Analyzing the critical effects of creative accounting practices in the corporate sector of Ghana

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ANALYZING THE CRITICAL EFFECT OF CREATIVE ACCOUNTING PRACTICE IN THE CORPORATE SECTOR OF GHANA

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1. ABSTRACT

The studies strive to empirically examine, the adoption of creative accounting methods in financial reporting structures, in the corporate sector of Ghana and it ramification on the financial system.

2. INTRODUCTION

1.1 Background & Conceptual Analysis

The accuracy and reliability of the financial statements are very crucial to Stakeholders of firms in order to make appropriate decisions. This fact has become more important in recent years starting from late 2001 due to the collapse of Enron Corporation, Worldcom and Adelphia. These importance has intensified with the recent financial crisis, because of the bankruptcy of major financial institutions. Even if, there is an existing strong accounting standards (GAAP and IAS) to guide financial accounting activities, sometimes it becomes impossible to prevent the manipulative behavior of financial statement preparers, who wants to effect the decisions of the users of financial statement in favor of their companies. These manipulative behaviors of figures in accounting reporting are often called "creative accounting".

Although the **creative accounting** concepts became popular just two decades ago, there has always been a desire to manipulate the numbers among financial-business people. Manipulating numbers to get a favourable accounting impression, has a long history. According to Balaciu and Vladu (2010), ambition of making figures more appealing or the opposite, as the circumstance demand, is as old as five centuries. Luca Paciolo had shaped the practices of creative accounting in his book De Arithmetica which outlined the fact of the Venetian trade men at those times, noted to have recorded the transactions between themselves by double-entry book keeping with ink and quill-pen in main and subsidiary books. If there arose any inconsistencies, the ink column was occasionally knocked over in the books, in order to make entries illegible. This example shows that manipulative behaviour of figures in trade and among the financial-business people is not a new phenomenon but goes back to centuries. However, the term "Creative Accounting" was first originated with the movie "The Producers" by Mel Brooks in 1968. In this movie the producers of a play deceive the backers of their play by selling many times over the total value of the enterprise based on the assumption that the play will be unsuccessful, the backers will expect no financial gain, and the producers will have an ill-gotten profit. However, in the play as unanticipated becomes very successful surprisingly, creating a sensation that made the plans of the producer's flop (Lee et al., 2013).

Consequently, **Creative accounting** became popular as a term among financial and economics journalists in the media of United Kingdom. Griffiths (1986), city editor of London Evening Standard, was the first noted personnel to have brought the "creative accounting" topic to the public notice by his seminal book. In this book, he made the public became aware of the fact that, the flexibility in the accounts could be used for creative accounting (Jones, 2011). According to Griffiths, creative accounting represents the means by which management manipulate accounting figures to achieve a deviation in an accounts of a financial statement, which are nothing other than approximations, which have their bases in the transactions and events of the year under review and the original starting point (Belkaoui, 2004). In academic sense, Naser (1993) defined it as the process of transforming financial accounting numbers to the figures desired by the preparers from what they actually represent by taking advantage of the existing rules, while ignoring other accounting rules. Shah (1998) explained it, as the active exploitation of gaps or ambiguities in accounting rules by management in order to portray their own preferred picture of financial performance.

Creative accounting is also known as “Earning management” and could be referred to in accounting practices as the acts that follows the letter of rules of standard accounting practices but certainly deviate from the spirit of those rules. Creative accounting practices are different from fraudulent accounting practices and thus are not illegal but immoral in terms of misguiding investors. The practices, which are followed in manipulating the books, are duly authorized by accounting system and thus cannot be considered as violation of any rule or regulations. It is characterized by excessive compliance and the use of novel ways of characterizing income, assets, or liabilities and the intent to influence readers towards the interpretations of desired results.

Earning Management or Creative accounting is result of judgments which is used by managers in financial reporting and in maintaining books to manipulate reports for either to mislead investors or stakeholders or to influence economy to give positive response towards financial performance of the company. The usual practice followed under earning management is to increase or decrease earnings artificially through choices available in accounting system.

Creative accounting is the root cause of numerous accounting scandals, and many proposals for accounting reforms are requesting for the removal of such practices. Financial statement is the result of the financial accounting process that accumulates, analyzes records, classifies, summarizes, verifies, reports, and interprets the financial data of a business firm, which reflect the financial position, performance and change in financial position of an enterprise (Elliott, 2005).

However, in recent years, creative accounting is becoming increasing popular running through companies, which lead to considerable allegation about the practice of creative accounting.

Companies are able to manipulate the financial statements through various types of creative accounting techniques. It attracts more and more attention in the whole financial market and its presence distorts the true and fair view of the financial position of companies, and has a higher probability to cause serious corporate failure.

1.2 Types of Creative Accounting methods

The following description below is the types of creative accounting practice in use currently;

1.2.1. *Amortization of written off development expenditure over the life of asset of a project*: In other to produce desired results, a company can amortize written off development expenditure of related asset of a project, just to transfer the cost to next few years. It has been observed that the life of the assets are determined by managers or organizational concerned department and thus long life assets will show depreciation for long time in books of accounts. These judgments or estimations in deciding for assets life may lead to creative accounting for getting desired results. If managers plan to evade taxes, they may estimate long life of assets of the company to show depreciation at an expense of long term.

1.2.2. *Sales and lease back transactions*: In a transactions where third party is involved such as bank, the chances of creative accounting are more. While referring to Naser's example, as a scenario, he stated, supposing an arrangement is made to sell an asset to a bank, then lease that asset back for the rest of its useful life. The sale price under such a 'sale and leaseback' can be pitched above or below the current value of the asset, because the difference can be compensated for by increased or reduced rentals.

1.2.3. *Choice in timing of transactions*: Companies are free to record the sales or revenues in a manner to show profits of investment which was costing too low at historic price.

1.2.4. *Transfer pricing methods in multinational companies*: Tax advantages and tax differentiation in two different countries gives advantage to the companies to shift their profits in low tax regime countries. Companies are free to decide in transfer pricing method and thus high transfer price can be applied in high tax regime units. Such alternatives are important example of creative accounting.

It has been critically observed, that the major reason of occurrence of creative accounting, is choices in accounting methods. According to the accounting standards, companies are free to use any of the method laid down in the system, subject to their convenience. For example, there are three broad methods of inventory pricing stated as follows

I. FIFO (First-in, first-out)

II. LIFO (Last-in, first-out)

III. AIM (Average inventory method).

Companies according to their convenience can choose any of the method such as the inflationary market FIFO method, which could be adopted, if firm aims to reduce its expenses and wants to show higher profits. Each method will give different results in different conditions. Similarly, WDV (Written down value) and SLM (straight line method) of depreciation will give different result to the valuation of assets.

