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Abstract
This paper focused on the theory of financial accountability and how it has helped resolved income smoothing in financial reporting. Financial reporting is the medium through which managers give stewardship on the resources entrusted in their custody. Users of financial information depend heavily on this report to make informed economic decisions. Theory of accountability, agency theory, and stewardship theory and information asymmetry was considered. The exploratory research method was adopted by reviewing existing literatures and case study thereby drawing a conclusion. The study discovered that organizations employed income smoothening for various reasons to avoid earnings fluctuations and enhance organizations performance. This is however carried out with the involvement of managers. He either agrees to manipulate account for the shareholders or manipulate it against them. The study concluded that income smoothing is not illegal or unethical but must be carried out with care to avoid fraudulent practices that may harm the organization in the nearest future. Policies to improve the quality of financial information should be adopted in all organizations. The reward should not be based on the result but other factors should be critically considered. Strong internal control and monitoring should be in place to prevent actions that will be detrimental to the organizations in the nearest future.

Keywords: Financial accountability, income smoothing, financial reporting, Case study.

1.1 INTRODUCTION
Financial reporting is a medium in which managers give accountability of the resources entrusted to his care. If there was no financial reporting it would have been very difficult to know what exactly is happening in organizations, so there is the need to prepare a financial report. According to Nwanyanwu (2013), financial reporting has to do with the presenting financial statement in a way that users of financial information will comprehend. The financial report is prepared in accordance with the rules and regulations on the activities carried out during the year. The report may include the report on the financial position, performance and cash flow of the organization. Users of financial information depend heavily on this report to make informed economic decisions. However, managers tend to report on information that will, in turn, favour them this is where income smoothing comes in. Users of financial information may take a wrong decision if the information available to them is faulty and wrong.

Income smoothing has been an interesting research area in accounting over the years. Income smoothing is the situation whereby management reports artificial income. The desire to have outstanding performance in any organization is natural but the problem is the means of attaining such goals. There are, however, motivation to income smoothing and this may be due to obtaining some personal gains. Income smoothing may start in a small way with little adjustment in earnings in order to improve the total result of an organization. Smoothing of income may be carried out during bad and good times in any organization. According to Renon and Sadan (2005), most studies are of the opinion that practices of income smoothing is immoral, cheating and misleading. Corporate scandals, corruption and fraud have negatively impacted accounting practices thus questioning the accountability and practices in organizations. Accountability and stewardship go hand in hand and on the other hand, transparency is important when considering accountability. In the preparation of account, managers are to ensure it shows the true position of the affairs of the organization so as not to give misleading information of the financial position of their affairs. The cases of Cadbury and other financial institutions involving intercontinental bank Plc, Oceanic bank Plc and Afribank Plc, Bank PHB and Spring bank who manipulated their financial statement thus misleading the various users of their respective information brought about questions on the theory of accountability.

The objective of this paper is to study the theory of financial accountability cum positive accounting theory as well as resolve income smoothing in financial reporting. The study examined financial accountability on financial reporting, various forms and reasons why organizations practice income smoothing and how financial accountability proffers solution to income smoothing in organizations.
According to Nwanyanwu (2013), financial reporting is the way the financial statement is presented so that users will comprehend it. It is a means of giving accountability account to the users. In the involvement of management in income smoothing for whatever reason, one will wonder if they take into account their obligation in rendering a financial report with which users make informed economic decisions. Income smoothing is seen not to be unethical or illegal as it seems to take care of loopholes in reporting financial information of an organization. This may however not be so in the long run, that answers the question on why companies are in distress or may be struggling for survival.

