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A Study on the Role of Audit Functions on Creative Accounting Practices

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Abstract

Creative accounting is considered an art to manipulate the financial accounts, while remaining within the jurisdiction of accounting laws and rules to reflect what the management wants to tell the stakeholders instead of showing the actual position of the company. Due to the increasing level of competition, dearth of sustain in the market, loopholes in accounting standard and other regulations creative accounting practice is prevailing in companies. Excessive use of creative accounting led to the downfall of numerous high profile companies. The objective of the study is to make creative accounting as clear as possible with the help of review of studies conducted, to highlight the reasons for using creative accounting practices. The studies strive to empirically examine, the adoption of creative accounting methods in financial reporting structures, in the corporate sector of India and it ramification on the financial system.

Keywords: *Creative accounting, audit ethics, Role of Auditors and corporate governance.*

Introduction

Users of accounting information suffer these from different practices of creative accounting. These users require accurate, true, objective, faithful, and credible accounting information in order to be eligible to take good investment and credit decisions. Therefore, they need information that reflects the economics events that actually occurred during the accounting period. Moreover, they need information regarding the entire economic events. When the announced accounting information is subject to some practices of creative accounting, it will reduce users' ability to take good and beneficial decisions. Over the recent two decades, several investors, stockholders, and creditors lost large amounts of money, because their decisions had been taken based on information that it was subject to different forms of creative accounting practices. As a result, a strong need emerged to restrict these practices, and to find the appropriate solutions for this problem.

Auditors add more credibility to financial information and financial statements. They can play an active role in reducing the effects of this problem. These auditors are qualified to detect these practices of creative accounting because they are supposed to have good knowledge regarding accounting and auditing professions. The questionable issue is not about the competence of auditors, but about their ethics. Some interested people believe that auditors' ethics are more important than their competence. They believe that when auditors follow the ethical rules of their profession, they will be able to play more important role in detecting the different methods of creative accounting practices, and they will be able to add enough solutions to this negative practice. Auditors are supposed to be well qualified to practice audit, and they have enough knowledge regarding the accounting principles and audit standards, but when they do not follow the ethics of their profession, they will not be able to provide any benefits to the audit profession as a whole, and they will not be able to provide the reasonable solutions for the problem of creative accounting.

Although the creative accounting concepts became popular just two decades ago, there has always been a desire to manipulate the numbers among financial-business people. Manipulating numbers to get a favourable accounting impression has a long history. According to Balaciu and Vladu (2010), ambition of making figures more appealing or the opposite, as the circumstance demand, is as old as five centuries. Luca Paciolo had shaped the practices of creative accounting in his book De Arithmetica which outlined the fact of the Venetian trade men at those times, noted to have recorded the transactions between themselves by double-entry book keeping with ink and quill-pen in main and subsidiary books. If there arose any inconsistencies, the ink column was occasionally knocked over in the books, in order to make entries illegible. This example shows that manipulative behaviour of figures in trade and among the financial-business people is not a new phenomenon but goes back to centuries. However, the term "Creative Accounting" was first originated with the movie "The Producers" by Mel Brooks in 1968. In this movie the producers of a play deceive the backers of their play by selling many times over the total value of the enterprise based on the assumption that the play will be unsuccessful, the backers will expect no financial gain, and the producers will have an ill-gotten profit. However, in the play as unanticipated becomes very successful surprisingly, creating a sensation that made the plans of the producer's flop.

Creative Accounting

One of the early researchers, who defined the account manipulation, was Copeland (1968). The term creative accounting was also used in 1968 in film "the producers" by Mel Brooks. The concept of creative accounting appeared in the Anglo-Saxon literature in the 1970s. Creative accounting refers to the accounting practice that may (or may not) follow the accounting principles or standards, but deviate from what these principles or standards intend to achieve, in order to show a desired image of the company to the stakeholders. Alternatively, creative accounting is the transformation of financial accounting figures from "what they actually are to what the preparer of financial reports desires by taking advantage of the existing rules and/or ignoring some or all of them." Thus, creative accounting uses the various loopholes in accounting principles or standards to show the desired results to the stakeholders.

