

Creative Accounting: A Conceptual Analysis

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ABSTRACT

Creative accounting is way to collapse the major business enterprises through bankruptcy and insolvency through unethical accounting procedure. This paper is related to creative accounting with reference to corporate scandals in accounting field. It describe the issues and motives behind making creative accounting. It is conceptual way to show the impact and consequences on business. The paper states that how we prevent the creative accounting in this world where a business become wider through globalization.

Keywords: Creative Accounting, Bankruptcy, Insolvency, Corporate Scandals

INTRODUCTION

Creative accounting generally referring to accounting practices that may follow the rules of standard accounting practices but actually deviate from the spirit of those rules. It is way of Corruption also in the business transactions. It may increase chance to grow the earning through unethical way that produce black money and frauds. It refers to miss-representation of the true income and assets of the corporation or any other enterprise. Creative accounting has been adding the root of a number of accounting scandals.

Motivation of Creative Accounting

- i) Personal Incentives
- ii) Job security
- iii) Tax management
- iv) Manager self interest
- v) Benefits from share and share options

Techniques of Creative Accounting

- i) Flexibility in regulation
- ii) Lack of regulation
- iii) Use of artificial transaction
- iv) Take advantages of loopholes
- v) Reclassification and presentation of financial statement

Consequences of Creative Accounting

Conflicts of interest among different interest groups represent the real causes of creative accounting because managing shareholder's interest is to pay less tax and dividends on the other hand investor shareholders are interested to get more dividend and capital gains. Employees are interested to get better salary and higher profit share. But Creative accounting puts one group or two to profitable position at the expense of others.

Effects of Creative Accounting

1. The confusion created among the stock exchange investors, because figures shown by financial statements are often inflated and it is difficult for investors to make difference between the fair and unfair statements.
2. The prospectuses of the listed companies do not always present a detailed picture of the financial position.

3. The long time effect of such practices the distrust of investors.
4. The techniques used by creative accounting can impress the investors only over short time period, while the financial position goes worse, this cannot be hide anymore and these methods are helpless.

Existence of Creative Accounting: Ethical way

Companies generally prefer to report a steady trend of growth in profit rather than to show volatile profits with a series of dramatic rises and falls. This is achieved by making unnecessarily high provisions for liabilities and against asset values in good years so that these provisions can be reduced, thereby improving reported profits, in bad years. Advocates of this approach argue that it is a measure against the 'short-termism' of judging an investment on the basis of the yields achieved in the immediate following years.

Remedies of Creative Accounting for a better change

- i) Reducing the number of permitted accounting methods
- ii) Consistency in use of accounting theories and methods
- iii) Abolish the category of extra-ordinary items.
- iv) Invoking the concept of 'substance over form'
- v) Regular audits of accounts.
- vi) Internal check if may possible.
- vii) Participation and initiate the lower staff in management audit and performance appraisal.

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