

CREATIVE ACCOUNTING DURING TECHNOLOGICAL CHANGE

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Abstract

Many accounting principles and norms applied in nowadays accounting practice in Romania are more criticized according to accounting fundamental goal: faithful reflection of financial position units and situation. Derogation from accounting prescriptions constitute the compromise accepted by normalizing factors that creative accounting may use, in order to give financial situations information the required fidelity. Accounting normalization is outrun by the evolutions registered in economy and society. Since most economic situations have accounting consequences, finding solutions to new problems, even temporary ones, constitutes an unquestionable progress factor. Creative accounting solutions may constitute the support of a subsequent normalization.

Key words: Creative accounting, ethics, normalization, business

The expression „business ethics” refers to what is right, fair and true in an ensemble of enterprises, transactions or efforts, named in a generic way businesses. Through its nature, accounting finds itself in tight connection with ethics, moral and religion. The concepts of moral, ethics and religion are close to one another and complementary. Ethics is a rational theory about what is wrong and what is right, an „upstream” reflection about values. Already built up as pre-existing principles, the ethic values shed on morality a religious connotation with a specific restrictive nuance (Horomnea, 2004).

The values of ethics constitute the basis of any civilized society. Each individual has his/her own ethical values and religious, historical, literary or personal experience, principles. Michael Josephson considers that the „ten universal values” are: honesty, integrity, honoring the promises you have made, fidelity, fairness, care, respect towards others, citizenship responsibility, a continuous need to perfection yourself and taking responsibility for your own deeds. During the last two decades, within accounting two major events took place, having a tight connection one with the other. The first one is using a series of evaluating criteria, change which had as a consequence the output of information for a restricted, privileged group of users. The second one, determined by the occurrence of the first one, is the extension of preoccupations for introducing new ethic rules in accounting. Relevant in this sense is the Anglo-

Saxon flow “business ethics”, which refers to a “there all” research of the endogenous criteria to define the concept of ethics. This criteria mean that in fact a research of what is pertinent and useful to the user of the accounting piece of information has to be developed without privileging a certain group of users. The ethic perspective towards accounting, was, lately the object of complex discussions amongst specialists (Feleagă, 1996).

MATERIAL AND METHOD

The fundamental aim of the personal research was represented by the current state of creative accounting solutions, which might constitute the support for the subsequent normalization. The concepts are generalizations. In economics, a concept is a “logical, mental construction of one or more connections”. The concepts are inherently abstract and based on logic and reasoning. In economics, the concepts are typically focused on the relationships between variables. The main purpose of the fundamental conceptual framework is the development of hypotheses to be tested (Evensen, 2012).

RESULTS AND DISCUSSIONS

The ethical basis of accounting was discussed from an economical and even philosophical angle, giving birth to many controversies. The building of this „faithful image” must be, and is realized by man, which is

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such a subjective observer, and thus the question whether this vital goal of accounting can be realized arises. Does, really, accounting create its own reality? And if so, which are the limits where creation should start from and to which it should be restrained?

Boussard considers that the faithful image covers a cognitive dimension of searching for the truth, but also a moral dimension, an ethical one which have to be associated with the process of searching for the truth. The notion of creative accounting appeared in the economical, social, British environment. Although, for almost thirty years, the specialized literature brought up frequently this subject, it still does not exist a unique point of view regarding a possible definition of creative accounting. According to Pasqualini, creativeness is a virtue. Applied to accounting, the idea of creativity is based upon imagination, so it can indeed offer the means to handle the continuous growth and diversification of the financial markets and instruments.

Colasse talks about some „imaginary exercises to give the accounts of an enterprise the best image possible”. These exercises are „true frauds, legal embellishments, crisis-drawn techniques, qualified reluctantly by professionals as being creative accounting” (Horomnea, 2003).

On the other hand, some authors consider that, essentially, accounting is creative. The justification consists in the fact that, on one hand, the value that accounting gives to the primary data, presenting the accounts as aggregated indicators, and on the other hand, in the role of accounting to build up messages which are to be transmitted to users by the leadership of the enterprise. The Anglo-Saxon authors have also analyzed the concept of creative accounting. We will present the points of view of four British authors, from different perspectives.

From the perspective of the economical journalist Griffiths things can be seen like this: „any firm is the image of its good-points. The published documents are built up on the basis of registers which have been <<arranged>> in a delicate manner, sometimes even chopped up. The figures presented to the investors have been entirely manipulated with the purpose of protecting the guilty ones (administrators)”.

According to Naser, „Creative accounting may be defined as (1) the process which is used to manipulate accounting figures; because of weak points within the laws and taking advantage of flexibility, ways of measuring and releasing are chosen which permit the transformation of the documents of synthesis, transformation which takes them further from the way in which they were supposed to be and closer to what the managers want them to be, and (2) the process through which the transactions are structured in

such a manner that they allow the occurrence of the desired accounting result”.