1.2 LITERATURE REVIEW

Alayemi (2015) postulated that disclosure of accounting policy is very important in preparing and presenting financial statement. However, some preparers of financial statement due to selfish interest adopted accounting bases and policies known to be contrary to the principle of fairness, prudence and objectivity. This therefore, allows management and directors to create account that would be in their favour. Furthermore, Alayemi (2017) opined that the public accepts accounting information as gospel truth without taking into consideration the politics at play in the preparation and presentation of the financial statements. According to hypotheses of positive accounting theory the choice of accounting policies as regards preparation of financial statements there are certain factors such as bonus plan, debt covenant and political hypotheses that are being put into consideration. Hence, investors must critically examine accounting information and unravel the reason behind the accounting figures so as not to be victims of income smoothing.

Renon and Sadan (1981) stated that income smoothing can be carried out in three-way, the management can plan on events in which they have discretion or may time the recognition of such events, certain revenues or expenses may be allocated by management at different accounting periods such as the choices of depreciation and lastly, they may have the discretion to classify certain income items into various categories. Income smoothing is defined by Beidleman (1973) as an attempt of the firm's management to reduce abnormal variations in earnings to the extent allowed under sound accounting and management principles.

Earnings management as defined by Healy and Whalen (1999) is the situation that entails managers employ his judgment in the reporting of financial statement as well as ensuring reporting transactions in a way that enables him in altering the financial reports either to misinform the stakeholders about the actual performance of the company or influence the contractual outcome that depends on the accounting numbers that is reported. Earnings management could take the form of artificial in the increase or decrease profit of a company using aggressive tactics in accounting. Soumehsaraei and Jafarpour (2014) stated that income smoothing could be carried out in the form of either reduction of earnings which makes expected profit to be temporary high and incremental earnings thereby making profit less than expected or than that of the previous year.

Managers successfully have great influence on the stock price through income smoothing to achieve their aim of reward and job security. Profit of organizations often fluctuate which is not favourable to investors but the managers engage in activities that will indicate a stabilized profit thus manipulating the financial statement and deceiving investors. Managers smooth income to meet a bonus target or ensure the security of their jobs.

Herrman, Inoue and Thomas (2003) stated the reasons why managers carry out income smoothing as follows:

Increasing company shareholders value in the stock exchange thereby creating a change in the value of the company.
Reduce corporate risk thereby paying a lower rate of interest on borrowings and reduction in the cost of capital of the company.
Raising funds as stakeholders ‘investors and creditors’ belief that the risk on the investment risk is low thereby creating the desire for investment.
The relationships the between employees and that of raw material suppliers is strengthened and improved.
A form of incentive in tax
Contractual incentive such as ‘debt contract’ (extent of dependence on external funds), management bonus contracts (performance reward scheme).
Reduction of risks in the deportation and dismissal.
There are two users of financial information containing in the financial report. These include direct interest and indirect interest users. The direct interest users include owners, managers, employees, creditors, investors and tax authorities while indirect interest users include financial analyst, trade unions and associations. The objectives of financial reporting as identified by Adebayo (2005) includes the provision of useful information for making economic decisions in order to allocate resources, information for evaluating the stability and liquidity of organizations and performance generally. Financial reporting is useful in any organization as is a key factor determining the performance and economic decisions are made on its basis. The content of financial report may vary from organizations to organizations, this is so because of different financial information contained in it. Alexander & Britton (1999) thereby suggest that financial information should be relevant, understandable and
Managers are accountable to owners so as to justify the resources in their custody by reporting on financial information. They are responsible for any decision taken by them. Financial reporting plays a major role fulfilling the duty of the manager by being accountable on the financial affairs he presents. Managers demonstrate accountability through reporting by providing useful information in the financial statement which is audited by a set of auditors. Information about the state of affairs in the organization is necessary to assess the accountability of managers about an organization. The report shows how they have carried out their duties. Owners of the company need assurance that managers have exercised their special responsibilities to ensure resources are judiciously used accordingly.

Beidleman (1993); Barnea, Ronen and Sadan (2005); Dascher and Malcolm (2004) in their study identified various tools used by organizations to smooth their income to include; changing accounting policies, incentives compensation, pension and retirement expenses, R & D costs, sales and advertising expenses, extraordinary items and others include dividend income and investment tax credit.

