Study regarding the Quality of Accounting Information under the Conditions of using Creative Accounting

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Abstract
This paper aims to present actual problems concerning financial accounting information under increased use of creative accounting practices. For this purpose we present the current conceptual framework for financial reporting used in Romania and its limitations when using creative accounting and the role of accounting policies and principles in obtaining relevant accounting information. Finally, we will synthesize the main creative accounting techniques and their application to the consequences of economic entities.

Keywords: creative accounting, financial reporting, conceptual framework.

Introduction
Accounting is not a goal in itself. The role of accounting is to provide information to all of the users when they make economic decisions. As a result, the quality of the "accounting act" depends on the quality of information provided by it to the users by financial statements.

In recent years, due to the great financial scandals (Enron, Parmalat, Tyco, WorldCom, etc.) the credibility of accounting
information has suffered greatly. Generally these scandals were triggered due to the fact that these companies, taking advantage of loopholes in accounting regulations, presented in financial reports false information on the financial position and performance. According to some experts, these scandals "could have been avoided if they would have provided a transparent financial communication and if creative accounting practices would have been detected in time" (Dumitrescu, 2014).

The study tries to analyze to what extent the practice of creative accounting prejudice to the quality of accounting information or, on the contrary, a certain amount of creativity is in favor of increasing the quality of accounting information provided by financial statements or other financial reporting documents.

**Research issue**

To understand the steps of the present study we have to deepen the concepts that constitute its pillars, namely: the quality of accounting information and creative accounting techniques.

According to OMFP 3055/2009 the "qualitative characteristics are the attributes that determine the usefulness of information provided by financial statements". The same law states that "the four principal qualitative characteristics are understandability, relevance, credibility and comparability. (OMPF 3055/2009, section 2, subsection 2.2, section 23, paragraph 1).

These issues are also highlighted by the international accounting referential IAS / IFRS. Thus, The General Framework for the Drawing Up and Presentation of Financial Statements (revised from January 1st, 2009) present the four qualitative characteristics of accounting information as: understandability, credibility, reliability and comparability, making the specification that for a piece of information to be relevant and fair, the conditions that must be met are: timeliness, cost-benefit relationship and the balance between the qualitative characteristics.

The Conceptual Framework for Financial Reporting (issued by IASB in September 2010) towards The General Framework for the Preparation and Presentation of Financial Statements brings changes, both, in terms of the concepts that are used and in their content. First of
all we have to note the replacing of some notions. For example, the phrase "qualitative characteristics of financial statements" was replaced by "qualitative characteristics of useful financial information", the term "reliability" by "accurate representation", etc.

Secondly, we make the distinction between fundamental qualitative characteristics (relevance/significance threshold, respectively accurate representation) and the qualitative amplifying characteristics (comparability, verifiability, timeliness and understandability), stating that if the first are mandatory, being the most important, those in the second category are desirable, recommended without being mandatory.

The term of creative accounting and its technique emerged in the 80s in the UK. As term it was equivalent to an "imaginative and intention accounting" and as a technique it designated the "techniques to maximize the benefits obtained by the company, resulted not from a better management of resources, but from accounting tricks in order to attract new investors "(Feleagă, 1996).

Characteristic for the coming years was the fact that, in the area of creative accounting, new accounting techniques were employed, each more "creative" that the other, which transformed the financial reports of technical situations in real "fiction novels". That is, until the scandals aroused by fraudulent reporting have drawn attention to the extent the phenomenon took and of the urgent need to intervene by the setters.

As a result, we should witness a "tempering" of the use of creative accounting practices, as well as an increase in "accounting education" of the users regarding the existence and consequences of their application. The question is whether it really happens or creative accounting has created new tools, more refined and difficult to detect.

**Literature review**

The literature presents a general overview of creative accounting insisting on the negative impact of its use on the financial information, without providing techniques for elimination of this phenomenon or whether there are positive aspects to this.

Thus, Barthes de Reyter and Gilbert Gerald (1992) consider that the main objective of creative accounting is to avoid the accounting rules that do not provide the desired image on the financial position and performance of the company.

Note also the definition proposed by Kamal Naser (1993) according to which "creative accounting represents the transformation
of figures of financial accounting from what they are, in what accountants want to be, taking advantage of the existing rules or ignoring some of the rules or all."

