

# Definitions, Perception and Functioning of Creative Accounting in the Theory and Practice of Different Languages, Countries and Parts of the World\*

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This paper aims to show how the concept of creative accounting is defined and how it operates in the literature of different countries and further how it is perceived by the public. It presents the authors' detailed analysis of professional accounting literature from all over the world in order to find information about how the concept of creative accounting functions and how it is defined in different countries and parts of the world. It should be noted that although numerous authors presented different definitions of creative accounting in their publications, they, unlike the authors of this paper, did not carry out studies which would comprehensively collate definitions of creative accounting from different countries. The methodology employed involves a critical review of relevant literature originating in several dozen countries. The authors have also verified how the concept of creative accounting functions on the Internet. The study was conducted between November 2014 and July 2015. The results show that, depending on the region, creative accounting can be perceived as a positive phenomenon (e.g. in Central and Eastern Europe), a neutral one (e.g. in South America), or it may be directly associated with financial statement fraud (mostly in German and English-speaking countries). The manner in which theoreticians conceive creative accounting impacts the overall shape of financial reporting: the scope of freedom available to accountants and opportunities to implement the principle of true and fair view. Understanding of the concept of the creative accounting leads to understanding of the essence of accounting. It is not a trivial matter since it is the information provided by accounting and presented in financial reports that is the foundation of many economic decisions.

*Keywords:* creative accounting, fraudulent financial statements, accounting principles, accounting policy, accounting regulation, accounting rules

## Introduction

Creative accounting is a household name featured heavily in daily press and on television, mostly in the context of financial scandals, both locally and globally recognised (Enron, Worldcom, and Parmalat), as well as in relation to deficit and sovereign debt manipulation. Colloquially, it is often perceived as a magic tool,

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which—in a manner which is within the bounds of law and consistent with it—helps to portray companies' finance in a better light. The term “creative accounting” has become so popular that it is often cited not only for the world of finance, but also in other contexts as a metaphorical, cute term for something that is an illusion, a misrepresentation, or a clever deception. It has even entered soccer commentators' jargon to refer to induced fouls on the opponent.

The paper aims to present large scale research on creative accounting, as conducted in different parts of the world, and to offer a collection of definitions of creative accounting as developed by accounting experts around the world and further to show how the term “creative accounting” is defined in different countries' online sources, which should give an idea of how it actually works in everyday language.

Section II identifies the research methods used to study how creative accounting is perceived around the world. Section III presents the results of the research into definitions of creative accounting in various parts of the world, dividing them into definitions formulated by English-speaking authors and other authors, at the same time offering a review of relevant literature. Section IV presents the results of later studies into creative accounting—its meaning in everyday language. Section V summarises the analysis and gives a summary presentation of global trends in the definition and perception of creative accounting. Section VI contributes to the discussion, with the authors providing their own definition of creative accounting. Section VII contains a final summary of the topic.

### **Research Methods**

The authors employed two research methods. The first method involved a critical analysis of professional accounting literature around the world and was used in order to examine how creative accounting is defined in different countries of the world by experts on the subject. The review of existing literature was conducted between November 2014 and March 2015, and involved a search through both library and Internet sources, and subsequent translation of the texts into the authors' native language in order to facilitate understanding of their content. The research results, which themselves constitute a review of relevant literature, are described in Section III. The second research method involved browsing through websites by entering the search expression “creative accounting” into a popular search engine in different languages, and then the first 20 search results were analysed in order to examine how the phrase is perceived and described in everyday language. This study was conducted between April and July 2015. The search results for the phrase “creative accounting” in 17 languages were collated and analysed, and the information was subsequently summed up and characteristic trends were isolated, as described in Section IV. Section V summarises the conclusions drawn from the analysis.

It should be noted that although numerous authors presented different definitions of creative accounting in their publications, they, unlike the authors of this paper, did not carry out studies which would comprehensively collate definitions of creative accounting from different countries. Most authors focused merely on local, national, definitions and compared them with definitions by English or American authors. This paper is the first attempt at comparing definition of creative accounting given by authors from different parts of the world, thus enabling determination of the global trend in the field of defining and perception of creative accounting.

The subject is so relevant that in the face of an ever larger scale of accounting fraud and increasingly more sophisticated methods of manipulation, it is important to outline the role of accounting freedom, flexibility of the system itself, and the features and functions of creative accounting. A correct understanding of the essence

of accounting proper, as well as of creative accounting, is particularly important for users of financial reporting, who, on the one hand, should be aware of the risks associated with the ability to manipulate financial reporting, and on the other hand, should recognise the existence of creative accounting, its significance, and reasons for its existence. This will contribute to a better understanding of accounting itself, and ensure better cooperation with regulatory or control bodies.

### **Literature Review: Accounting in Theory and Scientific Research**

The term “creative accounting” has gained acclaim and is widely used in many countries. In everyday language, it is usually used to denote unfair practices, becoming synonymous with words such as manipulation, fraud, or scam. Meanwhile, professional literature does not view creative accounting as such a one-sided concept as that painted by the media. What’s more, it can have attributive meanings. The French authors Castell and Pasqualini (1995) wrote: in creative accounting, the idea is that accountants display such imagination as is revealed by financiers inventing in new financial instruments. However, accountants’ imagination does not always serve the pursuit of legitimate objectives, hence creative accounting as such is given numerous meanings.

The term “creative accounting” occurs in many languages and is very frequently cited, both in professional literature and the media. Table 1 presents a translation of the term “creative accounting” in different languages.

Table 1

#### *Translation of the Term “Creative Accounting” in Different Languages*

Language	Translation of the term “creative accounting”
English	creative accounting
German	kreative buchführung
Italian	contabilità creativa
French	la comptabilité créative
Portuguese	contabilidade criativa
Spanish	contabilidad creativa
Russian	творческий учет (read Tvorcheskiy uchet)
Ukrainian	творчий облік (read tvorchyi oblik)
Polish	kreatywna rachunkowość
Slovak	kreatívne účtovníctvo
Czech	kreativní účetnictví
Croatian	creative računovodstvo
Serbian	креативни рачуноводство
Slovenian	kreativno računovodstvo
Finnish	luovaa kirjanpitoa
Swedish	kreativ bokföring

Source: authors’ own work.

The term “creative accounting” occurs in all of the world’s languages, which can be seen as a bona fide confirmation of its popularity, not merely in professional literature but also in everyday language.

