

## A CENSUS OF CREATIVE ACCOUNTING TECHNIQUES

Lungu Ionuț Cosmin<sup>\*</sup>

### Abstract

*Economic development, legal and social pressure and users of information has made it necessary innovation accounts on this basis and development of creative accounting. Such accounting has been developed especially in Anglo-Saxon economies due to the accounting profession freedoms. It sat on the edge of the legal form and economic substance of transactions and events.*

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**JEL Classification:** M4 - Accounting and Auditing

### INTRODUCTION IN CREATIVE ACCOUNTING

Despite the potential importance of the financial statements and increasing the rigidity of normalization institutions accounting information fails to meet only part of its functions are assigned. The most obvious consequence of this is many failed financial scandals.

### DEFINITIONS OF CREATIVE ACCOUNTING

As a journalist, Griffiths notes that the figures presented to investors were completely changed to protect the guilty. This is in fact a scam and a legitimate name creative accounting.

M. Jameson, states that "The accounting involves dealing with different views and resolve conflicts between them in order to present transactions. Such flexibility facilitates manipulation, deception and distortion.

Trotman defines creative accounting as a technique aimed at improving communication of information provided to investors. On the same line, Colasse is of the opinion that the expression designates creative accounting "practices of accounting information, often at the limit of legality, practiced by some companies who have the advantage of normalization, seeking to beautify the image and financial position and economic performance and financial.

According to Naser: "process by which, given the existence of breach rules, handling accounting figures, and taking advantage of flexibility, choose those practices of measurement and information processing that allows financial statements from which should be in what managers want; process by which transactions are structured in such a way as to enable the "produce" the desired accounting result."

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<sup>\*</sup> Ionuț Cosmin Lungu is Lecturer at the Romanian-American University

## **MOTIVATIONAL FACTORS IN THE USE OF CREATIVE ACCOUNTING TECHNIQUES**

The following deserve to be quoted, without an order of priority: intensity of competition in a context of crisis; degradation results and financial position; need financing: insufficient equity, the need to meet certain indicators (rate indebtedness, the result per share increased pressure on enterprises to communications the "elegant", especially coming from investors and analysts; desire to ensure a stable course to launch private companies wish to be given listed. Accounting for pension reserves, capitalization of costs, investment accounts and short-term claims of customers, accounting for inventories of tangible and intangible assets and accounting for long-term debt is not an option and some creativity. Therefore we can say, maybe in a provocative manner that in these circumstances, there is creative accounting. We will allow only the fact that for several years, the economic situation pushes companies to use more possibilities left by the legal text and doctrine.

## **A CENSUS (NOT EXHAUSTIVE) OF THE TECHNIQUES USED IN CREATIVE ACCOUNTING**

### **1. TANGIBLE ASSETS**

(a) The practice of "subjective depreciation" of assets creates proper field of creativity in accounting. In the exercise of professional reasoning, IAS 36 requires that at each balance sheet date to determine whether there are indications that the asset depreciation suffered analyzed. If management estimates that the recoverable value is lower than the net accounting assets are considered impaired for the difference. In this case the result will be affected by recording a depreciation expenses. On the opposite side, if the management company seeks an attitude "optimistic" about the outcome, will appreciate that there are no indications that the asset has suffered depreciation, thus avoiding diminishing results.

(b) The lease-back as they highlight the impact of a value that will be established in the year of sale, results. Charges will be recorded during the leasing contract.

### **2. GOODWILL**

Underestimation assets purchased leads to increase goodwill. Capitalization and depreciation of goodwill that during its useful life have influence on the outcome of further years. Cost of goodwill amortization resulting from the reduction outcome, with the exchange rate and competitiveness of the shares bids competitive. Charging goodwill to equity to reduce their lead, the result of years of future costs are not influenced by goodwill amortization.

### **3. DEPRECIATION**

Option for a particular method of depreciation or otherwise in connection with the accounting policy of the undertaking, the assignment in a systematic way the depreciation of an asset during its useful economic life has an impact on the profit and loss. Thus, a different method of depreciation has a different impact on the outcome. Depending on the method chosen is amended in time allocation of expenditure. Options on different useful life leads to different expenditure. Review of useful life lead to adjustment costs with current depreciation period and future periods. Deducting the residual value has the effect of reducing depreciation and therefore increases the outcome of exercise.

