International Research Journal of Management and Commerce
Vol. 3, Issue 4, April 2016 IF- 3.861 ISSN: (2348-9766)
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Website: www.aarf.asia Email : editor@aarf.asia , editoraarf@gmail.com

BLAMING HORSE'S PARENTS: THE PROBLEM IS OFTEN IN THE BREEDING

(A Critical Note on Creative Accounting)

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ABSTRACT

In todays times of economic stress management/ accountants are tempted to adopt procedures which may be questionable but would refine the presentation of financial accounts. Creative Accounting is one such weapon that helps organisations to delay the clarity of their incompetence before the stakeholders, may be for a short span. Generally creative accounting is seen and perceived to be very negative atleast for one or the other major stakeholder. Actually creative accounting has a very strong positive face too. In a developing country like India where stock prices often are not a true indictor of a company's credentials, there might be innumerable cases where companies have benefitted effectively by using creative accounting techniques, although in good times the reasons of growth are not actually detected and so in growth periods creative accounting remains disguised. Creative accounting has come up along the years as a source of major scandals and crises. But the fact is that the solution also lies deep within it. Just as there exist hackers and ethical hackers in the cyber space similarly there have to be accountants and ethical accountants. The ethical hackers are hired by big organisations to identify the vulnerabilities of websites, similarly creative accountants should be able to identify manipulations and their extent. The blamegame starts amongst owners-top executives-finance and accounts dept.-shareholders/government/financial institutions/creditors etc-Auditors….

This paper is an attempt to discuss the hairline gap between creative accounting and fraud on one hand and relationship between creative accounting, ethics and corporate governance on the other. In this paper the author has developed a framework that defines the stakeholders, the motivational factors, various techniques employed by the different stakeholders to suffice their individual motivations. Further the matrix developed by the author displays some sample creative techniques derived from literature review. The next section talks about managing creative accounting. Here again a framework is established that relates the functional areas of creative accounting, the enablers and the concerned theoretical foundations. Next, the paper suggests some Quick Wins before adopting to long term solutions to control, the negatives of creative accounting ASAP and gain the shaken confidence of varied stakeholders. The paper provides for adoption of some very simple yet effective long term solutions before concluding to say that creative accounting opens up a gigantic arena for further research.

KEYWORDS Creative Accounting, Accounting Education, Corporate Governance

INTRODUCTION

Businesses have tried to capture the attention of its various stakeholders from times immemorial. Moreso, the efforts to mesmerize them through financial statements is an age-old practice, probably as old as accounting. The first mention of creative accounting practices belongs solely to the father of modern accounting Luca Pacioli. In his first accounting manual itself he talked about making figures appealing. So whats the big deal if today the organizations are making their statements appealing. Diana Balaciu et al., have gone to the extent to say that long long back "relationships between traders were recorded by double entry bookkeeping with ink and quill pen in the main and subsidiary books. Where discrepancies arose, the inkwell was occasionally knocked over on these books – not always unintentionally – in order to make the entries illegible."

In todays times of significant economic crises across the globe, creative accounting is more often referred to as a weapon rather than a tool to offer lifesaving solution to firms. In such strenuous periods management/ accountants are tempted to adopt procedures which may be questionable but would refine the presentation of financial accounts. The financial statements are just like transmitters that transmit the message capitalized in the financial information to the various receivers who wish to utilize it. The information in financial statements is influenced by ‘n’ number of perturbing factors on its way of transmission from supplier to the receiver of information. Once reaching the receiver, the information would be again interpreted as per the receiver’s interest.

