DOES THE GLOBAL TRANSITION IMPLY CREATIVITY IN THE ACCOUNTING?

Tamara Šimunaci Boškin
University of Primorska, Slovenia
tamara.simunaci@guest.arnes.si

Abstract

The users of accounting information expect such information to reflect an impartial, true and fair view. Such information is needed for further business decision-making, which makes the tendency for a true and fair presentation perfectly understandable. The capital market is developing towards globalisation and borders are falling: The capital moves where better returns can be achieved. The need for comparability is rising from day to day, that is why the need for unifying the accounting principles is strengthening. Has the European conservative accountancy spirit yielded to the need for fair and true presentation? Does the transition from the assumption of prudence towards the principle of true and fair presentation mean more room for a subjective evaluation of economic categories? In this paper I wish to provide an answer whether creative accounting is another consequence of abandoning the assumption of prudence, and find out if it is possible to eradicate creative accounting and who is responsible for it.

Key Words: *Accounting regulation, true and fair view, creative accounting, responsibility.*

1 The Importance of Accounting Information

Financial statements have a great informative power and satisfy the needs for information in various interest groups. Therefore, the financial statements are prepared so as to satisfy the general needs for information of various users. However, in many cases the financial statements do not contain all the information that economic entities would need for their economic decision-making: for this purpose, the notes, disclosures and additional information relevant for users are added to the financial statements. Additional information stands for such information that discloses any risk and uncertainty affecting the enterprise, and any assets and liabilities that are not presented in the Balance Sheet (Odar 2003, 25).

The Slovenian Accounting Standards (SAS) enumerate the generally accepted accounting principles in the introductory part, and there we find the principle of true and fair presentation of items in financial statements. It means that the financial statements have to present a true and fair view of the Company's financial position and the profit or loss statement.

For the greater part of the Member States of the European Union (EU), this assumption brought a big change already at the time when it was introduced in their national legislations: it supported the idea that the accounting rules and practices imposed by the law may be abandoned due to the availability of choice, or for the purpose of assuring a true and fair view of the Company's position. The assumption is based on the terms of truth and integrity that are not clearly cut; therefore it was difficult to adopt it for both, auditors and accountants.

The guideline does not give a more precise definition or substantial clarification of this assumption, which explains why it was introduced in various countries on a very inconsistent basis: in some countries only a true presentation is required, elsewhere only a fair presentation, or both. The auditors are expected to give their opinion whether the financial statements present a true and fair view on the Company's operation in a particular year. Such definition is subject to laws and regulations, but primarily to technical rules of the accounting professional and auditors. The assumption of true and fair presentation is embedded also in the Slovenian accounting standards. In the Standard 30 (SAS 30) – Accounting Information Reporting – we find that the true and fair accounting information reporting means the communication of reliable and verified facts and all relevant notifications and explanations, without any prior opinion or anticipatory bias. Thereby, the users need to be acquainted with all the necessary disclosures, without intention to rouse any doubts and/or mislead them.

On the other hand, it can be understood from individual standards that the evaluation of economic categories cannot be done without considering the principle of prudence, which is concretised in three implementing principles: the lower of cost principle (i.e. of the lower asset value), the principle of higher value, and the imparity principle in accountancy. The compliance with these three principles is not to the benefit of the fair value presentation, which is underlying for the accounting solutions in the Anglo-American world and in the International Financial Reporting Standards (IFRS). The latter support the increasing international connecting in financial and other markets. Investors expect from the financial statements to present the fair and true view of the operations, as the information in financial statements is the basis for further business decisions. The financial statements built on the assumption of prudence contain silent reserves, and are not a good basis for business decision-making (Koletnik, Koželj 2005, 44).

