

# Creative Accounting: A Short Literature Review

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## ABSTRACT

In the professional literature, creative accounting is understood as legitimate, which means that it is not illegal to the extent that it does not violate the legislation of the country. Although it is a numbers game that can mislead internal or external users of financial statements, in some cases it can help protect a business from bankruptcy or other adverse conditions. This paper aims to represent creative accounting through various studies by authors dealing with the issue. The studies included in this paper provide insight into creative accounting, taking into account its origins, motives, tools, ethical approach, and its impact on financial reporting or the task of auditors in exposing creative techniques. This paper provides an overview of the period from 2000 to 2021. The study presented in this paper is an exploratory one, based on secondary sources of information.

**Keywords:** Creative accounting, Financial information, Financial statement, Managers, Investors.

## 1. INTRODUCTION

Accounting is the basic pillar of every business unit in the business environment [1]. It provides important financial information [2] that is used in their work not only by the business unit's managers themselves [3] but also by other external entities that have decision-making authority outside the entity's business environment [4]. Financial information is contained in the financial statements of each entity [5] and is intended to mirror correct company's accounting data do not only internal but also external entities [6]. In practice, however, there is a problem that may cause a conflict of interest between stakeholders [7], as one party representing investors expects and requests correct and truthful financial information [8] that it uses in its decision-making power [9], but the other party, represented by specific business units, tries to attract more investors to their business environment, using creative accounting to combat growing competition and adverse economic conditions. In the literature, we find several different views on the issue of creative accounting, which can be understood as modification of accounting reports to adjust achieving data in the desired results or as a process in which economic transactions are carried out to achieve a more favorable result in accounting.

## 2. METHODOLOGY

This contribution is focused on providing a short chronological literature review of creative accounting using in a business environment. The study presented in this paper is an exploratory one, based on secondary sources of information. The secondary sources include published journals and conferences. We provide a chronological overview of the creative accounting literature over the years 2000-2021.

## 3. RESULTS AND DISCUSSION

The research area of the author Kanda was focused on using the technique of creative accounting in Indian companies which is called window dressing. His research was focused on audit firms and commercial companies and found that the analyzed subjects used the creative technique of window dressing to attract investors to their business environment and reduce their tax liability [10]. Another author Baralexis focused their research on auditors and accountants in Greece and the results of his research have shown that creative accounting is widely used in the Greek country, with its users preferring more legitimate creative techniques compared to illegitimate creative accounting techniques [11]. Sen et al. focused their research on companies in Bangladesh and based on

the Questionnaire survey they found out that 82% of respondents replied that creative accounting has also been used in Bangladesh for a long time [12]. The research of other authors Vladu and Matis was focused on the perspective of the financial auditors concerning the accuracy of accounting data in Romania. Research has shown that financial auditors who check the fidelity and veracity of financial statements are constantly looking for various methods and ways to help improve the process and increase the objectivity required to assess and express a correctness of accounting reports [13]. Other authors examine effects of creative techniques on the work performed by accountants in the process of preparing financial statements in Nigeria. Their investigation revealed that creative accounting is realized through the manipulation of stock prices, an incorrect amount of reported profit, or incorrect accounting of accounts [14]. Al-Momamani et. al. researched practicing creative principles in Jordan. They found out that the independence and integrity of auditors have a significant impact on their ability to identify the practice of creative accounting [15]. The research of authors Mirdala et al. problem included a questionnaire survey, in which the task was to identify the boundary between positive and negative creative accounting. Based on the results of the questionnaire survey, they found that a large proportion of accountants in the Republic of Serbia are unable to perceive the difference between positive and negative creative techniques [16]. Bhasin examined the impact of creative accounting on managers in Indian companies. To achieve relevant results, he used a questionnaire survey and data from secondary sources, and the results of his research pointed to the use of creative accounting as an attempt to obtain certain benefits that managers can use to achieve more favorable financial information to the outside environment [17]. Nyabuti et. al. highlighted significance of the impact of accounting creativity on financial reporting, with many companies exploiting this impact in a negative light, and thus such abuse was reflected in the collapse of most companies in the environment under study [18]. Peprnickova and Jandova provided an overview of current foreign research on creative accounting in practice over the past five years and an evaluation of using creativity methods in the Czech Republic. The questionnaire survey was focused on accountants, controllers, financial managers, and other financial professions. The results of the survey pointed to the most extensive application, which is the selection of depreciation and valuation methods, the use of estimated items and accruals, leasing, or the provision of loans between related parties. The individual techniques focus more on the items of the income statement and cash flows compared to the balance sheet items [19]. The purpose of the study of the authors Blazek, Durana,

and Valaskova Blazek, Durana, and Valaskova applied models in agriculture, forestry, and also fisheries, and found out that an excessive proportion of the companies surveyed practiced creative methods [20]. The author's study, Al-Rawashdeh, acquaints readers with profit management in the environment of commercial banks, which try to achieve the desired results in order to use different accounting means. [21].

#### 4. CONCLUSION

In the professional literature, creative accounting is understood as legitimate, which means that it is not illegal to the extent that it does not violate the legislation of the country. Although it is a numbers game that can mislead internal or external users of financial statements, in some cases it can help protect a business from bankruptcy or other adverse conditions. There are many studies and contributions in the literature that explain the issue of creative accounting; we have focused on the above studies. The subject of the mentioned studies in our paper was creative accounting with an emphasis on its origin, tools, motives, or ethical approach, as well as the role of auditors, the method of control and detection of creative accounting, or its impact on financial reporting. Based on individual studies, we can see that creative accounting is used in several countries around the world because each country has its specifics and each company in it is accompanied by different motives for practicing creative accounting. Based on the mentioned studies, these motives may be the achievement of internal goals, the influx of investors, the reduction of the tax liability, and the increase of the market price of shares. The analyzed studies confirm the fact that accounting creativity is present worldwide. It cannot be completely left out of the business environment, but it is possible to try to eliminate it.

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