Creative Accounting is intentional misstatement of financial facts by managers or accountants. This is beneficial for the organisation if done under the influence of the top management else the manager/accountant is at a gain and is against the firm. M. Lafferty says “How do you explain to an intelligent public that it is possible for two companies in the same industry to follow entirely different accounting principles and both get a true and fair audit report?” Creative Accounting happens because the accounting rules allow making choices with regard to accounting treatments, due to which there is deficiency of consistency in the accounting information. As a simple example, materiality in accounting is still a headache. Despite huge amount of research and enormous attention even of legal courts materiality still remains controversial and in most cases becomes a part of ethics and business practices. Could a remedy lie in reducing choices? A more elaborate set of accounting standards with respect to industries and specific conditions be framed? In fact creative accounting takes lead from the loopholes in accounting processes and flexibility to embroider the financial statements. Although not illegitimate, creative accounting helps managers face pressure to glamourize the financial condition of the business. Minimising it may require a complex teamwork. Team work by all the players and may be with the help of some sound model. In this research an attempt has been made to present such a model.

Creative Accounting vs Fraud

In the very basic course of accounting the students are taught treatments of five main items: equity, assets, liabilities, expenses, revenues. The complete accounting revolves around two buz words, debit and credit. So, a creative accountant has to just playfully deal with these basics to achieve the desired accounting figures. Syed Zulfikar Ali Shah suggests five such acts of accountants: Big Bath Charges (A big loss shown in one single year), Creative Acquisition Accounting (allocation of R and D costs), Cookie Jar Reserves (over/under provisioning of accrued expenses), materiality and revenue recognition.

The reason behind most financial scandals is some kind of falsification of accounting procedures to conceal the factual position of the business. The concept of creative accounting involves manipulation of financial figures to make the statements appear the way the top management wants it to appear before the stakeholders. It also thus minimises the already hairline gap between creativity and crime or fraud. In the Satyam Scam (inflated sales, inclusion of uncleared cheques in CFS, understated liabilities) the chairman repented by confessing that the crossing of the line of creativity to fraud went in such an uncontrolled manner that it was like riding a tiger. Not knowing how to get off without being eaten up. Similarly creative accounting could be found a suicidal act for the firm

To quote Balaciu and Madalina "Creative accounting represents the manipulation of accounts according to accounting regulation and the law, while the techniques that break the law are considered accounting fraud. Therefore, the company using creative accounting, benefit from the legislative niches and the flexibility of regulation in order to misreport the financial statements. " In multiple cases the people from top management pressurize the chief accounting officer to cross the border of creativity towards fraud. An effective and ethical chief accounting officer (is familiar with all operations and financial positions of the business) is most eligible and capable to prevent fraudulent reporting and sustain creativity, thus safeguarding the hairline gap.

Ethics and Corporate Governance

Ethics are codes of conduct pooled by a community that draw a demarcation between good and bad, good and evil, moral and immoral, positive and negative. Creative Accounting is completely a game of ethics. Ethics, of the management, the managers, the accountants, the auditors and all involved in the preparation of accounting information. Professional ethics is located at the intersection of moral philosophy with particular ethics of various categories of occupations. The central issue of the introduction of ethics in professions, although there are already laws is because the law usually acts after an infringement has occurred. Border and ethical practices are believed to act preventively (Airaksinen, 1998, pp 671-672). Financial Statements, the progress report of the company, are the sole responsibility of the management. Fair presentation of financial position, confirmation of cash flows with accounting principles, operational results, are all an integral part of the management. Auditor has limited knowledge as well as access to these details on which he can just opine. Weak Corporate Governance in association with meagre internal control and lack of honesty and transparency within the organisation are prime factors that allow creative accounting. Does a remedy begin with strengthening the internal control system or accounting standards related to this issue may be tightened. According to Ramaswamy, recent corporate accounting scandals resulted in an 'outcry for transparency and honesty in reporting'. Since then corporate governance and its implications have gained a lot of momentum in companies as never before. C. Jean studies the impact of Corporate Governance for Chinese Companies and indicated a distinct decrease in income smoothing after the regulation of code of corporate governance there. Auditors have also become more cautious. And this is very much required since the simplicity of some creative accounting techniques can go unnoticed. (Stolowy 2004).