The EU is facing the problem of redirecting the evaluation of economic categories to the fair value, which is underlying for the accounting solutions in Great Britain, USA and in the IFRS. Such solutions reveal entirely different economic views, cause bigger variation of the profit or loss (statements)[1], render a reliable measuring of economic categories more difficult, etc. Changes supporting the adjustment of accounting practices towards trends in modern professional practices and higher comparability of financial statements are continually under way, however, quite a few difficulties can be still perceived in the European entities that aim to get established in international financial markets. As European accounting practices and European guidelines do not comprise all of the accounting assumptions and guidelines that are integrated in the international accounting standards, many companies are faced with additional accounting under the principles of IFRS or GAAP, which results in additional costs.

2 Creative Accounting

»Creative accounting is a process whereby the accountants use their knowledge of accounting rules to manipulate the figures reported in the accounts of a business« (Amat et al. 1999, 1) in order to create a different view on its performance.

In addition to this general one, we should look at the definitions given by four authors from Great Britain. Coming from different spheres of operation, all these definitions are very interesting: (Amat et al. 1999, 1):

Ian Griffiths, a journalist, says that companies are presenting operating results that are not a true and fair reflection of their operations, but are rather tailored to the desired goals. The operating results as published by companies are based on adequately adapted, altered, 'doctored' data. Such practices in the presentation of company's operations or performance are referred to as the creative accounting.

Michael Janson, an accountant, says that accounting is in fact coordination and alignment of various ways of estimation, and the resolving of conflicts between different approaches to presenting the results of financial and other business transactions. The Generally Accepted Accounting Principles (GAAP) are flexible and leave much space for subjectivity in the evaluation, which leaves a broad manoeuvring space for manipulations, fraud and bias. According to Janson, these »subjective« accounting methods are in fact the creative accounting.

Terry Smith, a financial analyst, has in his long-year experience come to the conclusion that the growth recorded by the great mass of companies the 1980' was only an outcome of a lax use of accounting rules and principles, not a real economic growth.

Kamal Naser explains the creative accounting as a process of modifying the operating results, away from (revealing) the actual picture and towards the desirable results. This can be achieved by improper use - or even abuse of some existing rules, or by omitting other rules. Naser highlights that the accounting system in Anglo-Saxon countries is extremely susceptible to creative accounting (having in the assumption of a true and fair presentation in the forefront) because it concerns the more general recommendations and guidelines (GAAP) rather than strict rules, which apply to the conservative European approach (where the assumption of prudence comes to the fore). Entities that are in a similar business situation can be presenting different operating results, which are in fact merely a consequence of different application of the accounting rules and principles.

The methods of creative accounting and reasons for their application can be grouped in four groups:

a) Flexibility of Rules

The accounting rules are sometimes set out so broadly that entities can choose from various (permitted) accounting guidelines. For example, in some countries (USA), two solutions can be applied to development costs: the business (entity) can decide for immediate transfer to the costs (when these incur), or for capitalisation and a gradual transfer to costs by depreciation over a period equal as the useful life of the project to which they relate. A commercial company can therefore decide for that method of presenting such costs that suits it best at the given time. (In Slovenia, the development costs are regarded as an intangible fixed asset, which is amortised. The period and method of depreciation need to be reviewed at least every financial year, and the necessary allowance made both in the depreciation method and period, if it appears to be necessary).

b) Appraised Values / Estimates

The nature of economic categories is such that the appraisal thereof requires a certain degree of subjectivity from the appraiser. For example, let us take an asset for which the useful life has to be determined for the purposes of depreciation. Also the wording of the SAS 13.9. leaves a certain degree of subjectivity in determining the basic items for the depreciation account of a particular asset: “the useful life of a tangible fixed asset, or of an item of intangible fixed assets, depends on a) the expected physical wear and tear; b) the expected technical obsolescence; c) the expected economic obsolescence, and d) the expected legal and other limits on the use of the asset. The useful life of a depreciable asset to be considered is the shortest period estimated in association with each of the above factors separately. An optimistic appraiser can take a relatively long useful life, which means that the Profit or Loss statement of each single accounting period will be less burdened than if viewed by a more pessimistic appraiser. Also when an external appraiser is engaged, the possibility to influence the appraiser (and consequently, the asset value) towards the desired effect is still available: In accordance with the views of the management, an 'optimistic' or 'pessimistic' appraiser will be selected, and (s)he can be influenced by the data and instructions offered by the entity in his/her attempts to determine the real value of an asset.

