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The Impact Of Accounting Innovation On The Financial Efficiency Of Commercial Banks In The Iraqi Environment

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Abstract:

The study examined the impact of accounting innovation using earnings management as an independent variable on financial efficiency using return on equity as a dependent variable in commercial banks listed on the Iraq Stock Exchange. The study sample included 9 commercial banks listed on the Iraqi regular market out of 14 banks during the period 2014-2021. Regression models were used. And a model Kothari Return on equity, to test the impact of accounting innovation on the financial efficiency of commercial banks, the results of the statistical analysis in the study sample banks showed that the variables used in the regression model, namely earnings management, are negatively related to the return on equity, meaning that there is a negative impact of accounting innovation on the financial efficiency of commercial banks.

Introduction

The main objective of accounting is to assist in making sound investment decisions. To achieve this objective, accounting outputs, represented by financial reports of establishments, contain the necessary elements to measure the performance of establishments and determine the extent of risks to differentiate between available investment options. Recently, the concept of accounting creativity has become a matter of interest to accountants and auditors, as many establishments have resorted to using creative accounting methods through various accounting alternatives, through which the financial efficiency of establishments is affected. The use of these practices is reflected in the quality of financial reports and the presentation of an unreal picture, which in turn leads to misleading the users of these reports, which the establishment is required to present in a reliable manner, free of accounting creativity practices, which enhances the confidence of the users of these reports. These practices are manifested through the manipulation of the statement of financial position and the management of results through inconsistent accounting methods and policies, the capitalization of costs, and the misuse of the concept of relative importance to verify inaccuracy. Managers embrace accounting creativity as a tool to present accounting data in a way that attracts stakeholders rather than revealing the actual business position of the entity.

First: Research methodology:

1-1 Research problem: The spread and expansion of the use of accounting creativity methods to mislead users of financial statements leads to wrong decisions that can affect the reputation of establishments and their overall performance. Hence, the problem of the study is represented in posing the following question:

How does the use of accounting creativity negatively impact financial efficiency?

1-2 The importance of research It contributes to raising the awareness of decision-makers and investors of the risks of creative accounting in light of some establishment managements using its methods to change the financial reality of establishments, and to verify the reality of the banks in the research sample using creative accounting practices.

1-3 Research objectives: This research mainly aims to study the impact of accounting creativity on the efficiency of financial performance, using earnings management as an independent variable. The research addresses the following:

1- Explain common accounting creativity practices.
2- What is the impact of accounting creativity on financial efficiency?
3- Measuring the impact of these practices on financial efficiency indicators.
4- What is the relationship between accounting creativity or earnings management and financial efficiency?
5- Providing recommendations to limit or minimize its negative impact.

1-4 Research hypotheses:

There is an impact of creative accounting on the financial efficiency of commercial banks in the Iraqi environment.

SECOND: THE THEORETICAL FRAMEWORK

2-1 The concept of creative accounting:"A Creative accounting is a kind of deliberate act that management devotes by exploiting loopholes in accounting regulations to reduce the variance of earnings in order to make the financial statements look attractive to the users of the financial statements' or it is a way of manipulating the accounting numbers in a way that accountants exploit loopholes in accounting regulations that help them change the accounting numbers from their "real state" to a "fake state" (Godsday, 12: 2016 (. Or it is a set of procedures that managers use to present financial reports with the aim of misleading stakeholders about the company's financial performance or influencing contractual outcomes that depend on the numbers reported by the company.Ibtihalat al, 23:2022).The concept of creative accounting is usually used to describe the process by which professional accountants use their knowledge of accounting principles and standards to manipulate the figures included in the annual accounts and balance sheets with the aim of beautifying the picture of the financial position and economic performance. (Kanat al-Akhbar, 51:2022)

2-2 Motives for creative accounting: To fully understand the concept of creative accounting, it is important to understand the motivations and incentives that initially lead to its use. (Aneta, 2:2019) The main motives that drive managers to engage in such manipulations are to increase their bonus levels, convince lenders to grant the company loans, or overstate its assets on the balance sheet in the event of a sale. Another common motive for manipulating earnings is to reduce profit levels, thus reducing tax liabilities. The most common creative accounting method is to reduce the monthly depreciation charges of an asset by unreasonably extending its productive life, increasing the residual value, or increasing the residual value of the asset again to reduce the periodic depreciation charges or reduce the periodic accrual charges for bad debt provisions (Ivan, 329:2020).