Income smoothing according to Itoh (2007) as ‘the equalization of income in each period to a certain level'. Copeland (1968) stated that organizations often experience fluctuations in income and thereby devise means to maximize its utility by engaging in income smoothing. When the performance of business tends to be favourable the managers reduce income and create income when business performance is unfavourable. Some factors have been seen as motivators of income smoothing which may include compensation in monetary terms, the reputation of management and job security etc. According to Ronen and Sadan (1981), investors tend to rate the performance of firms with small fluctuations in earnings higher than those with larger fluctuations in their earnings which influences them to provide more capital for firms with smooth earnings flow.

There are several ways managers usually engage in income smoothing. Itoh (2007) considered technical accounting policies and material accounting policies as classifying the framework of these methods. According to Itoh (2007), technical accounting policies involve the manipulation of accounting figures without changing the actual activities of an organization. The activities carried out in an organization remain the same but the figures are being altered. The managers only select a method that will be favourable to increase the earnings or as the case may be. For example, an instance where an organization is allowed to select from various accounting policies for the treatment of some items, the manager tends to select or change from one accounting policy to the other that will favour them in manipulating accounting figures.

According to Itoh (2007) material accounting policies is an indirect way of manipulating accounting figures with an indirect control over the accounting figures by controlling business activity vectors that form the basis for the figures. In this case, accounting figures are indirectly manipulated through increase or reduction in certain expenses. An example may be seen when organizations increase or reduce their expenditures on advertisements and publicity or restructuring its business. Income smoothing may eventually lead to fraudulent practices that may be concealed for a long time. This may greatly dampen the confidence of owners and financial statement users in the long run.

Corporate governance is a way that ensures activities carried out in an organization is fairly represented while achieving management goals, the interest of stakeholders is equally taken into cognizance. They are structures put in place supporting responsible financial reporting. Management is to ensure financial reporting is well represented and follows due process. The board of directors is to oversee the business and control environment. The audit committee is to oversee the processes in financial reporting, functions of internal and external auditors. Internal auditors are in charge of organization's internal control structures and external auditors are to be independent giving their opinion on the effectiveness of an organization's internal control over financial reporting.

Theory of Accountability

Management has primary responsibility in financial reporting and they are to ensure the financial statement is well represented. Accountability is derived from the word accountable and it confers responsibility on one. According to Leclerc, Moynagh, Boisclair and Hanson (1996) accountability is the obligation to render an account for responsibility conferred. At times accountability is being monitored while discharging responsibility as well as the notion of rewards and sanctions in discharging responsibility. People often do not want to own up their accountability especially if the outcome is negative. This has to do with the responsibility that comes as a result of one's action or behaviour. Responsibility brings obligation. Managers in giving accountability of financial reporting must consider not thinking of their good alone but the entire organization. They must know their limit of performing their duties so as to be aware when they are exceeding this limit. This will, in turn, prevent them from exceeding their boundaries thus protecting the entire organization. In terms of financial reporting, it has to do with the responsibility of the management of an organization for taking or not taking a
particular action that will then face the repercussion of their choice as financial reporting shows the accountability of management for the resources in their custody.

Accountability requires management of an organization to report and justify the financial information they render to the users of financial statements who in turn make informed economic decisions. Financial report tends to provide information on the performance of an organization over a period of time. To assess the accountability of a management, the earnings information is most suitable.

Theory of Stewardship

Stewardship theory posits that managers are accountable to the owners of resources in their custody, ensures efficiency, profitable use of the resources and ensure they are protected so as to enhance sustainability of business success. Cossin, Ong and Coughlan (2015) noted that stewardship entails the desire for working towards the sustainability of success of a business in the long run. To ensure sustainability, the financial report must be properly handled as it serves as a good means of the owners’ assessment of the management stewardship. It requires the review of past financial information so as to know the performance of managers at the present and to predict their future performance so as to enhance sustainability of the organization. This information helps in assessment of management competence, integrity and possibility of a constructive dialogue between management and owners. The manager is responsible for whatever method of accounting adopted and mandated by law to report on financial information of the organization to the owners on how he has managed resources entrusted to his care. They have a direct responsibility for financial information reporting. After reporting on the financial information in his custody, he may sometimes be asked for an explanation to account for his action in certain decisions. They will, in turn, communicate why they took a particular action and what exactly they have done. It is their responsibility to explain why particular information has gone beyond expectations. However, auditors equally look at the financial information prepared by managers to improve its credibility and are free to question the managers to account for their certain actions. Publishing of financial statement is also a way of strengthening managerial accountability.