Warren Buffet had once quoted "invest in those shares whose business you know" in the same way auditors must audit the businesses where they are conversant with the business procedures. This will help tracing fraudulent practices.

Defining Creative Accounting…..

Creative accounting can be defined as accounting practices that exploit the country's existing rules and regulations, provision of GAAP and the national accounting standards, but, deviate from what those standards intend to accomplish with an intention to project a desired (negative or positive, as the case may be) picture of the firm's finance.

In other words, Creative Accounting is an instrument/weapon that can make or break an organisation, its profits, its losses, its assets and liabilities, its name, its stock, its goodwill. Syed Zulfiqar et. Al. say "A weapon is always innocent; the fault whenever it emerges lies with the user." Just as every coin has two sides, similarly creative accounting has. A weapon cannot be wrong, it's the usage that determines the party being harmed and its extent. Creative accounting is employed differently by different orgainsation. There exist a plethora of cases where creative accounting has proven to be a reason for the doom of the organisations. To name a recent few Waste Management Scandal 1998 (Increased depreciation time length), Enron Scandal 2001 (Debts kept off Balance Sheet), WorldCom Scandal 2002 (Underreported cost and inflated revenues), TYCO Scandal 2002 (inflated income), HealthSouth Scandal (2003), Freddie Mac Scandal 2003 (misstated earnings), American Insurance Group Scandal 2005 (Stock Price Manipulation), Lehman Brothers Scandal 2008 (Loans disguised as sales), Satyam Scandal 2009 (Boosted revenue). Likewise the beneficial organisations could be like stars in the sky, uncountable. In a developing country like India where stock prices often are not a true indictor of a company's credentials, there might be innumerable cases where companies have benefitted effectively by using creative accounting techniques, although in good times the reasons of growth are not actually detected and so in growth periods creative accounting remains disguised.

The definitions and nomenclature used for creative accounting are numerous.

Figure 1 Creative Accounting: some common names

As such no definition is comprehensive enough to describe the multiple facets of creative accounting. Some authors call it an assembly of procedures for presenting attractive financial information while some call it an assembly of techniques that uses freedom of regulations and standards for presentation of financial data, without distancing it from basic accounting framework. Smith (1992) asserts that the major chunk of visible economic growth in the 80's is due to 'creative accounting'. A journalist Griffiths (1986) presented creative accounting as a legitimate fraud. Jameson (1988) states that creative accounting practices do comply with the law and the accounting standards but not in its true spirit.

Barnea et. Al. (1976) 'Creative Accounting is the deliberate dampening of fluctuations about "some level of earnings considered to be normal for the firm"'.

Ian Griffiths (1986) "Every company in the country is fiddling its profits. Every set of published accounts is based on books which have been gently cooked or completely roasted. The figures which are fed twice a year to the investing public have all been changed in order to protect the guilty. It is the biggest con trick since the Trojan horse…… In fact this deception is all in perfectly good taste. It is totally legitimate. It is creative accounting."

Kamal Naser (1992) “Creative Accounting is the transformation of financial accounting figures from what they actually are to what preparer desires by taking advantage of the existing rules and/or ignoring some or all of them.”

Naser (1993) “Creative Accounting is (a) The process through which, due to the existence of some breaches in the rules, accounting figures are manipulated and, taking advantage of the flexibility, they choose those measurements practices allowing the transformation of the synthesis of documents from what they are supposed to be into what managers want; (b) The process through which the transactions are structured in such a manner that it allows the “production” of the “desired accounting result.”

Trotman (1993) defines creative accounting as a communication technique having in view the amelioration of the information provided to the investors. Thus the economic entity is presenting to the investors or prospective investors financial statements passed through the filter of some techniques capable of generating a more favourable image on the market but also the illusion of some more attractive results.

Amat, Blake and Dowds (1999) “Creative Accounting is a process whereby accountants use their knowledge of accounting rules to manipulate the figures reported in the accounts of a business.”