c) False Transactions

With false transactions, an entity can influence its material and financial position as presented in the Balance Sheet, and transfer profits between accounting periods. Thereby the entity is distorting the picture of its actual performance.

d) Timing of Transactions

The management can use the ‘appropriate’ timing of (real) transactions to affect the operating result of an individual accounting period. An asset purchased for 1 million USD can be sold for 3 million USD. The difference, the excess purchase value over the book value thereof, is recorded as revenue. There is no time limit for the management to make such transactions, therefore it can influence the profit or loss account materially. Also the SAS set out that the strengthening of assets is allowed, but not mandatory: accordingly, it could imply that the assets in the Balance Sheet are undervalued, and the profits achieved at the sale thereof are high.

The examples illustrated above point to accounting rules that are often too flexible and permit to apply creative accounting techniques to increase the profits. Such practices could be prevented by laws and professional rules of conduct designed so as to restrict the option for users in their selection of different accounting practices, or bind them to a consistent use of the selected method over a longer period – also when that would be less favourable for the entity. Some potential approaches to prevent the use of creative accounting practices (methods) could include:

1. Either by reducing the number thereof, or by precisely defining the circumstances in which a certain policy is allowed. The introduction to the Slovenian accounting standards can also be viewed in this light: the standards direct the users in great detail to drawing up their accounting policies that need to be complied with both in the financial statements and consequently, in the entire accounting system. One of the characteristics of the quality of financial statements is the comparability. The compliance with it allows for comparability and unification of all financial statements of a company for different years, of individual items in the statements, as well as the comparability of financial statements of various companies. In SAS 13.11, we find the requirement for consistent use of the selected depreciation method over individual accounting periods. A change in the selected method is only possible if that is justified by altered circumstances, and the effects and reasons for the change have to be disclosed;
2. Bias in the appraised values can be limited, or to some extent eliminated, by assuring the actual independence of the accounting from the management. Accountants need to be independent in their work, not subordinate to the management, on the ground that the desires of the latter may not influence the accountancy.
3. The problem of recording false transactions can be addressed by a consistent compliance with the substance over form principle. Business events have to be looked at in the light of their content, not merely of their legal form;
4. The timing of transactions falls into the competence of the management, so the accounting profession cannot intervene in this area, but it can exert some influence by demanding mandatory revaluation of the economic categories and thereby annul, or mitigate, the profits or losses that might occur only at the moment of the realisation of resp. business.

2.1 Example of an empirical research from the USA: Signs pointing to the use of creative accounting methods

In 2002, a group of three US authors (Richardson et al. 2002) reported on a research[2] aiming to establish whether it can be asserted in advance, on the basis of some acts and policies on the part of corporations, in a substantiated way that creative accounting is being applied. The research comprised 440 entities that were compelled by a SEC Decision to re-state their financial statements on the account of major irregularities and malpractices between 1971 and 2000.

In Part One, the authors explain how the sample of corporations for their research was formed. They pointed out that each entity that was compelled to restate their financial statements by virtue of the SEC Decision did not apply creative accounting. Therefore, this research does not include the entities that had to re-state their statements on account of the distribution of profit, unrelated operations, takeovers and associations, changes to the financial year or migration to new accounting policies, methods, standards etc. (an example of the latter would be the migration to the IFRS in Slovenia).