Agency Theory

This theory examines the relationship between the principal and agent. Millichamp and Taylor (2008) defined agency as the name given to practice by which productive resources owned by one or group of persons are managed by another person or group of persons. The overseeing of business by a different party gave rise to agency theory and by nature, man is generally selfish wanting to satisfy himself before others. This results in the conflict of interest between the principal and agent. However, stewardship and accountability tend to resolve this problem. It tends to resolve conflict arising when ownership is different from management. The two problems it seeks to resolve is the conflict between agent and principal and difficulty arising for principal verifying what agents are doing. This theory addresses the divergence of interest between management and shareholders who are known to pursuing their self-interest. This theory prevents management from enriching themselves at the owners' expense.

Information Asymmetry Theory

This is when one party has more information than another, a situation creating imperfect knowledge. This can also be applicable to the agent having more and better information than the principal and tends to take advantage of this. Information asymmetry may lead to adverse selection or moral hazard. Akerlof (1970) refers to information asymmetry as ‘lemon problem’ where people having more information, take undue advantage of it to achieve some economic benefit. Financial reporting and appropriate disclosures tend to resolve the issues of information asymmetry between the agent and principal.

Empirical review

Beatty and Harris (1999); Beatty, Ke and Petroni (2002) finds that the nature of control of a company, its level of indebtedness coupled with listing and sizes as the main determinant of smoothing income. However, they never considered the effects of prudential and curative banking regulations in testing their variables. Taktak, Shabou and Dumontier (2010) concluded in their study using prudential and curative banking regulations that numerous banks intentionally smooth their earnings either by using loan loss provisions or selling trading securities. The banks participate more in real income smoothing than artificial income smoothing. Their propensity to smooth reported earnings lies in their exposure to prudential and curative constraints and on various institutional constraints.

Etemadi and Sepasi (2007) examined the relationship between income smoothing practices and firms value in Iran and concluded that smaller firms have a greater tendency to smooth income than larger firms. Ezeani, Ogbonna, Ezemoyih and Okonye (2012) in their study on the effect of creative accounting on the job performance of Accountants (auditors) in financial statement in Nigeria finds that managers in non-profit organizations may have incentives in manipulating their reported program- spending ratios as donors use them to determine contribution decision, manipulating these accounts hampers allocation of resources in most areas in the economy. Nejad, Zeynali and Alavi (2013) studied on the investigation of income smoothing on companies listed on the stock exchange using index Eckel, they tried a 9 year period 2001-2009 with a sample of 132
companies listed in Tehran stock exchange and found smoothing on three levels i.e. net profit, gross profit and operating profit.

Income smoothing is carried out in different ways by various organizations but the reason for attempting to smooth income remains the same. This is done to manage fluctuations in earnings because of its volatility and improve performance in organizations.

1.3 DISCUSSION

The case of Cadbury Nigeria Plc

The managing director of the company had connived with the board to use stock buy backs, cost deferrals, trade loading and false stock certificates to manipulating financial report since 2002. The year 2002 to September 30, 2006, had accumulated overstatement of N13.255 billion, Akintola Williams Deloitte (AWD) was their external auditors and carried out an interim audit to that period. In 2005, the company's account was credited with the sum of N7.7 billion without confirmation from any bank. AWD failed to include any note in 2005 audited account stating they did not receive any confirmation from the banks relating to the money for the balances recorded against such banks.