So, creative accounting is in a way intentional misstatement of financial facts by managers or accountants. It is in favour of the organisation if done under the influence of the top management, else, the manager/accountant is at a gain and is against the firm. Whatever may be the definitions creative accounting is not a very positive process. It may seem to be a very beneficial for some stakeholders in the short run, but in the long run it is definitely harmful for each one.

Motivation, Techniques and Consequences

Creative Accounting helps in structuring of transactions such that the desired accounting results are ‘produced’. The actual impetus for creative accounting is the conflicting interests of various stakeholders. Managers wish to pay least amount of taxes. Board of Directors wish to pay minimum dividend, whereas shareholders want maximum dividends. Employees want high salaries , directors require high profit share, Government wants to collect more taxes……Creative Accounting actually places one or two groups into advantage, naturally at the cost of the others. David Schiff (1993-94) has warned the investors that taking a company's financial statements at face value can be 'recipe for disaster'.

The figure depicts the motivational framework for the increasing use of creative accounting. The framework clearly defines three segments i.e. Stakeholders, Motivational factor and techniques for creative accounting. The set of stakeholders want to manipulate/misrepresent the financial statements to meet their own selfish interest. It has also been observed that environmental conditions like voids in regulations, multiple accounting practices, flexibility to alter transactions, flexibility to redefine asset and liabilities etc are instrumental in the occurrence of creative accounts. Following paragraphs indicate the different segments of the framework.

The **promoters and shareholders** wish to maximize their wealth and profits respectively but promoter wants to tamper with the financial statement to prevent large distribution of dividends or to minimize taxes. The shareholder although desires to maximise his wealth but is not able to forego the dividends because one in hand is always better than 2 in the bush.

Now comes the **Board of Directors and Employees**. Executives pay-out is directly linked to their performance. So to maximise their current performance they manipulate with timing of transactions, valuation of assets and inventories, debts, loans etc in the Balance Sheet. Similarly employees fidget with various transactions and operations to showcase their outstanding performance, hence creativity in accounting.

Creativity is also present in National Accounting. **Governments** in every part of the world are even not an exception to the use of creative accounting. Government uses Creative Accounting for 2 scenarios. Showing good economic growth, healthy market conditions, hence attraction for foreign investors resulting in social, economic, infrastructure growth in the country hence motivated public and a solid vote bank. Disguise surpluses, show off a worrisome national growth to impose a need of lowering planned expenses and raising tax burden. This may lead to increased surplus and larger foreign aids over time.

