

Creative Accounting Standards and Its Techniques

ABSTRACT:

The study brought to the multi-dimensional nature of the ongoing financial crises and its effect on financial reporting by way of increasing adoption of creative accounting. Creative accounting offers a formidable challenge of the accounting profession which when carried to extreme negativity has cast aspersions on the credibility of accounting principles and standards. In general, creative accounting lends itself as a deceitful and undesirable practice. The effect of the creative accounting raises the need for a close scrutiny of the potential abuse of accounting policy choice and manipulation of transactions. The ethical implication of the Creative Accounting raises the need for a close scrutiny of the potential abuse of

accounting policy choice and manipulation of transactions.

Keywords: Accounting Principles, Accounting Policy, Credibility, Creative Accounting, Financial Crises, Transactions

INTRODUCTION

Creative accounting is a euphemism referring to accounting practices that may follow the letter of the rules of standard accounting practices, but deviate from the spirit of those rules. They are characterized by excessive complication and the use of novel ways of characterizing income, assets, or liabilities and the intent to influence readers towards the interpretations desired by the authors. The terms "innovative" or "aggressive" are also sometimes used. Other synonyms include Cooking the books and Enronomics. The term as generally understood refers to systematic

misrepresentation of the true income and assets of corporations or other organizations. "Creative accounting" has been at the root of a number of accounting scandals, and many proposals for accounting reform – usually centering on an updated analysis of capital and factors of production that would correctly reflect how value is added.

Newspaper and television journalists have hypothesized that the stock market downturn of 2002 was precipitated by reports of "accounting irregularities" at Enron, Worldcom, and other firms in the United States. One commonly accepted incentive for

the systemic over-reporting of corporate income which came to light in 2002 was the granting of stock options as part of executive compensation packages. Since stock prices reflect earning reports, stock options could be most profitably exercised when income is exaggerated, and the stock can be sold at an inflated profit.

CREATIVE ACCOUNTING TECHNIQUES

The basic model for recording transactions and events in the books of accounts, under the double entry system, is as follows:

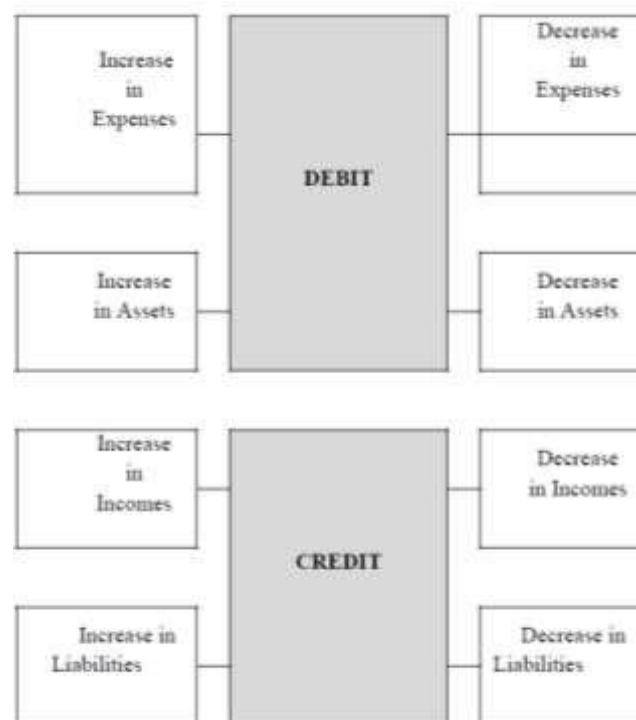


Figure 1: Creative Accounting Techniques

All the techniques of Creative Accounting revolve around the basic process of “debiting and/or crediting an inappropriate account” when recording a transaction or an event. By implication, the process also covers “not debiting and/or crediting” the correct account with the correct amount.”