Companies can also achieve benefits for themselves and their stakeholders. They can help maintain a stable or rising stock market price by reducing the company's risks, which helps it generate new capital.(Jonida, 330:2017)

2-3 Pros and cons of creative accounting: Financial statement preparers practice creative accounting to improve a company's financial performance, and in this way they can in some cases avoid huge losses or the risk of bankruptcy. However, this action may harm the institution, company or investor with whom the company is dealing.'Hendro,1025:2022)

Creative accounting helps maintain or raise a stock's price, either by reducing apparent borrowing levels, making the company appear less risky, or by creating the impression that the earnings trend is good. This helps the company raise capital. If board members engage in "insider dealing" in their company's shares, they can use creative accounting to delay the release of information to the market, enhancing their chances of benefiting from insider knowledge.Diana at al,174:2009) and the motivation behind applying creative accounting to companies is often (olaleKan,6:2022) is:

1- Lack of risks associated with selling used assets.

2- Obtaining and maintaining favorable credit terms, and meeting the criteria for obtaining and extending the loan.

3- Enhancing the company's access to financing that it would not have otherwise obtained.

4- Meeting the expectations of owners, banks and creditors.

5- The company's prices will increase when it is sold, merged or acquired.

6- Hiding financial risks, strengthening the company's position in the market, and maintaining the company's continuous economic growth.

2-4 The concept of financial efficiency: The concept of financial efficiency refers to the optimization - or non-optimization - of resources used to achieve specific results. In this sense, organizational efficiency is achieved by achieving maximum productivity with the resources used, or similarly by achieving a given level of productivity using the minimum number of resources. Therefore, efficiency analysis takes into account the problem of resource allocation, which is defined as the ability to combine inputs and outputs in optimal proportions, given prevailing prices, to minimize production costs. Efficiency-oriented management is essential for organizations seeking higher levels of competitiveness, because if financial performance is not measured and resources are not managed, there will be no improvement in results (2022).,29: Syed).

2-5Dimensions of financial efficiency. (2021) 160 Bhadrappa,

1- Operational efficiency is the ability of an organization to minimize unwanted resources and maximize the capabilities of assets to provide high-quality goods and services to customers.Ghosh, 253-236:2019 (
2- Allocative efficiency: the ability to allocate and direct financial resources towards the most profitable activities for companies by setting priorities, distributing resources, avoiding waste and achieving balance, to achieve maximum benefit from them.
3- Dynamic efficiency: the ability to adapt and respond to changes in the financial environment, whether economic, political, or technological, with the aim of enhancing the organization's ability to compete and achieve financial sustainability in a changing environment.

2-6 Financial Efficiency Indicators:

There are many different ways to measure financial performance, but all measures should be taken in aggregate. Among the financial performance indicators are:

PHILIP,(5:2013) (Alamro,33:2012)
1- Return on equity.
2- Return on assets.

3- Liquidity ratios.
4- Asset turnover ratio.
5- Profitability and leverage ratios.

Third: The practical aspect

MEASURING RESEARCH VARIABLES

3-1: Measuring Creative Accounting (Independent Variable)

Creative accounting will be measured through earnings management using the model.Kothari et al. (2005) as follows:

$$TACit / Ait\text{-}1 = \beta 1\ (1/ Ait\text{-}1) + \beta 2\ ((\Delta REVit\text{-}\Delta RECit) / Ait\text{-}1) + \beta 3\ (PPEit / Ait\text{-}1) + \beta 4\ ROAit + \varepsilon it$$

<u>**Since:**</u>

TACit: Total receivables of the company (i) during period (t).

Ait-1: Total assets of company (i) during period (t).

ΔREVit: The change in revenue for company (i) during periods (t) and (t-1).

ΔRECit: The change in receivables of company (i) during periods (t) and (t-1).

PPEit: Total property, plant and equipment of the company (i) during period (t).

ROAit: Return on assets of company (i) during period (t).

To measure discretionary accruals, non-discretionary accruals must be measured and then subtracted from the total accruals. In other words, discretionary accruals represent the standard residuals of the model (the unexplained part of the model), and are shown as follows:

$$DACit = TACit - NDACit$$

$$NDACit / Ait\text{-}1 = \beta 1\ (1/ Ait\text{-}1) + \beta 2\ ((\Delta REVit - \Delta RECit) / Ait\text{-}1) + \beta 3\ (PPEit / Ait\text{-}1) + \beta 4\ ROAit$$

<u>**Since:**</u>

DACit: Discretionary accruals of company (i) during period (t).

NDACit: Non-discretionary accruals of company (i) during period (t).

