AFRICAN JOURNAL OF ACCOUNTING AND SOCIAL SCIENCE STUDIES (AJASSS)

Volume 4 Issue No. 1 2022

Tanzania Institute of Accountancy (TIA)
P. O. Box 9522, Dar es Salaam, Tanzania
Email: ajasss@tia.ac.tz

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Volume 4 **Issue No. 1** **ISSN 2591-6815**

Published by the Tanzania Institute of Accountancy
P.O. Box 9522, Dar Es Salaam,
TANZANIA

TANZANIA INSTITUTE OF ACCOUNTANCY (TIA)

AFRICAN JOURNAL OF ACCOUNTING AND SOCIAL SCIENCE STUDIES (AJASSS)

Volume 4 **Issue No. 1** **June 2022**

ISSN 2591-6815
eISSN2591-6823 ONLINE

Published by the Tanzania Institute of Accountancy
P. O. Box 9522,
Dar Es Salaam, TANZANIA

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and Social Science Studies (AJASSS)

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AFRICAN JOURNAL OF ACCOUNTING AND SOCIAL SCIENCE STUDIES (AJASSS)

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EVERY JUNE AND DECEMBER

AFRICAN JOURNAL OF ACCOUNTING AND SOCIAL SCIENCE STUDIES (AJASSS)

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Motives and Ethics of Creative Accounting: A Reflective Review and Views

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Abstract:

Stirred by ethical conundrum of creative accounting and its damaging impact on corporate reporting, this literature review paper (LRP) explores motives of creative accounting and discusses its ethical lines. Consistent with Kaaya (2015a), we, employed qualitative and content analysis approach, as it is reportedly effective for studies of this nature (Corbin & Straus, 2008). Overall, the study found that, creative accounting is unacceptable practice, largely derived by managers' self-centredness and short-termism and serves external users with obscured information. Information asymmetry, conflicting interests, fear for violating financial covenants, maintaining predictable growth and hiding disgraceful condition are notable drivers of creative accounting, but, essentially, enabled by flexibilities which are integral of reporting standards. Specifically, the paper recommends, first, creative accounting and fraudulent reporting are conceptually, intentionally and practically synonymous and well-nigh indistinguishable; second, auditors ought to be professionally competent and inquisitive to ensure all matters of material impact on financials are discovered and reported. This implies, it is right to ask where were the auditors when things went wrong about companies, because, nothing detrimental can occur without their knowledge, unless, they choose to turn a blind eye on it or are professionally incompetent. We argue that, creative accounting is based on wrong motive (to cheat and mis-inform stakeholders), breaches professional code of conducts and fiduciary duty, destroys honour of profession accountancy and leads to immense losses to stakeholders, and

nothing can be right about it. We, therefore, call for concerted efforts by all stakeholders to fight against it.

Keywords: Creative accounting, Fraudulent reporting, Accounting profession, Financial statements, Ethics.

Received: 25-02-2022
Accepted: 30-04-2022
Published: 30-06-2022
doi: https://dx.doi.org/10.4314/ajasss.v4i1.17

1. Introduction

Managers' accountability and answerability to business owners is achieved through financial reporting which starts with accounting, herein referred to as a continuous process and systematic business practice. In this paper, accounting is defined as a continuous process and guided practice of recording and maintaining a track of corporate entities, financial events and business transactions, and its ensuing presentation on the financial statements. The financial statements resulting from this process are subsequently communicated to the companies' stakeholders to serve their decision-making needs. It is worth noting that, the demand of users for financial reporting emanate from the separation of ownership of the company from its management. This is literally articulated by the agency theory which describes the relationship between principals (owners) – and agents (managers) of the companies (Jensen & Meckling, 1976). In this regard, managers are supposedly responsible and accountable for their actions and decisions regarding the use of corporate entities' resources. It follows that, stewardship, responsibility and accountability of managers (to owners) is demonstrated through accounting and financial reports.