Many terms has been used to describe this practice of changing in facts from what they actually are like cooking the books, massaging the numbers, financial engineering, cosmetic accounting, big bath accounting, window dressing etc. Some of the common labels are explained as follows

- **Aggressive Accounting**: A forceful and intentional choice and application of accounting principles done in effort to achieve desired results, typically higher earnings, whether the practices followed are in accordance with GAAP or not.
- **Earning Management:** The active manipulation of earnings toward a predetermined target, which may be set by management, a forecast made by analysts or an amount that is consistent with a smoother more suitable earnings stream.
- **Income Smoothing:** A form of earnings management designed to remove peaks and valleys from a normal earnings series, including steps to reduce and „store" profits during good years for use during slower years.
- **Fraudulent Financial Reporting:** Intentional misstatement or omissions of amounts or disclosures in financial statements, done to deceive financial statements users, which are determined to be fraudulent by an administrative, civil, or criminal proceeding.
- **Creative Accounting Practices:** Any and all steps used to play the financial numbers game, including the aggressive choice and application of accounting principles, fraudulent financial reporting and any steps taken towards earnings management or income smoothing.

What motivates Creative Accounting?

In the modern globalized and liberalized era, the business firms are facing stiff competition and therefore, are under constant pressure to show the good financial results through their financial reporting system. In such an environment, firms usually start using the creative accounting practices, especially in an unsuitable situation to boost up the profit/income, or manipulate the assets and liabilities to report to the stakeholders the image that is better than the actual image. There are many factors, which are regarded as the reasons for applying creative accounting techniques such as

- **Freedom of choice of the accounting principles :**

The accounting policies and rules of the company allow choosing between different accounting methods which used in preparing financial statements that lead to company's choice of the accounting methods which corresponds with its aims and wishes which create better image of the company's performance. (Amat, Blake 1999, P 37).

- **Freedom of accounting evaluation**

Preparing some accounting operations may include large amount of estimation, personal judgment and anticipation, which allow the administration to manipulate in estimations in order to achieve certain aims which were set previously, so in some cases .like estimations of assets productive age in order to calculate the extinctions, this operation usually happen inside the company, thus it will enable the creative accountant of manipulation in an unspoken way which hard to be discovered through setting the report or biasing in preparing these reports

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in an optimistic way or discreet one according to administration's needs and its aim in effecting on the financial statements in terms of magnification or minimizing their values.)Mulford, Comisky 2002, P 64).

- **Timing of The real operation execution:**

Giving the freedom for the administration in execution some operations at the time it deems appropriate, may push it to postpone execution these operations in order to achieve certain aims and goals, for example if the company investment was limited in one million dollar and it Is the historical cost and it can be sold by three million dollars and this in the current value, in this case the administrators of companies are free in choosing the year in which they planned to sell this investment, surely this will reflect on increasing or decreasing the profit in the final the Accounts(Griffiths 1992, P 85).

Techniques of Creative Accounting

Accounting standards and policies do not cover every aspect of business transactions besides considerable latitude is available for managerial discretion, which gives legal lag to the users of creative accounting. All the techniques of creative accounting revolve around the basic principle of debiting and/or crediting an inappropriate account. Further by misusing of accounting policies or by changing accounting policies managers can alter their profit figure or show false picture of financial reports. Business organizations may quite validly, change their accounting policies**.** Fox (1997) reported how accounting policies in some companies are designed within the normal accounting rules to match reported earnings to profit forecasts. These can be used in the following ways:

- **Recognizing Premature or Fictitious Revenue:** The creative accounting practices often begin with revenue recognition, because of its direct impact on earnings. “Premature” revenue recognition is recognition of revenue for a legitimate sale in a period prior to that called for by generally accepted accounting principles (GAAP). On the contrary, “fictitious” revenue recognition is the recording of revenue for a non-existent sale.
- **“Big Bath” Accounting:** Big-Bath is a managerial strategy “to get rid of all the bad news in one go.” In this technique, Managers write-off as many costs as possible in the current period, so that the future performance looks better. It is widely used in acquisition accounting and in takeovers.
- **Abuse of Materiality Concept:** It includes misusing the concept of materiality by intentionally recording errors within a defined percentage ceiling. Firms indulging in this practice try to find an excuse for it by arguing that the effect on the net income is too small to matter.
- **Problems with Cash-flow Reporting:** Another way for companies to communicate a higher earning power is “reporting higher and more sustainable cash flow.” A company’s apparent earning power will be greater with the potential recurring quality of operating cash flow. Therefore, a firm can classify an operating expenditure as an investing or financing item, or investing or

financing inflow might be classified as an operating item. Even if these steps will not alter the total change in cash, they will increase the cash flow from operations.

- **Make over/under valuation of closing stock:** It can do over/under valuation of its closing stock, which will result in over/under statement of assets in the balance sheet and under/over statement of cost of goods sold in the income statement. For example, Laribee Wire Manufacturing Company recorded phantom inventory and carried other inventory at distended values, which is used by the company as collateral security in borrowing some $130 million from six banks.
- **Create over/under provisions or reserves:** It can make over provisions or reserves when revenues are high to bring down it to the normal level, the level that can easily be maintained in future years. Similarly, in critical time it can ignore making provisions to overstate the profit.
- **Charge an expense as an asset or vice versa :** It can charge an expense as an asset to improve current profits or alternatively, an asset may be treated as an expense to bring down the current profit.
- **Charge all expenses in one bad year:** If management thinks a particular year as bad /poor profitability year, they can lump all the expenses in that year to ignore impact on future profits.
- **Enter artificial transactions:** Use of artificial transactions like sale of an asset at current price to show profits and buying it back at current cost can be entered to manipulate balance sheet and profit figures.
- **Change depreciation rate/amount:** It can decide not to provide depreciation or to provide less than the due amount of depreciation on fixed assets to overstate the profit and overstate the value of asset in the balance sheet. On the other hand, to show higher expense in the income statement and to understate the value of an asset in the balance sheet depreciation at higher rate or for full year can be charged though used for a short period.
- **Misuse autonomy in deciding useful life of an asset:** The estimation of the useful life of an asset to calculate depreciation is done within the company and this gives lots of opportunity to the accountant to make judgement according to the requirement.
- **Make subsidiary/joint venture:** At the time of investment in subsidiary equity method can be used to conceal the true performance. Using this method the investment can be recorded at cost and subsequently adjusted to reflect the share of profit or loss and dividend received. This method limits the information available to investors. Similarly, a company can overstate interest coverage to change the advantage ratio.
- **Under estimate contingent liabilities:** Companies by under estimating materiality of contingent liabilities or ignoring to record can overstate their net income or shareholders equity.
- **Under value pension obligations:** Pension obligations are the present value of future payments earned by the employees. A company by changing few assumptions regarding these funds, using

pension accounting, changing discounting rate etc. can increase the expected return to boost net income.

- **Manipulate news releases:** Companies often seeking to increase their earning power manipulate their balance sheet, which can be used to obtain more easily line of credit at low interest rates, easily issue debt financing, or issuing bonds on better terms. Similarly, when a company misses estimates it can use a number of tricks to pull the wool over the investor's eyes. Some tricks are:

➢ Pronouncing good news to offset bad news,
➢ Enhancing preferred news,
➢ Burying bad news by using phrases,
➢ Showing bad news near the bottom of the report,
➢ Buying back to make shares attractive.