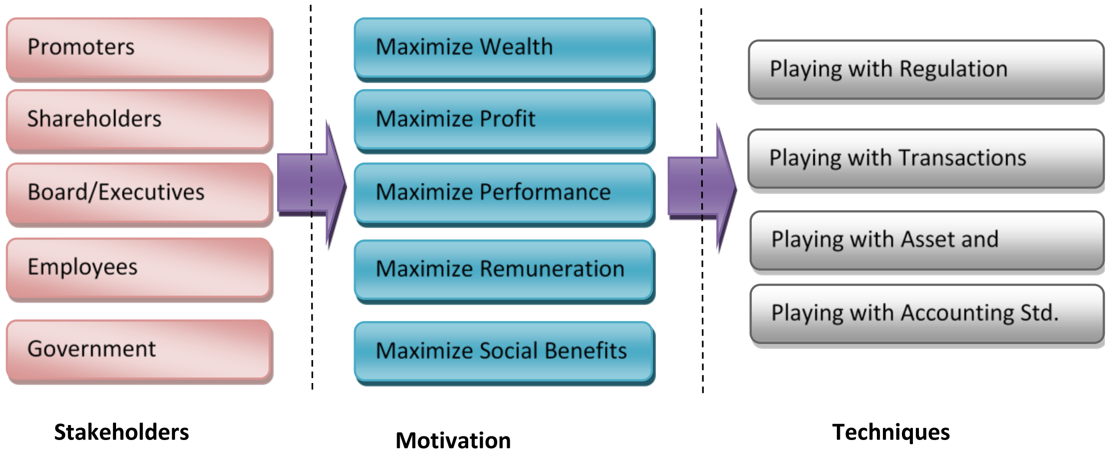

Figure 2 Framework for Creative Accounting

Playing with Regulation	Playing with Transactions	Playing with Asset and Liabilities	Playing with Accounting Std.
Capitalisation of research and development costs	misrepresenting certain expenses in the asset production or purchase cost	manipulating depreciation costs and calculations	adjusting with branch accounts and miscalculating consolidated accounts
Switching over from one depreciation technique to other across years and assets.	Faulty representation of future transactions.	tampering with methods of depreciation, their durations and residual values	Creating extraordinary results (sales of fixed assets, costs or revenues from previous years)
Circumstantial placement of bonds warrants and convertible shares and debentures as per the whims and fancies of the management.	Fictitious sales	no definite criteria for selection of assets and their timings for revaluation	considering extraordinary results as ordinary and vice versa
Variations in inventory valuation methods.	Price falsification for inter and intra company transactions.	Variation in inventory valuation methods.	Adjusting revenue recognitions and expense estimations with a negative intention.
	Fluctuating prices of your holdings to impact the internal capital and profits.	knocking off assets with liabilities or expenses with revenues	misappropriation of the commercial funds against reserves or capitalization and depreciation
		Changes of the holdings classification policy	certain accounting expenses not included in the profit and loss account instead shown in retained earnings
		Valuation of intangible Assets	

Managing Creative Accounting

It is not possible to eradicate creative accounting and there is no need for it also. Every firm has the right to present itself beautifully, so no harm in topping up the financial numbers. If this is wrong then probably no beauty product producer should showcase film stars in their advertisement campaigns, no energy drink should be endorsed by sportspersons, no pharmacy products be legitimatised by doctors and so on….. But as far as creative accounting is concerned, all should be done under the umbrella of a governing body that can demarcate the difference between creativity and fraud. Surveillance committee or tribunals who have power to punish and penalize the culprit under the supervision of the high court be formed. Such committees have to be independent of the supreme regulatory body (ICAI in this respect) to control created accounts. Secondly the financial statements need to have an attached disclaimer. Hence financial figures need to be supported by complete set of information keeping thorough transparency in mind. Thirdly ethics need to be reinforced repeatedly at all levels starting from the education at basic accounting level (X, XI, XII) to highest levels like that of a chartered accountant or a company secretary. Fourthly, every business entity should have significant depth of IT adoption and maturity of the IT system to capture maximum information from transactional level activities, followed by absolutely no manual intervention. If this is implemented completely, creativity on the part of the accountant/manager would be almost zero, hence minimal window dressing.

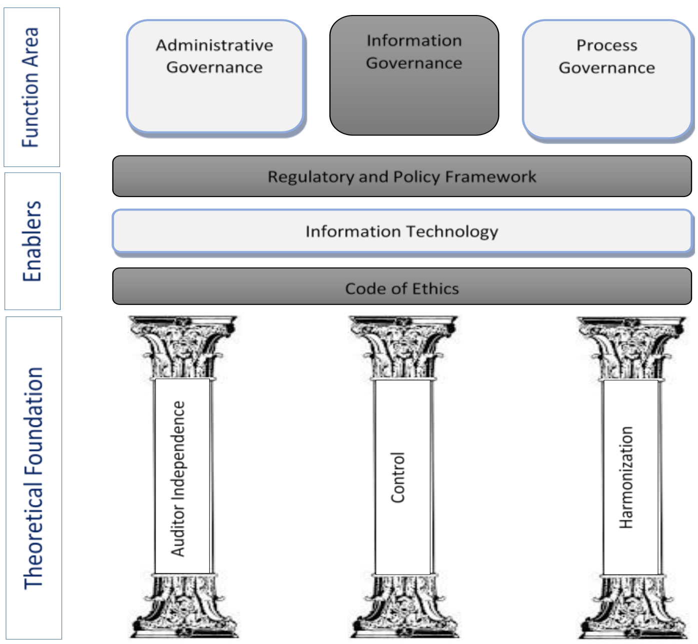

Figure 3 Creative Accounting Minimizing Framework

The suggestive framework to minimize the creative accounting has three zone of consideration:

Theoretical Foundation: The pillars of the framework are the theoretical foundations derived from existing accounting theories and practices. The first pillar is harmonization. Harmonization of the existing GAAP, the accounting standards followed across the globe and the laws of various countries where organisations operate their business. The second pillar is Control. Control towards a hyper active and sensitive system over both, the business on one hand and accounting professionals for prompt and real time exposition on the other. The third pillar is for assured and absolute independence of auditors (which still is a myth in a country like India).

Enablers are the means to achieve the theoretical expectations by focusing over functional areas. To reemphasise, theoretical foundations are the basic set of thoughts which have been proven time and again by numerous scholars in the field of accounting. According to this particular study, these can be achieved by having a sound regulatory framework through strong IT support and firm implementation of code of ethics. Creative Accounting needs to be monitored rigidly not only for the safety of the interests of the external users but also from the wish to make the business sustainable and safe. So, the initiators should be regulatory bodies and companies. The role of the company (top management) should be the strongest because when a scandal comes into picture, the company's safety, rather very existence blurs.

Functional Area are the major focus areas which need to be looked at minutely. A check on these areas can be very instrumental in controlling creative accounting and its negative impacts. Here three major areas have been identified. They are administrative, information and process governance. The governance at the administrative level should be highly motivating for the employees. They should be inculcated with a feeling of ownership for the firm so that they are morally bound to not to indulge in unfair accounting practices and report the same intelligently. More and more individuals should be involved in administration to dilute wrongful teaming. Informational governance deals with stringent control of accounting information such that no data tampering is possible. In a way information once fed is blocked from being modified at any level. This will also include process governance. The process governance focuses over developing and maintaining a industry/sector wide common approach for the set-up of roles, activities and processes for accounting and reporting Purpose, setting up escalation body for scoping responsibilities and activities for accounting related processes, align and set up common approaches to achieve Accounting objectives, define and maintain processes relevant to preparing financial statement.

Some Quick Wins…….

Ethics.. As a part of Corporate Planning:

It is important to integrate ethics into the business strategy and Plan. The ethics should be integrated in the company's **mission statement**, **long-term strategic plan, public pronouncements, and codes of Ethics.** A code of ethics is a collection of ideologies and practices that a business accept as true and aims to live by. A code of business ethics usually doesn't stand alone, it works in unification with a company's mission statement and standalone policies about conduct to give its employees, partners, vendors, and outsiders an overview of what the company stands for and how should be the conduct of the members.

A simple self-test checklist may serve the purpose.

1. At the first place the business has to be ethical.
2. Laws of the land must be complied with completely
3. Emphasis on principles be more than on rules.
4. Be totally transparent with constituents, and make transparency an inseparable part of strategy
5. Make an ethics performance evaluation part of the organization's standard end-of-year assessment.
6. The ethics part of the strategic plan should justify the following for the coming year:

- Will our purpose be sufficiently well articulated?
- Will we face new legal requirements?
- Will we have new constituents?
- If we acquire another organization, how well will it be ethically assimilated?
- Will our rewards structures be appropriate?
- Will there be any need to change the mechanics (constituent communication, employee training, organizational structure, issue resolution processes etc…..)?
- How will we measure our ethics performance?
- Do we have new goals/objectives in the ethical domain?

Mandatory certification on ethics by Professional Accountants:

It is often said that ethics is not something that can be taught. But developmental psychology has refuted this view. It has been proved that ethics is just like learning a foreign language. The earlier an individual learns and perfects it, the better it is. Of 'course, with experience, practice and maturity the finesse in ethical behaviour is achieved.