The financial reports prepared to demonstrate managers' stewardship and answerability are normally based on the requirements of generally acceptable accounting standards and principles that is, reporting frameworks. The application of acceptably recognised accounting standards ensures that, the

reports and figures thereon, represent the true picture of reporting entities' operations and financial condition (Kaaya, 2015b). Users are, of course, assured on the truth and fairness of financial statements and its compliance with pertinent accounting standards by independent auditors. In fulfilling this professional duty, auditors give reasonable as opposed to absolute assurance and require management assertions on certain matters. However, they (auditors) are required to exercise attitude of professional scepticism throughout the auditing exercise to ensure that all matters of material impact on financial statements are brought to light and communicated to the relevant stakeholders. The information and numbers reported on audited financial statements are therefore, expected to be faithfully represented and meet the users' decision-making requirements.

On the basis of the foregoing observation, it can be argued that financial reports portray a realistic/true picture and fair view of operational performance, cash position and financial condition of the reporting entity. Regardless of this positive assertion, literatures have shown that, financial statements can be the outcomes of false records and cooked books of accounts (Griffiths, 1986). According to Griffiths, "every company is fiddling its profits; every set of published accounts is based on books which have been gently cooked or completely roasted" (Griffiths, 1986, p.1). Besides, Berger (2001) argues that, it is difficult for a company to exhibit consistent exceptional good performance without resorting to some fancy accounting. This happened with Enron (2001), for which prior to its collapse it had been named "the most innovative company in America for 6 years" continuously. Equally, Smith (1994, p.4) contends that... "we felt that much of the apparent growth in profits which had occurred in the 1980's was a result of accounting creative accounting rather than the genuine economic growth." In view of that, it is reasonable to claim that, some deemed good news reported about firms externally could be unrealistic and fitted to blind the users of financial information. Financial reports, could therefore, be a result of cooked books of accounts, universally referred to as creative accounting which continues to circulate around the globe (Gherai & Balaciu 2011).

Creative accounting practice continues to generate heated debates despite the presence of seemingly high quality standards governing corporate reporting such as International Financial Reporting Standards (Kaaya, 2015b). High profile corporations have collapsed, declared bankrupt and suffered serious losses on accounting basis (Bhasin, 2015). Major financial losses resulted from abusive creative accounting (Gherai & Balaciu 2011). Thus, creative accounting is deplorable, tarnishes the reputation of the accounting profession and undermines the integrity of capital markets and leads to immense losses to shareholders. The practice should therefore be fought against by all stakeholders in the business domain.

In order to effectively address abusive creative accounting, one needs to discern the root causes (why) of the practice. On a similar gesture, Gherai and Balaciu (2011) argue that... "creative accounting practices will disappear only when reasons that give rise of it disappear". This paper intends to explore the motives (reasons) and opportunity (avenues) for creative accounting on the basis of prior accounting scandals and the existing literature. The understanding of why the perpetrators play the number game and exploit the available opportunities (opening) that allow creative accounting is an important step on tackling the creative accounting problem. This study explores the motives and opportunities for creative accounting and makes recommendations for counter measures by standard setters, corporate reporting regulators and preparers (professional accountants and auditors).

Besides, it is reported in numerous literature that creative accounting is exercised within the jurisdictions of accounting rules (Jones, 2019; Faruq, 2014; Smith, 1994). Corroboratively, it is argued that the accounting system is "permissive of creative accounting by allowing companies greater flexibility" (Gherai & Balaciu 2011, p.35). Logically, if the accounting system facilitates creative accounting through flexibilities inherent in the accounting rules and principles, one can mistakenly regard creative accounting as 'ethical and acceptable' practice. Besides, given its notable impact on businesses, creative accounting is sometimes considered synonymous to fraudulent reporting. The researcher is interested in determining whether the existing literature suggest agreeable perceptive on the ethics of creative accounting in view of

fraudulent reporting. The findings on ethics of creative accounting will bring a new perception and contribute to the continuing debate on the ethics conundrum of creative accounting.