#### **Introduction of the Term “Creative Accounting” Into the Lexis and Its First Definitions**

The search for the real sense of creative accounting should go to the source and involve the first ever use of the term and the context in which it was used. Most likely, the term “creative accounting”, translated into various languages and now widely used in many countries, originates in the English language and has quite a

long-standing in Anglo-Saxon accounting. It was used in publications dating back to the early 1970s, including in papers dealing with corporate bankruptcies: Argenti (1976) wrote: “creative accounting is a deliberate policy pursued by managers to deceive shareholders, creditors, and themselves (or all there) regarding a company’s wealth and progress in general and its financial difficulties in particular” (Argenti, 1976, pp. 141-142). The term was used ironically even earlier in the M. Brooks’ movie in 1968 “The Producers”<sup>1</sup>.

However, a decade later the term “creative accounting” gained immense popularity, also in the UK, becoming a cute synonym for a practice designating financial and accounting data manipulation (Hołda & Staszal, 2014). This infamous acclaim can be attributed to the journalist Griffiths (1986) who wrote in 1986:

Every company in the country is fiddling its profits. Every set of published accounts is based on books which have been gently cooked or completely roasted. The figures which are fed twice a year to the investing public have all been changed in order to protect the guilty. It is the biggest con trick since the Trojan horse... In fact this deception is all in perfectly good taste. It is totally legitimate. It is creative accounting unambiguously defining creative accounting. (Griffiths, 1986)

Other English authors spoke of creative accounting in a similar vein, thus confirming readers’ belief that creative accounting is a clever manipulation of data, and Jameson (1988, pp. 7-8) wrote:

The accounting process consists of dealing with many matters of judgement and of resolving conflicts between competing approaches to the presentation of the results of financial events and transactions... This flexibility provides opportunities for manipulation, deceit, and misrepresentation. These activities—practised by the less scrupulous elements of the accounting profession—have come to be known as “creative accounting”. (Jameson, 1988, pp. 7-8)

Yet, Jones (2011) stated that you can cheat for your private benefit in an entirely legitimate way: it is through creative accounting, which “exploits the flexibility within accounting”. Similar conclusions were reached by Breton and Taffler (1995) who admitted that although creative accounting is a completely legitimate action remaining within the bounds of lawful accounting, it completely contravenes its spirit as, in the financial statements, it paints a picture of the business entity which is inconsistent with facts and does so under the guise of good faith. The same conclusions were reached by Shah (1996), who said that a situation in which the company’s management uses a loophole in the law and the duality of interpretation in order to create its own picture of the company’s situation will be called creative accounting. At the same time, in his bid to define creative accounting, Edwards (1989, p. 11) used a sleek phrase: “creative accounting is simply the most recent manifestation of a persistent conflict between management and the reporting accountant”. Smith’s (1992) statement, indicating that economic growth is merely alleged and results from juggling bearing the name of creative accounting, confirms that in professional English literature creative accounting is conceived as a negative phenomenon (Smith, 1992, p. 4).

American authors also perceived creative accounting as a phenomenon involving manipulation, not necessarily illegal, but one teetering on the edge of the law and misleading users of financial reporting (Hołda & Staszal, 2014). Edwards (1989, p. 326) pointed out that in this sense, creative accounting was already known to Venetian merchants who ran accounting in two separate copies to be able to pour an inkwell full of ink onto an uncomfortable part of the books, if need be.

Park (1958, pp. 441-444) pointed out that, until the 1950s, the concept of creative accounting used to have a positive connotation. Unfortunately, in the 1980 and 1990, the term acquired negative connotations and had retained that status in most professional literature, and above all, among the general public. Naser (1993, p. 54)

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<sup>1</sup> “Producers” movie available at: <https://www.youtube.com/watch?v=pTW2ZSjG5N0>.

stated: “Creative accounting is the transformation of financial accounting figures from what they actually are to what preparers’ desire, by taking advantage of existing rules and/or ignoring some or all of them”. Amat, Blake, and Dowds (1999, p. 3), in their 1999 definition, used the word “manipulation”: “creative accountancy is a process whereby accountants use their knowledge of accounting rules to manipulate the figures reported in the accounts of a business”. The same is done by Comiskey and Mulford (2002, p. 15) (USA) who used the term “fraud”: “Creative Accounting Practices—Any and all steps used to play the financial numbers game, including the aggressive choice and application of accounting principles, both within and beyond the boundaries of generally accepted accounting principles, and fraudulent financial reporting”. In turn, the broadest definition of creative accounting is offered by Merchant and Rockness (1993), who claimed that any action undertaken by company management and interfering with the amount of profit and not arising from real economic change should be referred to as creative accounting.

Australian authors also defined creative accounting as an effort made in order to cause confusion. Bosch (1990) who even preferred the term “cosmetic accounting” to “creative accounting”, regarded both as “presenting company results in the most favourable light” as a result of deliberate manipulation or non-compliance with accounting rules. Walker (Clarke, Dean, & Oliver, 2003, p. 31) enumerated creative accounting practices that are legal, but are used to achieve the desired results. These include: creating assets by merely making bookkeeping entries, adjustment after balance date, or reporting gains and losses above or below the line. New Zealand authors also define creative accounting as “The selective financial misrepresentation hypothesis” (Revsine, 1991).

It should be noted however that while the above quoted, Griffiths (1986) and Jameson (1998) argued that creative accounting strongly influences the decisions made by users of financial statements, e.g., Breton and Taffler (1995) indicated that there really is little research corroborating this belief in a significant impact of creative accounting conceived as a negative phenomenon on investor decisions. This does not change the fact that literature on what creative accounting is and how it affects economic decisions is extensive, and not merely in countries where Anglo-Saxon accounting is practised.

### **The Term “Creative Accounting” and Its Definitions in Non-English Speaking Countries**

British or American authors’ definitions of creative accounting are often cited by South American authors, mainly from Brazil and Venezuela. They dub creative accounting “business strategy” which leads to increased uncertainty among users of financial statements (Gratero & dos Santos, 2003). As a result of creative accounting, bad decisions can be made that would not have been made if the actual conditions, i.e., information that had not been tampered with that had been known. Brazilian and Venezuelan authors conceive creative accounting as a distortion of information, its modification or disguise to trick users of financial statements to take decisions desired by the board. The authors emphasised that the concept of creative accounting is much broader than the concept of manipulation: creative accounting is misleading, it can change the entity’s results as well as the results of financial ratio computations. The authors point out, e.g., estimations and flexibility, freedom, and subjectivity of the interpretation of financial standards as reasons for the use of creative accounting: they are convinced that a reduction in the number of alternatives to choose from would curtail the negative practices they call creative accounting. At the same time, they also acknowledged the fact that the problem of creative accounting seems to be rooted in contemporary society’s crisis of ethical and moral values, rather than in technical and regulatory uncertainty.

