Considerations on Modeling Strategies of the Financial Result

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Abstract
This study's objective is to highlight some of the strategies to maximize or minimize the accounting result, situated under the impulse of bad accounting. Although we assist the manipulation of the accounting result, this procedure is done according to the law, been exploited by some entities in knowledge of the lack of justice and accounting regulations.

Keywords: creative accounting, manipulation, modeling the result, accounting options, bad accounting

Introduction
The existence of accounting options allows for the usage of creative accounting. The management of the entities will be tempted and allowed to create accounting policies to maximize or minimize the financial results. In this way, if the goal of the entity is to pay a lower tax, it will apply those technical and practical procedures of the creative accounting policies which will allow having a strategy resulting lower financial result. In the other case, if the entity wants to get a loan, or acquire foreign investors, will apply those technical and practical procedures of the creative accounting policies that allow it to get a maximized financial result.

Subjectivity became a factor in determining the financial result, throughout the manipulations or intensions options of the creative accounting.
Material and methods
In this study there are highlighted a series of methods to analyze the techniques and methods to maximize and minimize the accounting result under the influence of the bad accounting, regarding the accounting options of the present accounting system as well as the lack of regulations.

Literature review
Most of the definitions of the accounting policies are seeing the phenomena towards a fair accounting, but some of the Romanian and foreign authors were preoccupied by creative accounting. Malciu (1999) says that "the concept of creative accounting was first mentioned by the British researcher and author J. Argenti in 1973. He made a direct connection between creative accounting practices, the manager incompetence and the fall of the business, highlighting the fact that the usage of the creative accounting is a clear clue for the start of a crisis. Subsequently given specialized accounting literature, we find that a number of researchers have had a number of concerns in the field of creative accounting. Although, from the existent researches we can conclude that there isn't a unique idea and concept about creative accounting. Malciu (1999) says that "different authors take into account a smaller or wider segment of an axis which stretches from a real attempt to present a realistic image to practices of <<financing outside the balance sheet>> and of <<embellishing the balance sheet>>." In this way, Bertolus (1988) qualifies accounting as "the art of trick the balance sheet". Lignom (1989) qualifies accounting as "the art to present a balance sheet". Pourquery (1991) qualifies accounting as "the art to put money asides". Ledouble (1993) doesn't hesitate to qualify accounting as a "plastic art".

Feleaga (1996) presents in his work named "Controverse contabile" (Accounting controversies) a series of arguments and point of views on creative accounting. Likewise, Feleaga & Malciu (2002) were creating the work called "Politici si optiuni contabile" (Accounting policies and options), comparing fair accounting and bad accounting. In their work they present the limits of and dimensions of the creative accounting. Fiserova says that "under the term <<creating accounting>> is hidden preventing accounting and auditorial reports about the real state of company and consequently providing if incorrect information". Stolowy
shows that "the concept of creating accounting is born from the British expression of <<creating accounting>> been used in Great Britain for a while, as shown by Naser, been introduced by Smith in his debated works.

Amat, Blake and Dowds (1999) defined creative accounting as "a process whereby accountants use their knowledge of accounting rules to manipulate the figures reported in the accounts of a business". They presented in their work called "The Ethics of creative accounting" the view of four British authors upon the notion of creative accounting, watched from four perspectives. Ian Griffiths writes from the perspective of journalist business, Michael Jameson from the view of the accountant, Terry Smith from the view of his experience as an investment analyst and Kamal Naser from an academic view.

**Results and discussions**

The accounting practices offer the entity the possibility to present, within certain limits, the results according to their intentions, rather than according to the real economic situation. Some of these accounting practices chosen by the entities, are results of one or some other accounting methods, with the objective to maximize or minimize the current financial results, lowering the public loses, temporary smoothing the financial results to reduce the perceived risk by the financial environment, etc.

Balaciu & Pop (2008) said that "six main areas are considered the source of inspiration for the creative accounting: flexibility in regulations, a lack of regulation, a scope for management that assumed some targets for the future, the timing of some transactions that use of artificial transactions, but also the reclassification and presentation of financials".

