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ADOPTION OF INNOVATIVE ACCOUNTING FOR EFFECTIVE ENTREPRENEURIAL PERFORMANCE AND SUSTAINABILITY IN DEVELOPING ECONOMIES

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A R T I C L E I N F O.

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Abstract:

This study investigates how innovative accounting approaches influence entrepreneurial performance and business sustainability in developing economies experiencing sustained inflation and economic instability. It assesses the value of innovative accounting, the independent variable, and its impact on entrepreneurial performance, the dependent variable. Adopting a quantitative approach, the study utilizes secondary data from twenty-two firms (15 manufacturing companies, 5 pharmaceutical firms and 2 privately owned banks) in Nigeria as samples from 2019 to 2024, using simulated firm-level financial indicators. The relationship between accounting practices and entrepreneurial performance is examined using regression analysis. The results indicate that,

under inflationary conditions, application of fair value and replacement cost methods improve the quality of financial information and supports more effective business decision-making that guarantee business sustainability. Consequently, this study recommends that, for better financial performance, entrepreneurs should integrate inflation-sensitive accounting practices to enhance reporting accuracy and strengthen entrepreneurial sustainability in developing economies.

Introduction.

Accounting serves as a critical information system that supports organizational planning, control, and strategic decision-making. Through the systematic recording and reporting of financial activities, it enables stakeholders to evaluate performance, allocate resources efficiently, and assess the financial position of firms. For decades, the historical cost accounting (HCA) model has remained dominant due to its verifiability and reliance on actual transaction values. Under this approach, financial elements are recorded based on their original purchase prices, which provides consistency but limits responsiveness to changing economic conditions.

Conditions such as persistent inflation, exchange rate fluctuations, and market inefficiencies weaken the assumption of a stable monetary unit upon which historical cost accounting is built. As a result, financial statements prepared under this model often fail to reflect current economic realities, reducing their usefulness for decision- making [1][2].

The IFRS Conceptual Framework emphasizes that financial information should be both relevant and faithfully represented to support user decisions [3]. However, in high-inflation environments, historical cost-based figures may not adequately meet these criteria because they do not reflect current purchasing power or market dynamics. Such distortions have practical consequences for entrepreneurs and business managers who depend on reliable financial data for decisions related to pricing, investment, and expansion. When financial reports fail to reflect actual economic conditions, firms risk making inefficient or unsustainable choices. Business decisions become fragile where prices shift literally on daily basis but accounting information for non-current assets is captured in historical costs. Without real-time

numbers in pricing and restocking to reflect the sensitivity of market dispositions per time, the accounting information may not assist effective decision making. Over time, this can weaken competitiveness and threaten long-term survival [4].

Innovative accounting approaches such as fair value accounting (FVA) and replacement cost accounting (RCA) are a response to these shortcomings and have gained attention. Fair value accounting adjusts asset and liability values to reflect current m arket conditions, while replacement cost accounting estimates the cost required to replace existing assets. Both approaches aim to produce more economically relevant information and improve the quality of financial reporting in volatile environments [5][6]. Thus, adoption of innovative accounting is no longer an option for survival by entrepreneurs in developing economies but a positive drive for sustainability and effective performance.

However, despite their potential advantages, the adoption of these methods in developing economies remains limited. Barriers such as regulatory constraints, insufficient technical expertise and implementation costs continue to hinder widespread use. This situation highlights the need for empirical analysis to determine how these innovative accounting approaches influence entrepreneurial performance and business sustainability.

This study therefore examines the extent to which fair value and replacement cost accounting contribute to improved entrepreneurial performance and sustainability in developing economies characterized by inflationary pressures.

1.0 Statement of the Problem

Sustained inflation remains a major challenge across many developing economies, particularly in Sub-Saharan Africa, where macroeconomic instability and currency depreciation are common. Countries such as Nigeria, Ghana, and Sierra Leone have experienced consistently high inflation rates between 2019 and 2024, raising concerns about the suitability of traditional accounting methods in such environments. [See NBS (NG) 2019-2025, GSB (GH) 2019-2025, BdS (SL) 2019-2025]. The historical cost accounting model, which assumes a stable currency value, becomes less effective when purchasing power declines rapidly. Under this condition, financial statements based on historical costs may no longer provide an accurate representation of firms' financial position.

The implications of such distortions are significant. Entrepreneurs rely on financial reports to guide decisions on investment, pricing strategies, and cost management. When the underlying data is not reflective of reality, decision-making becomes less effective, potentially leading to resource misallocation and reduced competitiveness.

This gap underscores the need to examine whether approaches such as fair value and replacement cost accounting can provide more reliable financial information and support business continuity in inflation-prone environments.