TECHNIQUES OF CREATIVE ACCOUNTING

Accounting standards and policies do not cover every aspect of business transactions besides considerable latitude is available for managerial discretion, which gives legal lag to the users of creative accounting. All the techniques of creative accounting revolve around the basic principle of debiting and/or crediting an inappropriate account. Further by misusing of accounting policies or by changing accounting policies managers can alter their profit figure or show false picture of financial reports. Business organizations may quite validly, change their accounting policies. **Fox (1997)** reported how accounting policies in some companies are designed within the normal accounting rules to match reported earnings to profit forecasts. These can be used in the following ways:

Make over/under valuation of closing stock:

It can do over/under valuation of its closing stock, which will result in over/under statement of assets in the balance sheet and under/over statement of cost of goods sold in the income statement. For example, Laribee Wire Manufacturing Company recorded phantom inventory and carried other inventory at distended values, which is used by the company as collateral security in borrowing some \$130 million from six banks.

Create over/under provisions or reserves:

It can make over provisions or reserves when revenues are high to bring down it to the normal level, the level that can easily be maintained in future years. Similarly, in critical time it can ignore making provisions to overstate the profit.

Charge an expense as an asset or vice versa :

It can charge an expense as an asset to improve current profits or alternatively, an asset may be treated as an expense to bring down the current profit.

Charge all expenses in one bad year:

If management thinks a particular year as bad /poor profitability year, they can lump all the



expenses in that year to ignore impact on future profits.

Enter artificial transactions: Use of artificial transactions like sale of an asset at current price to show profits and buying it back at current cost can be entered to manipulate balance sheet and profit figures.

Change depreciation rate/amount: It can decide not to provide depreciation or to provide less than the due amount of depreciation on fixed assets to overstate the profit and overstate the value of asset in the balance sheet. On the other hand, to show higher expense in the income statement and to understate the value of an asset in the balance sheet depreciation at higher rate or for full year can be charged though used for a short period.

Misuse autonomy in deciding useful life of an asset: The estimation of the useful life of an asset to calculate depreciation is done within the company and this gives lots of opportunity to the accountant to make judgement according to the requirement.

Misuse materiality concept : Misuse of materiality concept like purchase price of an asset up to a certain limit can be treated as

expense though its benefits is likely to be spread over several years to lower the profits.

Misuse revenue recognition concept: Misuse of revenue recognition concept like advance amount received for supply of goods in future can be transferred to sales account, which will show higher profits and understatement of liabilities in the balance sheet.

Make subsidiary/joint venture: At the time of investment in subsidiary equity method can be used to conceal the true performance. Using this method the investment can be recorded at cost and subsequently adjusted to reflect the share of profit or loss and dividend received. This method limits the information available to investors. Similarly, a company can overstate interest coverage to change the advantage ratio.

Under estimate contingent liabilities: Companies by under estimating materiality of contingent liabilities or ignoring to record can overstate their net income or shareholders equity.

Under value pension obligations: Pension obligations are the present value of future payments earned by the employees. A company by changing few assumptions

regarding these funds, using pension accounting, changing discounting rate etc. can increase the expected return to boost net income.

Manipulate news releases: Companies often seeking to increase their earning power manipulate their balance sheet, which can be used to obtain more easily line of credit at low interest rates, easily issue debt financing, or issuing bonds on better terms. Similarly, when a company misses estimates it can use a number of tricks to pull the wool over the investor's eyes. Some tricks are:

- Pronouncing good news to offset bad news,
- Enhancing preferred news,
- Burying bad news by using phrases,
- Showing bad news near the bottom of the report,
- Buying back to make shares attractive.

Justified reasons for creative accounting

There may be one-off events which so distort the figures that the underlying health of the company is obscured. Accounting techniques may be used to produce more meaningful figures and avoid unjustified market pessimism. In such cases the changes may be clearly indicated in the notes to the accounts.