In the table below, we present a series of technical and practical procedures, for modeling the financial results under the influence of the accounting policies.
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<th>No</th>
<th>Analyzed Issue</th>
<th>Use Mechanism and its influence upon the modeling of results (maximizing or minimizing the results)</th>
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<td>1</td>
<td>Revaluation of the fixed assets</td>
<td>Feleaga and Malciu (2002) show that &quot;revaluation can represent the last measure of an entity having difficulties, to raise its equity and to artificially increase its debt capacity&quot;. Choosing revaluation for creative purposes may result to an impact on the outcome of the results of the financial exercise and therefore income tax. In this way, if an entity wants to pay smaller taxes, it can choose the revaluation, giving an increase of the tax base for calculating depreciation, with implications on depreciation expenditure and minimizing the financial result and the income tax. Feleaga (1999) says that &quot;some companies make responsible for the excess of depreciation the revaluation differences, which limit the amount of depreciation expenses which would have been accounted for the asset if it had been maintained at an historical cost&quot;.</td>
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<td>2</td>
<td>Impairment of assets.</td>
<td>The practice of &quot;subjective impairment&quot; of fixed assets is creating the possibility to manipulate the financial result, by maximizing or minimizing it. IAS 36 debates the problem of impairments of the fixed assets. If the entity aims to minimize results considering the income tax, it would surly use IAS 36. Let’s presume that the entity determines that the analyzed asset is impaired. If its estimates that the recoverable value is under the accounting net value, it will account for an adjustment for the impairment, hence giving the reduction of the financial result and income tax. If the entity aims for a maximizing police (for example: wants a bank loan), it won't use IAS 36, even if there were</td>
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<td>clues that at the date of the balance, (internal or external) the asset suffered impairments. For cash-generating units, the situation arises in a similar way.</td>
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<td><strong>3</strong></td>
<td>Borrowing cost</td>
<td>If the entity aims minimizing the results, it will account for the borrowing cost as an expense account (666), as an expense in the period in which they appeared, resulting in lower income tax. On the other hand, if the entity aims at maximizing its results, it will capitalize the expenses as debts. In this situation, the borrowing cost will be included in expenses over time (expenses with the impairments of the followed asset).</td>
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<td><strong>4</strong></td>
<td>Lease Operations</td>
<td>Classification of lease contracts in finance leases and operating leases, lead to the creative accounting phenomena. Feleaga &amp; Malciu (2002) say that &quot;this classification has important results upon some indexes like borrowing rate and assets come back ratio. As follows, the entities which prefer an increase of their expenses without an effect on the assets and debts choose the operating lease contract. On the other hand, they will prefer the financial lease. Although there is a good limitation between financial and operating leases, some entities generate hybrid contracts, to finance their assets, not showing any sign or proprieties of a financial leasing&quot;.</td>
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<td><strong>5</strong></td>
<td>Leas-back Operations</td>
<td>Cernusca (2004) shows that &quot;if a sale and lease-back transaction results in an operating lease, its real value can change the situation. Thus, the optimistic or pessimistic estimates of fair value may be an excuse for companies that, according to the policy pursued, would want postponement of recognition of profit or loss from the sale or recognize them immediately in full during that year’s sales.</td>
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<td><strong>6</strong></td>
<td>Building renovation expenses</td>
<td>Expenses generated after commissioning a building may result in manipulation</td>
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In this way, an entity considering that the cost following the commission of a building will guaranty the normal state of usage, it will use the 6th class accounts, expenses accounts. On the other hand, if the entity aims to attract foreign investors (will maximize its results), and considers that the expenses followed the commissioning of the building will rise the state value; it will utilize capitalization of those expenses. The expenses will show in the result, only under the form of depreciations spread over time.

| 7 | Treatment of goodwill | The size of the goodwill is easy to manipulate, resulting in creative accounting with direct consequences on the financial results and on the income tax. Feleaga & Malciu (2002) show us that "undervaluation of the purchased items helps increase goodwill and provides a false image upon the returns in the future". |
| 8 | Provisions for risks and charges | The use of a creative accounting in the field of provisions is related to the policies used to create or eliminate them. If an entity aims to pay smaller income tax in the year when it produces more profit, it will apply a strategy to create provisions expenses. On the other hand, if the entity is aiming for a strategy to maximize the results of the financial exercise when it produces profit, it will not create provisions even if the situation requires it. In the situation when the entity generates losses and it aims to raise the financial result, it will apply a creative accounting method in the fields of provisions, by retaking the past year generated provisions to the income. |
| 9 | Stocks | Possibilities to manipulate stocks, are related to: stock evaluations on exiting the assets, the decision to create or not to create a final product stock, treatment of interest expenses and production overheads, treatment of stock |
Conclusions

The results of the research conducted along the time in the field of creative accounting, determined that the financial result can be maximized or minimized using different policies and options, practiced by the management of the entity.

The presence of the accounting options and/or the imperfections of the accounting regulations offer the possibility to manipulate the financial result and the content of the financial situations.

The management of some entities is often put in the situation to use a series of techniques and policies to influence the financial result and the financial situation to be able to present the third parties a good and favorable financial situation. Therefore, it is necessary that the accounting professionals and the auditors have a fair and professional behavior, as long as they want the true image of the entities financial situations and performance.

Bibliography


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