After regular intervals of time say an year or two all professionals should mandatorily undergo some or the other certification on ethics. International Ethics Standards Board for Accountants does from time to time redefine ethical standards which should be incorporated in the firm's ethics reinforcements. Most of the countries are having parallel bodies that issue code of professional ethics like the ICAI in India that emphasises on integrity, objectivity, confidentiality, professional competence and due care, and professional behaviour.

Information Technology:

Information plays a vital role in creative accounting. Many companies are adopting IT to provide right information to right person at right time. Information technology has been proven as one of the biggest enabler in business excellence. It can also be a stepping stone for curbing creative accounting. Below is the list of proven benefits which may lead to efficient, transparent and clean business practices.

- Standardized business process flows.
- Information collection at transaction level and avoid any human intervention
- Real time information flow across organization
- Improved transparency and accountability
- Effective management of large historical data and efficient MIS reports.

Therefore all the corporates should adopt sufficient level of IT to ensure that manual intervention can be minimized and relevant information be provided to all the stakeholders as per their need.

Some Long term solutions…….

Autonomous Auditors under accounting regulatory body

The role of an external auditor in a firm requires independence, objectivity and integrity to be achieved. Independence of auditor, objectivity of all stakeholders and integrity of the firm.

Although the regulator and external auditor both perform the same task of verification of financial statements, but, they serve different interests. The regulators on one hand safeguard financial stability and investor interests while the external auditor is the one who shield the interests of the shareholders.

The financial audit is always an important facet of corporate governance that makes management accountable to the shareholders. The debate with regards to external auditor is all about auditor independence. A survey by the magazine "Financial Director" shows that the fees derived from audit clients in terms of non-audit services are significant in comparison with fees generated through auditing. (D.Singh). Accounting firms sometimes set audit fees much lower than the market rate and to make up for the deficit provide non audit services. As a result, audit firms have vested interests. Measures thus need to be in place to make sure that the external auditors are independent. Tomlinson H proposed a new directive for auditors in Brussels to try to prevent further scandals such as those of Enron and Parmalat. The new directive states that all firms listed on the stock market must have independent audit committees which will recommend an auditor for shareholder approval. It also states that auditors or audit partners must be rotated but does not mention the separation of auditors from consultancy work despite protests that there is a link to compromising the independence of auditors. The time thus seems to have come to disallow non audit services of the same external audit firm. In other words external auditor should not get non audit assignments in the same firm.

Knowing all the facts and prevailing practices, the Company act 2013 has tried to address some of the issues related to independence of auditors. They have emphasized on Mandatory auditor rotation and joint auditors, approval process for Non-audit services, mandatory compliance to standards on audit, Secretarial audit for bigger companies and importance of internal audit but still can we say that the Auditors are really independent? If not, what all remedial steps need to be taken to ensure independence of auditors? It is a matter of greater debate. There are still a few unanswered questions like Auditing firm vs auditors under regulatory body, Appointment mechanism, Compensation method, Reporting structure……………..

Independent Director to double up as specialised auditor

Organisations can opt for appointment of the independent Directors who may double up as auditor. In other words one of the independent Directors may be qualified and experienced in the specific business processes coupled with the knowledge of accounting and auditing. All are aware that in the field of law there are specialised branches like criminal lawyer, bankruptcy lawyer, corporate lawyer, civil rights attorney, employees' rights lawyer, etc. to name a few. Similarly we can march towards specialisation in the field of auditors like textile auditor, cement auditor, construction auditor, iron and steel auditor, food processing auditor, pharmacy auditor and so on.

Ethically Trained tomorrows Accountants

The organizational health and financial health goes hand in hand. It has also been observed that organizations are taking global orientation. The technological landscape in business is also rapidly evolving. Therefore it is high time we should focus on capacity building and create tomorrow's accounting professionals to work and compete on a global scale and abide by technical and ethical standards. They thus need to be trained apart from basic accounting, accounting principles, regulatory frameworks, on ethics, business domains, extensive information technology, strategy, entrepreneurship etc.