1.1 Objectives of the Study

The main objective of this study is to assess how innovative accounting practices influence entrepreneurial performance in developing economies.

The specific objectives are to:

1. Analyze the effect of fair value accounting on entrepreneurial performance
2. Evaluate the impact of replacement cost accounting on entrepreneurial performance.

1.2 Research Questions

1. How does fair value accounting influence entrepreneurial performance in developing economies?
2. What effect does replacement cost accounting have on entrepreneurial performance in developing economies?

1.3 Research Hypotheses

H_{01}: Fair value accounting does not significantly affect entrepreneurial performance in developing economies.

H_{02}: Replacement cost accounting does not significantly influence entrepreneurial performance in developing economies.

1.4 Significance of the Study

This study has far-reaching implications not only for entrepreneurship development in developing economies, but also the accounting profession as a whole. Current prescriptive guidelines advocated by accounting regulatory bodies viz-a-viz the historical cost concept would be subjected to further considerations in preparing financial statements in

developing economies. The pragmatic applicability of such non- flexible accounting frameworks under conditions of persistent inflation would be unearthed for possible reconsideration in the accounting profession.

2.0 Literature Review

2.1 Conceptual Framework

2.1.1 Innovative Accounting and entrepreneurial performance

Innovative accounting refers to creative approaches to financial reporting, measurement and analysis different from traditional accounting methods such as historical costing. It entails the use of fair value measurement and reporting which lead to sustainability of businesses in a continuously competitive environment.

The desire for accuracy in reporting to enhance entrepreneurial performance is met when innovative accounting is adopted because, information usefulness and relevance which are integral aspects of innovative accounting, are strategic in mitigating financial risks while aiding efficient resources allocation.

Landsman [7] presented evidence from capital markets where innovative accounting underscored the reliability and usefulness of accounting information, leading to better risk-management decisions that ensured business sustainability. Regulators of banking sectors in developing economies are aware of this and thus use fair values when making regulatory decision on capitalization or recapitalization to strengthen the banking sector in terms of improving capital bases for operators.

2.1.2 Fair Value Accounting

Fair value accounting provides an alternative measurement basis by valuing assets and liabilities according to prevailing market conditions. This approach enhances the timeliness and relevance of financial information, making it more responsive to economic changes. According to KPMG [8], fair value measurement improves transparency and facilitates better comparison across firms.

Empirical studies suggest that firms using fair value accounting are better positioned to make informed investment decisions because their financial reports reflect current market realities [9]. However, concerns remain regarding potential volatility in reported figures, particularly in markets where price information is less stable.

2.1.3 Replacement Cost Accounting

Replacement cost accounting focuses on the current cost required to acquire equivalent assets. This approach is particularly useful in inflationary settings, as it helps organizations maintain their productive capacity by ensuring that asset valuations reflect present-day costs.

Evidence from Eze and Nwankwo [10] shows that this method reduces the risk of overstating profits and supports capital preservation. By aligning financial reporting with current economic conditions, it also assists firms in making long-term investment and operational decisions that promote sustainability.

2.1.4 Inflation and Financial Reporting

Inflation significantly affects the accuracy of financial reporting by reducing the purchasing power of monetary values. When financial statements are not adjusted for inflation, they may misrepresent both performance and financial position. The IMF [11] highlights that failure to account for inflation can compromise the reliability of financial data.

To address this issue, accounting frameworks increasingly emphasize the need for measurement approaches that reflect current economic conditions. Methods such as fair

value and replacement cost accounting contribute to more accurate reporting and improve the overall quality of financial information in inflation-affected economies.

2.2 Empirical Review

Scholars have attempted to provide insights and solution to the challenges posed by inflation and rapid price changes in transparent reporting of assets in the books of accounts.

Mbonyane [12] reported that inadequate record-keeping and poor money management skills were the critical factors that cause business failures in South African. Their constraining role on entrepreneurship continuity directly points to the emerging phase of the economy as developed economies have legal and operational frameworks that permit only qualified personnel to man accounting roles in enterprises. To ensure that businesses continue as going concerns through transparent reporting of performance figures or that the books of accounts are not distorted and unreal, scholars have suggested the following arguments.

2.2.1 General Purchasing Power (GPP) argument.

Douprik, and Perera [13], suggested that two solutions have been developed to deal with the distortions caused by historical cost (HC) accounting in a period of changing prices. The first solution is to account for changes in the general price level which makes adjustments to the historical costs of assets to update for changes in the purchasing power (PP) of the currency and therefore is referred to as general price level adjusted historical cost (GPLAHC) accounting or more simple, general purchasing power (GPP) accounting. The alternative solution is to account for specific price changes by updating the values of assets from historical costs to the current cost to replace those assets. This is known as Current Replacement Cost (CRC) or simply Current Cost (CC) accounting. In

addition to adjusting asset values for changes in the general price level and deferring expenses from GPLAHC amounts, GPP accounting also requires that purchasing power gains and losses be included in the determination of net income.
These two concepts seemed to be advocated by the duo alone as the nomenclature was hardly used by other scholars.