These choices in methods of accounting give legal right to the companies to present desire picture of firm. Since, the system authorizes companies to employ any of the methods despite the likelihood of information misleading stakeholders. However people who employ same, cannot be punished.

Creative Accounting and Earning Management are euphemisms for accounting practices that tend to circumvent fact cleverly or manipulate the rules of standard accounting practices or the spirit of those values. They are characterized by dubious complications and use of "novel" ways in presenting income assets or liabilities. There are many reports of price manipulation, profit overstatement, and accounts falsification by some dubious stewards which rendered the financial reporting ineffective. The business failures of the past decade however, have been closely associated with corporate governance failure, which involves a number of parties, management, board of directors, auditors and some investors (Ezeani, 2010).

Most business organizations have always been connected with fraud and have been affected by financial collapses. Recently, accounting scandals like Enron, WorldCom, Parmalat, Tyco, etc have cost not only billions of dollars to the stake holders but have also damaged the accounting profession, as a result of financial misrepresentation. Most of the standards set for the accounting (Audit) report have been eroded.

3. THEORITICALS & LITERATURES

A lot of scholarly papers has been written on Creative accounting. However it is publicly known that the Anglo-Saxons were noted to be the first, to write about creative accounting in their literature in 1970s. Watts and Zimmerman (1990) wrote in their literature about accounting practices and provided, guideline about positive creative accounting. In a same manner Shah et al. (2011) concludes that creative accounting is a weapon which is used in a critical situation of a firm. They also concluded that creative accounting is not that bad if firm shows some flexibility in its accounting regulations. Further argue that, it rather depends on the ethical environment of any firm, which deals with how and why management is using creative accounting techniques as a weapon. While some analyst focused in outlining the dark side of creative accounting practices and submitted that, mostly setbacks happen because of unethical conduct of creative accounting for example Enron and WorldCom. As Gherai and Balaciu (2011) asserted in their literature, they submitted that, enterprise stake is at risk when it indulges in practices of creative accounting. Because these practices give a firm only short term benefits. At the end, enterprises is bound to be surrounded with scandals. So there is really a need of close governance to financial reporting. And finally concluded that management should try to find out, all those causes which may provoke practices of creative accounting.

Managers and auditors play an important role in any firm. At the end, manager gets rewards from the company's performance. Auditor's close supervision may reduce the chances of applying creative accounting. Yadav (2013) finds that involvement of outside directors, could reduce the practices of creative accounting. And the more, the outside users, the less creative accounting practices. He further stated that, involvement of professionals in financials decision can build a trust of stakeholders in the enterprise. Finally concluded that, qualified accountants could help companies in the use of creative accounting techniques effectively. It also suggested that corporate governance is a best way to reduce these practices.

Kassem (2012) argues that the ethical practices of creative accounting in existence, are there basically to help the external auditors to increase their efficiency and accuracy in finding any fraudulent act. It is difficult for people to differentiate between creative accounting and fraud but not to an external auditor, it is necessary to be able to differentiate the minor hair line differences between the two. External auditors could do the job to investigate whether it is a fraud or financial error resulting in losses. In order to stop the future fraud if any, the auditor(s) need to find out the methodology of the fraudulent person, to guide them work out their best for the firm, not excluding the regulators who will play a major role in providing them with the best guidance in information, to support their work.

Orial Amat, John Blake and Jack Dowds (1999), *Journal of Economic Literature classification*: Creative accounting is important for auditors or management to understand that, it gives an opportunity to companies to manipulate things in desired manner but morally the practice is not acceptable. Government or concerned authorities have taken adequate steps to protect companies from such practices but effort has not been satisfactory. There are many users of financial statements who are not aware about creative accounting or earning management and thus management gets chance to mould the books in the way they want. While analyzing the study conducted by Orial and Catherine, we can conclude that, there is no adequate solution to the problem of creative accounting. But by making changes in accounting regulations, we can control the practices to some extent such as reducing the number of choices in accounting systems and by specifying methods to follow in specific situation.

Herve & Gaetan (2004), "Accounting Manipulations: *A Literature Review and Proposed Conceptual Framework"*: This paper highlighted the issue of manipulation and define accounting manipulations in different way and stated that manipulations depends upon the objective of getting into it. There is no appropriate way to remove such malpractices from the system, but through promoting ethical mindset among the corporate world, the chances of such practices could be minimized. The major reason stated by scholars for accounting manipulations is agency cost and difference in opinion & objectives between managers and owners. Owners believe in sustainability and long term profitability of the company but manager's objective differ in terms of getting extra profits from the firm. Managers' involvement in manipulating activities can be removed only when they can relate their organization with their efforts. An ethical mindset and awareness of investors about the financials and accounting methods can help in reduction of manipulating activities.

Frank Partnoy (2006), "How and why Credit rating agencies are not like other gatekeepers": Credit rating agencies act as helping hand for stakeholders in investment decisions. Since full expert team work on the analysis of financial statements, and parties involved are independent ones, investors feel that the data or information provided is reliable. These days the investors have started thinking over the rating procedure of credit rating agencies and strongly feel that rating should not be the only criteria for investment decision. After Enron, Satyam and WorldCom collapsed, stakeholders and regulatory bodies realized that there was no way to prevent financial market from manipulations, as the people responsible in providing authentic information are manipulating the books for personal gains. The fee charged by credit rating agencies comes from the companies itself and thus better analysis will bring good amount of fee. Thus personal gain automatically becomes a reason of loss of trust in CRAs rating system. CRAs in present situation needs to create a better image in market to regain the trust.

Naomi S. Soderstrom (2007), "IFRS Adoption and Accounting Quality: *A Review" University of Colorado at Boulder*, Accepted paper series extracted from Journal SSRN, which stipulated that Accounting manipulations and creatively managing the accounts is becoming common practice these days and thus it has becomes very important for the regulatory bodies to take an immediate step. In result of this, about 100 countries has started following international financial reporting standards with the purpose to facilitate in harmonization of accounting standards a means to minimize the chances of cross border accounting manipulations. In India the standards were supposed to be implemented in April 2011 but due to lack of knowledge and understanding of issues involved in its implementation, the time period was extended to April 2012. Even though such accounting standards implementation comes with its own cost such as time and operational expenditure; it long term benefits of solving the problems of figures manipulations in corporate world, worth the exercise. Although the standards stated in IFRS are similar to GAAP principles but focusing on reporting standards makes a difference in this system.