Other Brazilian authors viewed creative accounting somewhat differently: they spoke of the dangers of creative accounting in a similar vein as Grateron and dos Santos (2003), likewise pointing out the negative aspects and the fact that the lack of regulatory clarity and excessive flexibility both contribute to negative practices (Bernardes, Nascimento, & de Sousa, 2012). However, they also suggested that creative accounting should be treated as a “necessary evil”, which cannot be avoided. They draw attention to the fact that without flexibility, accounting would not be able to fulfil its function, and aptly observe that the science of accounting aims to generate faithful and useful information and always pursues this goal. However, in practice these objectives are frustrated by data manipulation.

Numerous Brazilian researchers indicated the “side effects” of creative accounting (also considering them as a “necessary evil” (Cosenza, 2002), a term which is very often used in Brazilian and Venezuelan literature) which can lead to massive accounting fraud (Cosenza & Grateron, 2004), at the same time it is indicated that it is not a legal issue alone, but also an ethical one (Oliveira & de Souza, 2012). Professional South American literature is therefore dominated by the opinion that creative accounting, often dubbed “accounting make-up”, means manipulation and cheating targeting users of financial reporting. There also appear tendencies (in much the same manner as in the media) to use the term “creative accounting” to refer to manipulation of the amount of public deficit or public debt (Mendes, 2014).

In France, creative accounting is also the subject of numerous papers and the subject of research. This term appeared in France relatively early: already in 1992, Barthes de Ruyter and Gélard (1992) emphasised the danger associated with the use of creative accounting, treating it as manipulation. Stolowy and Breton (2000, p. 44) spoke along the same lines defining creative accounting as “an assembly of techniques, options, and freedom room left by accounting regulation, without moving away from laws or accounting requirements, allowing to the managers to change the financial result or the financial statements” as did Feleaga and Malciu (2002) or Dima (2012, p. 157), who concordantly stated that creative accounting is “a process, in which accountants use their professional expertise to manipulate data disclosed in annual financial statements”.

However, other authors rejected the above-mentioned notions, for example, in their definition, Raybaud-Turillo and Teller (1997) did not at all emphasise the negative aspect of creative accounting: they merely concluded that it is “an instrument of improving annual accounts, a prop serving the needs of financial and fiscal engineering” (Raybaud-Turillo & Teller, 1997). Trotman (1993) has a similar approach, showing that creative accounting is a technique which admittedly causes the best possible image of the entity to be shown (which may be misleading), but this is also of benefit to investors, improving the external image of their companies (Trotman, 1993). Creative accounting is treated equally neutrally by Briciu (2006), for whom creative, (read: intuitive) accounting “keeps by the best accountable option the manager choose, which accentuate exactly the reality and the company’s manager interests”. Thus, creative accounting can be used for good ends (to show the economic reality as accurately as possible) and bad (to manipulate data).

Spanish literature also features numerous papers on creative accounting. In Spanish professional literature, creative accounting surfaced relatively early, shortly after the term gained fame in England: already in 1992, Giner (1992, p. 4) pointed out that there are areas in accounting that even require autonomous individual judgment and estimation, and whether this discretion will be more cautious or more optimistic depends on the accountant’s will, or to be specific—on his creativity. A similar view was voiced by Gabas (1991, pp. 115-116), who drew attention firstly to the fact that there is no normative accounting, and secondly, that creative accounting is simply the possibility of choice between different solutions for which there are no clearly defined

mathematical rules. Apparently, Spanish scientists do not afford creative accounting negative meaning as many other authors. Amat, Salas, Blake, and Gutierrez (authors of a series of publications on creative accounting, Amat & Blake, 1995; Amat, Blake, & Gutiérrez, 1997) endeavoured, among others, to compare Anglo-Saxon and Spanish creative accounting (Amat, Blake, & Gutiérrez, 1996a, pp. 525-540). In their papers, they stated that there exist positive reasons to support the use of creative accounting. Reflections on creative accounting tend to focus on whether it has an impact on investors' decisions. Meanwhile, investors themselves may have an interest in applying creative accounting, e.g., to stabilise revenue as companies prefer to have a stable trend rather than a series of dramatic ups and downs, to inflate share prices and to affect an apparent reduction in the amount of debt or simply to delay the arrival of information to the market by which they are privileged in the use of this information (Amat, Blake, & Gutiérrez, 1996b).

At the same time, studies conducted by these and other authors have shown (Blasco, 1994, pp. 22-26) (García-Benau, Humphrey, Moizer, & Turley, 1992) that users of financial accounting are disappointed at its quality (and creative accounting in its negative aspect proved to be a very popular technique in Spain) and at the work of auditors who fail to signal that financial statements have been tampered with. Mayoral (1997; 2000) argued that creative accounting, even if legal and compliant with the rules, is still a violation thereof on account of the fact that it contravenes accounting's overriding objective of true and fair presentation of information. Some authors even suggested curtailing areas of accounting flexibility (Lainez & Callao, 1999, pp. 28-31) in order to curb undesirable practices, while others simply voice "demands for a war on creative accounting" (Amat & Oliveras, 2004).

### **Emphasis on Positive Aspects of Creative Accounting: Definitions From Central and Eastern Europe**

The analysis reveals that for a dozen or so many years creative accounting has been the subject of frequent discussion and research both in England and Spain. This topic also attracted Chilean researchers, who nevertheless tried to show that creative accounting used in good faith could become a very useful tool, and that it has dire consequences only when misused in order to commit fraud (Villouta & Farias, 2005, pp. 7-8).