The findings from this study adds knowledge on the existing stock of academic works on creative accounting and could be of interest to capital market participants, regulators and standard setters, researchers, auditors, accounting professionals and financial analysts in addressing the problem of creative accounting and in defining its ethical lines. The paper, also, offers, practical and useful reference to academia, professional and university students on creative accounting practices and its ethical lines. The current study is hence timely, deserving and significant in the accounting profession and corporate reporting as we continue to witness accounting malpractice across sectors world-wide.

The rest of this paper is organised as follows: Section 2 covers research objectives and methodology. Section 3 explicates creative accounting and its synonymity with fraudulent reporting. Section 4, discusses motives and avenues and possible opportunities for executing creative accounting. Section 5, discusses ethical lines of creative accounting and offer authors contemplative views on its implications in the profession. Section 6, covers conclusion, implication and recommendations of the study.

The study explores the motives and opportunities that allow creative accounting and discusses ethical issues and opinions surrounding its practice. Specifically, the study intends to (i) Offer a critical understanding of creative accounting and fraudulent reporting and its lines of differences (ii) Explore the motives and opportunities of creative accounting through a critical review of previous scandals in corporate world and the existing empirical studies (iii) Examine ethical issues in creative accounting practices by drawing evidence from the existing empirical studies in view of code of conduct of the International Federation of Accountants (IFAC) professional accountants. Correspondingly, the research questions of the study were "what are the motives and openings for execution of creative accounting? What are the existing ethical considerations on the matter?

2.0 Research Methodology

This study conducted a critical literature review (survey) on the motives of creative accounting, opportunities and its ethical considerations in view of fraudulent reporting practices. Creative accounting scandals (cases) of the selected companies world-wide were critically analysed, motives and opportunities for each case was acknowledged and matched with its theoretical perspective for generating practical inferences. This research was explorative, descriptive and was based on documentary review. The study applied qualitative text data analysis approach which intends "to provide knowledge and understanding of a definite phenomenon" (Downe-Wamboldt, 1992, p. 314). The approach examines documents and systematically interprets the information to allow the researcher to draw inference about a certain situation (Corbin & Straus, 2008).

According to Hsieh and Shannon (2005, p.1278), the method makes use of subjective interpretation of the text data through systematic identification and classification of themes for critical elaboration. Consistent with prior studies of this nature (e.g., Kaaya, 2015a, Kaaya,2015b, Christensen & Nikolaev, 2012, Nasibah et al., 2009), the study, employed 'qualitative summative content analysis' research approach. The approach allows significant arguments and themes to be derived and developed from the interest of the researcher or reviewed literature for detailed explication. This research method is viewed as rigorous, effective and enables exhaustive analysis of the intended (single) phenomenon (Stake, 1995), such as the one covered in the present study. For ease of presentation, discussion and analysis of the findings relevant to the research objectives of the study, themes and sub-themes were identified and developed (Table 2.1).

Table 2.1: Themes for Presentation, Analysis and Discussion of Results

Specific Objective (s)	Theme/ Sub-theme (s)
To offer a critical understanding of creative accounting and fraudulent reporting and its lines of differences.	➢ Creative Accounting: An explication and Critique. ➢ Fraudulent Reporting: Theoretical Understanding and Critical Reflexion. ➢ Creative Accounting and Fraudulent Reporting: So, Are they Distinguishable?
To explore the motives and opportunities of creative accounting through a critical gaze of previous scandals in corporate world and existing pragmatic studies	➢ Motives (Reasons) for Creative Accounting ➢ Flexibility in Accounting Standards and Creative Accounting: A Door Left Open? ➢ Creative Accounting: Do Auditors Owe a Thing?
To examine ethical issues in creative accounting practices by drawing evidences from existing empirical studies in view of the International Federation of Accountants (IFAC) professional accountants code of conduct.	➢ Ethics of Creative Accounting: The Unresolved Conundrum? ➢ Critical Thoughtfulness: So, is Creative Accounting, Ethical or Unethical?