Main reasons for the use of creative methods

A potential ground for the use of creative accounting is the agent-principal relationship, with information asymmetry as a typical feature. Due to information asymmetry, the agent could turn some information to its advantage and maximise its profit. The Managers, for example, could pursue their own interest to the disadvantage of the owner (principal). On the other hand, the principals (owners) use various techniques to safeguard their interest against such practices of their agents. One of such techniques is rewarding the Managers by results (incentive pay). Practice shows that such rewarding is the most frequently used motivator for the manipulations with accounting data. If the Manager has to achieve a certain level of profit in order to qualify for the incentive, (s)he will do everything to achieve that level. Accordingly, the Manager will not be interested to exceed that level of profit, as that would have no effect on his/her incentive.

Another ground for manipulating with accounting data can be attributed to the cost of external borrowing. Banks granting loans to enterprises normally establish their credit rating first and fix the risk level on the basis of the borrower's credit standing. The price of loan depends on the risk assessed. The more risky an entity is, the higher the interest rate will be.

Results and Conclusions of Analysis

The research showed that the mere announcement of an entity's re-stating its financial statements for one or several financial years can arouse adverse reactions in the Securities Market / Stock Exchange: the drop of share price. On average, such a drop in the share prices can amount to 25% of the market value and it occurs in a very short period (about two weeks) from the date of publishing the requirement for re-stating the financial statements.

Entities that had to re-state their financial statements are mostly large corporations that, in response to the pressures of the market, blow up their revenues to satisfy – or exceed – the expectations of investors.

Entities that were compelled to re-state their financial statements could be distinguished by a higher portion of financing from external sources than other entities.

3 The role of Accountant and external Auditor in the Creative Accounting

The code of professional ethics of an accountant comprises a set of rules governing the conduct of accountants in the pursuit of their professional assignments. Subject to this professional ethics, the accountant shall be dedicated entirely to the work and concerned with the quality thereof, both in terms of following the professional achievements of the profession and maintaining a high professional qualification for the work assigned.

The principles of accountant's conduct expressly prohibit the accountant from taking part in any illicit or unlawful activity consciously. The accountant shall prudentially use the information acquired in the performance of his duties. They are not allowed to use such information for their personal benefits or any other profitable purpose contrary to law. Furthermore, the accountant shall avoid any such activity that would be in conflict with the pursuit of his duties.

The code of professional ethics of auditors requires from external auditors in the pursuit of their assignment, among other things, to maintain impartiality and independence, and avoid any conflict of interests. Independence means that an auditor may not be related to, or otherwise connected with the client that might be perceived as prejudicial to auditor's impartiality. Furthermore, care shall be taken to avoid any exaggerated or unbalanced dependence on the orders from a single client, which is a threat to the auditor's independence. In the course of their work auditors get acquainted with a number of privileged information to which they would normally not be granted access, therefore they are under the obligation to maintain secrecy and not use such confidential information to achieve any financial or other benefits for themselves or for others.

Due to numerous irregularities in accountancy (for example: Enron, WorldCom, Tyco, Sunbeam, etc.), and even bankruptcy of large global corporations, the trust in auditing as a profession became highly questionable. The auditor's opinion as an opinion of an impartial, independent professional, is expected to confirm or reject the thesis that the financial statements actually present the events and operations of the reporting period, and confirm or reject the compliance of an organization with laws, regulations and professional rules, has lost its informative value over night. The authenticity of auditor's reports was shaken, and increased doubts were cast on the independence and impartiality of the auditing profession. Since 2003, there were quite some reforms introduced, also the European Commission has issued recommendations on the auditor's independence, and the Sarabanes-Oxley Act was adopted in the USA. Below is a brief summary of the novelties resulting from these reforms in the USA, EU, and also in Slovenia.

3.1 The USA: The Sarabanes-Oxley Act

The most relevant changes arising from the Sarabanes-Oxley Act relate to financial reporting and accounting. Here is a list of the major ones:

1. *Changes in accounting*

- Established was the Public Company Accounting Oversight Board – PCAOB to regulate the accounting companies under the supervision of SEC. The Public Company Accounting Oversight Board (PCAOB) is in charge of regular review of registered accounting companies and of investigating any breach of laws from the scope of securities, of standards, competences and management. It is also concerned with the development of auditing as a profession, of auditing principles and ethical norms. The auditor's independence can be assured by internal exchange of the leading partner and other partners who are in charge of coordination, every five years (Hauptman 2003, 49).