A similar position is assumed by numerous Polish authors. Yet, Polish opinion on the issue is highly divided. Many of the authors directly equated creative accounting with fraud, e.g., Wąsowski (2005, p. 15) or Piaszczyk (2011, p. 61), who pointed out that accounting as a science arose from practical needs and adapts to practice, and practice clearly associates accounting the term "creative accounting" with fraud. However, a larger group of Polish experts from the field of accounting suggest that creative accounting should not be (contrary to what is currently happening) under any circumstances associated with manipulation of accounts, but should rather be conceived, firstly, as an inherent characteristic of accounting since the measurement process in accounting is marked by subjectivity and, due to its very nature, is subject to the influence of individual judgment, and secondly, as an activity leading to the proper implementation of financial reporting. According to the majority of Polish authors, creative accounting should be associated with innovation in the way of counting values which are to be disclosed in financial statements. The innovation should not lead to personal benefits, but to the most reliable presentation in books of accounts of manifestations of economic life, which are often very difficult to quantify (Surdykowska, 2004, p. 424). Cebrowska and Jeżowski (2000) pointed out that the ability to choose, at your own discretion, between the different methods of treatment permitted by law is one of the tools of accounting policy, which should aim to give a true and fair presentation of the entity. Sawicki (1998, p. 18) emphasised that entities have the right to any use of accounting

methods permitted by law as long as they act in accordance with the overriding principles of accounting and present a true picture of the entity. In Polish literature, creative accounting is thus referred to as a brilliant and creative application of accounting principles and methods. At the same time, a large group of Polish authors want to perceive creative accounting as an ambivalent phenomenon (Surdykowska, Hołda, & Kutera, 2006, p. 33), an area of freedom allowed in accounting—this definition of creative accounting is offered by Gut (2006, p. 11) who wrote that it consists in a presentation of economic events that is both within the bounds of law and, which is important, compliant with properly interpreted accounting principles which are not directly indicated by regulations. However, as with any kind of freedom, freedom can be used either in accordance with the law, as a manifestation of a desire to give a fair and clear picture of the entity in its financial statements, or it may well be used unlawfully in order to deliberately mislead users of financial statements (Surdykowska, 2003, p. 30).

Ukrainian authors shared the Polish sentiment, with most of them asking to perceive creative accounting as a result of accounting policy that paints a picture of the business entity in a situation where there is no clearly specified method (Pshenychna, 2014). According to Nikiforov (2002, p. 144), creative accounting is synonymous with accounting innovation, a perception that completely deprives the concept of its negative overtones. Kindratska (2009, pp. 558-562) added that in order to succeed (to show the entity's situation adequately), the accountant should not be guided by merely superficial facts—he should even resort to creative action. Legenchuk (2009) specified that creative accounting involves scientific methods that do not follow generally established practices and standards. In much the same way as their Polish colleagues, Ukrainian accountants urge to call negative practices serving the needs of manipulation not creative, but aggressive accounting (Legenchuk, 2009, p. 97).

Pushkar (2006, p. 90), in turn, understands creative accounting in an entirely different way: as an acquisition of ways aiming to reduce costs, rationalise processes and ensure a competitive advantage by diagnosing strengths and weaknesses in areas that are not covered by financial and management accounting. Zholner (2011, pp. 140-145) also perceived creative accounting as an autonomous and distinct field, standing apart from financial and management accounting. The same views are held by Russian authors, who do not share the negative views on creative accounting, highlighting instead its positive aspects. One of the definitions of creative accounting is given by Y. A. V. Sokolov and V. Y. A. Sokolov (2004, p. 230), who said that creative accounting is a collection of legitimate methods by which accountants—using their expertise—increase the attractiveness of financial statements and reduce the tax burden. The authors also reported that creative accounting can be considered to be an autonomous entity in the structure of accounting, listing creative accounting side by side with management and tax accounting. Other authors who post their papers, among others, on a website called “creative economy” (Seydahmetova, Beken, & Kabi, 2011; Mel'nikova, 2011) indicate that in today's highly dynamic activity of organisations, accountants face a continuously rising number of accounting dilemmas which require accountants to possess a vast knowledge, not only in terms of legal regulations, but above all, proper judgment from which stems the enormous importance of creative accounting. Thus, they readily cite a Swiss author from the early 20th century, who already then drew attention to the fact that normative accounting is slowly becoming fiction (Sher, 1925, p. 457).

Sokolov (2012), while not downplaying the negative aspect of creative accounting, indicated however that regulatory ambiguity and flexibility allow for the parallel existence of both positive and negative creative accounting. Russian researcher Kiz (2014) identified two reasons for the use of creative accounting: either help



management create a better image of the entity, which is also the understanding of creative accounting exhibited by most Western authors, or it simply arises from the impossibility of strict accounting regulation. Due to the uniqueness of certain economic events, it is not possible to legally regulate each case and, in the absence of regulation, creative accounting appears, meaning that you just need to independently find a solution if it is not laid down directly in a legal act. Consequently, it must be emphasised that creative accounting is good when used in the right way—in order to present a true and fair picture of the entity, especially when other methods are not available. The authors also emphasised that the problem of creative accounting is directly related to issues of professional ethics. The scale and level of creative accounting in its negative manifestations depend on accountants' honesty and ethics.

Like most Polish accounting theoreticians, Kiz (2014) believed, first, that the blind's use of rigidly enforced rules and principles and the desire to codify accounting do not make financial statements faithfully reflect reality, and only multiply the endless array of instructions tailored to each situation. It is only creative accounting that is able to give investors accurate information enabling them to make business decisions. Of course, provided it is not used unethically and dishonestly. Russian authors pointed out that in the countries of the so-called "peripheral capitalism" (e.g. Kazakhstan) and in Russia, creative accounting is very underdeveloped "and limited mainly to the use of 'white tax' systems and therefore reduction in a legal manner of the tax burden, and thus it does not serve the purposes of financial accounting" (Seydahmetova, Beken, & Kabi, 2011; Mel'nikova, 2011, p. 496).

A Slovak portal for accountants shows that it cannot be denied that although the concept of creative accounting, disseminated after the Enron's affair and associated with manipulation, involves adjusting financial statements to the wishes of the board and may also have a positive dimension. Additionally, it is highlighted that in the case where an entity can choose from several options of accounting methods, it should choose that which corresponds to the actual situation. Thus, creative accounting fits into the space between the ability to select and fraudulent financial reporting (Kyselova, 2013).

An altogether different view is upheld by the Slovak author Bednarova (2010), who showed unambiguously that creative accounting involves manipulation and deceit by which books of accounts fail to meet its main goal, i.e. to inform users about the true and fair view of the company. The author went on to stress that creative accounting cannot be avoided, even if every possible precaution is taken because it originates in people. Thus, the author refuted theories that reduction in the scope of freedom afforded by detailed provisions regulating accounting has led to a reduction in the scale of manipulative reporting. Bednarova (2010) cited the Czech author Kovanicova (2005, p. 295), who stated that the division of creative accounting into that which complies with the law and that which should be dubbed "fraud" is artificial, as creative accounting always aims at a misrepresentation. At the same time, Krupová (2001) divided creative accounting into two groups: she described one as manipulation of financial reporting and the other as measures taken already at the stage of economic events, which are arranged in such a way as to paint a positive picture in the books. Thus, another aspect of creative accounting comes to light: the construction of or change in the nature of business operations in order to optimise their disclosure in the books of accounts.