Each of the theme and sub-theme reviewed as indicated on Table 2.1, the author's made a critical review. This is in accordance with the observation by Van Wee and Banister (2015) who recommend that the "authors' feel are important structural and contextual considerations that help produce high-quality review papers."

4.0 Results and Discussion

It is generally believed that, creative accounting is different from fraudulent reporting, although, both achieve their objective through entities' financial reports. While, the latter is considered illegal and unethical, the preceding is regarded as being unethical but not illegal (Jones 2019). Some writers, however, offer that, there is a thin line between fraudulent reporting and creative accounting (Faruq, 2014, ICAEW, 2020), while other scholars such as

Jones (2019) consider creative accounting to include fraud. On the other hand, Griffiths (1986) argue that, creative accounting is "totally a legitimate practice." With these differing perspective, this section provides the basis for the existing perceptions, and to determine whether, creative accounting is conceptually, intentionally and practically different from the fraudulent reporting.

4.1 Creative Accounting: An explication and Critique

While figures do not lie, liars can figure, and so the accountants can figure through creative accounting. Creative accounting is an essential and critical topic in business world but probably not highly researched accounting area. The lack of attention on this topic can be associated with the perception that if it widely spoken accountants would be encouraged to practice. For this reason, most abusive practices take place and continue while accountants (employees) and shareholder are left unacquainted. The impacts of such practices normally occur as a surprise. The concept creative accounting however, gained research attention and became a debatable topic in the accounting profession following the collapse or bankruptcy of high-profile companies which were highly connected with abusive creative accounting practices. The concept of creative accounting became popular and extensively discussed when the cases of Enron (2001) and WorldCom (2002) dominated media headlines around the world.

Creative accounting also referred to as cosmetic accounting or financial engineering, is repeatedly described in connection with the discretions within accounting rules, standards and regulations. It is widely understood and described to be effected within the lines and letters of accounting standards and regulations (Bhasin, 2015; Amat et al., 1999). In this regard, the accountants use their knowledge and understanding of accounting practices, standards, rules and regulations to manipulate the figures reported on the entity's accounts (Amat, Blake & Dowds, 1999). The accountants and management thus use the shadow of creative accounting to present accounting figures which seem attractive to stakeholders rather than reality about the entity (Bhasin, 2015). These definitions suggest that creative accounting is a tool widely used by accountants (managers) to promote external image of the company and

hide bad news (real financial figures) to shareholders for some known reasons, either for personal gain or for the benefit of the company or both.

Griffiths (1986) view creative accounting as a 'totally legitimate practice' which produces published books based on cooked and deceitful books. This is what is termed as "being legally illegal" (Faruq, 2014, p.64). Jameson (1988) associate creative accounting with the misuse of judgments and aggressive selection of competing approaches for the presentation of financial events and transactions which are common in the accounting process. Naser (1993), defines creative accounting as a transformation of financial accounting figures from what they actually are to what preparers desire, by exploiting the advantage of the existing rules/and ignoring some or all of them. Amat, Blake and Dowds (1999) classify these definitions as presenting academicians' view (Naser, 1993), business journalists' view (Griffiths, 1986) and accountants' view (Jameson, 1988).

Archer refers creative accounting to "as a stretching of accounting rules by the preparers of financial statements in order to achieve an effect desired by them. Creative accounting practice is intended to either mislead readers of financial reports or to comply with some conditions which would not be met "without stretching the rules" (Archer, 1996, p.55). Gherai and Balaciu (2011) are of the opinion that some managers are tempted to resort to inventive and questionable methods to improve the presented figures during the period of economic crisis (p.34). Victoria (2014) considers creative accounting as a tool available to support managers to promote the companies' image, although managers sometimes use the information for self-interest (conflict of interest). MacBarnet and Whelan (1999) view creative accounting as all practices which are used to create a desired image of the representation of financial statements.

