

The role of Creative Accounting and its impact on the Credibility of Accounting Reports of Management

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Abstract

It was unclear whether or not investors and other stakeholders could trust the data presented in accounting reports and disclosures, which are intended to help them make educated judgements about the value of their holdings. Creative accounting is blamed for the failure of these relationships to live up to expectations. While many academics believe this technique is immoral and should be stopped, others argue that despite its role in contributing to business failures, investment losses, and economic crises, it is still a valid and important activity. This article evaluates how much this innovation has led to corporate failures, why these practises have emerged, and what obstacles they provide to accurate reporting and open disclosure from management. When compared to the findings of similar investigations, the present findings were different. According to research, underreporting of a company's financial performance is caused by accounting professionals being creative with their numbers. The inventiveness behind these methods is driven by avarice and serves to mislead the general public, potential investors, and shareholders while simultaneously increasing the rate at which firms fail. According to the research, however, the foundation for management's fake, aesthetic, and unjust reporting is a plethora of laws without proper controls, sanctions, and rewards.

Keywords: *management, creative accounting, business, bankruptcy*

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The concept of creativity

The psychology literature provides over sixty distinct definitions of creativity. To be creative is to go through the steps of thinking of something new to do, or making connections between things that already exist, and then putting those things into practise in a way that yields something fresh and new. The results of creative thought are viewed as having "originality" and "appropriateness" from a scientific standpoint. It's also possible to think of creativity in a more conventional, every day sense, as the simple process of coming up with something brand new. One of the most common definitions of creativity in academic writing is the ability to produce something "original" and "useful," whether that be a work of art or a scientific hypothesis. Common definitions of creativity focus on the processes that lead to the creation of something wholly or partially novel, the acquisition of an existing object with novel properties or characteristics, the generation of possibilities not previously conceived, and the execution of a task in a manner different from what was previously considered possible or normal. Many economists, like Paul Romer, believe that creativity plays a crucial role in

the recombination of materials that results in new technologies and products and, ultimately, economic growth. Inventive work is rewarded monetarily, and its results are safeguarded by intellectual property regulations. "However, it seems that during the past decade we have come to a consensus that creativity entails the creation of novel and practical outcomes. Alternatively, creativity may be seen as "the action of making something new and beneficial," or as "having qualities such as originality and expressiveness, imagination, capital rise, economic development, societal value addition, and favourable effects over the long term."

Accounting creativity: meaning, forms and practices in business management:

There is no such thing as "creative accounting" and no stated guidelines for how it should be performed under any existing body of accounting law or practise. As determined by outsiders and experts, these definitions are being considered. According to Merchant and Rockness (1994), "any move by management that impacts stated income and does not deliver a true economic gain to the business and might in fact, in the long run, be damaging". Choosing accounting measurement or reporting standards on a regular basis in accordance with a predetermined model to provide a steady stream of income that seems less volatile than it actually is. financial statement transformation wherein transactions are structured to produce the required accounting results as opposed to reporting transactions in a neutral and consistent manner; and the process of manipulating accounting data by exploiting gaps in accounting rules and the choices of measurement and reporting practises contained therein to transform financial statements from what they should be, to what editors would prefer to see reported.

The term "creative accounting" refers to a style of information management that involves intervening strategically in the accounting and financial reporting processes. Various nations have various names and manifestations for the same activity. Creative accounting involves nothing novel, but as history shows, it may be quite costly if attempted.

Organizations may opt to inflate their financial results in order to entice investors and to look lucrative to shareholders, workers, creditors, suppliers, and other kinds of stakeholders. In many nations, this custom goes by a variety of names. Creative accounting is characterised by a set of tried-and-true methods that have been demonstrated to be quite costly in the past. Companies may choose to inflate their financial results to entice investors and to look lucrative to shareholders, workers, creditors, suppliers, and other kinds of stakeholders. The repercussions of this behaviour are usually very serious. Six main areas of weakness or loopholes in accounting regulations and practises lead to these results: regulatory flexibility, lack of regulation, managerial leeway with respect to assumptions about the future, timing of certain transactions, use of artificial transactions, and finally the reclassification and presentation of financial numbers. These topics are covered one by one: When it comes to the valuation of assets, for instance, a company has the legal right to adopt a different accounting strategy from the one it previously used.

Research Methodology:

The research method used in this study is a survey with an emphasis on description and analysis. The purpose of this study is to conduct a comprehensive review of relevant literature, gather first-hand information from industry professionals, make inferences about the topic using descriptive statistical analyses of multinational corporations, and evaluate the impact of such practises on accounting report fraud and business failure around the world. Strategically, 80 accountants from across a range of MNCs were chosen to participate in this research. A total of 80 professional accountants from these companies were included for the study once their willingness to take part was determined. Information is gathered using a structured questionnaire that consists of both open-ended questions and those with predetermined answers. Descriptive statistics are used to tabulate and examine the data. The gathered data are utilised to verify the hypotheses. Secondary data are used to test the hypothesis. The reported number of company failures and the proportion of total bankruptcies serve as the dependent variable. As an independent variable, we will utilise the extent to which "creative accounting" is responsible for a company's demise. Using techniques like regression and correlation analysis, the researchers confirm their working hypothesis.