Income smoothing may be carried out for several reasons, however, this cannot happen without the manager's involvement. He either agrees to manipulate account for the shareholders or manipulate it against them. This is seen in the case of Cadbury Nigeria PLC. The managing director of Cadbury Nigeria Plc had connived with the board to use stock buy backs, cost deferrals, trade loading and false stock certificates to manipulating financial report since 2002. The managers connived with the board of Directors to tweak accounting figures while making millions. The theory of agency comes into play indicating the willingness of management to expropriate wealth for self-empowerment. This was done so as to increase the profit thus enhancing their performance. This was carried out for several years and eventually impacted negatively on the organization.

The financial distress that erupted from the distressed banks including Oceanic bank, Intercontinental bank, Afribank, Bank PHB, Finbank and Spring bank calls for great concerns in financial reporting. The banks were falsifying their report and carrying out cosmetic accounting. The non-performing loans in some banks were reported as performing loan thus giving a false figure in order to increase their performance. This practice has made banking industry once a booming industry now struggling to survive. The employees no longer have security in their job. Most people no longer want to take their careers in the industry. No matter the various means management take to smooth income, they may shift to fraudulent practices that may affect the organization in the nearest future.

There have been changes in accounting standards to reduce manipulation of accounts but people keep devising means of doing things. The introduction of IFRS may take care of the loopholes as several disclosures are required in the presentation of financial statement to avoid taking undue advantage in financial reporting.

Accountability confers the obligations on resources entrusted to management by shareholders. When management bears in mind that they are accountable for the financial information reported by them, then they will, in turn, be careful on how they smooth income. Accountability creates a responsibility attached to their behaviour whether positive or negative. When management reward is attached to their earnings performance they will be optimistic to smooth income so as to obtain a high reward in return. However, as they are cognizance of their obligation conferring responsibility on whatever action they take will caution to what extent they smooth income. Managers may smooth income implicitly due to their understanding that users of financial information may not have knowledge on earnings management. This may not always stand but even if not all the stakeholders understand, some may be aware or may one day get to know. Management may tend to deviate in their smoothening of income to fraudulent practices in the long run. Income smoothing prevents the efficiency and effectiveness of management from being evaluated in an organization.

Managers are accountable for whatever action they take which entails bearing the consequences whatever of their action which make them accept responsibility for their actions and in return the consequences thereof. Managers have the right to know the repercussion of involvement in income smoothing for certain gains whether positive or negative. Accountability requires management to prepare financial information on resources entrusted to them so as to know the position of the organization at a glance this is in form of report to owners of a company. The owners have the right of knowing how their resources are utilized. Managerial accountability involving decision-making should guide management on their conduct in carrying out their functions so as not to smooth income as much as possible. In carrying out their participatory role or oversight, this should be carried out with care and diligence. They are to perform their roles as expected and report accordingly avoiding anything that will affect their integrity.

1.4 Summary and Conclusions

Income smoothing has been carried out in organizations for several reasons. Income smoothing may tend not to
be unethical or illegal as it involves taking cognizance of the accounting policies but may impact negatively on organizations in the long run. Income smoothing may result in a positive or negative outcome in organizations but the timing should, however, be appropriate so as to avoid an outcome that is negative. Income smoothing may be carried out for several reasons, however, this has been seen not to happen without manager's involvement. The manager either agrees to manipulate account for the shareholders or manipulate it against them. Review of financial statement by auditors can help reduce the level of income smoothing practices that are detrimental to organizations. The shareholders should equally be active in their participation in the organization affairs especially at the various meeting they are privileged to attend.

We conclude that policies that will improve the quality of financial information in an organization thus boosting the integrity of financial reporting in organizations. The reward should not be based on the result but other factors should be critically considered. Strong internal control and monitoring should be in place to prevent actions that will be detrimental to the organizations in the nearest future. There should be a proper application of ethics and codes of corporate governance. Regulatory authorities should closely monitor and ensure compliance with all rules and regulations.

References