Creative Accounting Practices Scenario in the Indian Companies

India is a "developing" economy, where the corporate-sector is contributing a major part in national income. Most of the Indian corporations are spreading their wings all over the world, where they get lots of opportunities to go for "Creative Accounting (CA)" since all countries have different accounting systems, which creates ambiguity in investor's mind. Thus, the number of accounting scandal has also increased in India. Over the recent years, "India has developed its corporate-sector, stock-markets and the accounting profession." The growing importance of the corporate-sector calls for its "efficient" working and "greater" transparency. However, the prevalence of Creative (or fudging) Accounting, and fraudulent practices followed by some of the Indian companies hinders this. In spite of the number of checks and balances required by the multiple regulatory agencies, there have been growing numbers of accounting scandals since the 1980s. Firms adopt accounting procedures that "minimizes unfavorable economic effects and enhance favorable ones." Thus, corporate frauds are results of manipulation of accounts and accounting "jugglery" designed to deceive others for wrongful gains. Such creative accounting by "fudging" the accounts is attributed to the "flexibility" provided by the "accounting" system (Jones, 2011). In India, the Companies Act requires that accounts must be "true-and-fair". Sometimes, however, management "abuses" the freedom of choice in the accounting systems. Methods are adopted to "hide" the true-picture, and show an "improved" performance of the firm. In fact, the company management may adopt various methods to dress up financial statements to show improved performance. In respect of profit and loss account (or income statement), the accounting risk is usually the overstatement of income or understatement of expenses. For the balance sheet, it may exist in three areas: the correct valuation of company's assets, accounting for all liabilities and over or understatement of net worth. The effect of creative accounting has defeated the "fundamental" purpose of presentation of "true and fair" FS, as required by Section 211 of the Indian Companies Act.

Satyam Computers Services Limited "Inflated cash and bank balances of more than $1.5 billion (Rs. 7,000 crore), overstated debtors position of $100 million and understated liability of $250 million" was arranged for CEO Raju. Even though Satyam is not only the first major accounting scandal that India has seen, one of the release by the India Credit Rating Agency "CRISIL" seems to have sounded an alarm signal. This study is based on the analysis of 639 companies. Of these, as many as 226 companies (forming 33.33%) of the universe were found to be inflated their profit and 21.91% deflated their position through clever, though legal accounting practices. Even though banks and financial institutions are unhappy with the existing accounting practices followed by their corporate borrowers, they are helpless in taking any legal action. Some of the prominent examples of corporate-sector from India having used Creative accounting practices, as reported are:

- **TELCO:** Capitalized Rs. 1.178 crore dinner party expenses instead of writing it off in the year 2001-02, showed only a modest loss of 53 crores instead of actual loss, which was very huge
- **Mahindra and Mahindra:** While developing and launching their new SUV passenger vehicle "Scorpio", Mahindra and Mahindra picked-up the hint and repeated the practices of Telco in the year 2002-03. On questioning the Telco spokespersons said that they have done no wrong legally. However CRISIL remarks says "ideally, we should have written off the amount against the profit and loss account over a period of time rather than against the reserves at one go"
- **ICICI Bank:** The ICICI wrote off Rs. 813 crore of bad loans against its profit and loss account in 2001, as a result profit fell by 55%. As against this, ICICI wrote-off only Rs. 701crore in the three years 1997 to 1999 and that too against reserves. The one time write off in FY 2001, prior to the ICICI Bank.
- **Reliance Petroleum Ltd. (RPL):** RPL showed the income earned from deferred sales tax as part of income. This practice is however, within the current accounting laws.
- **Rolta India:** Rolta India was accused off propping-up its sales in the late 1990s and early years of 20th century by adopting some creative method of accounting. The company has been accused of inflating its sales by asking one of its divisions to sell capital equipment to another on profit.
- **HDFC bank** has been showing profits from sale of investments as part of operating profit. During FY 2002, about 4% of such profits came from sale of securities.

Review of Empirical Studies

Shah (1998) tried to explore the environment of creative accounting in the UK, focusing on the motivations and constraints on such practices, by examining the accounting practices of two UK companies which issued creative financing instruments. He found that creative accounting is influenced by two key motivators: stakeholder contracts and performance indicators. Amat et al. (1999, 2003) have reported on surveys of auditors" perceptions of creative accounting in the UK, Spain and New Zealand to investigate the ethical issues raised by creative accounting. It was revealed in their studies that the aggregate impact of creative accounting practices on earnings amounted 20% of total reported earnings. They found that New Zealand offered an example of a country where a well-designed framework of accounting regulation has curbed creative accounting. Similarly, Baralexis (2004) investigated "why, how, to what extent, and in what direction, creative accounting was practiced in Greece. Knezevic et al., (2012) used a questionnaire to conduct a study of companies in Serbia. Two studies by Laura and Ileana (2013), and Balaciu et al., (2014) are based on the administration of a questionnaire to Romanian companies and managers using projective technique. A study by Momani and Obeidat (2013) investigated the effect of audit ethics on auditors‟ ability to detect the practices of creative accounting in Jordan.