2.2.2 Current Purchasing Power (CPP) argument.

Bhoir [14] states that inflation erodes the purchasing power of money over time. The author used purchasing power argument to buttress the submission that if inflation rates are higher than the rate of returns, Current Purchasing Power method can be used to attend to the challenge of accounting during price changes. He defined Current Purchasing Power (CPP) as the separation of money and non-monetary elements in order to record net profit or loss. In addition, non-monetary components are updated into figures using a conversion factor equivalent to specific price index. The formula under this method is:

i. Conversion factor (under CPP method) = price at current period/price at historical period
ii. CPP value= Conversion Amount or Historical value * Conversion factor Bhoir (2023) equally defined Current Cost as the method that evaluates assets at their Fair Value Market (FMV) rather than their historical cost, during the fixed asset purchase. However, this method restates both monetary and non-monetary elements to their current values which seemed to overshoot the intended application to fixed assets contemplated.

Expounding the argument, Corporate Finance institute [15] defined Current Purchasing Power (CPP) as a method that involves adjusting the financial statements and associated numbers to the current price. For non-monetary items, this is done by

taking the historical cost figures and applying a specific conversion rate based on a price index. The conversion rate is formed by dividing the index price at the end of the period by the index price at the beginning of the period. Monetary items are subject to a net gain or loss during adjustment. This current cost accounting method takes the fair market value (FMV) instead of the historical cost. With this method all monetary and non-monetary assets must be adjusted to their current values.

The Current Purchasing Power (CPP) method uses the general price level to adjust the historical costs. By so doing, investors see what their current general purchasing power is. CPP uses the conversion method to adjust numbers of pre-inflation rates, that is: Current Pi number/Previous Pi number= Conversion Rate

3.0 Methodology

3.1 Research Design

This study adopts an ex post facto design within a quantitative research framework. This approach is appropriate because it relies on existing data without manipulating the variables of interest. It enables the examination of relationships between accounting practices and entrepreneurial outcomes in real-world contexts.

3.2 Sources of Data

The analysis is based on secondary data obtained from financial statements of the twenty-two sampled firms for the study period (2019 to 2024). Inflation statistics for Nigeria were sourced from National Bureau of Statistics and corroborated with data from Central Bank in Nigeria, and IMF as well as World Bank.

The financial statements of the twenty-two (22) entrepreneurial entities which cut across the manufacturing (15), pharmaceuticals (5) and private limited liability banks (2) were examined for data on the use of historical cost for this study.

All the twenty-two entrepreneurial firms whose financial statements were examined were found to be using historical cost. Therefore, the best way to generate fair value and replacement cost figures was to simulate them because the current prices can always be ascertained from the open market. The simulated figures became the data used for fair value and replacement cost in this study for the purpose of regression analysis and result presentation. The proposed model therefore takes the simulated fair value (AFV) and simulated replacement cost (ARC) values.

3.3 Measurement proxies of Variables

The dependent variable (DV) and the independent variable (IV) of this study are as follows:
Entrepreneurial performance (DV)

Entrepreneurial Performance: Assessed using profitability indicators such as return on assets and profit margins.

Innovative Accounting (IV) proxied by FVA and RCA

Fair Value Accounting (FVA): Measured by the proportion of non-current assets reported based on current market valuations.

Replacement Cost Accounting (RCA): Evaluated by the extent to which non-current asset values are adjusted to reflect current replacement costs.

3.4 Model Specification

To analyze the relationship between innovative accounting practices and entrepreneurial performance, the study adopts the following functional model:

$$EP = \beta 0 + \beta 1 SFV + \beta 2 SRC + \mu$$

Where:

- **EP** represents Entrepreneurial Performance
- **SFV** denotes Simulated Fair Value Accounting
- **SRC** represents Simulated Replacement Cost Accounting
- β_0 is the intercept of the model
- $\beta_1 - \beta_2$ are the parameters measuring the influence of the explanatory variables
- μ captures the stochastic error term

This model is designed to evaluate how variations in accounting measurement approaches influence firm performance outcomes.

3.5 Method of Data Analysis

The study utilizes the Ordinary Least Squares (OLS) regression method to estimate the specified model. This technique is selected due to its efficiency in producing unbiased and consistent parameter estimates under standard assumptions.

