Motivation for the use of creative accounting techniques in the conditions of the globalized business environment

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Abstract. Although creative accounting is a modern concept, the improvement of business results, their manipulation and fraud in accounting have been known long before its introduction. It is not easy to prepare the conditions for practicing creative accounting, however the current theory is full of knowledge, practices and techniques for its application. The company's economic results are important especially for owners, investors, the state, banks or competitors. Most often, creative accounting is used to manipulate financial accounting to meet state requirements. Companies are trying to underestimate their economic result in order to minimize the tax liability. Various methods and procedures can be used for this purpose. The aim of the paper is to characterize the creative accounting and motivation that leads to the use of individual techniques of creative accounting, taking into account the specific conditions of the globalized business environment. The paper also presents the advantages and disadvantages of creative accounting. Creative accounting is the boundary between the alternative approaches allowed by legislation and fraudulent financial reporting. Businesses take advantage of weak control and therefore, they can easily hide handling of financial statements. On the other hand the application of creative accounting may be desirable and tolerated under certain circumstances and it can save the business from failure.

1 Introduction

Different risky forms of accounting, which have the character of a balance on the thin line of the edge of the law, or often even trickle and cross the law in something, are used to call themselves differently in the slang of entrepreneurs and economists. Most often, financiers and accountants and writers use a term that sounds amazing - although it also implies risks, shadows, provocations of illegitimate behavior.

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One of the most proven names for making an economic “tunnel” in a company and replacing an old company (nonprofit and troubled, before bankruptcy) with a new and profitable (trouble-free, viable) is called creative accounting. Creative accounting has come to the attention in the early 80's, but has experienced a great boom with the advent of the global financial crisis in 2007. There have been situations that have led to a reconsideration of accounting and its regulation. After a number of business failures and the subsequent loss of reputation for the accounting profession, many studies have been conducted on creative accounting practices, manipulations and motivations of creative accounting.

Preparing conditions for the implementation of creative accounting to be effective and delivering the desired result is a complex process. Experts are constantly working on how to use accounting rules and other legal and illegal steps to cheat in various ways in accounting. However, the current theory also provides a great deal of knowledge and procedures on how to identify creative accounting and how to choose methods for its detection [1].

The concept of creative accounting cannot be precisely defined. This concept is not found in any accounting standards and regulations or procedures. There are too many different reasons and motivations for realizing it, as well as a number of desired results to be achieved. Castell and Pasqualini [2] provide a very appropriate definition: „in creative accounting, the idea is that accountants reflect such imagination as is revealed by financiers inventing in new financial tools. However, accountants’ imagination does not always serve the pursuit of legitimate aims, hence creative accounting is given numerous different meanings“.

The creative accounting definitions vary. Authors Merchant and Rockness [3] define creative accounting as any action of management which influence reported income and which provides misleading economic advantage to the organization and may be, in the long-term, detrimental.

Naser [4] define creative accounting as the process of manipulating accounting data by taking advantage of the loopholes in accounting rules and the choices of measurement and disclosure practices in them to convert financial statements from what they should be, to what managers would prefer to see reported. It is the process by which transactions are structured so as to produce the desired accounting results rather than reporting transactions in a neutral and consistent way.

Creative accounting can be equated with disclosure management, in the sense of a purposeful intervention in the financial reporting processes [5].

We consider accounting as the most complete economic information system. As we view it as a model of economic reality, it cannot be expected to be absolutely consistent with reality. While respecting and following the principles and requirements imposed on the accounting system, its financial statements should provide users with a true and fair view of the business, financial and income situation of the company. All items in the accounts must be faithfully and honestly displayed. Accounting is true if it shows reality and corresponds to the actual state. We are talking about a fair impression if the correct accounting methods were used for this status.

2 Methodology and data
The aim of the paper is to characterize creative accounting, its techniques and methods and motivation that lead to the use of these techniques and methods. The paper also focuses on the advantages and disadvantages of creative accounting. In order to fulfill the stated goal we applied basic scientific methods of synthesis, analysis, induction, deduction and abstraction. A number of studies have been carried out to show that although the concept of creative accounting is a modern concept, the results of certain activities have been
improved long before it was introduced. Creative accounting has many forms, motives and outputs. It is possible to observe different motives in developed countries with well-functioning stock markets and others in less developed countries. For the purposes of this paper, we analyzed studies [6, 7, 8, 9, 10] as a result of which is a specification and description of the techniques and methods used in creative accounting. We also focused on the motivation that leads management to apply creative accounting practices.

