & Aliyu (2019) findings from the study revealed that income smoothing (LLP) have negative and insignificant impacts on financial performance (ROA, ROE) of DMBs in Nigeria. Okeye & Nwobi (2019) scrutinized the effect of Earnings Management on Bankruptcy Risk among Deposit Money Banks listed on the Nigerian Stock Exchange (NSE). The result shows that there is no significant effect of Income Smoothing on Bankruptcy Risk of listed Deposit Money Banks on Nigeria Stock Exchange (NSE). Furthermore, Olotu, Salawu, Adegbe & Akinwunmi (2019) snooped the relationship between earnings



management and performance of quoted manufacturing companies in Nigeria. The study concluded that earnings management shows no evidence of enhancing the performance of Nigerian quoted manufacturing companies. Also, in line with our finding is that of Okafor, Ezeagba & Onyali (2018) which examined the effect of Earnings Management on Performance of Corporate Organizations in Nigeria. They found that earnings management has negative, but insignificant effect on the performance of corporate firms. Wasiu & Kehinde (2017) focus on the effect of earnings management on shareholders wealth maximization. The empirical results deposit that earnings management (discretionary accruals) has no significant effect on earnings per share.

Furthermore, our results are consistent with Mohammed & Bassam (2017) which assess whether earnings management affects banks' current and future performance. Results show that the negative impact of earnings management (which takes place in a specific year) feeds through into the following years. Hauwa, Ocheni & Jamila (2017) evaluate the impact of earnings management on the financial performance of listed deposit money banks in Nigeria. the study could not establish any statistically significant impact of earnings management on ROA. Uwalomwa, Uwuigbe & okerie (2015) revealed that while bank size and banks' corporate strategy have a significant positive impact on earnings management (proxied by discretionary accruals); on the other hand. Dabor & Ibadin (2013) ascertain the determinants of earnings management and evaluate their implications in the banking industry. The results showed that bank size was all negatively correlated with abnormal loan loss provisions (ABBL).

In contrast, to our findings, Ahmad (2018) investigated earnings management through discretionary accruals in pre and post period of convergence of IFRS and analyses its impact on the firm value in Indonesian banking industry. The research found that that income-decreasing pattern has a stronger impact on the increase of the firm value than income-increasing pattern. Adebimpe, Itoro & Daniel (2018) revealed that discretionary accruals exerted significant negative relationship on the returns on asset of deposit money banks in Nigeria in pre-International Financial Reporting Standards (IFRS) era.



5. CONCLUSION AND RECOMMENDATIONS

Conclusion

Accounting Alchemy is becoming an area of concern to many researchers, after the case of Enron in the United State of America, and other similar accounting scandals in Nigeria particularly in deposit money banks. As indicated earlier, accounting Alchemy is the use of accounting techniques to produce financial statements that present an overly positive view of a company's business activities and financial position, it also refers to an attempt by management to influence or manipulate reported earnings by using specific accounting methods. Stakeholders of companies assess the performance of managers through the information provided in the financial statement. The statements are very useful because they signify the quality of management performance in a given period of time. Hence, accounting Alchemy may be applied to mislead the owners of the company or investors by conducting garnished accounting, because sometimes manipulation of accounting figures is safe and does not violate Generally Accepted

Accounting Principles. The results of the study reveal that both the panel regression and the distributional dynamics from quantile regression are in agreement. This implies that both estimation results provide evidence that accounting alchemy has no significant impact on profitability of listed Nigerian banks. In addition, the finding thus highlights that the effect of loan loss provision may not necessarily be a function of the Return on asset. Therefore, whether banks have relatively high, average or low return on asset, the effect of loan loss provision is not significant. In addition, both bank age and bank size do not appear to be significant also in driving profitability in banks. The study concludes that there is need for effective regulation of banks to ensure transparency in reported earnings.

Recommendations

In the light of the study finding, the key recommendations are:

- i. The need for both external and internal monitoring of financial institutions in Nigeria.
- ii. Accounting alchemy especially in the post International Financial Reporting Standard (IFRS) regime may have put on more salient and not easily



- detectable approaches and hence the appropriate regulatory bodies need to ensure that banks financial reporting is transparent and far from misleading.
- iii. Regulatory policy should endeavor to include an amount that should be included in loan loss provision, because if no amount is been stipulated accounting alchemy will still be in place.
 - iv. Even though the relationship between the variables are not significant, proper and adequate measures should be put in place for the evaluation, examination, scrutinizing of financial statement of deposit money banks in Nigeria.

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