Manipulating Business Performances by Creative Accounting

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INTRODUCTION

The manipulation of accounting values or the practice of creative accounting is possible due to the gaps in the accounting regulations and due to the freedom to choose and decide between the accounting methods allowed for the treatment of different categories of balance sheet items or the profit and loss account. The risk of misrepresentation of results is not an easy to measure risk, which makes it difficult to compare the results of entities in the same industry or to perform other financial analyzes (Akpanuko & Umoren, 2018).

On the other hand, the interests determined by factors such as intensity of competition or increased pressure on businesses to communicate the „digestible" results, especially from investors and analysts, make the information collected by market valuation experts and accountants mitigate the possible effects of creativity (Chen, Qu & Sun, 2017). If the purpose of creative accounting is to improve the accounts (or the image created for the company), taking advantage of the weaknesses and deficiencies of accounting regulation, the authors consider that this concept is nothing new, because the principle of accounting options has been known for a long time (Holthausen & Watts, 2001; Baker & Bettner, 1997; Caylor, 2010).

The emergence of creative accounting was influenced by the flexibility of international accounting rules (Damayant, 2013). Creative accounting is treated in most cases negatively (negative creation), designed to lead to achieving value for intangible assets able to respond to the wishes of managers on the company's financial position and performance (Doukakis, 2014). Simultaneous treatment of creative accounting as a tool to achieve the interests of accounting and accounting engineering is based on the accounting policies adopted by a patrimonial entity to produce and communicate information (Richardson, 2011; Jackson & Liu, 2010; Ball, Li & Shivakumar, 2015).

Accountants who accept the ethic challenge of creative accounting should be aware of the abuse to both the choice of accounting policies and to the handling of transactions (Byard, Li & Yu, 2011). Such accounting has developed mainly in Anglo-Saxon economies due to the freedom of the accounting profession. It was placed on the edge of the legal form and economic substance of transactions and events (Barth et al., 2014). Discussed in terms of accounting practitioners, creative accounting has facilitated the emergence of basic and alternative treatments used to solve problems (Ahmed, Neel & Wang, 2013; Barth, Landsman & Lang, 2008; Fan, Li & Zheng, 2016). Of course, issues of evaluation of assets are cases of creative accounting practice that involve subjective reasoning as it applies to the professional

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accountant or expert appraiser. Using creative accounting for intangible assets, for example, especially in its gray area favored by accounting rules, makes it difficult or even impossible to guess the true value of these assets (Li, 2010; Ozkan, Singer & You, 2012; Barth, 2013).

In this context, the following questions arise: will we return to accounting at the initial cost, in which intangible assets are recorded at outdated values and are therefore not relevant or reliable? How important are the psychological factors in accounting measurement? Can a model of assessment ensure the maximum quality of the accounting information on intangible assets? The answer to these questions, as well as various controversial issues of the fair value concept of intangible assets, are presented in the current draft of the International Accounting Standards Board (IASB) and the American Accounting Standards Board (FASB). As a result, today, we perceive an accelerated rate of change, aggressive disruptive phenomena and emerging economies that are rapidly developing against the backdrop of a Digital Era (Chen et al., 2010; He, Pan & Tian, 2017).

BACKGROUND

The foundation of creative accounting is therefore the manipulation of the accounts by the voluntary increase or decrease of the accounting values recorded in them (Heald & Hodges, 2018). From the perspective of the existing risks, the actions of manipulation of the amounts recorded in the accounting accounts are influenced by the systematic and financial risk (Fan, Li & Zheng, 2016).

Even though the definition of creative accounting is not unique, all definitions have as main elements the use of knowledge and skills of accountants to manipulate results with the deficiencies existing in legislative normalization systems.

Moreover, theme creative accounting practices are addressed by several disciplines: accounting, information technology, psychology and management, but they have grown tremendously in recent decades throughout the entire spectrum of companies (Brown, 2010). Creative accounting is operating at shade where accusations substantiated by non-compliance with professional or legal norms can be brought, but where common sense logic notifies the presence of a certain dose of „forcing the note" (Bettner & Kate, 2013).

Entities may use creative accounting tools when listing stocks on their stock market and aiming towards maintaining a stable course of shares when there is an increased volatility in financial and capital markets, which creates a high economic and financial risk when the field of the economic operations is multinational and several regulatory bases are needed to work in harmonization, etc. (Ball, Li & Shivakumar, 2015) These are examples of practicing "positive" creative accounting, but given the very small boundary between the positive and negative nature of using the creative accounting tools, the examples mentioned above can lead to fraud and tax evasion.

From the managers' perspective, there are several reasons behind their decision to practice creative accounting, namely: reaching internal targets, reaching expectations from the external environment, smoothing or standardizing incomes to provide a steady image of the performance, facilitating the conduct of takeover bids or contracting loans, reducing tax obligations, changes in management.

A number of authors have described creative accounting as such:

Parker notices that 'all businesses hide their benefits. The published synthesis documents are based on registers that have been 'delicately' or even substantially altered. The figures presented to the investors have been entirely changed to protect those guilty. This is, in fact, a legitimate scam and is called creative accounting…' (Parker, 2012). The practitioner, Ball, states that 'the accounting process involves

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