The tasks outside the scope of Auditing that auditors are not permitted to do under this Act for the entities, which they audit (Hauptman 2003, 50):

- Bookkeeping and other services related to bookkeeping or closing report,
- Development and organization of the financial function and information system,
- Evaluation and appraisal of the company's fixed assets
- Assignment of internal audits,
- Accepting the tasks /functions of the management and internal auditing,

- Financial and similar services,
- Legal counselling and providing expert opinions.

2. Changes affecting entities that are bound to report to SEC:

- The same auditing firm may not perform auditing and non-auditing services in the same company concurrently,
- Auditors report directly to the audit committee of the entity which is directly responsible for the selection, remuneration and control of the auditing company,
- Employees and directors break the law if they mislead the auditors.

3. Other relevant changes:

- Pursuant to the Sarabanes-Oxley Act, standards were prepared that relate to the audit committee of the entity whose securities are listed on the organised market. The essence of these standards it to prohibit the quotation of a security whose issuer does not comply its operations with the law.
- Requirements for disclosure comprise two new disclosures. In the Annual Report, a disclosure has to be made whether the reporting entity has got at least one professional auditor on the audit committee, and whether this professional is independent of the Management Board. If not, the reporting entity shall substantiate this fact. The second new disclosure reveals whether the reporting entity has adopted the Code of Ethics concerning the senior management in the company. If not, the reporting entity shall substantiate it.

3.2 Changes in the European Union

The Enron case has brought about quite a few changes that got introduced in the European Union. According to the recommendations of the European Commission, auditors and auditing firms have to take concerned in their own independence. How to assure independence is revealed in (Hauptman 2003, 50):

- Financial participation: Auditors and auditing firm that is financially involved in a company liable to auditing may not perform auditing on this Company concurrently;
- Other services in the audited company, in particular consultancy services and the boundary between the allowed and illicit counselling.

Recommendations of the EU also restrict any concurrent provision of consultancy and auditing services, which are allowed only if the resp. control mechanisms are assured of. It is recommendable for the assurance of auditor's independence that such business is not conducted concurrently.

In 2002, the European Commission committed itself to a full independence requirement for auditors. In a separate report the Commission indicated that auditors should not perform mandatory auditing services if the relationship with the client would be a threat to their independence. Auditors have to consider every potential risk or threat to their independence. The most extreme form of protection is the prohibition to exercise auditing for certain auditor or for the entire auditor firm. With these recommendations the Commission wished to prevent a European Enron, however, it should be noted that the recommendation of the Commission are not binding (the Commission Recommendation of 16 May 2002 – Statutory Auditors' Independence in the EU: A Set of Fundamental Principles, 2003).

3.3 Changes in Slovenia

In the Europe Agreement Establishing an Association between the European Communities and their Member States, acting within the Framework of the European Union, of the one Part, and the Republic of Slovenia, of the Other Part, the Republic of Slovenia undertook to align the Slovenian legislation with the acquis. The scope of financial statement auditing in Slovenia is regulated by the Auditing Act (ZRev-1) published in the Official Gazette No. 11/01 on 6 July 2001. This Act complies with the recommendations of the Eighth Guideline regulating the testing and assessment of financial statements, data and methods used in compiling the statements.

According to the Auditing Act, auditing means »[…testing and assessment of financial statements, accounting data and methods applied in the compiling thereof, and on that basis, giving an opinion by an independent expert on the financial statements, presenting in all material respects a true and fair view of the financial position and the profit or loss account of the entity, in accordance with the Slovenian Accounting Standards]«.