### **4. INVENTORIES**

The inventories provide sufficient opportunities for creative accounting and subjectivism. An error detected on a voluntary basis in determining the size of existing stock in assets at the end of exercise can lead to a practice of "polishing" of the result, meaning that the underestimation or supraevaluarea stock finally has an impact not only on the financial statements of the current year but also on the following year. Inclusion in stock inventory or death is a moral waste handling method. If stocks or death moral waste will be removed from management, spending will be affected, with consequences on the outcome in the sense aestuia. La reduce the opposite side, the management company can show a atitudine optimistic, considering that these stocks will be dead recovered, especially in the situation of an economic recession. The inclusion of financial costs in the cost of production of stocks has the effect of the increase in the outcome in which the inclusion of expenses. On the opposite side, where the management has a pessimistic vision of the outcome, the result will apply the method, treating interest expense as an element of the power exercised.

### **5. PROVISIONS FOR LIABILITIES AND CHARGES**

Practice provisions (increase and reduction there of) is an effective tool for "netezirea" outcome. Establishment of provisions in those years where the profit result leads to the decrease, while the resumption of the provisions in the income year in which the registers deficit increase leads to the result.

### **6. PROVISIONS FOR LIABILITIES AND CHARGES**

A practice provision (increase and reduction thereof) is an effective tool for "leveling" outcome. Establishment of provisions in those years where the profit result leads to the decrease, while the resumption of the provisions in the income year in which the registers deficit increase leads to the result.

### **7. CONSTRUCTION CONTRACTS**

Choosing between the two methods of accounting for construction contracts has the following impact on the profit and loss: under the completed contract, the result will be recognized at the completion of the contract. Method

based on the percentage of the definitive result will be staggered over time, throughout the progress of the contract. Switching from one method to another is also a significant impact on the profit and loss.

### **CREATIVE ACCOUNTING THAT IMPACT ON THE BALANCE SHEET**

Mechanisms that have an impact on the balance sheet will be listed in the following table:

<b>Elements</b>	<b>Mechanisms</b>	<b>Impact on balance sheet</b>
Tangible assets	Lease-back: the sale of fixed assets, followed by taking them in the immediate location.	- Improvement revolving fund; - Improve cash.
Tangible assets and equity	Revaluation of tangible assets	- Increased asset value (increase in depreciation expenses) - Increased equity
Equity	The issue of hybrid securities whose classification between debt and equity is difficult.	- Changing rate indebtedness and profitability equity.
Minority Interests	Inserting in equity, debt, or between the two alternatives.	- Change indebtedness and equity.
Loans	In substance defeasance arrangement by which the transferred assets to a trust, which incorporates the same time and management of debt.	- Reduced rate indebtedness; - Increase rate financial autonomy; - Increase financial profitability.
Customer Claims	Discounting of ticket orders	- Reducing the need for working capital; - Increased Treasury
	Assignment of claims from a pool of receivables for obtaining cash	- Slight decrease of working capital (from the difference between price and value of transaction); - Decreased need for working capital - Increased Treasury

**Table 1. Mechanisms that have an impact on the balance sheet**

### **PROPOSALS ON LIMITING THE CREATIVE ACCOUNTING TECHNIQUES**

- reducing the number of permitted accounting methods or by specifying the circumstances under which each method should be used;

- trading links will be considered as a whole (substance over form);
- recourse to regular review (revaluation of the assets);
- Creating an arbitration institution; The Court has the authority to require managers to review the financial and charged to their costs; Bringing managers in court could mean winning a battle but not win the war;
- auditors should to intensify their efforts to identify the possible manipulation of information supplied by the financial statements. In this regard, the audit should include an assessment of internal control of the company to prevent cases of creative accounting or fraud. To provide an extensive surveillance and more stringent, the auditors should be prepared to fight against their clients.

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