CREATIVE ACCOUNTING AND IMPLEMENTATION OPPORTUNITIES

Jonida Bekteshi
University of "Aleksander Xhuvani", Albania
jonidabekteshi@gmail.com

Abstract
This research aims to give a wider picture of creative accounting. The realization of the work is based on secondary data. Regarding to the creative accounting, there are pros and cons views, and the basic condition for its application is the IFRS itself. In order to prove the existence of creative accounting, the study relies on historical evidence. The financial failures of some of the larger companies, the binding measures taken by the US Securities Commission (SEC), and academic research in inventory accounting testify to the existence of creative accounting. The application of creative accounting to second-tier banks and insurance companies makes it even more clear and practical to implement it. In this way, a more realistic conclusion is made about creative accounting and related elements.

Keywords: Creative Accounting, Second-Tier banks, Insurance Companies, Consequences, Failure, IFRS

INTRODUCTION
The financial statements provide information that is used by stakeholders to assess the company's performance, management and decision-making. The accuracy and the validity of the accountancy information is taken as postulated by the users. Also the regulatory legislation of accounting intents to ensure that the information is obtained from a sound base and in support of rules and conditions to be more reliable for the users. However, interoperability between firms and stakeholders may be distorted by the activity of financial statements who want to show a different state of the outlook through financial statements.
Creative accounting definitions
In different literatures, the creative accounting is expressed in different terms. Most popular term in USA is "Managing Profits" but in Europe the refer to "creative accounting". "However, some authors consider creative accounting as a broader and more comprehensive topic than profit management. It should be noted that accounting manipulations affect both the balance sheet and the income statement. It is considered that the creative accounting involves the transformation of financial data, using valuation methods and accounting practices permitted by accounting regulations.

Pros and Cons of Creativity in Accounting
Creativity in accounting can be destructive. In cases where inventive accounting is in line with legal and ethical standards as well as with GAAP, then companies can derive benefits for themselves and its stakeholders. It can help maintain a steady or rising stock market price by reducing the company's risk. This can help the company in providing new capital.

Some authors who have written about this subject believe that if creative accounting is not used to harm the company or stakeholders does not make sense to be called fraud or dishonest action. According to them, the techniques used can be effective to help businesses in crisis and to allow them to recover from a period of economic recession. This is certainly done in favor of the company and their owners.

On the other hand, a larger group of authors is categorically expressed against the use of creative practices, arguing this with the disinformation made to the parties using the accounting information. They emphasize that investors and the public have the legal right to obtain accurate information on the firm's economic status in order to make fair decisions.

Conditions, motives, and reasons to move towards creative accounting
The conditions that allow inventory accounting practice should be distinguished from conditions motivating creative accounting practices. As mentioned by the above definitions, the underlying conditions for the creative accounting practice are the IFRSs themselves. In the next paragraph IFRSs will be treated as a key variable that allows the use of creative accounting practices. The conditions that allow the practice of creative accounting should be distinguished from the conditions that motivate creative accounting practices. As mentioned above on the definitions, the basic condition for practicing creative accounting is the IFRS itself. In the next paragraph IFRSs will be treated as a key variable that allows the use of creative accounting practices.
IFRS as a fundamental condition for creative accounting

IFRSs allow a large number of accounting estimates, and in this way the amount calculated for a specific component that is reflected in the financial statements is not an exact digit. The space of flexibility that SNRFs provide may imply scope for creative accounting. Often it is difficult to distinguish creative accounting from practicing reasonable business judgment as accounting standards allow the existence of the difference between accounting estimations and reality.

Based on the previous discussions the question may arise as, why flexibility is allowed by IFRSs if there is a risk that can be used to manipulate financial information.

Motivation and incentives for creative accounting practice

To fully understand the concept of creative accounting, it is important to understand the motivation and incentives that initially lead to the use of creative accounting. If users of financial statements are aware of the existence of these pressures, they have the ability to take them into consideration and to review their decisions accordingly.

EVIDENCE FROM FINANCIAL FAILURES

Financial failures some of the larger companies provide a testimony of using inventory accounting. The purpose of this issue is not to give a breakdown of the causes of financial catastrophes, but only a brief summary of them. All the entities mentioned below have used a form of creative accounting or are involved in fraudulent activities.