Creative accounting is literally a consequence of the short-termism (defined as an excessive focus on short-term results at the expense of long-term interests)[1]. It follows that all creative accounting practices are justifiable, at least in the short-term. Preparers are in the position to manipulate the figures presented on the financial statements for personal interests or for short term benefits

1 http://lexicon.ft.com/Term?term=short_termism

of the firm. It is a form of lying, deceptive and illusory intention. It is a form of unfaithfulness in financial reporting. Some writers (e.g. Gowthorpe & Amat (2005)differentiate macro from micro accounting manipulation practices: while the macro refers to lobbying at regulatory level so that favourable standards and rules are developed, the latter refers to creative accounting exercised to the entity level against its stakeholders, investors, employees, lenders and government agents. The focus of this paper is on the micro creative accounting. The paper considers creative accounting as "a process through which unethical managers use flexibility inherent in accounting rules to design financial reports such that they portray the desires of the management (creative views) rather than the shareholders views (true and fair view) and so misleads the intended users of those reports."

4.2 Fraudulent Reporting: Theoretical Understanding and Critical Reflexion

Fraudulent reporting or financial statement fraud is a common concept/ conversational term across the accountancy profession. Although, it is undesirable practice and harmful to businesses and the profession in numerous ways, it is inevitably practiced. This is so, probably, because, there will always be people who will have good reasons for them to commit it. Fraudulent reporting is considered as the intentional mis-presentation and or falsification (overstatement and -or- understatement) of balances in the financial statements (ICAEW, 2020). On a further note, ACFE (2020), considers a financial statement fraud as involving intentional act whereby perpetrators cause material misstatement or omission in the organisation's financial statements and considered the costliest of all categories of occupational fraud. Impliedly, the fraudulent reporting involves intentional falsification of the reported figures of elements of financial statements, assets, liabilities, equity, revenue and expenses to be precise. Consequent to that, fraudulent reporting is achievably possible through overcast, undercast or both (misstatement) of the financial events or transactional balances or by falsely including or omitting figures of the elements on the reporting of the entity's financial statements.

On the basis of the foregoing, fraudulent reporting is intentional, deceitful act and shaded with ill-purpose to cheat and fool the targeted corporate entity's

stakeholders for the managements' self-interests and private undeceived financial and – or- non-financial gain (benefits). Fraudulent reporting purposefully twists the financial numbers reported in the companies' financial statements in order to affect what the users of such financial reports perceivably see. Fraudulent reporting results into 'materially misstated' financial statements (ACFE,2020). In this way, it affects fundamental qualitative characteristics of the financial information of the 'relevance and faithful representation' thereby misleading the intended users of the financial statements. It is unpleasant and objectionable practice and impactful act which defeats the purpose of financial reporting which is to represent true and fair view of business for enhanced decision making.

4.3 Creative Accounting and Fraudulent Reporting: So, Are they Distinguishable?

In this study, we intended to partly explore whether financial statement fraud and creative accounting are different in concept and practice. It is apparent, from the foregoing sections that, the only main difference between the two, is that, creative accounting is executed by exploiting the loopholes inherent in the accounting standards and regulations, whereas, fraudulent reporting overthrows the requirements of accounting standards. However, practically, both practices, creative accounting and fraudulent reporting intend to represent false financial information to users, the main beneficiaries being managers of the corresponding corporations. Both, practices are thence, deceitful, illusive and involve some form of lying and represent 'form of unfaithfulness in corporate financial reporting.' It is practically very difficult to draw a line between financial statements fraud and creative accounting as they are well-nigh indistinguishable.