Luca Enriques (2000), "*The Law on Company Directors' self-dealing:* A Comparative analysis": Self-dealing transactions should not be treated as negative always, the intentions behind the transaction and its impact on long-term sustainability and profitability of the firm should be considered. The role of shareholders should also increase for bringing transparency and for creating ethical environment within the corporate world. Secondly, restrictions which may be imposed on related party transactions and companies, should be strict in dealing with related parties in any of the way. However, self-dealing transactions are treated in different way in different countries and there are many countries where self- dealing transactions are not restricted or prohibited and it is believed that these problem may exists, if mangers are appointed as representative of shareholders and cannot be removed completely.

Michael G. Alles & Srikant M. Datar (2004), "How do you stop the books from being cooked" *International Journal of Disclosure and Governance;* The paper elaborated that, the Indian market was never dominated by any developed economy some years back as the number of investors and wide market players always force market of all types of economies to move in their direction of interest. However in some few years ahead, the confidence of investors in their market had fallen, which pushed players to withdraw their money and find other way of investing. In the deep studies of the situation of the Indian market according to the paper, it was later observed that alternative choices available in accounting system and flexibilities provided in the accounting standards were the major reason of accounting manipulations. Secondly, judgmental decision making and qualitative factors gave undue advantage to management to mould the information in the desired manner. Last but not the least, agency cost and differences in decision or opinion of managers and shareholders also motivated management to manipulate things as per the desired results.

Beneish, M. (1997). Detecting GAAP violation: Implications for assessing earnings management among firms with extreme financial performance. *Journal of Accounting and Public Policy*: The findings suggested in the paper that, there was a high probability of accounting manipulation in Enron's financial statements for several years preceding its bankruptcy. It also stated that the manipulation covered-up the considerable evidence existing that could have lead analysts, sophisticated investors, and regulators to question Enron's financial results and soaring stock price.

Deegan, C., and Blomquist, C. (2006), "Stakeholder Influence on Corporate Reporting: An Exploration of the Interaction between the World Wide Fund for Nature and the Australian Minerals Industry", *Accounting, Organizations and Society*: Corporate reporting is an important fact for providing transparency in corporate sector and there is strong influence of stakeholder on reporting standards followed by company.

R. H. Grey (1995) "Business Ethics and Organizational Change", *Managerial Auditing Journal*.: There is little evidence that, the growth in organizational codes of ethics (OCoE) in recent years has had much effect on organizational activity. Such was also the experience with the social responsibility debate of the 1970s – a debate which the current business ethics experience is so closely in parallels. The theme here is that business ethics and social responsibility have failed to "root" because (a) they have remained undefined and imprecise, and (b) organizations have neither the mechanisms for, nor the interest in, their adoption. As a result neither ethics nor responsibility has entered the "soul" of organizations. Commentators have misunderstood this and continue so to do because the bulk of debate in the business ethics arena adopts the individualist orientation that characterizes much of the history of the philosophy of ethics.

Parviz Saeidi (2012), "The relationship between income smoothing, income tax and profitability ratios in Iran stock" *Asian Journal of Finance & Accounting*: This is an empirical paper which shows the relationship between income tax and income smoothing practices. The hypothesis testing in this paper proof that, there is significant relationship between the two, which is the taxable income and income smoothing followers comparable to that of non-followers of income smoothing and it is also concluded by Parvez that there is significant relationship existing between profitability ratio and income smoothing.

Manipulation in financial reporting gives only short term benefit. As Efiok and Eton, (2012) deeply explain about the macro manipulation effect. According to them, manipulation of accounts, may affect the price of the share and it capital market environment as a firm. Macro manipulation increases the risk of the investor which may cause loss. They suggested that company should fill the loophole of the regulatory and management decisions, they must be based on actual financial report. Corporate governance plays pivotal role in any firm's financial decision making. Corporate governance works like top management that manages and controls company performance. Corporate governance evaluates things like "An Eye." According to Romulus, Sorin et al. (2012) working of corporate governance, all depends on the structure of corporation, directors and their management participation. So, well designed structure of audit denies the practices of creative accounting. That's why corporate governance is a best way to control unethical practices of creative accounting. Almost in same manner Vladu and Matiş (2010) explain the relationship of corporate governance and creative accounting, according to them they have a strong relationship with agency theory. From their study report, conflicts between manager and the owner may be the cause of creative accounting practices. Because management takes decision to safe their interests instead of owners. According to Bartov and Mohanram (2004), the top management has an advantage of timing their stock in such order that they have option of applying the decision first and then revealing the information. According to research done by Meek et al. (2007) there is direct relationship between a CEO and the stock option compensation and handling of accruals, given the condition of huge control of CEO's on stock option compensation, as well as in the sake of management rewards; company's good financial performance is very necessary. As higher the profit, the higher they are rewarded as managers. Ethics help to inform enterprise managers, what is right and what is wrong for them. By following right ethics means you are out of crisis. But in this circumstance the right ethics does mean, what is right in an individual perspective. This becomes the perfect wrong way to consider professionals as well as societal ethics. Afolabi and Oluseye (2013) conducted research on manufacturing firms of Nigeria. They concluded that financial reporting does have effect on managerial and investment decision making. They also stated that high transparency means to avoid corporate fraud. Al Momani and Obeidat (2013) investigated on, how much an auditor is ethically capable to detect creative accounting practices. And also find out, how much an auditor's ethics can affect the practices of creative accounting.

Theoretically it is noted that the stated accounting approaches listed below prevent creative accounting schemes by companies,

i. FRS 1-Cash Flow Statements

This approach seeks to prevent creative accounting actions, with the assumption that profit could easily be manipulated according to critics of creative accounting and as result, Accounting Standard Board issued FRS 1, which requires most of the companies to publish cash flow statement to assist in avoiding figure manipulations.

ii. FRS 2-Accounting for Subsidiary Undertakings

This is another approach believed to prevent creative accounting scheme. In the 1980's, there were a number of complex schemes where companies could bring profit without disclosing their source of income and hide certain liabilities and assets from its balance sheet, by the operation of a subsidiary style. So the adoption of the FRS 2, presented a transparent relationship between a holding company and its subsidiaries.

iii. FRS 3-Reporting Financial Performance

This was a third approach believed to have also contributed in prevention of creative accounting scheme. It was noted to be a significant standard as at then and has transformed the appearance of the profit and loss account, by introducing a new form of financial statements. Instead of concentrating on single figure profit, the Accounting Standard Board considers companies to disclose information which reflects the various elements that make-up the profit.

iv. FRS 4-Capital Instruments

This was a fourth approach adopted and believed to prevent Creative accounting scheme. This standard has the objective of ensuring that capital instruments are shown in financial statements in such a manner, which truly reflects the obligation of the issuer. Under this standard there was a clear definition as to what must be shown as a debt, non-equity shares, and equity shares with clear rules.