Unjustified creative accounting

However more often than not creative accounting is used to:

- Hide a particularly bad year for the company; force an exceptionally good year or continue the pressure to always be the best;
 - Smooth out results to give an impression of stability or sustained improvement;
 - Hide large profits by monopolies under anti-trust threat; boost assets to avoid take-over.
 - Distortion in one year often increases the need to distort the next year. Typically the bad year continues and the company gets more tied into misleading figures, often seeming to devote more time to presentation of figures rather than management of the company. Examples of creative accounting
- What sort of things can be done as creative accounting? Acquisitions can hide poorer results or boost EPS. A large provision can be taken to cover re-organisation costs. These do not affect profitability but are taken against the assets of the company. Off balance sheet financing. Items of the financial reports are omitted. This could be done via a partial subsidiary which the

company controls. For example assets could be sold to this subsidiary. This produces a profit in the balance sheet, but nothing has changed. It is simple a shuffling of debt/credit between companies producing no overall increase in health or profitability.

Good-will and brand names. While brand names are a powerful marketing tool, companies that have included them in their assets have done so to increase the value of the assets when they would otherwise have seemed poor. A further problem is the valuation of a brand name which can be arbitrary and is not independently verifiable.

Capitalizing R&D. The company may capitalize its R&D expenditure. Instead of writing it off as cost, it was added to assets in "know how". The approach is similar to the way brand names can be handled. Depreciation.

The British Airport Authority depreciates runways over 99 years. This means in effect they ignore depreciation of the runways. However they are at least open and consistent. Moving operating costs to reduced assets. The company had to renew the pipes in a major chemical complex. This was simply to replace old equipment. The company did not

record this as an operating cost, but classified it as "environmental activity" and wrote it off against assets. Something clearly a cost, and affecting the year's results, has been moved from the cash stream of the company. Creativity versus complicity Creative accounting affects the value of assets and liabilities, and also the allocation of changes to assets/liabilities or profit/loss.

Infamous cases are not creative accounting but fraud. However a typical feature of creative accountancy is that it is to a greater or lesser extent hidden and is often result of sustained poor performance. Engaging in creative accounting is then a possible first step towards pushing at the boundaries of the law. And the danger is that respectable executives lose sight of where the boundaries are, and end up like directors committing fraud.

METHODS OF DETECTING CREATIVE ACCOUNTING

There are various methods of detecting creative accounting and here the reference will be made to the two of them

- Financial statements analysis using ratio and the less difficult
 - Cash flow analysis
-

When the company reports its forecasted profit below expectation it triggers the need of its share price to drop proportionately. That's why some investors go to great lengths to detect "red flags" warning of future earnings shortfalls. But that kind of analysis entails taking calculator in hand and digging into financial statements. Many investors don't have the time it takes to perform a detailed financial statement analysis. Here's the good news: there is an easier way by comparing cash flow to net income.

What you're looking for are instances where net income increases, but cash flow doesn't. You can find both figures on the cash flow statement. Here's how to do it. Concord wasn't consistently profitable until its 1998 fiscal year (June 1998) when it reported earnings of \$6 million. Earnings rose to \$7.7 million in 1999 and then shot up to \$19.6 million in fiscal 2000. But operating cash flow told a different story, falling 45 percent in fiscal 2000 from 1999. That was a red flag, since earnings more than doubled, but cash flow declined.

You would have had plenty of time to analyze the report before Concord's share

price peaked near \$40 in mid-October. Earnings shortfalls drove it down to the \$5 range a few months later. The occurrence of rising earnings combined with falling cash flow doesn't necessarily imply accounting shenanigans. Accounts receivables could increase because customers don't have the cash to pay. An unforeseen sales slowdown could push inventory levels up. However, these events could also foretell an earnings slowdown.

HOW TO DELIBERATELY PRESENT A FALSE PICTURE

A company wishes to show higher profits, it has number of options to achieve this objective.

