



Professional Ethics and Ethical Orientation: Key to Preventing Creative Accounting Practices Among Accounting Students

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Abstract. Creative accounting is still a pro and con in the field of accounting professional ethics. Therefore, professional ethics, ethical orientation, and emotional intelligence are needed to understand it. This study aims to determine the Effect of Knowledge of Professional Ethics in Accountants, Ethical Orientation, and Emotional Intelligence Towards Accounting Student Perceptions Regarding Creative Accounting Practices. This study uses quantitative research methods using statistical techniques to process existing data by proving the proposed research hypothesis. The sample of this study was accounting students from Muhammadiyah universities in Indonesia totaling 215 respondents. The result stated the accounting professional ethics knowledge and ethical orientation influences the accounting student perceptions of creative accounting practices, while emotional intelligence does not affect. The implication of this research is that students will have a good understanding of creative accounting and when working in the field of accounting will avoid creative accounting.

Keywords: Creative Accounting · Professional Ethics · Ethical Orientation · Emotional Intelligence

1 Introduction

Creative accounting is a process or stage in a person's efforts to develop an idea by using that ability to manipulate a financial reporting [1–4]. Meanwhile, in the opinion of others *creative accounting* is to respond to the same problems faced by management, but the answer lies in the boundary between the legal record and de facto economic events, leaving accountants to create the economic reality of the entity [2]. One of the scandals of *creative accounting* practices occurred in Indonesia, one of which was a scandal owned by PT. Kimia Farma which manipulates its financial statements. Manipulation of financial statements carried out by PT. Kimia Farma is a misjudgment on the inventory of finished goods and an error in recording sales in the financial statements. The Ministry

of SOEs indicated that there was an overstated profit in PT. Kimia Farma, Tbk. The value presented in the financial statements of PT. Pharma chemistry is higher than the value that should be reported. The scandals of the case provide evidence that the company collapsed due to creative accounting activities.

Meanwhile, research related to *creative accounting* has been carried out by several researchers. The results showed that knowledge of accountant professional ethics affects the perception of accounting students regarding the practice of *creative*. Good ethical knowledge will keep individuals from practicing *creative* accounting. The results of the study are in line with the research [5–7]. These studies state that in deciding to report finances, it is necessary to have a fundamental ethics that is owned by a manager to avoid *creative accounting* practices. The influence of ethical orientation on students' perceptions of *creative accounting* practices has been proven by [8–10]. Ethical orientation is able to influence the perception of accounting students regarding creative accounting practices but ethical orientation is not able to influence the perception of accounting students regarding *creative* accounting practices. Similarly, regarding the results of research on the influence of emotional intelligence on the perception of accounting students [11–14].

Meanwhile, research on the perception of accounting students regarding the practice of creative accounting needs to be carried out again because of the research gap or differences in the results of several researchers, such as there are still differences in the results of the influence of ethical orientation. In addition, it is also supported by several gaps in phenomena or events that still occur such as accountants who practice creative accounting and differences in perceptions in assessing these actions by accounting students who are used as empirical gaps. The difference with previous research is that in researcher has added emotional intelligence as an independent variable in current research and expanded objects carried out at three Muhammadiyah Universities in East Java. By paying attention to existing phenomena and from previous research, the purpose of this study is to prove the influence of knowledge of accountant professional ethics, ethical orientation, and emotional intelligence on the perception of accounting students regarding the practice of *creative accounting* at three Muhammadiyah universities in East Java, Indonesia.

2 Methodology

Based on the title that has been presented and the formulation of the problem that has been prepared, this research uses a quantitative approach. The population that will be used as a sample calculation in this study is all accounting students of Muhammadiyah University of Sidoarjo, Muhammadiyah University of Surabaya, and Muhammadiyah University of Gresik. Sampling from the number of existing populations using purposive sampling techniques or sampling techniques with certain criteria so that 215 accounting students were obtained. The data analysis technique used in this study is a quantitative data analysis method that is processed using the *Microsoft Excel* program and the *Statistical Package for Social Science* (SPSS) Table 1.

Table 1. Statistical Result

Coefficients^a								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	15,920	1,981		8,036	,000		
	Knowledge of Accountant Professional Ethics	,146	,032	,321	4,602	,000	,636	1,572
	Ethical Orientation	,120	,025	,326	4,708	,000	,647	1,546
	Emotional Intelligence	,027	,036	,043	,752	,453	,945	1,058

a. Dependent Variable: Accounting Students' Perceptions of Creative Accounting Practices.

3 Results and Discussion

3.1 Results

Based on the results of the t test, it shows that the significance of the accountant professional ethics knowledge variable is $0.000 < 0.05$ then H_1 is accepted, the ethical orientation variable t test result shows a significance of $0.000 < 0.05$ then H_2 is accepted, while the emotional intelligence variable t test results show a significance of $0.453 > 0.05$ then H_3 is rejected.