Thus, while creative accounting raises a number of unethical questions, fraudulent reporting is straight away unethical and illegal practice. However, subsequent to a critical thoughtfulness into what creative accounting real implies, and a reflection on ethics and ethical values for professional accountants, it is convincing to conclude that creative accounting is neither good nor ethical. Even as creative accounting may not necessarily result into fraudulent view of the companies' financial statements, it truly, produces

a creative view of such financial statements which is not a true view of the business, and therefore, misleads the users of financial statements. There is therefore, no line between creative accounting and fraudulent reporting, they are practically indistinguishable.

4.4 Creative Accounting: Motives and Opportunities

There is no unvarying growth in any business; this is because corporate houses operate in dynamic business environment, associated with capricious performances and ever-changing entity's financial state of affairs. The contradiction to this general assertion is an exceptional case. It is on this ground that, Berger (2001) showed that no firm can maintain a continuous increase in earnings without resorting to some sort of number games. The unavoidable varying of firms' profitability and financial position is notably considered unpopular and not interesting to shareholders and other stakeholders. This forcefully makes managers 'creative' especially when the accounting numbers look unattractive. Consequently, to keep the business going, impressing and maintaining shareholders are generally the motives for creative accounting. unfortunately, accounting rules and regulations allow some discretion which can facilitate the twisting of financial numbers to suit the desires of preparers. But why would the managers like to maintain the status quo, even when the numbers do not seem supportive? This is the key question to which this section is dedicated to address. Based on the existing literatures and prior abusive accounting scandals this section explores and presents the critiques on specific motivation and possible avenues for creative accounting.

4.4.1 Motives (Reasons) for Creative Accounting

Generally, companies prefer reporting a stable profitability and promising financial position rather than showing a rise and fall drift which is of course, the natural phenomenon in business. The need for reporting good performance and strong financial state of affairs is by and large a good intent but triggers 'evil action' when the accounting numbers portray something different and look 'ugly.' This situation motivates the preparers of financial statements to alter and doctor these accounting figures to make them look impressive and striking to the firm's stakeholders. The doctoring and manipulation of

accounting numbers is technically referred to as creative accounting as stated earlier.

Jones (2015) relates creative accounting with two important purposes (i) boosting the performance (profit) through increased income or decreased expenses reported in the statement of profit or loss, and (ii) boosting the net worth through decreased liabilities or overvalued assets in the statement of financial position. Similarly, Laura and Nișulescu (2013) associate creative accounting techniques with different impacts on corporate financial statements. They posit that, the impact of creative accounting could be the change on the value and structure of costs and revenues; the change on the value of liabilities; reclassification of assets and liabilities; the change on the value and structure of internal capital and altered disclosures (pp.4-5). Accordingly, the primary intention of creative accounting is to alter the figures of elements reported on some or all of the major components of financial statements, that is, general purpose reports which are statement of financial position (IAS 1), statement of profit or loss and other comprehensive income (IAS 1), and the statement of cash flows (IAS 7) and related disclosures (IAS 1). Of course, the main focus could be to alter the statement of financial position and statement of profit or loss (Jones 2015). Certainly, in the end, the idea is to have the managers' desired numbers on the reports, the numbers which excite shareholders, whatever it takes.

It is apparent that the ultimate goal of the creative accounting is to make financial statements look healthy and attractive to the firms' external parties. There could be numerous reasons for this; one could be that financial reports act as 'a measure of managers' performance, stewardship and accountability for resources entrusted to them by owners. This unequivocally, motivates creative accounting due to the information asymmetry and conflicting interests between managers and owners (Bhasin, 2015, p.35). Literally, the managers are more acquainted with insider information compared to firm's external stakeholders including the shareholders. With this, managers feel secured within the walls of firms' board rooms and can consciously, exploit this advantage by preparing the impressive reports, especially when the actual figures appear to be hideous. In that way, managers can achieve their self-

centred interests even if they conflict with the overall goal of the firm, which is wealth maximisation. This results in financial reports that show preparers' view rather than showing the true and fair status of the business.