Creative accounting is frequently the subject of master's theses and dissertations in the Czech Republic: some authors suggested that creative accounting involves violation of true and fair view of accounting<sup>2</sup>, or

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<sup>2</sup> For example: Lukačková, P. K. (2014).

uses the term “manipulation”<sup>3</sup>, while others stated firmly that creative accounting is a form of fraud<sup>4</sup>. Indeed, the authors suggested that creative accounting is possible owing to an element of flexibility and an area of discretion bestowed upon accountants confirming that it is necessary, but do not treat creative accounting as an ambivalent concept, positioning it clearly between manipulation and fraud, sometimes asking directly what are acceptable limits of financial reporting manipulation. There are however a precious few authors who suggest that the area of freedom and discretion in accounting can be used both in good and bad faith<sup>5</sup>.

Serbian authors defined creative accounting as modification of data, transforming the latter from what they are to such are welcomed by data compilers (Dukić & Pavlović, 2014, p. 225). Others pointed out that it is a misrepresentation of the entity’s situation arising from abuse of accounting policies (Kolar, 2001, pp. 82-89). Škarić-Jovanovic (2007) from Serbia stated that the reliance on creative accounting in countries where financial markets are still at an incipient stage, e.g., in Serbia, can lead to loss of confidence by market participants, these markets’ volatility and deceleration of their development. The authors conceived creative accounting as the application of accounting principles contrary to its spirit. Škarić-Jovanovic (2007) confirmed however that a modicum of flexibility in accounting is essential because of too rapid change and the inability to match precise rules to reflect this change, but insists that it is crucial to distinguish among detailed provisions regulating accounting policy, i.e., the use of legal loopholes in the detailed provisions regulating accounting in good faith and creative accounting, which she dubbed intentional manipulation.

Other Serbian authors conceived creative accounting as a purely negative phenomenon, synonymous with fraud. Kaparavlović (2011, p. 15) for example indicated that “all measures that are deliberately carried out to prepare financial statements that do not disclose the true economic situation of the company and cross the borders of flexibility in accounting can be classified as creative accounting”. The authors added that accounting can be divided into codified accounting, reflecting the entity’s realities and “illegal and illegitimate” creative accounting, departing from standards, pursued deliberately to disclose false financial data. Similar opinions are held by Slovenian authors (Malinić & Stefanović, 2009) who unambiguously defined creative accounting as deliberate deception or, by using the well-known comparison of creative accounting to the Trojan horse, call it the “perfect scam” (Dmitrović-Šaponja, 2007). Belak (2011) went a step further, claiming that creative accounting involves primarily activities that exceed the legal framework and is a bona fide crime. At the same time, Stanišić (2008, p. 26) indicated that it is the desire to pay lower taxes and not to mislead users of financial statements that is the main reason for a creative accountant’s conduct, and thus the authors made reader perceive creative accounting quite differently.

By contrast, Croatian authors believed that there is no clear definition of creative accounting and that not all definitions equate it with manipulation or fraud. Vremec (1995, p. 54), e.g., showed that creative accounting also has a positive aspect, namely, it involves a sensible use of genuine, untried ideas to record unusual and new situations, which still paints a fair picture of the company. By saying that creative accounting was initially simply a choice between legally acceptable accounting methods or techniques, Dimitrić (2012, p. 68) struck a similar note. At present, however, it has become synonymous with manipulation. These same views are shared by the majority of Bosnian authors who indicate that creative accounting has the task of objectively painting a

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<sup>3</sup> For example: Hamplová, B. (2007).

<sup>4</sup> For example: Pejšová, R. (2009).

<sup>5</sup> For example: Celerýnová, S. (2013).

true and fair view of the entity, at least in theory, while in practice, unfortunately, it boils down to accounting manipulation (Friganović, 2015, pp. 86-88).

In Bosnia and Croatia, the opinion predominates that creative accounting, at least in theory, was initially conceived as an instrument that should allow for a true and fair presentation of the entity's financial situation and real performance. The authors indicated, however, that unfortunately, in practice, "creative accounting" has become synonymous with "accounting manipulation". Similar opinions are shared by numerous authors from Romania, Grosanu (2013, p. 20) and Malo and Giot (1995), who pointed to two definitions of creative accounting: the first one speaks of manipulation, albeit within the limits of the law, tailored to beautification of reality; the second, favoured by accounting theoreticians, speaks of imagination and innovation applied in those areas that are not regulated by detailed provisions regulating accounting. According to Romanian accounting experts, the first approach, combining creative accounting with manipulation, is incorrect as creative accounting cannot be associated directly with negative behaviour, thus indicating that creative accounting itself is an essential element of accounting law. Yet, there also exist authors in Romania who, mainly citing definitions put forward by English authors, primarily define creative accounting as manipulation (Ionescu, 2006, p. 101; Balaciu & Victoria, 2006).

### **Creative Accounting in Everyday Language—Research Results**

The authors have made an effort to try and verify what a surfer who browses the net for information on the term "creative accounting" could learn about it. This information gives an idea on how the term "creative accounting" functions in everyday language and how it is construed by the public. The study was conducted from February to April 2015. The authors typed the term "creative accounting" in the language of the country in a public search engine of each surveyed country and analysed the data found on the first two pages of the returned searches (i.e., the first 20 results). Not all found results were included because of their content: many of them related solely to the translation of the terms "creative accounting" into another language or redirected the user to the websites of accounting firms which incorporated the expression "creative accounting" into their proper name. Others excluded search results did not concern creative accounting, but e.g., the general creativity at work or in connection with job offers.

Finally, the results were classified according to the language of the entered phrase, due to the fact that in many countries there is more than one official language, while in South American countries most returned results related to the term "creative accounting" entered in the Spanish and Portuguese languages.

Analysis of the data revealed that in general, Internet definitions are consistent with the way in which accounting theoreticians conceive and outline creative accounting. Table 2 shows the number of references to creative accounting and breaks them down into those which view creative accounting exclusively as a negative phenomenon (identifying the number of search results referring to newspaper articles) and into those references that do not pass a judgement on creative accounting considering it as ambivalent and finally into those rare few precious references which urge readers to consider creative accounting only as a positive concept.