In Turkey, Kucukkocaoglu and Kucuksozen (2005) aimed "to detect manipulated financial statements of firms listed in Istanbul Stock Exchange by using logistic regression model." Moreover, Bayirli (2006) has focused on the scope, incentive factors, limits, practice methods and results of creative accounting in Turkey. In order to determine the creative accounting practices of Turkish firms, he used accruals method and used modified Jones model by adding country specific variables. Similarly, Omurgonulsen and Omurgonulsen (2009) have "examined the creative accounting practices in Imarbank, which is one of the recent banking scandals in Turkey, using case study methodology."

Osazevbaru (2012) investigated the effect of creative accounting on firm value in Nigeria, and the findings of the study revealed that it can positively affect firm's value. Another study, which also focused on Nigeria, is by Idris et al. (2012). Using survey method, they investigated the practice of creative accounting, its nature, techniques, and prevention. They concluded that "one of the best ways to prevent the practice of creative accounting is to enforce both preventive as well as strong enough punitive measures on those that engage in the practice."

Similarly, Sansusi and Izedonmi (2014) made an empirical investigation on the opinions of experienced staff of commercial banks on creative accounting practices in Nigerian commercial banks. They recommended that "creative accounting should be considered as a serious crime and as such accounting bodies, law courts and other regulatory authorities need to adopt strict measures to stop the practice." Moreover, Micah and Chinwe (2014) have used survey data and financial reports on 14 manufacturing firms over 5 year period to "examine whether creative accounting and organizational effectiveness has any significant relationship." Recently, the study by Blessing (2015) evaluated the use of forensic accounting techniques in curbing creative accounting.

Bhasin (2013) examined the India's Enron, Satyam Computers Creative Accounting scandal. He suggested "the increasing rate of white-collar crimes demands stiff penalties, exemplary punishments, and effective enforcement of law with the right spirit." Moreover, Soral and Kamra (2013) explored the ethical and unethical aspects of creative accounting with the help of cases from India and abroad. Similarly, Rajput (2014) found that creative accounting exists due to lack of awareness and information level of investors. He highlighted the role of government and various agencies like SFIO and India Forensic for proper handling of the problem of creative accounting.

Renu and Aggarwal (2014) highlighted the creative accounting in negative sense with the help of creative accounting methods adopted by Enron Company and Satyam Computers, which led to the collapse of both of them. Yadav (2014) discussed the various aspects related to creative accounting. He found that "the creative accounting practices increase when managers want to boost the profit in case of unsuitable situation and suggested that such practices can be minimized by good corporate governance practices." Patnaik et al., (2014) made an empirical analysis by undertaking a survey in some selected private sector undertakings in Kolkata, Bhubaneswar and Cuttack. They used questionnaire and Likert scale method and concluded that "window dressing practices are prevalent in majority of corporations and external auditors encourage such practices for their own interest." Recently, Tassadaq and Malik (2015) in their empirical study collected the data through structured questionnaire from industrial sector of Pakistan. They concluded that "a company is involved in frauds or scandals because of several factors like unethical behaviors, agency problem and non-professional attitude." The above highlighted reviewed studies are focusing on different dimensions of the creative accounting. So far, unfortunately, no detailed research study has been undertaken specifically in the Indian corporate sector context. The discussion-based model has been used on the basis of past references and experiences.

Managers and auditors play an important role in any firm. At the end, manager gets rewards from the company's performance. Auditor's close supervision may reduce the chances of applying creative accounting. Yadav (2013) finds that involvement of outside directors could reduce the practices of creative accounting. And the more, the outside users, the less creative accounting practices. He further stated that, involvement of professionals in financials decision can build a trust of stakeholders in the enterprise. Finally concluded that, qualified accountants could help companies in the use of creative accounting techniques effectively. It also suggested that corporate governance is a best way to reduce these practices.