The table below shows the results of banks according to the scale used to measure creative accounting for the year 2014, as follows:

Table (1) Results of measuring creative accounting for banks, research sample for the year 2014

The result	Average discretionary benefits	Optional benefits	year	Bank name
Not practicing earnings management	0.133	0.089	2014	Al-Mansour
Not practicing earnings management		0.068	2014	Investment
Earnings Management Practice		0.183	2014	Sumer
Not practicing earnings management		0.038	2014	Baghdad
Not practicing earnings management		0.071	2014	Al-Ahly
Not practicing earnings management		0.028	2014	Gulf
Earnings Management Practice		0.177	2014	Mosul
Earnings Management Practice		0.265	2014	Union
Earnings Management Practice		0.274	2014	The Middle East

The table above shows that the banks (Sumer, Mosul, Al-Ittihad, and Middle East) practiced earnings management, as the value of their discretionary receivables was greater than the average discretionary receivables of banks for the year 2014, while the value of the discretionary receivables of the remaining banks was less than the average, and thus these banks are considered not to practice earnings management. Appendix No. (1) shows the remaining results for the remaining research years.

3-2: Measuring financial efficiency (dependent variable)

The return on equity (ROE) indicator will be used.ROE) to measure the financial efficiency of companies as follows:

ROE = Net Income After Tax / Shareholders' Equity

<u>**Since:**</u>

Net Income After Tax: Net profit after tax

Shareholders' Equity

Return on equity is interpreted based on its calculated value. If it is high, it indicates the company's ability to generate good returns, reflecting good financial efficiency. If it is low, it may be an indicator of weak financial efficiency. Applying the above equation to the data from the banks in the research sample yielded the following results:

Table (2) Results of measuring financial efficiency (return on equity)

Average	Al-Ahly	Union	Investment	Sumer	Baghdad	Mosul	Al-Mansour	The Middle East	Gulf	years
0.0519	0.0268	0.0525	0.1018	0.0076	0.0950	0.0069	0.0600	0.0117	0.1045	2014
0.0245	0.0088	-0.0028	0.0622	0.0137	0.0213	-0.0013	0.0684	0.0196	0.0307	2015
0.0364	0.0816	0.0001	0.0351	0.0141	0.0716	0.0133	0.0500	0.0432	0.0185	2016
0.0143	0.0104	0.0004	0.0141	0.0015	0.0221	0.0181	0.0511	-0.0021	0.0132	2017
0.0071	-0.0307	0.0003	0.0012	0.0034	0.0156	0.0097	0.0712	-0.0086	0.0019	2018
0.0114	0.0357	0.0062	0.0001	0.0037	0.0267	0.0127	0.0296	0.0003	-0.0128	2019
0.0205	0.0647	0.0032	0.0176	0.0040	0.0725	0.0054	0.0244	-0.0079	0.0000	2020
0.0243	0.0827	0.0038	0.0035	0.0043	0.0970	0.0137	0.0290	0.0011	-0.0166	2021
0.0238	0.0350	0.0080	0.0295	0.0065	0.0527	0.0098	0.0480	0.0072	0.0174	Average

Source: Prepared by the researcher

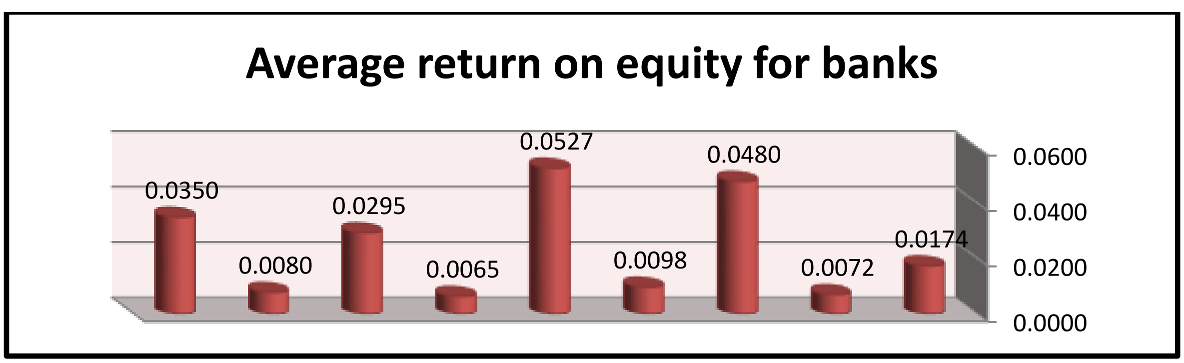

Figure (1) Average return on equity for the research sample banks

It is clear from the table ( ) and the figure ( ) that the highest average return on equity (ROE) for banks for the period (2014-2021) was for the Bank of Baghdad, which amounted to (0.0527), as the return on equity for the bank was good for most of the measurement period, especially in the year 2021, when it amounted to (0.0970).