In the countries of Central and Eastern Europe, search results predominantly returned websites containing scientific papers, and therefore there is a very large convergence of definitions given on the websites and the descriptions proposed by accounting theoreticians. Additionally, in these countries, the society's perception of creative accounting is not uniformly negative and creative accounting does not appear in newspaper articles featuring financial scandals. The opposite happens in German-speaking countries and Sweden and Denmark,

where the search revealed that the term “creative accounting” is predominantly used to refer to accounting fraud, financial scandals, or manipulation of the size of the deficit and public debt. Similarly, in the Czech Republic, the third of the search results were related to press reports about financial scandals describing this practice as creative accounting. The largest percentage (85% of all search results) of press reports which associated creative accounting with financial fraud occurred when the search phrase was “creative accounting in English”.

As has already been indicated, a significant impact on what the user will find out by typing the term “creative accounting” in the search engine may be related to the fact that in the countries of Central and Eastern Europe and South America, a large portion of the search results involved scientific papers on creative accounting and therefore in these countries creative accounting in everyday language is perceived in line with its definition in professional literature, or as an ambivalent phenomenon. At the same time, in countries where the results of the search for the term “creative accounting” involved predominantly press reports of accounting scandals, creative accounting will be tantamount to manipulation or accounting fraud.

Table 2

*Results of Online Search—Creative Accounting in Different Languages*

Definition	Russian	Ukrainian	Slovene	Bosnian	Polish	Croatian	Rumanian	Spanish	Portuguese	French	Slovak	Italian	Swedish	Czech	German	Danish	English
The number of search results considered (out of 20)	18	11	16	14	19	15	17	18	18	16	15	13	11	11	12	15	19
Positive	11%	9%	0%	0%	0%	0%	6%	0%	0%	0%	6%	0%	0%	0%	0%	0%	0%
Neutral	72%	55%	56%	50%	47%	40%	33%	33%	28%	19%	6%	8%	0%	0%	0%	0%	0%
Negative, including (as a percentage of overall search results):	17%	36%	44%	50%	53%	60%	61%	67%	72%	81%	88%	92%	100%	100%	100%	100%	100%
Press articles on financial scams			13%		5%			11%	11%	31%	25%	15%	45%	36%	8%	47%	16%
Press articles on manipulation of the volume of deficit and public debt									33%		6%	8%	18%		50%	47%	

Source: authors' own work.

### Research Results: General Trends Regarding the Definition of Creative Accounting in Different Countries

Although in many Central and East European countries, the opinion on creative accounting is divided, it is possible to capture the prevailing definitions of creative accounting in the local literature. In English-speaking countries, normally, authors unequivocally treat creative accounting as a clever form of data manipulation by the users of financial reporting. Figure 1 presents the views of theoreticians and accounting experts from different countries on what creative accounting is and shows a general trend characteristic for a given country.

Figure 1 conspicuously excludes German-speaking countries. In these countries and in their neighbours (Germany, Austria, Switzerland, Luxembourg, and Liechtenstein) as well as in Italy, Norway, Sweden, and Finland, the concept of accounting creativity is often used in the colloquial sense of the term, but no research is conducted into its essence, and also missing are research review papers on creative accounting. The precious few existing mentions of creative accounting clearly indicate that it is defined exclusively by reference to its negative aspect for example, a Finnish author pointed out that proper allocation of resources is not possible if

financial statements are not reliable (Vartiainen, 2002, p. 263), while another author even went as far as to suggest that, as a result of accounting fraud, the economy could be threatened by recession (Kanniainen, 2014). Both of these Finnish authors used the term “creative accounting” to refer to accounting fraud, as did authors from Sweden who cited the Enron’s affair as an example of creative accounting. True, they indicated that flexibility in accounting is to ensure a true description of reality, but they define creative accounting only as the use of this flexibility by the board in order to confuse stakeholders (Lindqvist & Sjöberg, 2010).