Frank Partnoy (2006), Credit rating agencies act as helping hand for stakeholders in investment decisions. Since full expert team work on the analysis of financial statements, and parties involved are independent ones, investors feel that the data or information provided is reliable. These days the investors have started thinking over the rating procedure of credit rating agencies and strongly feel that rating should not be the only criteria for investment decision. After Enron, Satyam and WorldCom collapsed, stakeholders and regulatory bodies realized that there was no way to prevent financial market from manipulations, as the people responsible in providing authentic information are manipulating the books for personal gains. The fee charged by credit rating agencies

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comes from the companies itself and thus better analysis will bring good amount of fee. Thus personal gain automatically becomes a reason of loss of trust in CRAs rating system. CRAs in present situation need to create a better image in market to regain the trust.

Beneish, M. (1997). The findings suggested in the paper that, there was a high probability of accounting manipulation in Enron's financial statements for several years preceding its bankruptcy. It also stated that the manipulation covered-up the considerable evidence existing that could have lead analysts, sophisticated investors, and regulators to question Enron's financial results and soaring stock price. Deegan, C., and Blomquist, C. (2006), corporate reporting is an important fact for providing transparency in corporate sector and there is strong influence of stakeholder on reporting standards followed by company.

Parviz Saeidi (2012), an empirical paper which shows the relationship between income tax and income smoothing practices. The hypothesis testing in this paper proof that, there is significant relationship between the two, which is the taxable income and income smoothing followers comparable to that of non-followers of income smoothing and it is also concluded by Parvez that there is significant relationship existing between profitability ratio and income smoothing.

Auditors' Responsibilities in Fraud Detection

The role of auditors has not been well defined from inception (Alleyne and Howard 2005). Porter (1997) reviews the historical development of the auditors 'duty to detect and report fraud over the centuries. Her study shows that there is an evaluation of auditing practices and shift in auditing paradigm through a number of stages. Porter (1997) study reveals that the primary objective of an audit in the pre-1920's phase was to uncover fraud. However, by the 1930's the primary objective of an audit has changed to verification of accounts. This is most likely due to the increase in size and volume of companies' transactions which in turn made it unlikely that auditors could examine all transactions. During this period, the auditing profession began to claim that the responsibilities of fraud detection rested with the management. In addition, management should also have implemented appropriate internal control systems to prevent fraud in their companies.

Audit Ethics

Several ethical patterns should be followed when each profession is practiced, whatever the nature, or type of that profession. When many practitioners of a particular profession do not follow the ethics of their profession, that profession loses its importance and usefulness to the society as a whole. Auditing is an important profession for most societies. Audit profession provides several services, such as assurance, attestation, review of historical financial statements, and other attestation services (Arens, 2010). In other words, auditors provide users of financial statements with more confidence that the available information in financial statements had been reported based on the GAAP, and have enough degree of objectivity and faithfulness. The code of professional ethics for the audit profession provides both

general standards of ideal conduct and specific enforceable rules of conduct. This code consists of four parts including, (1) Principles, (2) rules of conduct, (3) interpretations of the rules of conduct, and (4) ethical ruling.
Principles involved in the code of professional conduct for the profession of audit are ideal standards of ethical conduct stated in philosophical terms. These principles are unenforceable, and are as follows (Arens, 2010):

- Responsibilities. Auditors have to exercise sensitive professional and moral judgment while they carry out their responsibilities.
- Public interest. Auditors have to practice their activities in a way that will serve the public interest, honor the public interest, and demonstrate commitment to profession.
- Integrity. Auditors should perform all of their professional responsibilities at the highest possible sense of integrity.
- Due care. Auditors should observe the profession's technical and ethical standards and strive to improve their competences and the quality of their services.
- Scope and nature of services. Auditors in practice should observe the principles of the code of professional conduct while they determine the scope and nature of cervices that they are required to provide.

Objectives of the study

- To examine the purpose of using creative accounting in the corporate sector.
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- To study the Creative accounting manipulation method used by the corporate sector.
- To explore the various issues related to the creative accounting practices in the corporate sector.