FRS 5-Reporting the Substance of Transactions

This was the fifth adopted approach which is believed to prevent Creative accounting scheme. It was observed that in the past, it was possible for companies to report transactions in a way which has legal validation, but has the reality of the economic transaction obscured. This approach attempted to rectify this by setting out definitions and the appropriate accounting treatments, particularly for transactions like consignment stocks, sale and repurchase agreements, and factoring of debts.

Naser (1992) observed that, much is written about Creative accounting and about the various schemes of window dressing and off-balance sheet financing but very little information is available on how widely such schemes are used by various companies. He did a little empirical study to find out the relationship, whether creative accounting is related to the types of companies or industrial classifications, the reason behind the use of creative accounting, perceived legitimacy, consequences of the continued use of creative accounting, and measures needed to be taken to minimize its use. Because of the grievous concern on the topic of creative accounting, it was difficult to obtain enough data from companies about their own creative accounting practices

In 1998, they sent copies of questionnaire to auditors and companies and got 15(out of 22) respondents that had had experience of auditing companies (7%) never encountered problem of creative accounting, 73% had found between 1 to 5 examples and 3(20%) had come across more than 5 examples in their professional practice. In this research he finds from his sample that private companies provided most frequents encountered examples of creative accounting and interestingly almost all companies appears to make some use of it. Similarly, for industrial classification, the result was that, creative accounting was likely.

Uşurelu, Marin, Danailă & Loghin (2010) stated that even though ethics should be followed by an accountant, creative accounting is big challenge for them. They discussed about National Code of Ethics for Professional Accountants of Romania as reported below;

The code is divided into three parts. Part A establishes the fundamental principles of professional ethics in accountancy and also provide conceptual framework in applying these principles. While Part B and C illustrates how the conceptual framework should be applied in specific situations. Where Ethical codes are not applicable, professional objectives and discretion are established to meet the highest levels of performance and meet the public interest.

Achieving these ethical goals involves meeting four basic requirements:

- Credibility: Throughout society there is the need for credibility in information and information systems.
- Professionalism: There is a need for customers, employers and other stakeholders to be clearly identified in the professional document.
- Service Quality: It requires ensuring that all services obtained from the professional accountant are carried to the highest standard of performance.
- Confidence: In the profession as accountants "service users must be able to feel confident that there is a framework of professionals" with ethics governing the provision of these activities.

Creative accounting is termed as a synonym to deceptive accounting. According to Usurelu et. al (2010) ethical behavior of a person in accounting depends on;

- *Moral Sensitivity*: Which could be described as how the subject comprehends to ethical dimensions of a situation. In accounting, one can feel that a practice can affects some people adversely or favorably. But there are also some sentiments of greed, self-sufficiency than those related to good behavior.

- *Moral Judgment*: Moral judgment or capacity to judge, considering which alternatives of actions are ethically acceptable and which are not. In accounting, objectivity, open mindedness insight and perspicacity can be considered as integrated within practical wisdom.
- *Moral Motivation*: Moral Motivation understood as willingness to take the moral course of action, placing moral values above the other values and taking personal responsibility for moral outcomes. It plays a crucial role in selecting the right action as well as executing it.
- *Moral virtues or permanent attitudes in the interior strengthen formal behavior*: among these virtues, those which have special relevance to accounting are truthfulness, honesty, loyalty, trustworthiness, fairness, integrity, service to the common good, gratitude and benevolence. Courage, perseverance, competence, diligence, professional will to help defeat inner resistance to act as what one should. Practical wisdom has been said, provides capacity to perceive the right means for each virtue.

Smith (1998) classified accounting firms as “structured”, and “unstructured” in terms of their auditing methodologies in his paper. Using USA data as at that time, where the Big 8 accounting firms still predominated, he observed and classified 22 auditing firms. The number of accounting income which increases policy changes, was very higher for “structured” auditors and massively lower for “unstructured” auditors. Smith further reported on the accounting manipulations employed by 208 largest quoted UK companies and identified 12 different techniques in common use, all of which noted to have impact on the Profit and Loss account and Balance Sheet of the companies concerned. The techniques as specified according to Smith (1998) is described below as follows:

1. Extraordinary and exceptional items

2. Pre-acquisition write down

3. Deferred consideration on acquisition,

4. Disposals- profits on sales of asset taken “above the line” and deconsolidation of subsidiaries in anticipation of sale.

5. Brand Accounting- capitalization of assets,

6. Off-balance sheet finance,

7. Contingent liabilities,

8. Changes in depreciation policy (Method),

9. Capitalization of costs (interest and R&D)

10. Currency mismatching between borrowing and depositions

11. Pension fund surplus used to reduce annual charge

12. Convertible with premium put options or variable rate preferred stocks.

Out of this above listed 12 techniques, seven of this list with the ascribed numbers as 1, 2, 4, 8, 9, 10, and 11 is observed to have a clear income effect. Accounting policy which change with an income effect is less clearly attributable to an auditor works in U.K; than in Australian, as the study observed. Blake & Salas (1996) explained that creative accounting is seen as widespread in the U.K. and undermines it credibility as a disease. During 1990’s, creative accounting problem identified in Spain within the Continental European model of accounted regulations. There was an empirical work in Spain in which questionnaire was sent to 100 partners in Spanish audit firms. They compared Spanish survey with two survey of U.K. on this topic with total 42 respondents. In both countries 30% of auditors consider creative accounting as legitimate business tool, while over 60% saw creative accounting to be a serious problem. Whereas in Spanish 28% of the auditors thought that, creative accounting cannot be solved completely, in U.K. 95% accepted that creative accounting is not easier to be solved. Matiş et al., (2012) described creative disclosure as a feature of creative accounting. It is also known as impression management in literature. It can be found in corporate annual report under forms of distortion of narratives of numerical and graph manipulations. They gave importance to theoretical framework than empirical study because interpretation of empirical analysis is impossible without theoretical guidance. Creative presentation must be regarded as a complex mechanism that includes motives for engaging in manipulation of accounts, types of information disclosed and types of manipulation strictly connected to presentation of information, could be categorized as follows;

(i) Verbal information

(ii) Numerical information

They are considered to be a part of the following strategies which regard the manipulations connected to presentation of financial information as follows;

- Using a creative accounting manner to make the text difficult to read
- Using persuasive language that comprises only positive words and emphasizes positive financial performance. This type of manipulation is known in literature as "Positive Bias".