If we analyze this definition we will discover some interesting affirmatives. Saying that through creative accounting the synthesis documents are transformed from what they were supposed to be we deduce that some standards of the truth exist in accounting, standards that can be achieved only if the rules are respected entirely. Naser described the accounting system from the Anglo-Saxon countries as being predisposed, particularly to this sort of manipulation, considering the liberty of choice which allows it to happen. Two common points are found within the definitions given by the British authors: (a) the increasing general character of creative accounting is observed; (b) creative accounting is a treacherous and undesired practice.

Others reject the idea according to which creative accounting is a means of manipulating accounting information. Bernheim sees in creative accounting the kind of accounting that knows how to adapt to the economic and financial evolution and how to translate in the most faithful way the economic reality. Creative accounting is not, according to the author, the thing that translates qualified operations as financial movements and which, in reality are operations of accounting manipulation. The lack of an accounting related conceptual framework in Romania and the contradiction between the accounting principles (for example, the historical cost and the faithful image) explains, also, the development of the so-called creative accounting (Ristea, 2002).

The motivational complex of the techniques of creative accounting development reminded by Naser looks like this: costs emerged from a conflict of interests; the manager's incompetence; liability and risk; the variety of economical activities; neuralgic points within the accounting concepts; the attitude of accounting information users; the dematerialization of the enterprise; the globalization of the enterprise; the absence or insufficiency of norms. Ethics is a domain of philosophical reflection. We cannot talk about ethics within accounting without making a reference to the notions of „truth”, „good” and „justice” as economic values, accounting representing the economic environment.

The construction of a conceptual accounting framework is in close connection with the ethical fundamentals of accounting. Ethics, within accounting represents the search for the faithful image, even if it does not exist in the absolute sense. Accounting represents reality, according to suppositions or already set goals. Reality is not faithfully represented by accounting statuses because each user represents his/her own interests which depend on his/her perception

regarding the reality of the enterprise. Ethics is situated at the border between reality and truth.

When there are talks about ethics in the economic domain there is the tendency to confuse ethics with the moral aspect of the business.

Although in dictionaries the terms are synonymous, there are still differences. In a simplistic vision, ethics represents that certain section allowed by law. Moral implies the notions of „good” and „bad”, it makes an appeal to the conscience, it is in many cases a more demanding argument in the support of applying ethics and moral in the domain of accounting is the quality of the language in what accounting is concerned. Accounting is a language that allows the passing of information. Like any other language, it can be used to circulate true or false data (Malciu, 1999). The accounting principles generally accepted have a moral connotation, so:

- the principle of permanence completed with the principle of publishing the methodical changes and their effects, it insures a good knowledge of the giver and receiver of the accounting information and of the language rules, of the codes used in the communication of the accounting pieces of information. Using poorly this principle, out of negligence, or deliberately, has as an effect an unsatisfactory communication of the accounting information;
- the principle of continuing the exploitation refers to the fact that the enterprise has neither the intention or the obligation of beginning a liquidation to reduce dramatically its activity. Declaring the uncertainty of the continuation of the exploitation can have a significant role in the acceleration of the enterprise's deterioration process. For the leaders of the enterprises a clash may be seen between the obligation to inform correctly and the interests of the firm regarding the conservation of the human capital. The necessity of respecting the law in order not to be punished by it generates a conflict between two obligations, in the moral sense;
- the principle of carefulness means that all the loses are the object of a provision, and the plus-values have to be counted only where they are effectively earned. Carefulness in a virtue before being a technical quality of an accountable, and virtues are moral qualities;
- the priority of reality and not the one of the form („substance over form”) refers to an important moral problem, and that is not to make use to much of appearance and so damage the reality. The respect for truth does not have to be sacrificed in order to create a treacherous image. The essence of this principle relies in the fact that every economical operation can be analyzed from an economical viewpoint, and at the same time, from a legal viewpoint. According to one of the two, it depends which one is given priority, the

accounting incidences can be different. A revealing example is the one of the leasing. In Romania and in the countries which have been influenced by the Roman right (France, Germany), the legal aspect is taken into account. In the Anglo-Saxon countries, the legal aspect is nothing but an appearance, meanwhile reality is looked upon from the economical viewpoint. There is, in consequence, the risk that the countries which have a legal tradition present the facts deliberately different from their economical reality. The economic creativity goes sometimes beyond the limits of the acceptable (Simon, 1998).