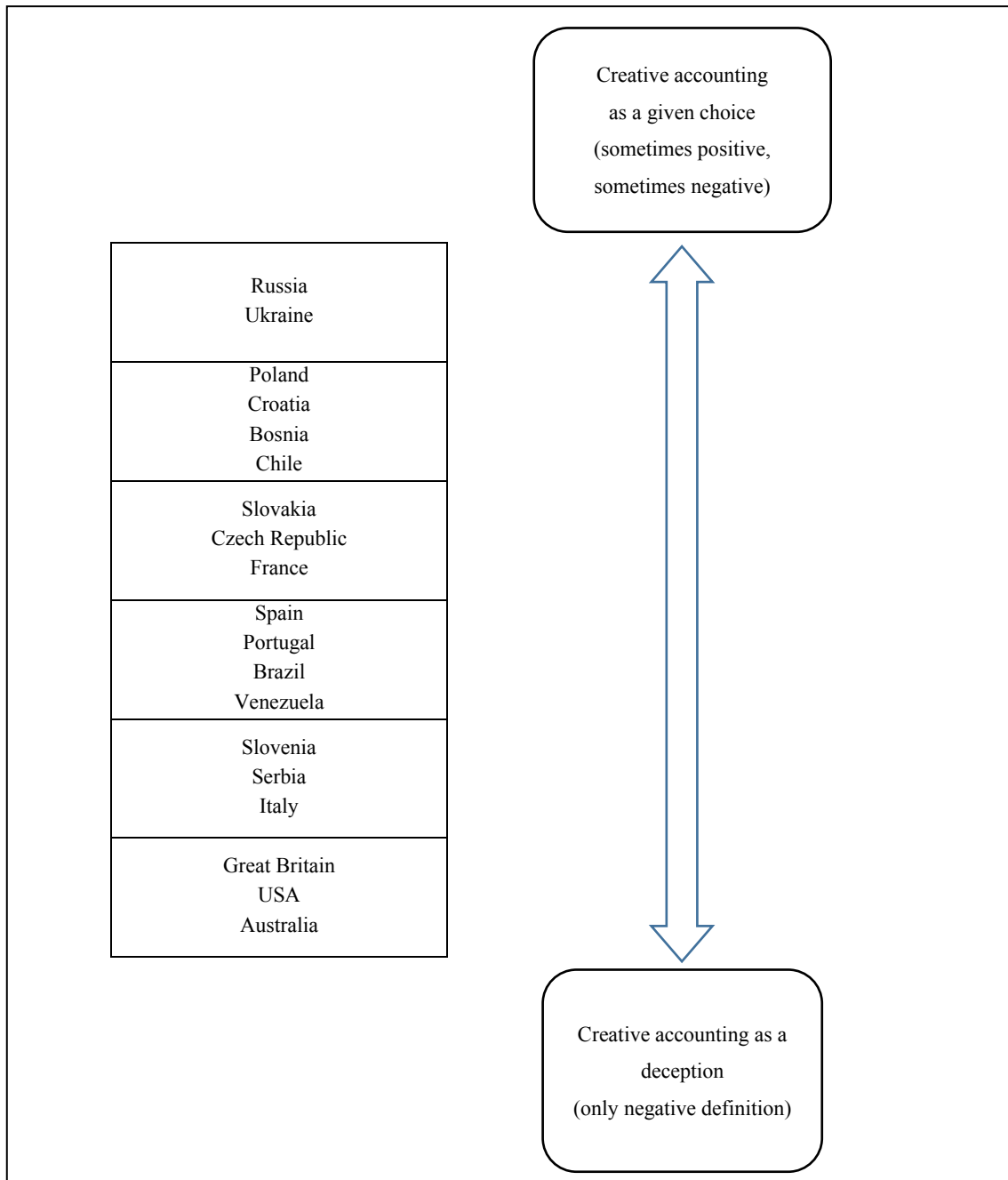


Figure 1. A general trend characteristic for a given country about the views of theoreticians and accounting experts on what creative accounting is.

A document called “Deceive the market” issued by the Bundesbank shows that creative accounting should be viewed as fiscal data manipulation. The authors of the paper showing the results of the impact of official fiscal data and creative accounting on bond yields in EU countries, have even constructed an index measuring creative accounting, i.e., they offer a measurement of that part of the budget plans that are rigged (Bernoth & Wolff, 2006).

Other authors of professional literature treat creative accounting in the same vein. A German handbook which deals with economic crime and corruption (Heißner, 2014, p. 17) uses the concept of creative accounting, among others, to describe the Enron’s scandal and points out that it is practised in order to disclose fraudulent financial results. In yet another book, you can read about a billion worth of fraud involving the fact that thanks to “the magic of creative accounting” bank loans were extorted (Friedrich, 2007, p. 195). In another text, the author speaks of crimes (which include robbery or theft) and “weaker forms of opportunistic behaviour” such as laziness during working hours or creative accounting (Loerwald, Wiesweg, & Zoerner, 2008, p. 88).

At the same time, the book entitled “Legal Tricks in Bank Balance Sheets: Practice in the Financial Crisis” (V. Hesse & M. Hesse, 2011, pp. 64-65) argues that normative accounting does not exist: the same economic event can be interpreted in different ways, and measurement processes often depend on the judgment of individual accountants, hence, by using detailed provisions regulating accounting, you can suitably mould profit categories. The authors—calling this fact “creative accounting”—emphasised that in this context it should be regarded as a positive phenomenon.

The Swiss portal [www.accountingundcontrolling.ch](http://www.accountingundcontrolling.ch) features a series of prof. Paul Sidiropoulos’s (2014a; 2014b; 2014c; 2014d) papers devoted to creative accounting. In an article titled “Die Big Bath Methode”, the author indicated that creative accounting involves accounting manipulation by methods teetering on the edge of the law. In subsequent articles, the author gave an example of creative accounting: he illustrated how you can manipulate sales (“Channel Stuffing—Creative Accounting Teil 2”) and fictitiously inflate costs (“Managed Costs—Creative Accounting Teil 3”). The portal [www.bankingundfinance.ch](http://www.bankingundfinance.ch) in a paper called “Window dressing: the brighter side of creative accounting” shows that the books of the collapsed bank Lehman Brothers are an example of creative accounting.

The Italian author Meils (2008, p. 187) cited definitions from the world’s literature, indicating that the common denominator for these definitions involves the fact of a failure to comply with generally accepted accounting principles or their discretionary interpretation (such a definition of creative accounting division is given by the author), which indicates his negative opinion of creative accounting. Other Italian authors Severino (1992, p. 76) or Biscotti (2009, p. 162), who wrote about limiting or even banning the management’s practice of creative accounting, treated creative accounting in a similar manner.

It is worth emphasising that international institutions associated with accounting also attempt to define creative accounting, for example, the Chartered Institute of Management Accountants (CIMA) (2000) reports: “creative accounting is a form of accounting which, while complying with all regulations, nevertheless gives a biased impression (generally favourable) of the company’s performance”. However, CIMA (2005) also noted that creative accounting is not always a bad thing: it simply means solving accounting problems (related to the choice of valuation methods or recognition of operations) in a creative, non-stereotypical way. The same opinion is shared by the majority of authors from Poland, Ukraine, Croatia, Czech Republic, and Slovakia, being in opposition to American, English, or Balkan authors.

Table 3 shows the most commonly cited definitions of creative accounting coming from authors in different countries, listed chronologically, along with a note indicating whether the authors treat creative accounting as a negative, ambivalent, or positive phenomenon.

Table 3

*Chronologically—Definitions Elaborated by Authors From Different Countries, Key Words in Definitions and Perception of the Phenomenon*

Year	Author	Country	Definition of creative accounting	Positive—negative
1976	Argenti	Great Britain	Deception	N
1986	Gryffith	Great Britain	Deception	N
1988	Jameson	Great Britain	Deception	N
1990	Bosch	Australia	Present in most favourable light	N
1991	Revsine	New Zealand	Financial misrepresentation	N
1991	Gabas	Spain	Right to choose	Neutral
1992	Gélard i Barthès de Ruyter`	France	Manipulation	N
1992	Giner	Spain	Right to choose	Neutral
1992	Smith	Great Britain	Jugglery	N
1992	Severino	Italy	Deceives	N
1993	Naser	USA	Transforms actual data to desired data	N
1993	Trotman	France	Misleads, but also improves company's image	N or P
1994	Blasco	Spain	Disappoints investors	N
1994	Merchant, Rockness	USA	Interferes with the amount	N
1995	Breton, Taffler	Great Britain	Contrary to accounting spirit	N
1995	Vremec	Croatia	Reasonable use of original, untried ideas for recording atypical, new situations	P
1996	Amat Salas, Blake, Gutiérrez	Spain	Useful for investors	P
1996	Shah Atul	Great Britain	Own view of the unit	N
1997	Raybaud-Turillo, Teller	France	Instrument of improving accounts	P
1997	Mayoral	Spain	Breach of accounting principles	N
1999	Amat, Blake, Dowds	USA	Manipulation	N
2000	CIMA	International	Solving accounting problems in a non-stereotypical manner	N or P
2002	Stolowy, Breton	France	Change in financial result	N
2002	Cimskey, Mulford	USA	Fraud	N
2002	Mączyńska	Poland	Non-standard and creative application of principles	P
2003	dos Santos, Grateron	Brasil, Venezuela	Distortion of information	N
2003	Walker	Australia	Reaches particular aims	N
2003	Surdykowska	Poland	Innovation in calculation methods	P or N
2004	Sokolov	Russia	Enhanced attraction of financial statements	P or N
2004	Salas, Oliveras	Spain	Deceives	N
2005	Wąsowski	Poland	Fraud	N
2006	Villouta, Farias	Chile	May be useful	N or P
2006	Gut	Poland	Right of choice	P or N
2006	Surdykowska, Hołda, Kutera	Poland	Right of choice	P or N
2007	Briciu	France	Right of choice	Neutral
2008	Meils	Italy	Failure to comply with or misinterpretation of principles	N