- It can overvalue its closing stock thus by decreasing the cost of goods sold; it will show increased profit and on the other hand increased total assets in the balance sheet.
 - By ignoring the provisions for bad debts / legal obligations, the current profits can be overstated.
 - It can book false gains through sales purchase back. For example if company owns a piece of land which were bought, let us say, 30-40 years ago at a cost of Rs. 150,000. Now the company is bound to show
-

the cost of this piece of land on historical basis as required by accounting standards. If the current market price of that piece of land is say approx. 30 million, the management can sell this land to someone on pre-decided terms to purchase it back. By executing this under the table transaction, the company balance sheet footing will be increased by Rs 30 million. Now that the company would have legally bought the property at Rs 30 million, it will be justified to show it in the balance sheet at that amount (being the cost).

• Playing with debits and credits

If we talk purely in accounting language, the entire accounting process is about the correct use of “debits” and “credits”. In the very first course of accounting, students are taught how the five main items of assets, liabilities, equity, revenue and expenses are treated in the books of accounts. The below given table explains for the readers that if an item increases or decreases how this will be treated in the accounting journal.

Table 1: Debits & Credits Rule

Account Type	Increase is Recorded By	Decrease is Recorded By
Assets	Debit	Credit
Expense	Debit	Credit
Revenue	Credit	Debit
Liability	Credit	Debit
Equity	Credit	Debit

The foundation of the entire accounting edifice stands on these two simple words: debits and credits. Debits are used to record expenses (or reduction in revenue) and to record assets (or reduction in liabilities or capital). Similarly, credits are used to record revenues (or reduction in expenses and to record liabilities (or reduction in assets). A debit will either end

up in the Income Statement (i.e. if it is treated as an expense) or in the Balance Sheet (i.e. if it is treated as an asset). Quite similarly, a credit will end up in Income Statement if it is treated as revenue or in Balance Sheet if it is treated as a liability.

Now, a creative accountant can mischievously play with these basic rules to procure his desired result. Accountants on

demand of management or owners artistically manipulate these instruments to get the desired results. An expense may be treated as an asset to improve book profits, or alternatively an asset may be expensed to show lower profits. Similarly, revenue may be transferred to a liability (through provisioning) to reduce book profits, or a liability may be dressed up as a revenue to show higher book profits virtually at the whims of the accountant.

RESULTS

Delimiting the concept of creative accounting from that of fraud is important. Even though creative accounting is based on the objectivity in the professional reasoning of the person drafting the accounting information, which is realised by applying the best policies and accounting options, creative accounting is mostly perceived in a negative way, as a negative creation meant to draft financial statements that correspond to managers' desires with regard to the company's financial position and performance. This way, financial statements are not what they are supposed to be according to legislation, but what management wants them to be. Thus, due to

the fact that the creative accounting technique involves procedures of, doctoring" financial statements without breaking the law, it's not considered an act of fraud.

Practitioner Jameson states that "The accounting process involves operating with different opinions and solving conflicts between them in order to present the results generated by transactions. This kind of flexibility facilitates manipulation, deceit and misrepresentation. These activities, practiced by some of the more unprincipled members of the profession, are starting to be known as creative accounting. Creative accounting does not break the law and accounting rules. It respects their wording, but not their spirit. One could say that the appearance of creative accounting was also influenced by the flexibility of international accounting regulations. Creative accounting is mostly perceived in a negative light (negative creation), meant to lead to the drafting of financial statements that correspond to the managers' wishes with regard to the company's financial position and performance. This way, financial statements are not what they are supposed to be (legal discourse), but what someone wants

them to be (interested discourse). The fact that creative accounting is simultaneously perceived as an instrument for realizing accounting interests, as well as doctoring financial statements, is the result of the accounting policies adopted by a company in order to produce and communicate information.