- Using creative accounting visual manipulation in the way information is presented with the scope of attracting the attention from other items that are relevant but in the same time are not flattering for the financial performance presented.
- Using performance comparison that involves choosing the benchmark that portrays current financial performance in the best possible light.
- They also explained about “Polly Anna Principle” (concept introduced by Hildebrandt & Synder, 1981) managers used to present financial performance of the firm in the best light possible under positivity bias.

The creative visual manipulation disclosed information to influence decision, using creative visual effects to underline part of the corporate report or an items in order to make it more oblivious to users (e.g. figures, font, style, size of the letters or numbers, color etc.) To create a strong visual effect, the ordering of the items location is also important like first part of the corporate reports can be chosen, follow up with those items which minimize damage effect and attract favorable direction like the last parts of corporate reports.

Cosmin (2010) described the various techniques used by the managers to get desired results. A census (not exhaustive) of the techniques used in creative accounting is outlined below;

1. Tangible assets: “subjective depreciation” of assets, creates proper field of creative accounting of management, which estimates that, recoverable value is lower than net accounting assets and are considered impaired for difference. The result will be affected by recording a depreciation expenses.

2. Goodwill: Goodwill increases by underestimation of assets purchases capitalization and depreciation of goodwill during its useful life, this have influence on the outcome of further coming year.

3. Depreciation: Option for depreciation method has impact on the profit and loss, during useful economic life of an asset. Thus, a different method of depreciation has different impact on outcome. An option on different useful life leads to different expenditure.

4. Inventories: The inventory provides sufficient opportunities of creative accounting and subjectivism. The under estimation or over estimation of stock finally has an impact not only on the financial statement of current year but also on the following year.

5. Provisions for liabilities and charges: The practice of provision (increase and decrease thereof) is an effective tool for "leveling outcome". Establishment of provisions in those years, where the profit results lead to decrease, while the resumption of the provisions in the coming year result in the registers deficit increase leading to the result of the creative accounting.

6. Construction contracts: Choosing between the two methods of accounting for construction contracts has the following impact on the profit and loss; under the completed contracts, the result will be recognized after the completion of contract, while in method based on percentage of definitive result will be staggered over time, throughout the progress of the construction project, switching from one method to another method also impact on profit and loss account.

4. METHODOLOGY AND EMPIRICISM

Creative Accounting is one of the most important accounting techniques used by the corporate-sector companies across the world, and one of the best methods to play with the accounting figures. As a result, numerous researchers have conducted research on this topic with different variables and different economic settings which formed the bases of the literature review of this paper, seeking to play a critical role in it conceptual analysis in the context of Ghana and at most within the West African economic settings.

This section of the paper focus on the primary data collection design subjected to interpretation and technical analysis, to present the fact that will support the thesis of this paper. The research design adopted an instrument of both semi-structured and structured questionnaires concurrently. Semi- structured questionnaire also known as open-ended technique deals with extracting data from conversation, the individual interview, the informant interview and the focus group' while the Structured questionnaire deal with structured face-to-face interview, together with material on postal and telephone variants, Jankowicz (1995). The research team further employed case-study type as a method to obtained fact and describe conditions that exist at a particular point in time. A case-study is defined as an attempt to systematically investigate an event or a set of related events with a specific aim of describing and explaining the phenomena. A.D. Jankowicz (1995) further defined it as the means to explore issues both in the present and in the past, as they affect a relatively complete organizational units, in which you look to the future by means of recommendations you make. The term population refers to a complete set of individuals (Subjects), objects or events having common observable characteristics in which the researcher is interested. The study of population is a universal set of all cases or members that contain the characteristics of interest to the researcher. Per analytical purposes, the research team categorized the study population into three (3) group that form the corporate sector of Ghana. Being top management, middle level and low level management. Jankowicz (1995) further elaborated that, sampling from population could be defined as the deliberate choice of people who are to provide you with data from which you will draw conclusion of the population from. The sample represent the management staff from the Finance functions and department, thus financial directors, financial managers, Auditors, Accountants, Cashiers and among other relating workers in finance working within the corporate industry of Ghana.

The research team adopted non-probability sampling technique and employed purposive sampling instrument using key informant technique. Tremblay (1982) elaborate that this technique is only useful when the research team seek for people with specialized knowledge about the issue in question. The team employed this technique because they needed respondents who could provide in-depth financial information and it relating to manipulation of creative accounting in the corporate industry of Ghana.

The field instrument adopted for data collection was a carefully designed questionnaires. The questionnaires were divided into five sections. Section 'A', requested data on the demographics of participants such as sex, age, and the place of work as well as knowing their employee status whether permanent or temporal workers and the type of work they are involve with their agency. The section 'B' examine the reasons for engaging in creative accounting in their own opinion; while the section 'C' consist of the effect of creative accounting on their financial report with the section 'D' consisting on questions in their opinion, the key manipulators in their financial statement and their reasons and the final part which is section 'E' consist of questions on the manipulation methods and it effect on accounting policies. The study area was the Corporate Sector of Ghana, which focused more on the Institutions found in revenue collection sector, Banks, Insurance companies, fund management firms and fast moving product companies. One hundred (100) people were subjected to studies as the sample population framework, and we are glad to indicate that we are fortunate to have got 100% respondents from the field studies, which we believe could be attributed to our field work tactics. Table X1 describe the nature of the sample population

Section A of the Field Studies

Table X1: Respondent demographic in Gender

Demographic of Respondents	Status	Frequency	Percentage
Male	Permanent Workers	78	78%
Female	Permanent Worker	22	22%
Total Score		100	100%

Source: field report of Senzu (2017)

Table X2: Respondent demographic in age

Age Group	Frequency	Percentage
20-29	31	31%
30-39	37	37%
40-49	14	14%
50-59	18	18%
Total Score	100	100%