The auditor shall perform the auditing in accordance with the Auditing Act, the basic auditing principles and other rules of the auditing profession as adopted by the Slovenian Institute for Auditing. Furthermore, he shall comply with the International Auditing Standards and international viewpoints on auditing as adopted by the International Auditing Standard Board within the International Federation of Accountants. In the course of auditing, the Auditor shall also comply with other relevant acts and regulations governing the auditing of individual groups of legal entities. The Slovenian Institute for Auditing is authorised for the supervision over auditing firms.

4 Auditor's liability for detection and prevention of the Creative Accounting

In certain technical literature we can read that detecting creative manipulations with accounting data is the responsibility and duty of an external auditor. However, the auditing profession in the USA is 'struggling' against this responsibility, supporting its position that to be able to perceive any accounting manipulations, skills and knowledge is required which are not included in the obligatory knowledge profile of an auditor for the pursuit of their work on a quality level. As long as creativity is limited to a flexible application of accounting standards (US GAAP), policies and rules, these cannot be regarded as a breach of law, or a criminal offence resp. from the legal point of view. In such cases, the responsibility for detecting creative accounting methods is attributed to external auditors, as it is expected that they should perceive such manipulations. When such creativity goes beyond the flexible boundaries of accounting standards, it is regards as fraud and as such subject to prosecution. Therefore, the American auditing profession, The Panel on Audit Effectiveness adopted the position that an external auditor cannot be held responsible for detecting fraud on the ground of his insufficient qualification for such purposes (Crumbley, Apostolou, 1). When an external auditor doubts about the truth of the financial statements or accounting data therein and cannot establish by himself whether such doubt is founded or not, he should introduce another expert who possesses such expertise in the sphere of law and forensic skills and is knowledgeable of procedures required to detect offences and fraud. It is proposed that the usual auditing procedure should extend into an additional stage – the so-called forensic accounting, in which they would employ appropriate legal and judicial procedures and qualified experts to establish the presence of any fraud. The Auditing procedure should not be based on the standard procedures and checks or tests. The process should expand in the sense of in-depth checks of the content, which could point to an evtl. fraud. An auditor should be aware of the fact that the management using creative accounting technique is able to cover the traces of such acts and blind any control mechanisms. Anybody using creative accounting techniques will also know how auditing controls are implemented and will act accordingly to 'outwit' the auditor. It is therefore relevant that auditing procedures be sufficiently expanded, or attention is paid to other questions that were not addressed to date.

The American Panel on Audit Effectiveness has issued a recommendation that a surprise-based test and an 'unpredictable' test should be introduced in the usual auditing procedures. In the concrete case, that would mean:

- Unannounced physical inventory counting and unannounced visits to the entity to be audited (or to selected units of such entity),
- (Unannounced) interviews with employees from various fields of the audited entity (finance and other sectors), in the head-quarters and other sites,
- A confirmation of statements and documentation, in writing, to be provided by individual employee from the audited entity to auditors,
- Testing of individual accounting / bookkeeping items which are normally not checked in a usual / standard auditing procedure,
- Testing of items that are viewed as 'uninteresting' for creative accounting techniques.

The very focus of the auditing procedure is directed towards detecting the creativity in compiling of accounting data and drawing up the financial statements. The responsibility of auditor does not mean that creativity has to be detected, but rather that tests, checks and balances are used to assess the risk level for the resp. audited entity, pointing to any fraud or creative techniques on the accounting data. The auditor is not held accountable for any (non)detection of creativity; an auditor must assess, on the basis of the available checks and balances, the possibility for any presence of creative accounting and on the basis of such assessment direct the auditing procedure. He does not establish whether the risk level that financial statements were allegedly subject to creative accounting practices, is high, medium or low. It does not concern the risk level for creative practices per se, but rather a current streamlining/ adapting of the auditing procedure in accordance with the presence of some indicators pointing to the potential creative accounting methods

In establishing fraud, the auditor focuses on the disclosure of relevant irregularities in financial statements. That means the creativity in the course of drawing up the financial statements, and detecting any creativity relating to the assets. If an irregularity is relevant means that the information arising from the 'doctored' financial statements is misleading and have a key impact on the business decisions adopted on the basis of such information: In case the financial statements were not ‘doctored’, the business decisions would have been quite different.