Secondly, managers exercise creative accounting to maintain and achieve stable and predictable growth of earnings and profits (Faruq, 2014). This is normally achieved through income smoothing under which the profit made during a good year is stored and intentionally spread for use during the slowdown years to level out unfavourable volatility. The good news in one year is thus spread over future period (s) to avoid creating too high expectations and criticisms of the subsequent failures. In this case, the reported figures are designed to level out subsequent fluctuations and portray the patterns created by the management rather than the realistic movements of the firm's performance. This motive is highly practice in short-terms and uses deceptive accounting techniques such as differing revenue and Slush fund accounting.[2]

DeFond and Jiambalvo (1994), suggest further, that managers are compelled to exercise creative accounting in order to 'avoid violation of debt/financial covenants' and 'minimise political costs' (Chong 2006). It is a normal practice that, some firms' financing arrangement would be attached with conditions such as maintaining a desired debt ratio or level of profitability or coverage ratio. The firm's closeness to violating its debt agreement thus provides its management with the incentive to engage in creative accounting. Reportedly, managers of the firms reporting debt covenant violations in their annual report adopt income increasing 'accounting choices' in the years prior to the violation (DeFond & Jiambalvo (1994). The motive for creative accounting in this case is specifically to meet the debt providers' (financiers) expectations, desires and agreements as the violation could be associated with penalties, reputation damage and other financial repercussions.

The compensation arrangement of most modern companies is coupled with the firm's performance that is, the performance-based remuneration systems. In these systems, managers can for stance be entitled to cash bonus, share options and promotion upon achieving a predetermined reported profit (Chong, 2006, p.42). In such a situation, when the pre-determined level of performance seems unachievable through normal means, the managers can, and do sometimes

2 A reserve with no designated purpose set aside during higher profit periods and used to boost income in hard times.

resort to unusual practices to achieve it anyway. This could be by choosing profit maximising accounting policies and practices and failure to write-off provisions and impairment of non-current assets. Meeting performance goals when the compensation arrangements are based on performance (profits) is therefore quite relevant and important motive for creative accounting in contemporary businesses (Chong, 2006).

The financial analysts are trusted capital market experts and can in a way, influence decisions by users of corporate financial information. They can affect shareholders' decision to buy, sell or hold a specific company's securities (equity or debt instruments). For that reason, analysts can shape corporate reporting because they normally foot on the reported figures to study, evaluate, analyse, forecast and opine on the firm (s)' financial strengths, weaknesses and sustainability issues. The forecasts of analysts can instigate managers to twist the reported figures because, they (managers) would always like to be at par with or exceed the forecasts, if they are to be safe. It follows that, managers can resort to cooking of books and report high earnings, net assets or cash flows just to meet or exceed the analysts' forecast (Degeorge et al., 1999). In this way, the external stakeholders are impressed and firm's public image is maintained or enhanced.

Further, poor performance of an overall economic condition, accurately referred to as the economic crisis is an external driver for creative accounting (Kaaya,2015, Archer, 1996; Gherai & Balaciu, 2011). During the times of economic difficulties, it becomes obviously tricky for the firms to achieve the desired level of profitability under normal circumstances. Poorly performing economy would on average be coupled with poor performance of business firms, in terms of profitability and stagnated growth. Dishonest managers would therefore be creative and stretch the rules to make financial statements look striking and maintain the status quo which could be quite opposing to the reality. Similarly, Kaaya (2015) found increased abusive earning management practices by Indian and Tanzanian listed firms during the 2008 economic crisis /downturn.

Lastly, some people are naturally dishonest and untrustworthy. This implies that some managers would engage in obnoxious accounting practices even if they have no good reasons to do so. They cook the books because they are in position to cook the books and do not care about the harm they may cause to investors.

Further, managers might have personal reasons for creative accounting such as to keep their job or get bonuses or secure renewal of the contract or secure a seat in the governing board. It follows that greed, personal behaviour and trait could be a good justification for creative accounting. Table 5.1 summarises the motives of creative accounting as identified from literature.