3 Results

By analyzing the available literature it was possible to specify and subsequently describe in detail the techniques and methods of creative accounting and the motivation that leads to their application in practice. We need to look for the motivation to use creative accounting for different groups of people interested in it. Accordingly, their reasons and motives differ.

3.1 Motivation

The explanatory power of financial statements is influenced precisely by the fact that they are published and freely accessible to external users. In practice, there is a conflict of interest between the compilers and the users of the financial statements, as a result of which the compilers manipulate the financial statements, thereby violating the true and fair view of the balance sheet items. External users rely on information from the financial statements to create an image of the business. There is a great deal of incentive to the financial statements compilers to violate the true and fair view of the financial statements [11, 12, 13].

3.1.1 Managers´ initiative

Top-management is usually most interested in making the company's management look better than it actually is. It is the middle and senior management who are most susceptible to creative accounting activities. According to a Lynch study, 64% of the fraud involved the CEO, CFO or company founder [14].

In practice, we encounter different types of managers. Managers who want to prove their usefulness need to achieve the best results. Their motivation is personal, mostly non-financial interest in maintaining their position. Another type is managers who want to maximize profit and therefore their motivation is mostly financial. They are valued by a fixed and variable wage component, while the variable wage component depends on certain indicators, most often on profit.

3.1.2 Valuation problems

Valuation is another reason for using creative accounting. International accounting standards require fair value measurements for a large group of assets. However, the problem arises when accounting regulations mandate valuation at historical price. This means that any asset must be valued at the amount spent on its acquisition. Ultimately, however, historical prices and their subsequent depreciation may lead to underestimation.

Nowadays, there are many possibilities of financing and there are still new non-classical forms. Examples of new forms of financing are leasing and factoring contracts, the emission various types of bonds or the financing of venture capital, which is capital from government funds or international non-profit organizations.
3.1.3 Pressure from investors
Misrepresentation of financial statements can also occur in an effort to attract as much as possible the number of investors and thus secure the demand for equity market shares. Potential investors and capital market participants expect a steady rise in profits, which encourages the companies to misinterpret the economic result and show overvalued profits. In this way, company can achieve better economic results than other companies [15].

3.1.4 Impact of business environment
Business environment is a complex environment in which the entrepreneur operates. It is a microeconomic environment and a macroeconomic environment that influences its decision-making. Analysis of the environment is therefore a very important part of the business, as it strongly influences the company's position on the market and defines opportunities and threats. The greatest incentive to use creative accounting is the national tax system [16]. The level of tax evasion is linked to the economic development of the country and confidence in the government. The willingness to pay taxes is influenced by macroeconomic indicators that monitor the stability of the environment or budget deficits, microeconomic indicators such as the competitive environment and resource efficiency. Also important is the quality of public institutions, such as the protection of property and investment, the quality and speed of the judiciary, as well as the degree of innovation in a country's economy, measured by the number of patents and innovations per million inhabitants.

3.1.5 Reducing uncertainty and risk
Increasing inflation rates, changing interest rates and exchange rates on the foreign exchange markets cause uncertainty and encourage companies to reduce their potential risk through financial market instruments. These operations also offer scope for using creative accounting.

3.2 Techniques
There are two basic techniques of creative accounting. The window dressing technique is less demanding and can be used by less proficient people to improve the company's position, especially in terms of profitability. The second technique of off-balance sheet financing is much more demanding in terms of knowledge and expertise and is rarely detectable in practice.

3.2.1 Window dressing
Using this technique, the company achieves the desired economic results. Transactions are deliberately performed so that the resulting image does not provide a true picture of the entity's state but a desired state. The financial statements give a misleading picture of the company's financial situation. This technique is aimed at external users of financial statements and aims to portray the business as best as possible to receive grants, loans, and to be attractive to potential investors. The window dressing technique also serves to manipulate the tax base of the company.

Common techniques of window dressing include:
- deliberately classifying short-term assets and liabilities as non-current and vice versa, thereby improving liquidity for the company,
- sale and repurchase,
- deliberate replacement of repairs and modernization of fixed assets and vice versa,
assets without economically defensible benefit - assets that do not qualify for inclusion in the assets of the enterprise are included in the assets of the enterprise as they do not bring any economic benefits,

• asset repurchases - this includes, for example, a leaseback where the business sells its asset to a leasing company and then rents it back to it,

• manipulation of the entry price - in case of valuation at the reproduction price or acquisition of the asset by means of own production,

• distorted revenue recognition - recognition of revenue in the wrong period,

• fictitious revenue recognition - accounting for sales that have never been realized,

• failure to observe the precautionary principle - an enterprise does not create provisions or reserves, or does not create them to the extent that they would be legally required; A very common case is the creation of reserves, which at the same time affect the tax base, such as holiday reserves. It is precisely in the area of reserves that the company has a tremendous amount of room to adjust its profit or loss in both directions and thus either by increasing the creation of existing reserves in case of their dissolution.