On one side, this construction is based on a series of rules and regulations with regard to the classification, acknowledgement, evaluation and processing of the elements in the financial statements and, on the other side, on professional reasoning in selecting the best options. The development of creative accounting, especially the perverted part favoured by loopholes in accounting rules, has direct repercussions, such as the loss of accounting information credibility, especially from investors and financiers. Fraud is an intentional and alicious activity perpetrated at the expense of clients or investors, be it of civil or criminal nature, at the expense of the company or for its benefit, inside or outside of the company, by managers or non-managers. From the category of frauds perpetrated by managers, financial statement fraud produces the most

losses at company level and has the purpose of misrepresenting the financial truth in order to obtain certain advantages or hide certain losses or negative performances. The main schemes, the objective of which is financial statement fraud are caused by inadequate financial reporting and make use of recognizing income in advance, overvaluing assets, undervaluing expenses and debt and, in the case of asset fraud, an important role is played by embezzlement.

Even though creative accounting and fraud mostly occur when the company is experiencing financial difficulties, they are not considered synonymous, creative accounting involves, doctoring accounting information, a process that is not considered illegal, but certainly does not comply with ethics standards. As for the perception in the business environment with regard to the two research subjects, the opinions are mixed. Based on the research conducted on companies in our country, most people who answered the study's questions are weary of the subject, considering that any deviation from accounting ethics represents a way of deceiving the user of the accounting information. The following table presents the

main differences between the two concepts, based on the basic principles, the methods of execution and the impact that they have on the information and the persons involved.

The Ethical Perspective of Creative Accounting

The ethics of bias in accounting policy choice is reviewed at the 'macro' level of the accounting regulator. This can similarly be applied to the bias in accounting policy choice at the 'micro' level of the management of individual companies that is implicit in Creative Accounting.

The study appears to take a teleological view of accounting in the private sector, allowing managers to choose between the alternatives permitted in "loose" standards to achieve their desired end, but to make a deontological view of accounting in the public sector where he calls for tighter standards to prevent such manipulation. We might ask whether the presence or absence of market discipline justifies such ethical inconsistency. Ruland also discusses the distinction between a 'positive' responsibility, which here would be the duty to present unbiased accounts, and a negative responsibility, where managers

would be responsible for states of affairs they fail to prevent. Thus, Ruland gives priority to the positive. Within Revsine's framework, where all outcomes are deemed to be impounded in the process of contracting and price-setting, the distinction is not acknowledged. The 'duty to refrain' would imply avoiding the bias inherent in creative accounting while the 'duty to act' would involve pursuing the consequences to be achieved by creative accounting.

To the professional accountant, creative accounting generally seems to be regarded as ethically dubious. In the senior partner of price water house coopers Conner observed. "When fraudulent reporting occurs, if frequently, is perpetrated at levels of management above those for which internal control systems are designed to be effective. It often involves using the financial statements to create an illusion that the entity is healthier and more prosperous than it actually is. This illusion sometimes is accomplished by masking economic realities through intentional misapplication of accounting principles.

Table 2: Three most frequently cited ethical problems

	% of Respondents
Conflict of Interest	51.9
Client proposal to manipulate accounts	50.1
Client proposal for tax evasion	46.8

Ethical Behaviour of Accounting Professionals

Wide spread corruption in the business environment seems to be the order of the day in almost all societies. Business practices have always been connected with fraud and have always been affected by financial collapses. In the corporate scandals have involved such companies as independent insurance and BCC. The recent time has witnessed the collapse of a number of corporate giants in the USA such as Enron Corporation, Tyco International, World Com, Global Crossing, Arthur Anderson, Parmalat, etc. However, these have cost not only billion of dollars to the stakeholders but also have damaged the accounting profession. The business community is also plagued with ethical problems. Cases of unethical, cases of business behavior and corporate scandals involving such large companies. Also, the collapse of many banks and other financial

institutions has also been linked with various ethical violations. Moreover, these cases of corporate scandals and collapses were allegedly a result of widespread fraud, in which accounting firms and professionals played significant roles. Management of the companies were found to engage in fraudulent activities and aided by audit firms, they were able to cover up these activities through fraudulent financial reporting, thereby misleading and investing public.