The normalizing accounting wants to limit the opportunities of using creative accounting. Following this goal, within the standards of professional ethics they adopt some objectives are presented:

- the continuous development of the conceptual framework; in this way, the objectives of the financial communication will be clearer, and the priorities set;
- diminishing the options in utilizing the accounting methods, through the reduction of the allowed accounting criteria, or a clear specification of the circumstances when one or another method is ok to use. Some voices plead for the uniformity of the utilization of the accounting methods. This objective, like we have already said, cannot be realized because of the particularities involving each activity, the faithful image having to suffer in this case;
- the potential abuse of the managers through following their own interests can be reduced using two methods: (a) creating some norms which have the purpose to minimize the usage of subjective opinions (for example, in Great Britain, accountants are tempted to include the extraordinary result of certain elements which would have to be found in the ordinary result); and (b) the auditors should have to intensify their work of finding insincere estimations;
- the artificial transactions should be looked upon from the viewpoint of the phrase "substance over form" (example: the lease-back operations, the artificial deposit assignments titles);
- re-evaluating regularly the actives in such a way that the profit or loss occurred during the value changes will be identified in synthetic documents each year (Horomnea, 2004).

The external users of the accounting information may avoid manipulation by the manufacturers of the information. Some way to avoid the „creative accounting driven traps” may be: consulting the pieces of information found in the annual report; consulting and comparing the existing accountable practice; visualizing the annual report through some filters; following the transfers between the balance, the profit account and the loses; using cash-flow information; taking

a personal responsibility. The increase of the flexibility in what the application of the norms is concerned in the Anglo-Saxon world has determined the appearance of „business ethics” in this environment. The Anglo-Saxons have launched the concept of the „faithful image” as a resolution to the conflict between the preparers of the accounts and the external users. The controversies did not teary to show up, considering the fact that the accounting reality is a „constructed reality”, the account preparer has his/her subjectiveness imprinted on this construction. On the other hand, the external user has his/her own subjectivity, interpreting the built „reality” according to his/her own perception and knowledge.

In this extremely subjective context, ethics is necessary to limit the profound human tendency to permanently create a more and more attractive image. Still, absolutely speaking, truth cannot be known, because of the actor’s subjectivity within the accounting space, and also because in the accounting construction we cannot take into consideration all the factors from the economic environment where the enterprise evolves. The accounting reality limits itself to a „accountalized reality”. Creativity in accounting is natural in the evolutionary process of every socio-economic domain. What is the limit to which it can go is difficult to say. This depends on the effects that it produces on the ones interested on the accounting information. Ethics has an important role to play for keeping some reasonable limits regarding creative accounting. Creativeness is a virtue as long as it is used for finding better ways of solving the conflicts, of course with the condition of respecting the truth, even if this truth is only relative. In the Romanian context, ethics in accounting has found an interest in the specialized literature, and now with the occasion of adopting the norms set by the harmonization with the 4th directive and with the international norms, the concept of „faithful image” has occurred. The accounting profession still, does not have the force to give, like in the Anglo-Saxon countries, norms of professional ethic, giving the creative accounting as such the possibility to manifest excessively. The weak points existing in the accountable Romanian norms create the premises of realizing some „legal frauds” which are not linked necessarily to creativity, but, more likely to the weakness of the actual accounting Romanian system. At the begining of synchronization the accountable Romanian system with the IASB concepts, regarding the accountable reform in Romania, the direction which this reform was going to take was uncertain, or even unknown. It was presumed that the British, being real specialists asked to contribute to the reform would bring with them the spirit of Anglo-Saxon

accounting. This aspect was particularly favorable, being set in the realities of the actual period of time.

The accounting development program was published. The existence of more than one influence was observed. Amongst these influences, the Anglo-Saxon one imposes a few reflections. The matrice of the Anglo-Saxon accounting is the accounting conceptual framework. As a normative accounting theory, the conceptual accounting framework has a double function: to insure the coherency of the accounting norms and to contribute to the insurance of the independence of the normalizing organisms. To become performer, the Romanian accounting has to create itself a conceptual accounting framework (Horomnea, 2003).

The accounting profession is called upon to bring its contribution. In the Anglo-Saxon countries, the liberal accounting profession involves itself in the normalizing act. In the UK it had and still has a very important role, winning the battle fought with the public power. In our country, the liberal accounting profession is far from achieving these performances.

CONCLUSIONS

We think that it could have never been reached considering the short period of time passed from the setting up of CECCAR, but time passes and without a deeper involvement in the battle we were speaking about, the presence of the „expertise force” of the profession in the normalizing act will have little significance.

The Consultative College of Accounting may become an independent organism of normalization, and its finance would be assured by the Romanian economic-financial Community. If we were to bring into discussion the necessity of an urgent committee, which would have similar as attributions to the British and American ones, we could have a more modern image of the normalizing accounting process.

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