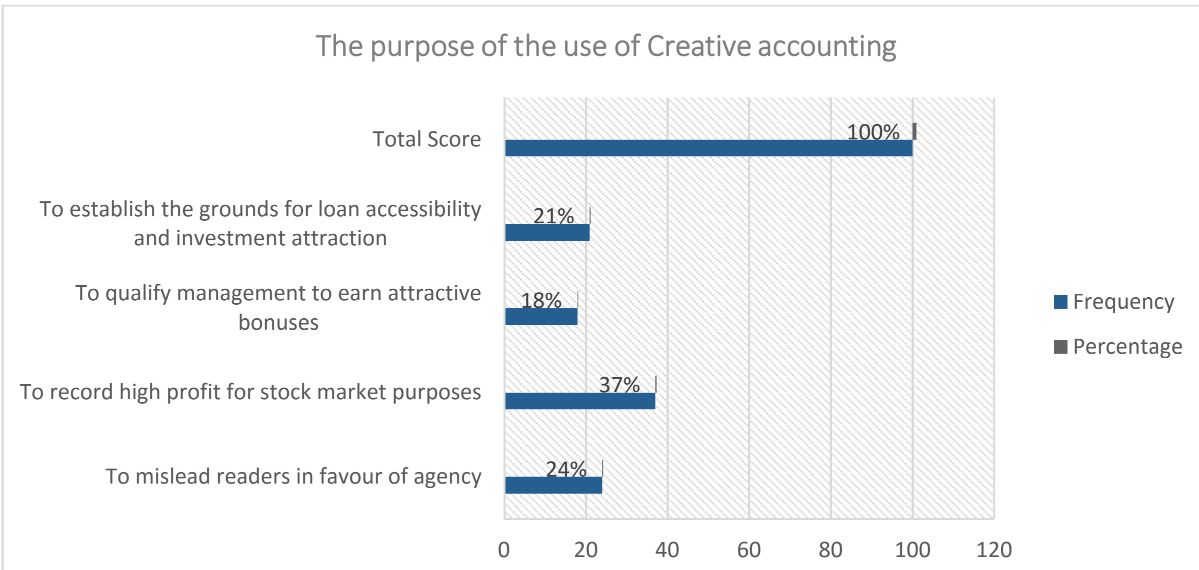
Source: Field report of Senzu (2017)

Section B of Field Studies

In this section the effort of the studies was to observed whether all the respondents of the sample population understands the concept of Creative accounting, and there was no doubt that

100% respondent proved that, they have a clear and deep understanding of 'creative accounting' yet only 82% on records engaged in this practice, while the remaining 18% has not used it in their accounting preparation or reporting before. Hence an effort was made to examine the general purpose in the use of Creative accounting. Which the data findings was computed graphically as figure 1.

Fig 1.



Field Report: Senzu (August, 2017)

It became very clear from the studies that majority of the corporate sector agencies in Ghana, who engages in creative accounting, do so to gain advantage at the stock market with 37% respondent to that effect, and 24% who follows as the second highest respondents opined, they do so in favour of their agency per the reason of market competition. Thirdly the 21% respondent category, claim such practices is engaged for the purpose of attracting investment to their firm as well as loan accessibility.

Section C

This section sort to examine the effect and legal standing of creative accounting practice in financial reporting system in the corporate sector of Ghana. Indeed, the creative accounting practices to a large extent is observed to be the root of a number of accounting scandals in the world leading to total loss of corporate image and executive integrity. However analysis globally indicate that some practitioners and academicians see the creative accounting practice as an illegal act, while others consider it as a legal act. So the findings in Ghana was computed into as Table below classified as Table X3 & X4.

Table X3: The Extent of Creative accounting effect on financial system in Ghana

Is creative accounting affecting financial system in Ghana	**Frequency**	**Percentage**
Strongly Agree	38	38%
Agree	27	27%
Undecided	7	7%
Disagree	19	19%
Strongly Disagree	9	9%
Total Score	100	100%

Field Report, Senzu (August, 2017)

Table X3 data depicts that most active players in the financial market of Ghana have conviction, and a strong opinion that, the creative accounting practice in the corporate sector of Ghana has a negative effect on the financial system of Ghana, having 38% rate of respondents who attested to this as a fact.

Table X4 projected a data of respondents' perspective of legal standing of creative accounting

Is creative accounting legal	**Frequency**	**Percentage**
Legal	39	39%
Total Legal	8	8%
Don't Know	7	7%
Illegal	21	21%
Total Illegal	25	25%
Total Score	100	100%

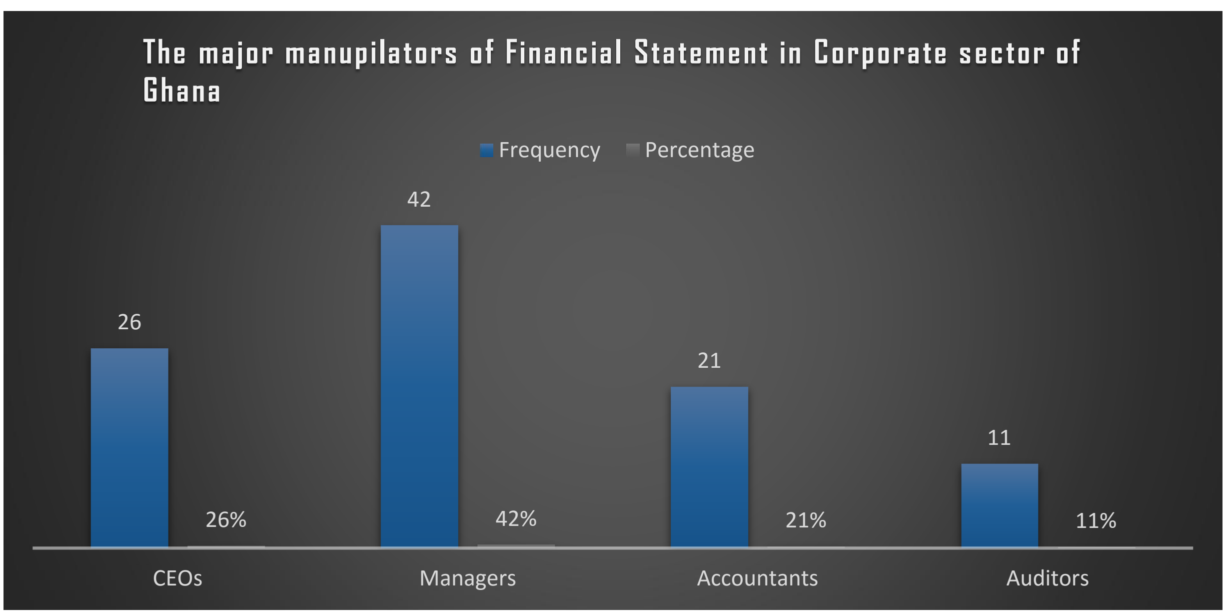
Field Report, Senzu (August, 2017)

39% of the respondents were of the view that, as far as accounting profession is concern, creative accounting was a legal practice with the exception of excessive indulgence, which turns it into a fraud hence becomes illegal, while about 25% submitted that any kind of creative accounting to them was totally illegal and need not to be condone.