This situation, which saw the demise of a once respected accounting firm, Arthur Anderson is of particular concern to the accounting profession. Accounting professionals, who are historically regarded as the watch dog of the society, are being implicated in these scandals which have cost the investing public huge financial losses. Accountants and the accountancy profession exist as a means of public service, the distinction which separates a profession from

a mere means of livelihood is that the profession is accountable to standards of the public interest, and beyond the compensation paid by clients.

Accounting ethics is the study of moral values and judgments as they apply to accountancy. However, due to the diverse range of accounting services and recent corporate collapses, attention has been drawn to ethical standards accepted within the accounting profession. These collapses have resulted in a wide spread disregard for the reputation of the accounting profession. In order to combat the criticism and prevent fraudulent accounting, various accounting organizations and governments have developed regulations and remedies for improved ethics among the accounting profession.

The nature of the work carried out by accountants and auditors requires a high level of ethics. Potential shareholders, shareholders and other users of the financial statements rely heavily on the yearly financial statements of a company as they can use this information to make an investment decision about investment. The above mentioned rely on the opinion of the

accountants who prepared the statements as well as the auditors that verified it, to present a true and fair view of the company. However, knowledge of ethics can help accountants and auditors to overcome ethical dilemmas, allowing for the right choice that, although it may not benefit the company, will benefit the public who relies on the accountants/ auditors reporting.

The outcomes of the many cases of unethical behavior have underscored the importance of ethics in business; companies' bankruptcies, loss of investments and savings and loss of public confidence have shown that unethical behaviour in business is not only morally wrong but also disastrous for an economy. However, for the good of everyone, including the business organizations themselves it is vitally important that business be conducted within an ethical framework that builds and sustains trust.

An entity's performance is assessed by comparing the entity's financial results with its financial objective and comparing the entity's service performance results with its service performance objectives. Service performance objectives and results are reported in non-financial terms such as

quantities of goods and services provided. Financial results and objectives are reported in financial terms such as financial surplus. Where service performance objectives predominate, entities report primarily in non-financial terms where financial objectives predominate (as for example most private sector for profit entities). In the

public sector, many entities have both service performance objectives and financial performance objectives. Accountability is the requirement for one party to account to another party for its performance over a given period. For example, directors are accountable to shareholders.

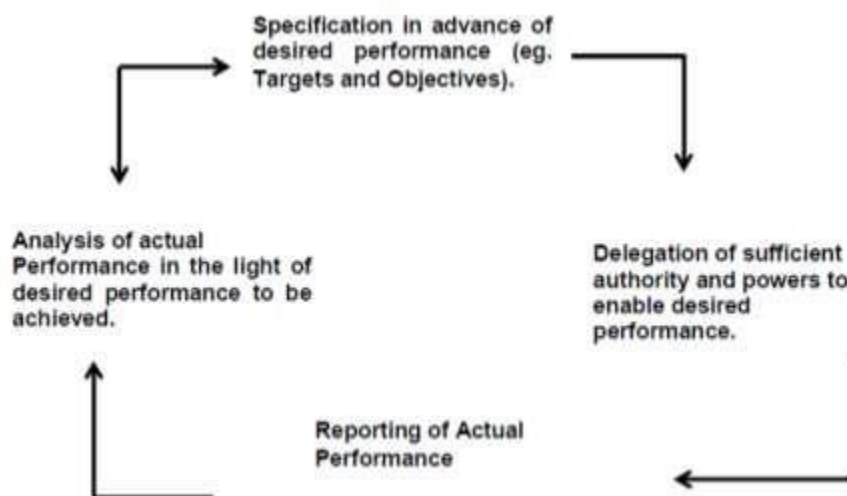


Figure 2: The four (4) components of accountability

To fulfill the accountability role financial reports should reflect the nature and dimensions of performance that are relevant to the entity. Accountability requires that financial reports.