Enron Corporation

Rezaee (2002: 48) identifies as a cause for Enron's downfall, among other things, overestimating revenue, underestimating debts and losses and overestimating capital. This was possible through the use of "specific purpose entities" to manage the risk associated with certain assets. Entities with a specific purpose are firms created by a sponsor but funded by independent investors or liability financing.

For financial reporting purposes, a series of rules are set to specify when such an entity is an independent entity and separate from the sponsor.

Enron used to bankrupt hundreds of subjects specifically for the purpose of purchasing gas reserves from its producers. She never recognized these subjects as part of her, but called them as independent entities. The company appeared in front of investors with the idea that it had reduced investment risk by using the subjects with a specific purpose, when in fact all of these entities were not independent but were funded entirely by the company.
Invested financials or loss overlays were all carried out with Enron's capital, but in the financial statements of the company did not appear to be economically dependable on the companies funding. This resulted in the company's balance sheet appearing very low. As a result of this financial fraud is a loss of more than $80 billion in the capital market.

**WorldCom Inc**
According to Kokosza (2003: 64-65), the most significant example of creative accounting, which includes accounting estimates, is WorldCom Inc. They used reserves made during periods of high financial performance to cover the estimated costs of future events. In the case of WorldCom, stocks amounted to $2.5 billion, which pertain to court cases, uncollectable receivables and taxes.

**Parmalat**
At the end of 2003 another major corporate failure was discovered, but this time in Europe. Parmalat had declared bankruptcy and was accused for financial fraud and money laundering. Parmalat had borrowed money from banks, based on the inflated income that was among the doubtful accounting practices he had used. Revenues were inflated from fictitious sales based on double billing of customers.

**Leisurenet**
Leisurenet is a South African company that has declared bankruptcy due to the use of creative accounting. Leisurenet has recognized increments from long-term contracts even though the services were not provided. A change in accounting policy with regard to revenue recognition has led to a change in profit reported from $109.5 million profit, to a $46.8 million loss.

**CONSEQUENCES OF USING CREATIVE ACCOUNTING**
In the preceding paragraphs it became clear that the consequences of creative accounting are undesirable in many cases. To confirm this, it is important to consider the consequences of using creative accounting.

- **Reduction of Company Value** - Decisions taken to influence short-term profits through the use of creative accounting may impair the health of "long-term" economical entity.
- **Violation of Ethical Standards** - Even if inventive accounting practices do not violate IFRSs, they are a controversial ethical practice. Creative accounting resembles a steep path with minor accounting frauds, which become more aggressive until they create distortions in the financial statements.
Hiding Unit Operational Problems - Creative accounting can be practiced at lower managerial levels so that operational problems can be kept hidden by senior managers;

Some Preventive Measures
Preventing creative accounting practices, the use of which has resulted in many bankruptcy cases of major companies in the world such as Enron, WorldCom, or Parmalat, requires the involvement of many stakeholders from organizations that set accounting rules and standards for government up to companies or different industry branches.

- The ability to choose different accounting methods can be reduced by reducing the number of possible methods or specifying the cases when each method can be used. Another way of preventing it is to seek consistency in the use of methods. If a company has used a certain method when its financial condition was good, it should continue to use the same method even if the advantage is not in her side.

- Regarding to the abusing judgment or prediction, there are three ways to prevent it. The first is the adoption of rules that minimize cases of use of judgment or prediction by companies. The second concerns the obligation to have a consistency or continuity of the method used in the trial. So if the company has evaluated something in a certain way, there is no reason why it should change this method if it does not use it anymore. Third, auditors need to intensify their efforts in detecting inaccurate manipulative projections. Once auditors audit the company's financial statements, they should carefully check whether the anticipation made by the managers are normal or obvious signs of falsehood.

- Artificial transactions can be prevented by using the concept of "substance over form". So, the companies should use more economic restraint in the accounting records of these transactions than its legal form. It is necessary for the procedure to be economically conceived and to recognize its economic effect and not to be abused with the legal form which, despite being legally regular, does not represent the economic reality of any action.

- Regular transactions are difficult to prevent and becomes a moral responsibility for the company executives. However, the possibility to use it as a manipulation tool can be limited by setting the constant assessment of fixed assets and long-term investments so...
that the loss or gain from their valuation or impairment is recognized in the relevant period and not just in a period.