Section D

The objective of this section was to examine from the respondents the architect behind the creative accounting practice in the corporate sector of Ghana and the responses according to their experience and expertise, was graphically computed into Figure 2. below

Fig. 2

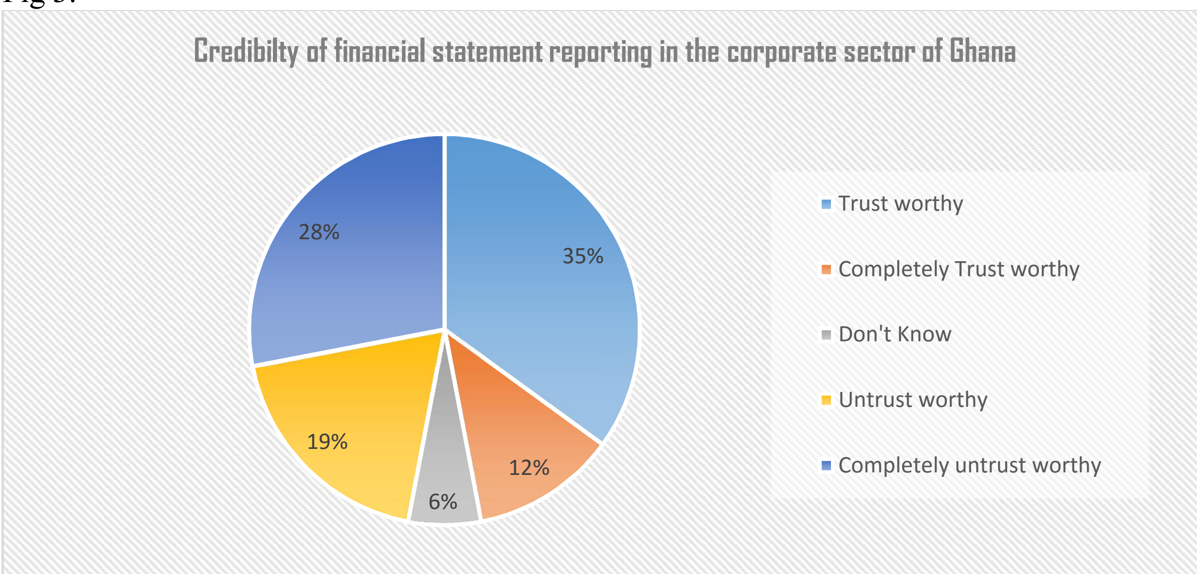


Source: Field Report, Senzu (August, 2017)

The data depict that Managers are the most popular practitioners of creative accounting in corporate sector of Ghana, followed by the Chief Executive officers with a respondent of 42% and 26% respectively.

The next effort of studies was to examine the credibility of financial statement from the Corporate sector of Ghana; understanding the wide spread of creative accounting in this industry. The data obtained was graphically computed below as figure 3.

Fig 3.



Source: Field Report, Senzu (August, 2017)

It was observed that there is still majority of the financial market players about 35% who believe in the credibility of corporate financial statement reporting, despite the wide spread of creative accounting. However 28% which is the second highest respondents, indicated their stand of completely distrust to the financial statement reporting in the corporate sector in Ghana, which call for a critical look into this situation to avoid future repercussion that will stand to break down the very fiber that hold the financial system operations, which is trust.

What was the reason behind the adoption of creative accounting practice in the corporate sector of Ghana and the ease of detection of it practice in financial statement reporting. This lead to data collection which was represented in a Table format as Table X5.

Table X5:

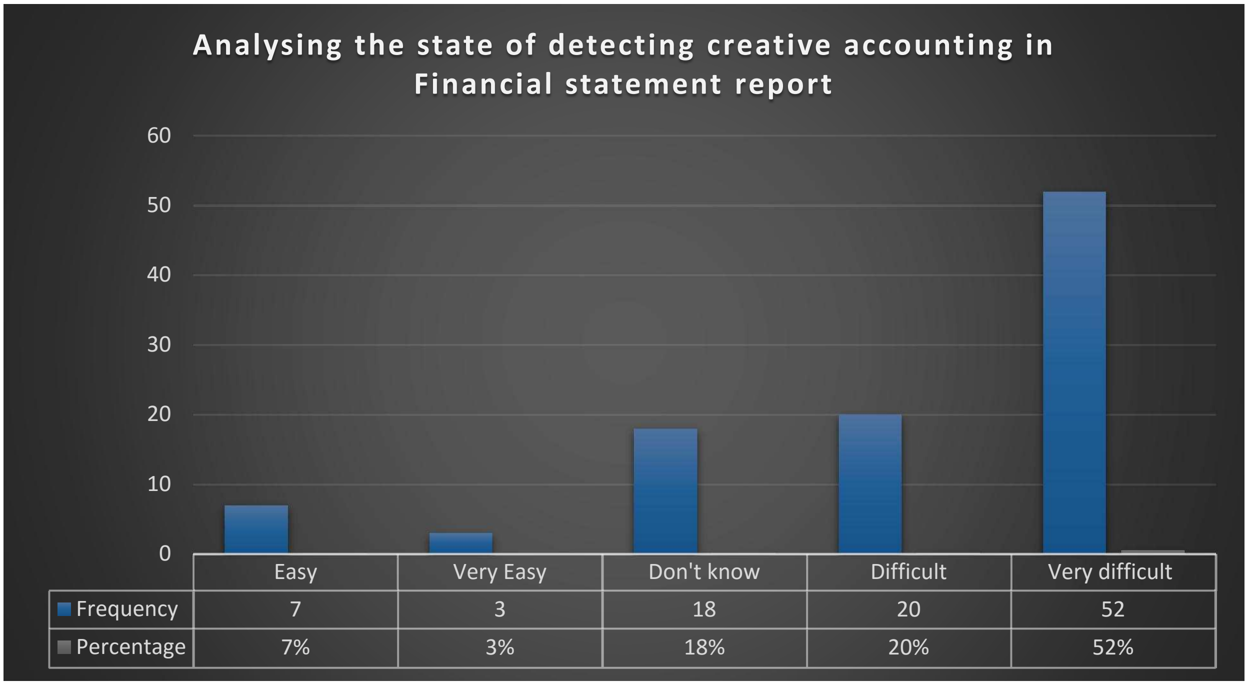
The major reason behind the use of creative accounting	**Frequency**	**Percentage**
Strong Competition	26	26%
Attract Investment	29	29%
Manipulator benefits	37	37%
An art in financial statement preparation	8	8%
Total Score	100	100%

Source: Field Report, Senzu (August, 2017)

The observed report from the field stipulate that, majority that engages in creative accounting in the corporate sector of Ghana were to satisfy the interest of the manipulators, followed by 29% of respondent that submitted that such an act is only applied for the purpose to attract investment while 26% opined that such an act is engaged to assist their agency to maneuver in a strong market competition.

It was further enquired, if creative accounting was easy to detect in financial statement reporting. The findings was graphically presented as Figure 4. Below

Fig 4.