Colasse Bernard’s view (1992) subscribes to the same idea, who believes that creative accounting consists of "practices designed to give to the financial statements of a company the most flattering picture possible" and "the accounting information practices, often to the legal limit, practiced by certain companies, taking advantage of the limits of regulation and normalization, which seek to embellish their financial position and financial and economic performances ".

In the Romanian accounting literature we find books on creative accounting or treating the subject in a broader context to many authors. Authors most frequently referred to are: Feleagă N. (with his work Accounting Controversies accounting, conceptual difficulties and credibility of accounting from 1996), Malciu L. (with his work Creative Accounting from 1999), Ristea M. and Dumitru C. G. (with their work Caution and aggression in accounting treatments from 2008). Dumitrescu A. S.’s work is worth to be mentioned: "Creative accounting- From Idea to Money. With practical examples" (Economic Publishing House, 2014), which makes not only a comprehensive research of the concept of creative accounting practices and its impact on the accuracy of the information in the financial statements of accounting, but also presents actual, practical techniques of creative accounting. The analysis of relationships between creative accounting and corporate governance are worth to be mentioned.

In addition to specialized books, there are articles that deal with the issue of creative accounting techniques and the consequences of their application on the quality of information provided by financial statements. In this respect it is interesting to note the results of a study made by a group of specialists in 2012 (Groşanu A., Răchişan P. R, Berinde S. R, International research regarding creative accounting, Annals of the University of Oradea - Economics, 1 (2), whose main declared objective was the "the identification of main research areas in order to highlight the main existing gaps and outline some possible suggestions for future directions of research in this field."

The study consisted in the analysis of the databases of some specialty journals considered relevant (14 journals were selected from
which 9 were ISI indexed) and identification of articles that had as topic the creative accounting. The period of time analyzed was during 1990-2010.

The conclusion reached by the researchers is that the topic most often addressed is the analysis of creative accounting techniques, followed by the aspects concerning the consistency or inconsistency of accounting standards and corporate governance. Less treated proved to be the aspects of financial reporting and financial scandals generated by applying creative accounting, respectively the issue of true image and the independence of auditors. In the period covered by the study, researchers showed little interest for topics related to ethics in accounting, accounting reform and informational asymmetry for managers/investors.

**Research methodology**

In the purpose of the survey we’ve conducted an analysis of the main creative accounting techniques currently used and the impact their use has on the qualitative characteristics of accounting information namely: understandability, relevance, credibility and comparability, as well as future consequences of using such techniques.

**Results of the study**

Mulford and Comiskey (2002) identify five categories of creative accounting techniques: premature or fictitious revenue recognition, policies of excessive capitalization of expenses and of using long amortization periods, misreported of assets and liabilities, "creativity" manifested in the profit and loss account, and problems related to the cash flows reporting.

Next we will analyze what these techniques involve and how their use affects the quality of accounting information.

It is noted that the first two techniques aimed at reducing costs, respectively maximizing revenue. They are used for a "dressing up" of the result for maximizing it. This is often a "request" of the managers whose remuneration depends directly on the level of the company, level defined by profit.

For the first technique, we have to clearly distinguish between the premature recognition of revenue and recognition of fictions revenue. If the first is a pretty often practiced technique of the creative accounting, the second one is an illegal practice, a fraud.
Using this technique will not affect the intelligibility of accounting information, in turn will obviously affect the relevance and credibility.

Relevance will be affected to the extent that obviously distorted information will not be relevant for users, more than that, the decisions made on its account will be wrong. The credibility of information will also suffer to the extent that in the more or less distant future, it will always penalize a wrong decision taken on the basis of wrong information, such as that by which the distribution of an artificially "bloated" profit will be decided.

Comparability, as characteristic of accounting information theoretically will not be affected by premature recognition of revenue as long as the mode of recognition will be maintained from one year to another. In practice this is unlikely to be met because this is the technique of "smoothing" the result and of transfer of income from one exercise to another.