- (a) Identify the objectives and targets normally established by formal process.
- (b) Measure actual achievements against those objectives and targets. Such objectives and targets may be financial or non-financial.

Traditionally, financial reporting has focused on providing information about past transaction and events. To meet the objectives of financial reporting, the entity might usefully supplement historical information by providing.

- (a) Interpreting Comment on the financial information supplied.
- (b) Prospective Information.

Interpretive comment could point out the relationship between material changes in financial elements and the entity's current activities, external environment or objectives. Narrative, for example, can provide information about an entity's physical resources, resulting in improved understanding of the entity's financial position. Narrative comment is particularly relevant in reporting service performance. Prospective information could take either narrative or quantitative form. Narrative information could provide an assessment of the entity's prospects, focusing on how anticipated changes in the economic environment might affect results, liquidity and risk. Quantitative information could take the form of predictive results for operations, financial position and cash flows, based on assumptions about future economic conditions and courses of action. For example, local government budgets usually set the basis of a rate, levy, user charge or other source of funding. Further, the publication of financial budgets and other prospective information at the beginning of a reporting period, and the later comparison

with actual results, are essential to the accountability of public sector entities.

STRATEGIES USED IN AVOIDING CREATIVE ACCOUNTING

One of the identified ways through which accountants should avoid creative accounting is to ensure his ability of preparing a sound financial statement that is fraud free, and to ensure proper accountability, transparency and due process. The accountants should render stewardship activities that will meet up with expectations of his principals, shareholders, potential stakeholders and management boards and as well as accounting standards. However, any attempt not to comply with the laid down financial principles, rules and regulation would have great effect on his profession.

Accountants should have sound general education that enables them understands the other functional areas of business and to interact better with other functional staff in the organization. In addition, he requires basic and specific accounting knowledge upon which to build on the technical accounting skills. The accountants should not indulge in the production of improper books of accounts, in complete records of

financial statement, mis-appropriation of funds, either to over or under state financial statements or any mis-representation in any form at all. Any accountant found in financial frauds should be brought to book to serve as a deterrent to others.

The accountants should ensure that they received the professional and skill training in accounting. There is always the contention that training produces a complete individual. The accountants involved with the preparation and presentation of financial reports must be trained in the act to imbibe the ethics of the profession, rules that are acceptable and the principles that must be observed. Also, the accountant requires continuous on-the-job training to deeper his proficiency especially in the areas of communication skills and information communication technology (ITC).

The accountants, like every other worker require a conducive and an enabling work environment that would facilitate optimum performance. But the situation on the ground indicates lack of basic facilities for efficient accounting service delivery. The theoretical framework that assists this study is the Agency Theory which means a conceptual

relationship between the principal and the agent. Here, the agent performs duty on behalf of another called his principal. A person who has given express or implied authority for another to act as an agent on his or her behalf is called a principal while on the other hand, a person who is employed with or for the purpose of putting his employer (the principal) into legal relationship with the third parties is known as an agent.

The accountant as the agent of the principal (Stakeholders, Shareholders and Users of the Financial Information) is expected to discharge his work according to the specification of accounting principles, rules and regulations as to avoid misrepresentation of financial fraud or falsification of figures. The application of creative show that stakeholders, shareholders and other users of accounting information rely heavily on the yearly financial statements of a company as they can use this information to make an informed decision about investment. They rely on the opinion of the accountants who prepared the statements, as well as the auditors that verified it, to present a true and fair view of the company.

The relevance of the agency theory to this study is that knowledge of ethics assists the accountants and auditors to overcome ethical dilemmas, allowing for the right choice that may not benefit the company, rather will benefit the public who relies on the accountants/ auditors reporting. Cattel (1990) added in order to uphold strong ethics; an accountant must have a strong sense of values, the ability to reflect on a situation to

determine the ethical implications, and a commitment to the wellbeing of others.