Data analysis and discussion of results:

There were 42% female and 58% male responders, and everyone was a Certified Public Accountant. 83.5 percent of respondents had more than two decades of experience in reporting, while sixteen point five percent had less than two decades. A review of the respondent demographics reveals the breadth and depth of their knowledge and experience in the field under investigation. The collected data is structured to answer the study's questions.

How creative are these practices in business?

To address this, we analyse the accounting literature on the topic of creativity and draw parallels between the creative process and its underlying principles. Let's start with the why, then the how, then the what we don't know, and ultimately the economic benefits. To begin, the issue of what drives management to engage in non-traditional accounting practises has been the focus of a number of research. Managers' desire to fool shareholders and the investing public into thinking everything is great when it isn't is a negative force that drives accounting innovation. Big bath accounting is another sort of fraud in this area; it occurs when a corporation has a significant loss and attempts to disclose as much of that loss as possible in order to make subsequent years appear better. Changing profits so they more closely align with projections is a form of income smoothing.

Reducing the perception of volatility in the firm's underlying economic results and providing a boost when major capital market transactions are anticipated are two ways this strategy may be put to use. This makes the firm look less hazardous and helps create the illusion of a healthy profit trend, all of which serve to keep or increase the share price. This aids the struggling firm in its efforts to issue fresh shares, participate in a takeover attempt, and maintain control of its own destiny. Directors who "insider trade" in the company's shares may employ sleight of hand accounting to keep crucial information from the public until after they have profited from it.

All businesses need to be creative with their accounting for a variety of reasons, one of which is that their contractual rights, duties, and restrictions are all dependent on the quantities that are accounted for.

Second, the accountants haven't come up with anything new; they've just manipulated a pre-existing number (the true and fair state) to get the outcome they wanted (the false state).

Third, the anticipated state is a predictable result that runs counter to the hallmarks of original thought. Last but not least, the long-term effects of creative accounting include recessions that can affect economies all around the world. Therefore, management and the bookkeeper's avarice at the expense of the economy is best characterised by the euphemism of "creative accounting." These are not just cases of people acting unethically by accident or because of a lack of laws or regulations; they are deliberate acts of unethical behaviour.

This destructive originality causes problems including (1) negative cash flow, (2) capitalising costs rather than writing them off, (3) realising and increasing receivables or inventory in relation to sales, (4) hiding pension obligations, and (5) consolidating the income and equity of affiliates.

Conclusion and Recommendations:

It's obvious that accounting strategies that rely on creative thinking are frowned upon as dishonest and unethical. Here, we examine various approaches that might assist limit the use of innovative accounting procedures, citing relevant changes in International Accounting Standards where they exist. All publicly traded corporations will be required to use IAS. We must explain unequivocally that additional restrictions will only result in cleverer and more pervasive forms of manipulation.

Accountants and managers who are willing to put in the effort to do the right thing are the solution. The economic repercussions of each decision have to be taken into account while deciding what is correct.

Factors that complement the negative creativity of accounting:

Factors	Respondents	Percentage
Conflict of interest among auditors	61	76.3
Due of directors' greed and managers' compromise	54	67.5
Unreliable legal process that leads to unresolved cases	78	97.5
A lack of oversight by professional organisations	45	56.3
Absence of a moral core in the professional community	59	73.8
Practitioners' lack of theoretical grounding	78	97.5

Source: Field survey

In all honesty, the management has some leeway in deciding whether to pull the trigger on bona fide deals. Gains or losses on changes in value can be recorded in the accounts each year as they occur rather than showing in a lump sum in the year where a divestiture happens, which can help restrict the scope of usage. Surprisingly, in a number of recent accounting regulations and discussion papers, the International Accounting Standards Board has favoured fair value valuation above historical cost. In order to ensure the auditor is truly independent, committees led by the opposition should be established as opposed to depending solely on traditional audit committees. Such panels may serve as watchdogs, reporting to higher authorities any behaviour that seems out of character and harmful to the firm. There is still hope that this team has not been corrupted. And yet, uncompromised opposition may play a crucial role in guaranteeing accountability by minimising negative creativity and equipping owners with sufficient knowledge for the choice to administer punishment.

Proactive audit processes are necessary to ensure the prevention of innovative accounting techniques from expanding. The current situation has made it clear to the agency when they would be asked to bring in the auditors. He can rearrange his priorities and the circumstances surrounding his activities with ease. However, the proactive strategy calls for the audit to be conducted not only once a year, but whenever it is most convenient. If the owners are the ones paying the auditors, then the agent shouldn't be given any advanced warning before any inspections or verifications are conducted. Many accounting crises may be traced back to dishonest bookkeeping practises. It's the process of using the benefits of existing law while disregarding or circumventing some of its restrictions in order to manipulate accounting data so that it more closely matches what management want. Alterations to accounting laws, as well as the consistent application of ethical principles and rules of governance in the business sector, can help lessen the damage done by inventive or fraudulent accounting. In order to deter people from engaging in dishonest reporting methods, regulation must be backed up with strong enforcement tools. It will be difficult to enforce worldwide accounting standards in a variety of accounting cultures.

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