Table 3 continued

Year	Author	Country	Definition of creative accounting	Positive—negative
2009	Biscotti	Italy	Deceives	N
2011	Сейдахметова, Бекен, Каби	Russia	Being guided by one's own judgement	P or N
2011	Belak	Slovenia	Crime	N
2011	Kararavlović	Serbia	Manipulation and illegal activity	N
2012	Dima	France	Manipulation	N
2012	de Sousa, Nascimento, Bernardes	Brasil	Manipulation, "necessary evil"	N
2012	Oliveira, de Souza	Brasil	Ethical rather than legal problem	N
2014	Kiz	Russia	Activity not defined by the law	P or N

The initial definitions of creative accounting (mainly put forward by authors from countries of Anglo-Saxon accounting) define it as deceit, albeit legal, but morally questionable. However, as early as 1991, the first neutral definition appears by a Spanish author, who stated that creative accounting is only the right to choose, but that does not mean that it must be synonymous with fraud. The mid 1990s witnessed an ever larger number of opinions arguing that creative accounting does not always mean fraud, and there are also voices that it should be viewed as a completely positive phenomenon and further that negative accounting practices should be referred to in terms other than creative accounting. Interestingly, in the early 21st century, i.e., shortly after a series of accounting scandals (e.g., Enron, WorldCom, Dynegy, and Parmalat), a growing number of voices came out in defence of creative accounting, defining it as a neutral phenomenon, a necessary part of the accounting system and opposing the naming of accounting fraud as creative accounting.

However, summarising all the definitions cited in this paper, it should be noted that 44 authors urge people to perceive creative accounting as a negative phenomenon, 28 either believe that accounting is an entirely untainted, neutral phenomenon, or that creative accounting can be used in two ways: in good faith (which indicates its positive nature) or to manipulate data. Very few authors (five) urge to treat creative accounting merely as a positive phenomenon that leads to the painting of a true and fair view of the entity's economic reality.

### **Proposed Definition of Creative Accounting**

The authors of this paper proposed to define creative accounting as follows: creative accounting consists in making a legitimate and discretionary choice among different methods of treatment in those cases where the relevant norms or standards do not indicate a direct way to solve a problem or where they do not suggest alternative approaches. As indicated, creative accounting always means actions which are in line with the wider law (i.e., criminal, civil, economic, and especially the detailed provisions regulating accounting), and consequently, in itself, it is not an evaluative concept. Creative accounting in the above definition assumes compliance with the criterion of reliability of business information, and in particular refers to its qualities: accuracy, neutrality, and completeness.

In order to account for activities with negative overtones, they proposed the name (aggressive accounting) denoting activities which are in accordance with the law, and are at the same time increasing the burden of risk inherent in decisions made by users of financial statements, making it a risk that is not fully recognized. In aggressive accounting, the presentation of the true and fair view of the entity ceases to be the primary objective behind the choice of the acceptable courses of action, and in particular the information is not characterised by neutrality.



According to the authors, in today's world, the concept of creative accounting has been distorted and most people wrongly associate it with unfair and misleading behaviour or even fraud. Subjectivity is an inherent element of the accounting measurement process and because of its very nature the process has to be subject to individual judgment, although creative accounting, contrary to what is currently happening, should not under any circumstances be associated with accounting manipulation. It should rather be perceived, firstly, as an inherent feature of accounting and, secondly, as guidance leading to the proper implementation of financial reporting. Accountants' creative accounting behaviour, in the proper sense of the term, is beneficial for users of financial statements: It allows for the most precise quantification and presentation of economic events according to their economic content. Lack of this element of creativity and a mere rigid reliance on fixed, pre-imposed rules and principles would divorce the image shown in books of accounts from economic reality even more acutely.

### Conclusions

Most of the debate and research on creative accounting takes place in the UK and the USA. However, attempts to redefine the concept and research into creative accounting and its impact on users of financial reporting are also made by numerous authors in France, Spain, Russia, and Poland.

Russian researchers addressing creative accounting found that, paradoxically, it was the accounting standardisation process commenced in the 1970s that contributed to the development of creative accounting as people know it today—creative accounting that involves “manoeuvring between standards” and the selection of the optimum solution (Noubs, 1997, p. 73).

Although accounting is one of the oldest of economic sciences (Staszal, 2014), initially there was no demand for creative accounting. For a long time accounting functioned only as reliable accounts kept in accordance with rigid standards, and accountants did not have to be innovative in painting the economic reality. Moreover, there was no need to go to great lengths to take care of the company's image (Tsygankov, 2007). It was not until the late 19th century when companies limited by shares began to enter the stage that, with increasing role of investors in the economy, the demands facing accountants also increased. Governance's functions came to be separated from management functions and financial statements became part of the board's accountability to investors. Accounting came to face the need of quantifying the economic reality, so that this reality is presented as faithfully and truthfully as possible. In order to ensure the fulfilment of this task in the face of ever more complex economic events, it is no longer possible to lay down exhaustive rigid rules—only the flexibility of rules and regulations gives a chance for a reliable reflection of reality—it is this choice among the different methods of treatment (permitted by law) that should bear the name “creative accounting”. At the same time, there is a real threat of manipulation of financial reporting, particularly if favourable circumstances to commit fraud are provided by the very, highly necessary, flexibility of the accounting system. Echoing the words of a US researcher into creative accounting, one can enquire which is better: “Accounting—by Principle or Design?” (Riahi-Belkaoui, 2003).

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