Research Methodology

Creative accounting is one of the most important accounting techniques used by the corporate-sector across the world, and one of the best methods to play with the accounting numbers. The Corporate Governance also plays an important role in exercising a counter-check on the Creative accounting practices. As a result, we have taken the "qualitative approach" for this research study, and survey method was employed to elicit information from the respondents. In fact, this study is an "exploratory one, which has benefited from the primary and secondary sources of information." The population of this study comprised of both the preparers and users of financial statements, as well as, teachers of accounting. Accordingly, a random sample of One hundred twenty (120) copies of questionnaires was distributed and one hundred (100) were returned. This represents 90% of the distributed questionnaires. The questionnaires were analyzed and used for the study. Percentage and simple average calculation were used to analyze the data collected and later presented in a tabular form.

Purpose in the use of Creative accounting

Response	Frequency	Percent
To establish the grounds for loan accessibility and investment attraction	21	21
To qualify management to earn attractive bonuses	18	18
To record high profit for stock market purposes	37	37
To mislead readers in favour of agency	24	24

It became very clear from the studies that majority of the corporate sector agencies in India, who engages in creative accounting, do so to gain advantage at the stock market with 37% respondent to that effect, and 24% who follows as the second highest respondents opined, they do so in favour of their agency per the reason of market competition. Thirdly the 21% respondent category, claim such practices is engaged for the purpose of attracting investment to their firm as well as loan accessibility.

Whether creative accounting practices affect financial statements?

Response	Frequency	Percent
Strongly Agree	53	53
Agree	23	23
Undecided	18	18
Disagree	5	5
Strongly Disagree	1	1

53 participants "Strongly Agree", 23 simply "Agree", 18 were "Undecided", 5 "Disagree" and 1 "Strongly Disagree". Thus, it is very much clear that a large majority 76 participants "Strongly Agree and Agree" that Creative Accounting practices adversely affects the financial statements.

Whether creative accounting practices are legal?

Response	Frequency	Percent
Legal	14	14
Totally Legal	24	24
Don't know	16	16
Totally Illegal	28	28
Illegal	18	18

Considerably large number of participants 38% considers Creative Accounting practices to be "Legal" and "Totally Legal" and 16 were neutral by saying "Don't Know". In sharp contrast, highest number of 46% participants considers Creative Accounting practices to be "Totally Illegal" and "Illegal", respectively.

Who manipulates financial statements?

Response	Frequency	Percent
Accountant	28	28
Manager	42	42
Auditor	17	17
CEOs	13	13

28 participants declared "Accountants", 42 feel it to be "Managers", 17 thought it to be "Auditors", whereas 13 said that "CEOs" are primarily the main manipulators of Creative Accounting techniques. As was expected under the present corporate environment, very large number of participants, 70 feel both the "Accountant

and Managers" are the main hero's to perpetuate the Creative Accounting practices in the corporate sector financial statements.

Do You Trust financial statements?

Response	Frequency	Percent
Completely Trustworthy	12	12
Trustworthy	27	27
Don't know	12	12
Untrustworthy	16	16
Completely Untrustworthy	33	33

33(38.81%) were of the opinion that information contained in the financial statements are "Completely Trustworthy" and" Trustworthy", 42(49.43%) regards it as "Completely Untrustworthy" and "Untrustworthy". Unfortunately, a very small segment 10(11.76%) appears to be confused, not sure/neutral, simply by saying "Don't Know".

Why creative accounting practices is Used?

Response	Frequency	Percent
Strong Competition	23	23
Benefits to Manipulator	34	34
Chase Investment	31	31
Art of Making Financial statements	12	12

23% of participants identified it to "Strong Competition"; 34% to "Benefit to the Manipulator", 31% to "Need to Chase Investment", and 12% to the view that "Statement Making incorporating creative accounting is an Art". To sum up, 88% participants, being the largest segment, were very much sure about the special "lead-role" played by the corporate management: benefit to manipulator, encounter competition, and attract Capital investments, respectively.