However, most of these practices balance between creative accounting and fraudulent accounting, which exploits loopholes in regulations and laws. It should be stressed that the above procedures are constantly being extended to new ones which must gradually replace those for which effective solutions have already been found.

3.2.2 Off – balance sheet financing

Off-balance-sheet financing techniques are much more advanced and demanding to recognize than window dressing. A much broader qualification and experience in the art is necessary in the techniques of this technique. The techniques of this technique are mostly linked to covering the financial risk and aim to get rid of the risks arising from the indebtedness and solvency of the company. These are economic transactions that are planned in advance and their main objective is to distort profit. The aim is to find a way of financing that does not appear as a liability, but causes the company to have funds from outside sources. Such practices include in particular:

• replacement of financial and operating leases,

• accounting for the sale of receivables or factoring depending on the risk arising from non-payment of receivables (non-recognition of liabilities resulting from non-payment of receivables),

• guaranteed loans considered as sales,

• loans classified as equity,

• cooperation with other companies, which improves the business results of the original company, but officially the businesses are not linked. It is a Special Purpose Entity (SPE), a company with a specific purpose that is created to perform a specific accounting transaction and meet objectives. Their advantage is that they help their founders to delay the risk and at the same time achieve a certain benefit, most often it is to raise capital. Their seats are intentionally selected in such a way as to minimize the tax burden on them. These undertakings are also used to transfer the undesirable assets and liabilities to them.

3.3 Advantages and disadvantages

Falsifying financial statements does not cause direct harm or financial gain for the enterprise, but benefits it in many areas that are important to the enterprise. Compilers of
financial statements practice creative accounting to improve a company's financial performance and in this way can in some cases avoid large losses or bankruptcy risks [17].

However, such action may result in damage to the organization, the business, the investor with which the business cooperates. Applying creative accounting to a business is often motivated by:

- zero risks associated with the sale of used assets,
- obtaining and maintaining favorable credit conditions, meeting the criteria for obtaining and extending the loan,
- strengthening the company's access to finance that it would not otherwise have received,
- meeting the expectations of owners, banks and creditors,
- price increasing of a company when it is sold, merged or acquired,
- hiding financial risk
- consolidating the company's market position,
- maintaining the continuous economic growth of the company,
- achieving performance criteria to obtain financial reward.

In the event of suspicion of falsification of financial statements, it is necessary to order a management review and initiate an investigation into fraud using forensic technologies. Such suspicions may lead to permanent damage to the reputation of the company and in some cases to its subsequent liquidation.

4 Discussion

Qualified and independent experts are needed to combat creative or fraudulent accounting. Misrepresentation of accounting information can be limited in some ways, and some standards have even been developed to protect against creative accounting. Within international standards, creative accounting can be avoided by adopting stricter standards, focusing standards on problem areas and introducing more detailed accounting rules and regulations, addressing problem areas more closely and conducting regular analysis. On the other hand, these measures can cause problems such as a high level of bureaucracy and confusion. Tightening the conditions and accounting for more complex operations requires teams of law and accounting experts. In economic practice, we often encounter the concepts of forensic accounting and forensic audit, which focuses more on forensic accounting disciplines. Forensic accounting provides auditing, accounting, tax, financial and statistical knowledge and experience to advise on areas that could have court settlement. Forensic audit outputs include, for example, investigating corruption in a business, compliance with regulatory requirements, and therefore whether transactions and existing relationships comply with regulatory requirements, detailed cash flow analyzes, and the introduction of fraud prevention procedures.

Businesses themselves should make the greatest effort to combat the use of creative accounting practices, as suspicions of its use may result in damage to the business, which may result in the liquidation of the company for its untrustworthiness.

5 Conclusion

The company's financial statements serve as an information base for internal and external users. Their main task is to give a true and faithful picture of the company's financial situation, its performance and changes. Managers are responsible for publishing this information, and they are most often motivated to misrepresent data according to their ideas. They strive to improve the image of a company in the eyes of the public.
The aim of the paper was to describe the topic of creative accounting and to mention the main motivation factors that lead to the use of creative accounting practices. By applying individual methods and techniques of creative accounting, financial statements do not fulfill their main role and provide distorted information about the company's image. Forensic accounting, with its methods and procedures, contributes to reducing and detecting discrepancies in the financial statements.

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