

Creative Accounting: A Critical Study

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Abstract:

Creative accounting is the practice which is adopted within the framework of accounting system or in other words taking undue advantage of loopholes of accounting system is creative accounting. However, the recent major accounting scandal in India i.e. Satyam Computers was a fraudulent accounting practice. In highly competitive market, it becomes very important and necessary for every business to find new and innovative ways of running the business. And one of the new ways is creative accounting. Creative accounting is an art of manipulating the books of accounts in a manner that desired results can be drawn. The effect of creative accounting on the performance of the company which uses these techniques to manipulate their accounts to show desired results. The main objective of the paper is to study the different types of creative accounting and parties involved in it and what are the motivation factors so that people are involved in creative accounting practices.

Key Words: Ethics, Creative Accounting, Financial Reporting

Introduction: Ethics in accounting are the code of conduct which regulates financial reporting in the books of accounts. In the accounting field, professional accounting organizations recognize the accounting profession's responsibility to provide ethical guidelines to its members. Accounting ethics is primarily a field of applied ethics, the study of moral values and judgments as they apply to accountancy. Accounting practices which comply with GAAP and Accounting Standards are ethical.

Creative accounting is a process whereby accountants use their knowledge of accounting rules to manipulate the figures reported in the accounts of business. It helps to maintain or boost the share price as well as boosting income as because of flexibility of rules and appraised report, a steady trend of growth in profit rather than to show volatile profits with a series of dramatic rises and falls which is achieved by creative accounting. It is totally legitimate only if, it is within the consequences of the law and it achieves the company's ultimate goal of increasing share values. Creative accounting is using the flexibility within the accounting process to present a preferred picture of the firm at a point in time. It can be done through (Balaciu, Bogdan, and Vladu 2009):

- Accounting induced operational & financial decisions.
- Choices of accounting policies
- Manipulation of accounting estimates
- Fraudulent transactions

Literature Review:

Hussey & Ong (1996) stated that creative accounting first became very prevalent in the 1980. Due to loopholes of accounting regulations, companies could produce accounts which flattered their financial performance. It talks about type of creative accounting like capitalizing interest, brand accounting, methods of depreciation, stock valuation, and accounting standards which