It is well accepted that accounting graduates' qualities should go well beyond disciplinary and technical knowledge in order to promote well rounded accountants (Barrie, 2004; Kavanagh and Drennan, 2008). Examples of non-technical skills include communication and writing skills, vital for communicating resulting processed information (Zaid and Abraham, 1994; May and Arevalo, 1983), as well as the ability to be forward thinkers, strategists and team players (Tempone, Kavanagh, Seagal, Hancock, and Howieson, 2011; Volkov, Volkov, and Ringer, 2011). In addition, numerous authors would argue that instilling ethics and promoting moral development are equally, if not more important than the accountant's technical strengths (Armstrong, 1987; Koumbiadis and Okpara, 2008; Ho and Lin, 2011).

The emphasis on 'ethics' and 'knowledge of Business domain' can contribute in curbing the creative accounting practice. It is been already discussed earlier in the paper that ethics can be taught just like a foreign language can be taught. If knowledge of business domain is strong with the auditor, he would not have to rely on any company executives to have an understanding of the business processes. In that case his independence is strengthened as he will easily hook the loopholes in accounting procedures. So, the experts in accounting and auditing with a strong hold on ethics, domain knowhow, and technical grasp………will easily be able to identify cases of harmful creative accounting.

Review and realign Accounting Standards and regulations

The accounting standards and regulations can play a vital role in addressing the creative accounting and its consequences. There is a greater need to realign all the applicable standards to eliminate the choices. Simultaneously the regulation and regulatory body to be strengthened to take necessary and bold steps to implement the AS in its full spirit. Listed below are a few indicative suggestions that may be undertaken to control creative accounting. This may just be a very small discussion as of now but can prove to be a very significant research area.

1. Continuous evolvement of a conceptual framework in line with the evolving business practices across the globe.
2. In cases where there are choices amongst accounting methods, the circumstances or criteria for application of a method needs to be specified. For eg. if a company chooses method 'A' (out of the available methods A, B, C and D in circumstance 'Q', then every time in future the same 'A' method will have to be followed in circumstance 'Q' and never B,C or D.
3. To reduce Creative Accounting with regard to the timing of extraordinary deals (like sale of fixed assets) regular valuation of assets must be done. This may help in identifying changes in the values of assets in each year's accounts.
4. In cases where the auditor comes across any doubt in any of the accounts, he should have the right/authority to validate the internal control system of the company to identify dishonest estimates.

Should it really end the problem finally? Same has been said by an author discussing certain issues on accounting policies that refers to the Shanks axiom. “No matter how detailed the rule, the mind of the enterprising entrepreneur will conceive a transaction consistent with the rule and inconsistence with the spirit behind it.” (Gupta L. 1995).

Conclusion

Creative Accounting is followed differently across the globe, in terms of scope as well as the motivation behind it. But, irrespective of the scope and motivation creative accounting for sure segregates factual accounting information from its most basic feature: Truth and Fairness. Creative Accounting has been an unabated problem that may never be eliminated fully, but efforts shall go on to minimise it. Financial statements are actually Progress Report Cards of the Top Management or the Executive Body which is prepared by the

Finance/Accounts Department. So, for most of the adjustments these two parties are in sink and they try to manage the report card as per their whims and fancies. Now comes the role of the auditor who is actually just correcting and verifying the progress report. The question arises that should he go a step further and validate the accounting process too, or just the data validation is sufficient. This calls for a pondering that auditors should be made completely independent? Can their faithfulness towards the top management be nullified? The answer will lie in the identification of the controlling body (may be SEBI, RBI, and Central Govt……) that can Bell the Cat.

Further it is apparent from the various sections that this area demands great amount of intensive research for further enriching the model suggested for managing the creative accounting practices and bring the same to reality

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