✓ Since the market and the economy are increasingly evolving, chances that certain specific business areas are not well covered by accounting rules. This problem can be reduced through extended review of current standards and their completion with new standards for problem areas such as accounting for stock exchange operations.

✓ Problems with the reclassification or presentation of financial numbers can be solved by setting up unique standards for the presentation and classification of financial statements and the items included in them.

Table 1. Opportunities and preventative measures of creative accounting

<table>
<thead>
<tr>
<th>Possibilities for manipulation</th>
<th>Preventative measure</th>
<th>The accounting tradition where it is easier to apply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Different accounting methods</td>
<td>Reduction of methods</td>
<td>Continental System (European)</td>
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<tr>
<td>Prognostication of certain elements</td>
<td>Reduction of prognosticate elements</td>
<td>Continental System (European)</td>
</tr>
<tr>
<td>Artificial transactions</td>
<td>Table of Contents</td>
<td>Anglo-Saxon Systems</td>
</tr>
<tr>
<td>Pure transactions</td>
<td>Coercive reevaluation</td>
<td>Anglo-Saxon Systems</td>
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<tr>
<td>Unadjusted areas</td>
<td>Continuous review of standards</td>
<td>Both Systems</td>
</tr>
<tr>
<td>Reclassification and statement of financial numbers</td>
<td>Presentation of Specific audiences</td>
<td>Both Systems</td>
</tr>
</tbody>
</table>

Source: The struggle against creative accounting: is ‘true and fair view’ part of the problem or part of solution

Creative accounting in second-tier banks

The paper considers three of the major banks in Albania (the National Commercial Bank, Raiffeisen Bank and Union Bank), considering them as the most representative banking sector companies.

As mentioned above, the financial statements of second tier banks contain elements whose value is determined by the judgment of the accountants and the valuation policies used by them. For this reason main focus takes place on some of these items, which will be analyzed in the following paragraphs.
**Depreciation from loans and advances**

The Bank considers the deposit evidence for loans and advances, and investment papers held to maturity, individually and collectively. All loans and advances and held-to-maturity investments, individually significant, are valued for specific impairment. If we cannot find specific depreciation, then they are collectively assessed for any depreciation that has occurred but has not yet been identified. Non-individually significant loans and advances and held-to-maturity investments are collectively assessed for depreciation by grouping them according to similar risk characteristics.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics (type and amount of credit). Based on historical data for each of these groups, is calculated a loss factor. These expected loss factors are determined on the basis of managers judgment to see current economic and credit conditions are likely to be larger or smaller than those suggested by historical trends. Loss, deterioration and the expected recovery time are regularly compared against actual outcomes to ensure they remain adequate.

So, if we make a comparison of loans, based on the information provided from financial data statements, we note that Raiffeisen has the highest level of depreciation losses on loans for 2016 and 2017. However, a judgment based solely on the absolute value of the loss of loan diversion would not be accurate if we do not count the value of loans and advances to customers. Therefore we need an accurate calculation of "Loan loss / total loan given to customers".

Compared to the other two banks, Raiffeisen Bank has the highest percentage of impairment losses on the total loans (i.e. 3.8% in 2016 and 1.48% in 2015).

However, as can be seen in Graph No.1 below, the fact is that Union Bank has a relatively high growth of this ratio from 1.56% in 2016 to 1.78% in 2017. While the National Commercial Bank has the lowest level of the "Depreciation / Customer Loans" ratio for 2017, but also has maintained this report in the two years under assay (from 0.49 % In 2016 decreased to 0.52% in 2017).

**Amortization of long-term assets**

According to the International Accounting Standards, another element that requires the judgment of accountants is to determine the useful requirement of their long-term assets and their residual value. This issue is also defined in the Albanian legislation, according to which the depreciation rates of long-term assets are designated, leaving no room for assessment and
consequently this cannot be a practice of creative accounting. This table below clearly indicates the annual depreciation rate of the financial statements.