The lowest average return on equity (ROE) was for Sumer Bank, as it reached (0.0065), which is a weak value compared to the rest of the banks, as the return on equity for the bank was low for most of the measurement period, as in 2017 it recorded (0.0015), which is a relatively weak value.

3-3 Testing the research hypothesis statistically and interpreting the results

Encoding search variables

To prepare the data appropriately for hypothesis testing, the variables will be coded and then entered into the approved statistical software, as follows:

Variable symbol	Variable type	Variable name	T
CA	independent	Creative accountingCreative Accounting	1
FE	continued	Financial efficiency (Financial Efficiency	2

Descriptive statistics

The following table summarizes the descriptive statistics for the data variables used in testing the research hypothesis.

Descriptive Statistics			
		CA	FE
N	Valid	72	72
	Missing	0	0
Mean		0.081652	0.023782
Std. Deviation		0.083295	0.030784
Minimum		0.001890	0.030687-
Maximum		0.504520	0.104478

From the table above it is clear that the number of observations for all variables reached (72), where the correct values indicate (Valid) to (72) views, while the missing values for all variables are equal to (0), meaning there is no missing or invalid data. The table also shows the mean, standard deviation, and the lowest and highest values for each of the research variables.

Research hypothesis: There is an impact of creative accounting on the financial efficiency of commercial banks in the Iraqi environment.

To test this hypothesis, the following linear regression model was formulated:

$$FEit = \beta 0 + \beta 1\ CAit + \varepsilon it$$

Because:-

β0 = The regression equation constant that represents the value of the dependent variable when the value of the independent variable is equal to zero.

β1 = slope of the regression and is used to measure the type and magnitude of the effect.

Ɛit = estimation errors (statistical residuals).

Using statistical softwareSPSS25 The results were as follows:

Model Summaryb				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.033a	0.001	-0.013	0.030985
a. Predictors: (Constant), CA				
b. Dependent Variable: FE				

The table above shows a summary of the model.Model Summary The correlation value (R) between the variables reached (0.033), which is an indication of the strength of the correlation relationship between the variables, as it is a positive correlation relationship equal to 3.3%, and the coefficient of determination (R Square) reached (0.001), and the table also shows the standard deviation of the estimation error (Std. Error of the Estimate) reached (0.030985) It represents a small number, as the lower the estimation error, the more accurate the results are.

ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.000	1	0.000	0.078	0.780b
	Residual	0.067	70	0.001		
	Total	0.067	71			
a. Dependent Variable: FE						
b. Predictors: (Constant), CA						

The above table shows the analysis of variance (ANOVA) The calculated value of (F) reached (0.078), which is smaller than its tabular value according to the degrees of freedom df (1.70), which is (3.98) at a significance level of 5%, and the level of significance of the test Sig reached (0.780), which is much larger than the value of the acceptable error in the social sciences, which was determined in advance by 0.05.

Coefficientsa						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.025	0.005		-4.301	0.001
	CA	-0.012	0.044	-0.033	-2.127	0.780
a. Dependent Variable: FE						

The table above shows the coefficients of the regression function.Coefficients The value of the regression equation constant 0β reached 0.025) which expresses the expected value of financial efficiency when the value of creative accounting (CA) equals zero, and the value of the slope of the regression equation 1β reached (-0.012) which shows the effect of the independent variable on the dependent variable (by the coefficient 0β), and the negative value of the coefficient 1β indicates that there is an inverse effect between the independent and dependent variables. In other words, any increase in the independent variable (creative accounting) by one degree leads to a decrease of 1.2% in the dependent variable (financial efficiency), and this means that the sample data provided convincing evidence to accept the research hypothesis.

CONCLUSION

A company's financial statements serve as an information base for internal and external users. Their primary function is to provide a truthful and accurate picture of the company's financial position, performance, and changes. Managers are responsible for disseminating this information and often tend to distort the data to suit their own needs. They strive to improve the company's public image. This study examined the impact of accounting creativity on financial efficiency in commercial banks in the Iraqi environment. The results indicated that the use of accounting creativity practices by banks negatively impacts their financial efficiency, as there is an inverse effect between the independent and dependent variables. In other words, any one-point increase in the independent variable (creative accounting) leads to a 1.2% decrease in the dependent variable (financial efficiency).One of the factors that lead to the use of (unethical) accounting creativity is the conflict of interests between managers and wealthy people. Several criteria were followed when selecting the databases to be reviewed, as more than 70% of the commercial banks listed in the regular market in the Iraqi environment were selected to conduct the tests and reach results. In conclusion, this study highlighted some important points regarding the impact of (unethical) accounting creativity on the financial efficiency of commercial banks, and this study constitutes a reference for future research on this problem.

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