Is Creative Accounting Ethical- An Analysis into the Pros and Cons.

KEYWORDS
Creative Accounting, Financial Reporting, Accounting Ethics, Accounting laws and rules.

ABSTRACT
The use of creative accounting has become a controversial issue since there are parties both in favour and against the use of Creative accounting. While the management has its own arguments in favour of Creative accounting, to resort to the practices of Creative Accounting, its critics are of different opinion and have apprehensions regarding its use. Although it is a controversial topic still studies reveal that the practices of Creative accounting can be judiciously applied with ethical considerations. The present paper attempts to highlight the pros and cons of Creative Accounting by enumerating its importance to various interest groups. The study reveals that Creative Accounting helps to solve many problems which are faced by the management in today's complicated and dynamic business environment. But owing to the dynamic and complicated nature of the business transactions and the liberty available in the accounting standards and the procedures, it is difficult to handle the issue of creative accounting.

Introduction
Creative Accounting allows a manager to change the financial results or the financial statements without deviating from the rules, laws and requirements of accounting by using techniques, options and loopholes left by accounting regulations. In other words, an attempt is made to change the profit either by increasing or decreasing or by misrepresenting the financial statements through grouping of procedures. Creative Accounting was basically developed due to the ever increasing demand of the users of the financial information. The Creative Accounting helps to solve many problems which are faced by the management in today's complicated and dynamic business environment. It helps in various decisions making and forms the base for solving many issues. In Creative Accounting the manager uses the accounting knowledge to present the accounting data, figures and statements in such a manner which seems attractive to the stakeholders instead of showing the real position or performance of the company but all this is done within the parameters of accounting laws and rules. While on one hand, Creative Accounting helps in reducing the risk of a company by increasing the share price and on the other hand, it helps to create a profit trend for the company. Various benefits like raise of capital by issue of shares, defy takeover by other companies and offering own shares in takeover bids go in favour of Creative Accounting. Creative Accounting also helps to reduce the fluctuations of income of the company which helps the company to gain a good image in the market, this good image in turn, helps the company in many issues directly or indirectly.

Some Definitions of Creative Accounting
"Creative Accounting is the transformation of financial accounting figures from what they actually are to what preparer desires by taking advantage of the existing rules and/ or ignoring some or all of them."

“Purposeful intervention in the external financial reporting process with the intent of obtaining some exclusive gain”.

Importance of Creative Accounting
The benefits of creative accounting can be reaped if used with positive intensions and in accordance with the accounting principles and rules. If properly and judiciously used, Creative accounting can prove to be of great importance to the company, its stakeholders and various other parties directly or indirectly influenced by the company's performance. Some of the importance or benefits of Creative Accounting is that it helps to increase or maintain the share price of the company by reducing the company's debt level thereby showing improved profits. The increased share price helps the company to raise new share capital and also gives a chance to avoid takeover attempts. Sometimes the users of Creative Accounting delay the release of financial information to the market thereby taking advantage arising out of this delay, such types of tools are also a part of Creative Accounting and does not cause any harm to the interest of the shareholders and such practices cannot be termed as dishonest practice.

Mathew and Perera (1996) look at creative accounting in both positive and negative light. They opined that creative accounting have positive effect if it enhances the development of accounting practices and negative when it is meant to mislead and defraud investors, creditors, bankers and other users of financial statement. Some authors define creative accounting as an assembly of procedures having in view the change of the level of the result in order to increase or decrease, or present the financial statements, without these objectives being reciprocally exclude (Stolowy, 2000).

Review of Literature
According to Belkaoui (1989), real fraud is defined as ‘falsifying or altering documents, deleting transactions from records, recording forged transactions or concealing significant information’. Due to the difficulty of the distinction between the two, the commission responsible for fraudulent financial reporting defined fraud as ‘materially misleading financial statements’ (NCFRR 1987). The creative accounting appeared in the Anglo-Saxon literature in the 1970s, most often in the papers about the bankruptcy of enterprises and those written by Watts and Zimmerman (1978, 1986, and 1990) which represent the foundation of the positive accounting theory. This research trend made the object of several empirical works trying to explain the accounting choices starting from the problem of the political costs that the enterprises are exposed to.
Creative accounting is used, according to the opinion issued by Burlacu and Pătru (2005) and for the “consolidation” of the economic-financial indicators of the economic entities, distorting yet their informational content. It is appreciated that in this way the consistency and truthfulness of the accounting information sent by the economic entity to the business environment is being altered.

Objective of the Study
- To understand the concept of Creative Accounting.
- To understand the techniques of Creative Accounting.
- To examine the pros and cons of Creative Accounting.

Methodology
The present research work is mainly based on published secondary sources. The sources of secondary data are the data published by various journals. The study has been conducted on a micro level and is descriptive and conceptual in nature.

Limitations
Limitations are always a part of any kind of research work, as the report is mainly based on secondary data. Whatever the limitations of the secondary data will be the limitation of this research study.

Techniques of Creative Accounting
Techniques of Creative Accounting refer to all such practices which are being applied by Creative Accountants in order to manipulate or misrepresent the accounting statements and figures. In general, the objective of Creative Accounting is to show higher profits which can be done in number of ways some of which are mentioned below:

- The current profits can be overstated by ignoring the provisions for bad debt and legal obligations.
- The cost of goods sold can be decreased by overvaluating the closing stock thereby showing increase profit which show increase in total assets in the balance sheet.
- Many items of debit and credits can be wisely over or understated as required.
- Buyback of own assets at an inflated price in order to show increase of assets in Balance Sheet.
- All these and numerous such ways and practices are at the disposal of the creative accountant through which he can attain the desired objectives.

Analyzing the Pros and Cons of Creative Accounting
Now a day’s Creative Accounting has become a very important tool of management. The management resort to Creative Accounting to meet the day to day challenges. Some major merits of Creative Accounting are:

To the Managers:
- Helps to enhance management performance.
- Forms the basis of personal incentives of the Manager.
- To show incompetency of the management of the past.
- To meet internal targets set up by higher management.
- Boost reported profits or minimize reported loss.

To the Company:
- Helps to gain access to Finance.
- Forms the base of Tax Management.
- Helps in Management Buyouts.
- Helps to conceal Financial Risk.
- Avoid borrowing restrictions.

To the Stakeholders:
- Higher returns on their Investments.
- Consistency in Earnings.

To the Workers:
- Ensures Job Surety.
- Enhances Income.
- Increase in Bonus and Incentives.

Demerits of Creative accounting
Practical experiences show that most of the time the creative accounting practices are not being handled judiciously and such techniques are mostly undertaken with unscrupulous intentions in order to misrepresent and mislead the society. And the affected parties are the Investors, Creditors and the employees.

Conclusion
A company has to meet many expectations from external parties. It has to face expectations of higher return from its stakeholders, the employees and customers expects long term survival of the company for their own interest and suppliers want assurance of their payments. Moreover, companies want to show steady income to keep their share prices stable and to impress the investors. All these urges the company to seek to Creative accounting practices. But owing to the dynamic and complicated nature of the business transactions and the liberty available in the accounting standards and the procedures, it is difficult to handle the issue of creative accounting. It is basically the responsibility of the users of the creative accounting whether to use it properly and with good intentions or to misuse it. It is really very unfortunate that its misuse or abuse cannot be stopped completely. But efforts could be made to encourage judicious use of Creative Accounting so that the solutions neither mislead nor misrepresents the results of the business and give fair solutions to the problems faced by the management of the business.

REFERENCE