Source: Field Report, Senzu (August, 2017)

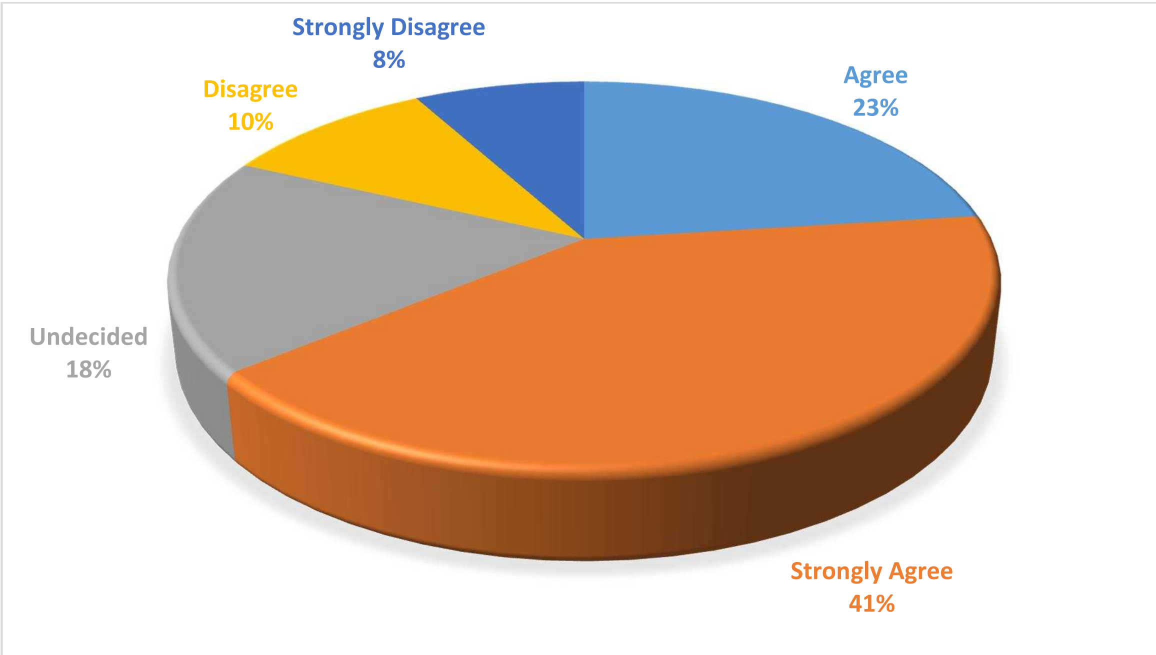
According to the graphical display of fig.4 indicate explicitly that, about 52% of the population, observed to be the highest figure among the respondents, declared that creative accounting on Financial statement is an art very difficult to detect on just a plane reported financial statement. Which express a critical concern of why this art need to be curb, strategically and technically.

Section E

This section was dedicated to examine how creative accounting practice, have effect on accounting policy selection, decisions and application, and further examine the popularly used creative accounting methods in the corporate sector of Ghana. The findings were presented into Table and graphical analysis.

Fig. 5

Examining the extent creative accounting practice affect accounting policy choice and decisions



Source: Field Report, Senzu (August, 2017)

As the pie chart above depict; an estimate of 41% strongly agree that the art of creative accounting practice largely influence accounting policy choice and decisions, followed by 23% quadrant of expert who share the same believe to some extent in the corporate sector of Ghana

Finally a step was taken to examine the popularly most used creative accounting methods within the corporate sector of Ghana and Table X6 present the data below

Table X6:
The popularly most used creative accounting methods in the corporate sector of Ghana

What is the most popularly used creative accounting methods in the corporate sector of Ghana	Frequency	Percentage
Off Balance Sheet Financing	38	38%
Changes in depreciation policy	21	21%
Extraordinary and exceptional items	8	8%
Money valuation	29	29%
Others	4	4%
Total Scores	100	100%

Source; Field Report, Senzu (August, 2017)

As the table X6 depicts, the agencies who engages in Creative accounting in the corporate sector of Ghana, practice more of the 'Off Balance sheet financing', then to 'money evaluation' in financial statement reporting and thirdly is the adoption of 'changes in depreciation policy' on assets.

5. FINDINGS, CONCLUSION AND RECOMMENATIONS

Findings

I. This study revealed that the practice of Creative Accounting is an attempt to gain advantage in a form to the managers and companies. Also, it shows that the current GAAP create a gap that can permit and encourage the practice of Creative Accounting.

II. It was equally revealed that one of the best ways to prevent the practice of Creative Accounting is to enforce both preventive as well as strong enough punitive measures on those that engages in Creative Accounting practice.

III. This paper finds out that creative accounting variables enhance profitability

IV. The result of the studies reveal a significant relationship existing between income smoothing and profitability

V. It was realized that one of the major cause of organization engaging in income smoothing is the effort to appear profitable in bad years and strong market competition period

VI. It was also realized that the most popularly used creative accounting methods in the corporate sector of Ghana is Off Balance sheet financing.

VII. It came to be realized that, the highly most engaged architect in creative accounting in the corporate sector of Ghana are Managers followed by Chief Executive officers.

Conclusions

The findings of the research study, serve as the basis for making the conclusion below:

Creative Accounting offers a formidable challenge of the accounting profession which when carried to extreme negativity, has cast aspersion on the credibility of accounting principles and standards. In general, Creative Accounting lends itself as a deceitful and undesirable practices. The ethical implications of Creative Accounting raises the need for a close scrutiny of the potential abuse of accounting policy choice and manipulation of transactions. The study establish a relationship fact of the multi-dimensional nature of the ongoing financial crises which has it deep root in the financial reporting, burdened with the adoption of Creative Accounting.

Recommendation

I. It was recommended that effective rules and regulation of accounting practice should be put in places within the organization to forestall the incidence of Creative Accounting. Also, it was recommended that GAAP usage should be subjected to basic SAS and IAS standards.

II. Adopting of the set of global financial reporting standards known as international financial reporting standards (IFRS) must be embrace by all operators of accounts and those performing accounting duties.

III. Greater emphasis on enforcement of code of corporate governance and ethics. Proper enforcement of changes in accounting regulations, ethical standard government code by regulatory authorities will prevent companies from employing misleading reporting practices of creative accounting.

IV. Regulatory agencies should draft rules that minimize the use of judgement estimation and prediction in the treatment of certain entries in financial reporting example extra ordinary items.

V. Auditors should have a part to play in identifying and reporting dishonest estimates, and they should be given the responsibility of detecting and reporting all instances of Creative Accounting practices

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