3.2 Discussion

The Influence of Accountant Professional Ethics Knowledge on Accounting Students' Perceptions of Creative Accounting Practices

The results of the study show that knowledge of accountant professional ethics affects the perception of accounting students regarding the practice of *creative accounting*. Thus, the results of this study support agency *theory*. Agency theory is defined as the relationship between two parties who have their own interests, namely the principal party and the agent. The principal gives the agent the task and authority to manage the company's finances by requesting an accountability report from the agent (management). Based on the report, principals can assess the performance of the agent. However, what often happens is that the agent (management) reports its financial statements to the principal so that they look good, then carry out creative accounting actions, which is a relationship between the ethics of the accountant profession in these actions. Good accountant professional ethics will direct the agent to stay away from these actions but on the contrary

if the accountant professional ethics are bad, the agent (management) tends to practice *creative accounting*.

The results of this study are supported by the results of research conducted by [1] that knowledge of accountant professional ethics affects the perception of accounting students regarding *creative accounting*. This means that the higher the knowledge of accountant professional ethics possessed by students, the higher the student's wisdom in ethics and provides the perception that the practice of creative accounting is an unethical action so that the phenomena that occur regarding *creative accounting* actions will be reduced and able to be overcome.

The results of ethical knowledge research are very important in preventing the occurrence of creative accounting practices [12] that in deciding to report finances, it is necessary to have a fundamental ethics and be owned by a manager in order to avoid the practice of *creative accounting*. Next, [15, 16], in their research showed that independence based on the ethics of an auditor has an effect in reducing creative accounting actions. However, the results of this study are not supported the results of research that the perception of accounting students regarding the practice of *creative accounting* is not influenced by accounting and ethical knowledge.

Knowledge in this case is knowledge of accountant professional ethics. Students who have a good knowledge of accountant professional ethics will know the ins and outs of accountant professional ethics that should be applied and implemented. This means that high knowledge of accountant professional ethics will increase the perception of accounting students regarding creative accounting practices by providing a better perception or opinion about the actions of *creative accounting* practices. Such students will tend to lead to ethical actions by staying away from unethical actions.

The Effect of Ethical Orientation on Accounting Students' Perceptions of Creative Accounting Practices

The results of the study show that Ethical Orientation affects the Perception of Accounting Students Regarding *Creative Accounting* Practices. Thus, the results of this study support agency *theory*. Agency theory is defined as the relationship between two parties who have their own interests, namely the principal party and the agent party. The principal gives the agent the task and authority to manage the company's finances by requesting an accountability report from the agent (management). Based on the report, principals can assess the performance of the agent. However, what often happens is that the agent (management) reports its financial statements to the principal to make it look good, then carry out creative accounting actions. Based on this action, there is a relationship between the ethical orientation that management has to be encouraged to practice creative accounting due to the lack of ability to control its ethical dilemmas. The results of this study are supported by previous studies that stated that the ethical orientation affects the perception of accounting students regarding creative accounting [17, 18].

The phenomena that occur regarding creative accounting actions will be able to be overcome by the presence of individuals who have a good ethical orientation, especially accounting students. A good ethical orientation directs the individual to implement his ethics so that the actions or behaviors shown are in accordance with applicable ethics, and the ability to manage ethical dilemmas in the individual will be able to assess the

cases that are happening and provide good solutions in order to avoid the practice of creative accounting in any situation.

The Effect of Emotional Intelligence on Accounting Students' Perceptions of Creative Accounting Practices

Based on the results of multiple linear regression calculations, it shows that emotional intelligence has no effect on accounting students' perceptions of creative accounting practices. Thus, the results of this study do not support agency theory. Agency theory is defined as the relationship between two parties who have their own interests, namely the principal party and the agent. The principal gives the agent the task and authority to manage the company's finances by requesting an accountability report from the agent (management). Based on the report, principals can assess the performance of the agent. However, what often happens is that the agent (management) reports its financial statements to the principal to make it look good, then carry out creative accounting actions. Agency theory is not supported by emotional intelligence because creative accounting actions carried out by agents are more influenced by high opportunities and opportunities to meet their own interests.

The results of this study are supported by the results of research conducted by the results of research conducted by [19] that emotional intelligence does not effect on ethics assessment of earnings management which means that the condition of a person's emotional logic will not have an impact on the perception that will be given. Judgments regarding an action are influenced by one's condition when logic is neutral. If a person assesses an event when the emotional state is not good the result can be biased. This is because the emotional intelligence possessed by each individual is varied and easily changes in all situations. Likewise with the results of research from [20] emotional intelligence is not able to influence the ethical perception of students. Meanwhile, the results of research by [11] do not support the results of this study that emotional intelligence affects the ethical perception of accounting students regarding creative accounting practices in companies.

Students are not fully able to provide good perception when they have good emotional intelligence anyway, because there are several factors that also influence such as opportunity, pressure, environment, and social life. These factors make the emotional intelligence possessed by accounting students no longer care about the perception or assessment of all actions that occur.

4 Conclusion

The result of the study are knowledge of accountant professional ethics and ethical orientation affect the perception of accounting students regarding the practice of creative accounting, while emotional intelligence does not affect the perception of accounting students regarding the practice of creative accounting.

The limitation of the study is only testing three independent variables against the dependent variables, so the suggestion for further research can be to add other variables that are able to affect the dependent variables. The implication of the results of the study is that the level of knowledge of accountant professional ethics and ethical orientation can influence the good and bad perceptions of accounting students.

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