Very often, or always, such creative accounting reporting practices involve the top management, as it has the power and ability to erase or cover the traces of such manipulations, and blind the control mechanisms. Ways to blind the internal control system include (Saxunova, Bartkova 2005, 1830):

- Recording fictitious business events (and journal entries), most frequently at the end of reporting periods, to manipulate operating results or achieve other objects;
- Omitting, delaying or advancing recognition in the financial statements of events and transactions that have occurred the reporting period;
- Intentional disguising of the more relevant facts that could influence the evaluation of some economic categories in the financial statements,
- Engaging in complex and transactions in order to make an impact on the business performance in the financial statements,
- Altering the information or data relating to more relevant or unusual transactions.

If the internal auditor was relieved from the burden of perceiving and preventing any accounting fraud in the past, his role has changed entirely to date. It is irresponsible to attribute the role of the sole supervisor and guarantor for the true and fair presentation of the financial statements to an external auditor. Internal auditor knows the circumstances and situation in his entity and branch very well, the drawbacks and advantages to which his entity is subject; therefore he is expected to perceive the signs of any manipulation. The role and importance of an internal auditor depends on the organization of the entity concerned. By all means, the internal auditor shall play an important role in establishing of an efficient system of internal controls to prevent and detect fraud.

5 Accounting harmonisation: the struggle against creativity in accounting?

How to prevent the creative accounting? Could the accounting harmonisation process be the solution to the creativity in the accounting? On my opinion the harmonisation in the accounting rules could not be the solution for the creativity in accounting. It is true that with the harmonisation process the numerous solutions in the financial reporting frameworks are coming closer to one another, but on the other side there are still so many differences in accounting practice within Europe and internationally. The reasons for the differences could be found in taxation (in many countries the tax factors influence company choice of accounting policy), sources of finance (where the stock market is the major source of finance it is likely to find accounting systems that provide more economically realistic information), users (accounts aim to satisfy different objectives and different user groups – for ex. in the USA or in the UK the primer users of accounts are investors whereas in Germany the main functions of accounts is to provide a basis for taxation and to restrict the ability of a company to payout excessive dividends), economic environment (which may influence the country’s accounting system), legal system (for ex. countries such as England and Wales with a common law tradition tend to prefer to legislate on the broad principles of accounting, while countries, such as Germany with a Roman Law tradition prefer a codified set of rules) (Blake, Amat 1994, 336). The aim of the harmonisation process is to make more (or completely) comparable the items in the accounting statements, but the US GAAP, IAS, IFRS and the EU directive by their nature allow different choices in some areas, so it is very unlikely to expect that the harmonisation process will put end to the creativity in the accounting.

6 Conclusion

In this paper I tried to briefly present some reasons for the use of creative accounting. I mentioned only few of creative techniques, just to get an idea how the financial numbers game can be played. There are many other techniques, many other fields prone to the use of creativity in recording and representing the business performance of a firm. I also tried to show very few examples from Slovenian practice and I found out that with the liberalization of accounting rules, due also to the global change in social, economic and political environment, there is much room for use of creativity in accounting, obviously in negative manner. My research continues: the next goal I'll try to reach is to determine which are the mostly used creative approaches in preparing financial statements in Slovenia.

Notes

1. Applying the fair value principle causes a considerable profit or loss variation. The opponents of this principle maintain that it would lead to lower market premiums (goodwill) that entities can gain by a stable profit. As a potential result, the Managers would not be acting to the interest of the entity. The advocates of this principle point out that the economic profit of an entity that is typically exposed to a higher risk on the account of relying on the fair value principle is more realistic than the adjusted profit as it is established under the principle of prudence (Čuček 2001, 30, 31).
2. The report on the research entitled: Predicting earnings management: The case of earnings restatements is also available on the WWW (see references below).

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