Statistical analysis is carried out using appropriate analytical tools, with findings presented through descriptive measures and regression outputs. Hypotheses are tested at a 5% significance level. The decision criterion is based on probability values: a null hypothesis is rejected when the p-value is below 0.05; otherwise, it is retained.

3.6 A Priori Expectation

Based on theoretical insights and prior empirical findings, the study anticipates positive relationships between the independent variables and entrepreneurial performance:

- $\beta_1 > 0$: Increased use of fair value accounting is expected to enhance performance
- $\beta_2 > 0$: Adoption of replacement cost accounting is expected to support performance and business continuity

Result and Discussion

3.7 Data Analysis and Results Descriptive Statistics

Descriptive statistics are used to summarize the key characteristics of the variables included in the analysis as shown in table 1

Table 1 – Descriptive characteristics

Variable	Mean	Std. Dev
EP	12.5	3.2
SFV	8.7	2.1
SRC	7.9	2.4

The financial statements of the sampled businesses were found to have reported certain huge expenses that are explained vaguely and removed from the total revenue figure before arriving at the net profit. This suggests that the use of historical cost misstates the financial report, encouraging overstatement of expenses and understatement of net income.

The average value of entrepreneurial performance (12.5) suggests a moderate level of firm performance within the sample, while the standard deviation indicates some variability across firms.

Fair value accounting shows a relatively high mean value (8.7), implying notable adoption among firms, with limited dispersion. This reflects a degree of consistency in its application.

Replacement cost accounting records a mean of 7.9, indicating moderate usage, though with slightly greater variability compared to fair value accounting. This suggests differences in how firms apply replacement cost adjustments.

Overall, the distribution of the variables supports their suitability for further econometric analysis.

4.0 Data Presentation and Analysis

4.1 Regression Results

The OLS regression results examining the influence of accounting practices on entrepreneurial performance are presented in table 2 below:

Table 2 – Regression Results

Variable	**Coefficient**	**t-Statistic**	**Probability**
Constant	2.14	2.90	0.005
SFV	0.65	4.21	0.000
SRC	0.48	3.67	0.001

- **$R^2 = 0.72$**
- **F-statistic = 18.45 ($p < 0.05$)**

4.2 Model Fit and Significance

The coefficient of determination (R^2) indicates that approximately 72% of the variation in entrepreneurial performance is explained by the independent variables. This reflects a strong explanatory capacity of the model.

The F-statistic confirms that the model is statistically significant overall, indicating that fair value and replacement cost accounting jointly influence entrepreneurial performance.

The intercept value of 2.14 represents the baseline level of performance when explanatory variables are held constant. Its significance implies that additional factors not captured in the model also influence performance.

4.3 Discussion of Findings

The findings indicate that both explanatory variables contribute positively to entrepreneurial performance and are statistically significant.
Fair value accounting has a coefficient of 0.65, suggesting that increased adoption is associated with improved performance outcomes. The high t-value and very low p- value confirm the robustness of this relationship.

Replacement cost accounting also shows a positive effect, with a coefficient of 0.48. This indicates that adjusting asset values to reflect current replacement costs contributes meaningfully to firm performance. Its statistical significance further supports this conclusion.

The empirical analysis reveals that:

1. Fair value accounting has a significant positive effect on entrepreneurial performance in inflation-prone economies
2. Replacement cost accounting significantly contributes to sustaining entrepreneurial performance in developing economies

3. Innovative accounting approach enhances faithful representation and relevance of the state of the financial reports of a business entity.

The results demonstrate that both fair value and replacement cost accounting play important roles in improving entrepreneurial performance.

Fair value accounting shows a stronger impact, likely due to its ability to reflect current market conditions more directly. Replacement cost accounting also contributes by ensuring that asset valuation aligns with present economic realities, thereby supporting operational continuity.

Based on the statistical evidence:

- **H_{01} is rejected**
- **H_{02} is rejected**

These findings are consistent with and corroborate prior studies, which emphasize the importance of innovative and adaptive accounting practices in enhancing decision-making and long-term sustainability and continuity (Adebayo and Olamide, 2023; Eze and Nwankwo, 2024).

5.0 Conclusion and Recommendations

5.1 Conclusion

This study establishes fair value and replacement cost accounting offer more relevant measurement bases by incorporating current economic conditions. Their adoption is associated with improved entrepreneurial performance and greater business sustainability.

5.2 Recommendations

Based on the findings, the study proposes the following:

1. Entrepreneurs should integrate fair value measurement into their reporting systems to ensure that financial statements reflect prevailing market conditions. This will bring about accuracy and transparency of financial reports for more informed decision-making.

Developing economies that are inflation-prone should apply replacement cost accounting principles when valuing non-current assets. The application of this approach would help preserve operational capacity and supports long-term sustainability by reflecting the true cost of maintaining business operations.

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