<table>
<thead>
<tr>
<th>Long term assets</th>
<th>Lifespan</th>
<th>Annual Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constructions and improvement of rented premises</td>
<td>20 years</td>
<td>5%</td>
</tr>
<tr>
<td>Transportation and other equipments</td>
<td>5 years</td>
<td>20%</td>
</tr>
<tr>
<td>Office amenities</td>
<td>5 years</td>
<td>20%</td>
</tr>
<tr>
<td>Computers and electronic devices</td>
<td>4 years</td>
<td>25%</td>
</tr>
<tr>
<td>Fixtures</td>
<td>5 years</td>
<td>20%</td>
</tr>
</tbody>
</table>

**Creative Accounting in Insurance Companies**

The insurance market as an integral part of the financial market is consolidating its sustainability toward financial empowerment. This development and empowerment should also be responsive to financial reporting, which should be uniform, understandable, transparent to the clients or to the insured people or companies. For this reason, in March 2004, insurance companies are reporting on a specific IFRS-4 on Insurance Contracts. The general objective of insurance standards is fair value accounting.

**General introduction with IFRS 4**

International Financial Reporting Standard 4: prohibits the creation of provisions for possible contractual claims that do not exist at the reporting date (such as catastrophic provisions and avoidance of bankruptcy).

It requires a test performance for the adequacy of recognized insurance liabilities and an impairment test for reinsurance assets; Requires an insurer to keep insurance liabilities in his balance sheet until they are met or cancelled or expired.

In particular, an insurer cannot use any of the following practices, although it may continue to use accounting policies that include them: measuring insurance liabilities on an undiscounted basis. Measurement of contractual rights for future investment management fees with an amount exceeding their fair value as implied by comparing current rates used by other market participants for similar services.

The standard requires disclosure to help users understand: Amounts in the financial statements of insurers deriving from insurance contracts; the nature and magnitude of the risks that emerge from insurance contracts.
Main benefits moving towards this standard:

- **Transparency** - Fair value provides greater transparency to improve disclosure and break through into the financial position of the insurance company. Representing fair value assets (and Liabilities) gives a better view of the financial position at a time. In addition, presenting assets and liabilities at fair value have the advantage of avoiding inconsistencies that occur, if these categories are dealt with in different ways. Transparency and improved disclosure can result in better management decisions and better capital targets by investors.

- **Sustainability** - Standardization of accounting will be an important achievement in itself. This will bring greater comparability between companies and may improve the ability of some insurers to enter global capital markets. The existence of a common European standard will also facilitate the promotion of a convergence of global accounting standards.

- **Improving the management** - Sophisticating the tools needed to improve fair value will encourage companies to improve capital management, risk management and compliance between assets and liabilities.

Alongside these positive aspects mentioned so far with regard to the use of International Financial Reporting Standard No. 4 for insurance companies and the use of fair value, we should not forget the possibility of creating this accounting method for practicing accounting inventions, as it gives an advantage to the managers and accountants of companies to use their judgment in determining the value of the items of the financial statements. If they would abuse the flexibility allowed by the standard, then the consequences will not be as positive as they are anticipated.

Three insurance companies operating in Albania are taken as an example, thinking of them as the most representative insurance market companies and specifically Sigal Unija Group Austria, Sicred and Albsig. In this paper are mentioned some of the elements of the financial statements that need to be evaluated, to show how much space these companies have on practicing creative accounting.

**CONCLUSIONS AND RECOMMENDATIONS**

The manager's efforts to practice creative accounting are motivated by a variety of conditions. Among other things, there is a need to meet analysts' estimates and to have a stable income or to improve revenue. It is important that users of financial statements have knowledge about
creative accounting practices for two main reasons: Due to the large number of accounting estimates allowed by IFRSs; And to raise awareness and identification of creative accounting placements.

The basic condition for practicing creative accounting is the IFRS itself. They allow a large number of accounting estimates and the amount calculated for a specific component that is reflected in the financial statements. This area of flexibility that SNRFs provide may imply scope for creative accounting.

Considering the diversity of items in the financial statements that require the valuation and judgment of the accountants as well as the analysis of the financial statements made above, we can say that the space of practicing creative accounting in second-tier banks and in insurance companies is relatively high.

We can say that the determination of the value of depreciation costs (loan impairment provisions) creates the appropriate conditions for practicing creative accounting, depending on the goals of the managers and the compilers of the financial statements.

The overall picture of this research brought a panorama, on how creative accounting gives impact on businesses, second/tier banks and insurance companies. Pro and against voices exists if creative accounting is taken in consideration during implementation phase.

**WAY FORWARD**

Talking about scope for further studies, future research is needed to improve and make this method more applicable and productive in the future. Creative accounting is a method that needs more in-depth studies in ways that make it flexible and useful in businesses and companies.

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