Research Question 1

To what extent does a creative accounting practice affect the financial Reporting system?

Table 3: Respondents Rating on the Extent Creative Accounting Practices Affect the Financial Reporting System

Responses	Frequency	Percentage (%)	Degree
Strongly Agree	20	23.5%	84.70
Agree	18	21.2%	76.20
Undecided	20	23.5%	84.70
Disagree	17	20%	720
Strongly Disagree	10	11.8.6%	42.40
Total	85	100%	3600

The above depicts that, 20 respondents (representing 23.5% and 84,70) strongly agreed that the creative accounting practices affected financial reporting system, the same number are undecided, 18 respondents (representing 21.2% and 76.20) agreed; 17 respondents (representing 20% and 720) disagreed; while 10 respondents (representing 11.8% and 42.40) strongly disagreed. The presence of the technical accounting terminology – creative

Accounting could be an explanation for the high number of respondents that are undecided meaning that the term is either unfamiliar or that some other term is interchanged for it's in their operations in the organization.

Research Question 2

To what extent does “Creative Accounting” practices significantly influenced both accounting policy choice and manipulation of transaction in financial reporting?

Table 4: Respondents Rating on the Extent and Manipulation of Transaction in Financial Creative Accounting Practices Significantly Reporting.

Influence both Accounting Policy Choice

Responses	Frequency	Percentage (%)	Degree
Strongly Agree	45	53%	1900
Agree	20	23.5%	84.70
Undecided	11	12.9%	46.60
Disagree	6	7.1%	25.40
Strongly Disagree	3	3.5%	12.70
Total	85	100%	3600

Majority of respondents (45), representing 53% (1900) strongly agreed that creative accounting practices significantly influenced both accounting policy choice and manipulation of transaction in financial reporting, 20 respondents (representing 23.5% (84.70), agreed; 11 respondents (representing 12.9%) (46.60), are undecided, 6 respondents (representing 7.1%) (25.40),

disagreed; while 3 respondents (representing 3.5% (12.70) strongly disagreed with the above information.

Research Question 3

To what extent will a well designed framework of accounting regulation (by regulatory agencies) curb creative accounting practices in corporate financial reporting?

Table 5: Respondents rating on the Extent a well Designed Framework of Accounting Regulation will Curb Creative Accounting Practices in Corporate Financial Reporting

Responses	Frequency	Percentage (%)	Degree
Strongly Agree	42	49.4%	177.90
Agree	25	29.4%	105.90
Undecided	10	11.8%	42.30
Disagree	8	9.4%	33.90
Strongly Disagree	-	-	-
Total	85	100%	3600

Table 5 show that majority of the respondents (42), representing 49.4% (117.90), strongly agreed that a well designed framework of accounting regulation (by regulatory agencies) will curb creative accounting practice in corporate (financial) reporting; 25 respondent, representing 29.4% (105.90), agreed; 10 respondents, representing 11.8% (42.3%), are undecided, 8 respondents, representing 9.4% (33.90%), disagreed, while non strongly disagreed.

CONCLUSIONS

The findings of the 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 practice. The ethical implication of the Creative Accounting raises the need for a close scrutiny of the potential abuse of accounting policy choice and manipulation of transactions. The study brought to the multi-dimensional nature of the ongoing

financial crises and its effect on financial reporting by way of increasing adoption of creative accounting. 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 practice. The effect of the creative accounting raises the need for a close scrutiny of the potential abuse of accounting policy choice and manipulation of transactions.

This study therefore, concludes that this practice of creative accounting which presents itself in the form of share price manipulation, profit or accounts misstatements and insider trading in the NSE could be part of the explanation for the recent crash of the NSE. Hence, the need for standard setters regulators and professional bodies to not only work towards the global adoption of one single set of high quality accounting standard, but also the need for strengthening enforcement and monitoring mechanisms. This would assist to enhance the quality of financial reporting as well as

rebuild and sustain the waning confidence
of financial investors.