Regarding the second technique it actually involves two distinct ways: capitalization of expenditures on the one hand and the use of long periods of depreciation, on the other hand, both having the effect of reducing the costs of the period and thus increase the result. The first way involves recognition of some expenditures as immobilizations (constitution expenses, research and development expenses, costs of software development, etc.) that will be passed on expense in future tax years as the amortization process, so they are not recognized as expenses of the current year. The second involves distribution of the input value of assets to be amortized over a longer period of time, so the resulting value for each period will be less resulting in lower depreciation expense.

By this technique intelligibility and comparability of accounting information will not be affected, in turn they will affect the relevance and credibility.

The technique of erroneous reporting of assets and debts usually involves an overvaluation of assets (debts, stocks and investments) and an underestimation of debts. The purpose of this technique is to "beautify" the balance by presenting higher net assets.

This technique will not affect the intelligibility of accounting information; in turn credibility and relevance will be affected given that,
by violating the principle of prudence, such a technique will generate distorted statements on the size of the debt and assets of a company. Decisions taken on these assets premises will be risky and will lead to de-capitalization of the company in the future.

The comparability of accounting information can not be ensured with this technique, because under evaluation of same elements of debt, respectively the over evaluation of the same elements of assets can’t be made several years in a row.

A third technique of creative accounting involves manipulation of the result more in terms of nature of expenditure and revenue structures in order to modify the current result of the exercise. In this respect because the current result is influenced only by the operating and financial components, without the extraordinary one, this technique involves the recognition of expenses/extraordinary income as of exploitation or vice versa.

The influence of this technique on the qualitative characteristics of accounting information is given by the fact that they are affected by the recognition as being currents of some expenses/incomes with extraordinary character, which implies their lack of repetition, so their absence in future tax years. This aspect has an impact on the relevance and credibility of the financial statements and in this case the profit and loss account.

Under the conditions of liability accounting, a particular document in the annual financial statements is the cash flow statement. In this document, the techniques used will target an increase in cash flow generated by operating activities, which is why the operating expenses will be classified as elements related to the financing activity or the extraordinary activity.

Again the qualitative characteristics that will suffer will be the relevance and reliability of accounting information primarily, but also the comparability of information from one tax year to another and from one entity to another.

The practical experience of the authors on creative accounting techniques used by small and medium enterprises in Romania reveals the following specific issues in our country:
- the privileged user of accounting information is the state, by its tax authorities;
- the companies that have borrowed or intend to borrow money an important place hold the banks as a user of accounting information;
- in most cases, the techniques are used to decrease the taxable weight and therefore tax burdens. This means, in most cases, reducing the taxable profit.

The methods used for this purpose will be the opposite of those mentioned, respectively: non-recognition of some incomes or decrease of the value at which they are registered, non-capitalization of some expenses and their recognition as current expenses, decrease of amortization durations for increasing the amortization expenses.

- the techniques of "swelling" the result are used by companies in dealing with banks, even if they assume additional taxes;
- the techniques of over evaluating of both fix and circulating assets are commonly used. The fix assets will be over evaluated to increase amortization expenses, for tax advantage regarding local taxes or an increase in net assets.

As a final conclusion, on the use of creative accounting techniques in Romania, we should note that the Tax Code with its restrictions on the recognition of some expenses as being tax deductible limit the use of some of the techniques that were used to obtain a tax advantage.

**Conclusions**

Next we will try to synthesize the conclusions drawn from this study. First of all, it is obvious that there is creative accounting and it is practiced, both nationally and internationally. In most cases, the application of these techniques generates negative consequences for all users, including (or especially) to the internal users the decision makers of the company. Decisions made in the conditions of use of distorted information regarding the situation of the company and its performance will be bad and inevitably will have unintended consequences on the future of the company.

The increasing outcome will be obtained by using the techniques of over evaluation or of carrying out, before the end of the financial year, of some operations that generate profit. This technique will be met in the highly leveraged entities, companies that distribute dividends or those in which remuneration of the manager depends on the performance of the entity.
The artificial decrease of the result is made also through the mechanism for evaluation or for carrying out the year-end loss-generating operations. Generally, this technique is used out of tax considerations, the small and medium enterprises with low debt, by large companies, in order to avoid political costs and entities under the direct control or influence of the state.

As a final conclusion creativity in accounting is not bad as long as it is used to discover the best ways to record in accounting the economic operations in order to reflect, in the financial statements, a true and fair view of the assets and performance of the company, which actually is the objective of accounting.

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