Whether Creative accounting practices are easy to use in financial statements?

Response	Frequency	Percent
Very easy	10	10
Easy	22	22
Can't say	31	31
Hard	33	33
Very Hard	3	3

31% respondents showed neutral towards putting creative accounting techniques in financial reporting; 32% declared it hard to use whereas 36% said it to be easy to use in financial reporting.

Whether Creative accounting practices are easy to Detect in Financial statements?

Response	Frequency	Percent
Very easy	11	11
Easy	19	19
Don't know	12	12
Hard	29	29
Very Hard	29	29

58 were of the opinion that it is "Hard" and "Very Hard to Detect" the creative accounting practices in the corporate financial statements. As against this, 30 participants were of the opinion that it is "Easy" and "Very Easy to Detect", and 12 were not clear and appeared to be confused; they gave the reason "Don't Know".

Which party suffers from loss due to creative accounting techniques?

Response	Frequency	Percent
Company	18	18
Customers	12	12
Investor	56	56
Society	14	14

18% people think that company may suffer from loss due to creative accounting techniques. 12% people think that customers may suffer due to creative accounting techniques. 56% people think that investors may suffer whereas 14% people think that society may suffer from loss due to creative accounting techniques.

What is popular creative accounting Manipulation Method?

Response	Frequency	Percent
Off balance-sheet finance	42	42
Depreciation policy changing	19	19
Extraordinary and exceptional items	15	15
Valuation of money	24	24

42% people think that mostly manipulation is done in off balance-sheet financing through creative accounting techniques. 19% people think that mostly manipulation is done in depreciation policies. 15% people think that mostly manipulation is done in off balance-sheet financing through extraordinary items whereas 24% people think that mostly manipulation is done in off balance-sheet financing through valuation of money.

How the company may reduce the use of creative accounting?

Response	Frequency	Percent
Strengthen internal auditor	45	45
Strengthen external auditor	10	10
Improving accounting standards	29	29
Increasing punishment	16	16

45% said that the company may reduce the use of creative accounting by strengthening its internal auditors; 10% said that the company may reduce the use of creative accounting by strengthening its external auditors, 29% said that the company may reduce the use of creative accounting by improving its accounting standards whereas 16% said that the company may reduce the use of creative accounting by increasing punishments.

What is the role of ethics in preventing creative accounting techniques?

Response	Frequency	Percent
Strongly Agree	6	6
Agree	16	16
Undecided	30	30
Disagree	37	37
Strongly Disagree	11	11

48% agreed to it that ethics may prevent creative accounting techniques in financial reporting, 22% disagreed to it that ethics may prevent creative accounting techniques in financial reporting whereas 30% were not sure about it.

Findings

- This study revealed that the practice of Creative Accounting is an attempt to gain advantage in a form to the managers and companies. Also, it shows that the current GAAP create a gap that can permit and encourage the practice of Creative Accounting.
- This paper finds out that creative accounting variables enhance profitability
- It was also realized that the most popularly used creative accounting methods in the corporate sector of Ghana is Off Balance sheet financing.
- It came to be realized that, the highly most engaged architect in creative accounting in the corporate sector of India are Managers followed by Chief Executive officers.

Conclusion

Creative accounting is a term used to refer to the aggressive use of choices available under accounting rules, to present the most fattening view of a company in its financial statements. They seek loopholes in financial reporting standard, which they can exploit to adjust the numbers, as much as is practicable, to achieve their desired aim, satisfy their financial projections, or obtain some private gain. By and large, the effect of accounting manipulation can be disastrous leading to a total loss of corporate image and executive integrity. Creative Accounting offers a formidable challenge of the accounting profession which when carried to extreme negativity, has cast aspersion on the credibility of accounting principles and standards. In general, Creative Accounting lends itself as deceitful and undesirable practices. The ethical implications of Creative Accounting raise the need for a close scrutiny of the potential abuse of accounting policy choice and manipulation of transactions. The study establish a relationship fact of the multi-dimensional nature of the ongoing financial crises which has it deep root in the financial reporting, burdened with the adoption of Creative Accounting.

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