Table 2: Motives for Creative Accounting (CA)

The overall purpose of CA	Specific reasons for Creative accounting
• To make financial statements (profitability, cash and financial position) of the firm 'impressive and exciting' to stakeholders especially stockholders and lenders through distorted figures (when the real (true) accounting figures do not seem supportive).	· Information asymmetric and agency problem, specifically the conflicting interests (Bhasin 2015). · To avoid the violation of financial covenants with banks or other financing institutions. · To maintain and achieve stable and predictable growth of earnings and profits (Faruq, 2014). · To achieve a planned or desired performance level when the compensation arrangements are attached or based on firms' financial performance. · To meet or exceed the firm's financial analysts/market forecasts/expectations by reporting romantically high earnings, net assets or cash flows (Wokukwu, 2015; Degeorge et al., 1999). · To maintain the status quo and hide the disgraceful performance and growth resulting from poorly performing economy or effect of economic crisis (Kaaya, 2015a; Gherai and Balaciu, 2011). · Managers' personal behaviour, trait and reasons.

Summary by author (2021)

4.4.2 Flexibility in Accounting Standards and Creative Accounting: A Door Left Open?

Even though the preparers will have a million reasons for creative accounting, the practice would only be possible when there is an opportunity (the door is left open) for that and they can rationalise their evil deeds. Managers and accountants therefore seek the opportunity and execute creative accounting within the jurisdictions of accounting standards and regulations (Smith, 1994). Impliedly, the accounting system is permissive of creative accounting by allowing reporting entities greater flexibility (Gherai & Balaciu, 2011, p.35). This section explores the extent at which the flexibility inherent in accounting standards act as an opportunity for abusive accounting practices, and avail some examples of such discretions in some reporting frameworks. The information presented in this section can be useful in recommending rightful actions to standards setters in minimising such allowances, and hence reduce abused accounting practices by practitioners.

It is general recognised that, accounting standards (rules) governing corporate reporting do allow discretions and judgements regarding estimation, predictions and valuation of elements of financial statements (assets, liabilities, income and expenses) for a good cause. This is consistent with Positive Accounting Theory (PAT) which holds that the choices allowed by accounting standards governing the preparation of financial reports could be misused by managers to fulfil their self-interests (Fields et al., 2001). As such, nearly all accounting standards such as the International Financial Reporting Standards (IFRS), International Publics Sector Accounting Standards (IPSAS), the US Generally Accepted Accounting Practices (GAAPs), Indian GAAP and the like, allow alternatives for the valuation and treatment of certain elements of financial statements. The degrees of flexibility of such standards however differ. Naser (1993), for stance, perceive the accounting system of Anglo-Saxon countries to offer more freedom of choices and hence prone to manipulative practices. Besides, Kaaya (2015a) documented that the IFRS are more discretional on measurement choices of non-financial assets compared to Indian GAAP. Seemingly, the accounting rules are built with flexibilities which intend to achieve fair presentation of financial statements.

Some examples on discretionary measurement and treatments under the standards applicable for commercial sector (IFRS) are cited and discussed in this section. Accounting discretions are available in numerous standards but a few have been selected for the discussion. International Accounting Standard (IAS) 16 which guides measurement, reporting and disclosure of property, plant and equipment (IAS 16:30, 31) provide the managers with the choice between cost-model and fair-value model of property, plant and equipment subsequent to the initial recognition. Further, IAS 38 (IFRS) similarly allow companies to choose between the amortised cost and fair value approach in the measurement of intangible assets (Para. 72). The proficient judgement is also allowed on the reclassification and transfer of intangibles between indefinite or finite useful lives (IAS 38: Para. 88). IAS 2 provides the choice for the application of the weighted average cost (WAM) and First in First Out (FIFO) method in determining the values for inventories. Additionally, IAS 8: Accounting Policies, Changes in Accounting Estimates and Error, allow the management to use its judgement in developing and accounting policy which result in relevant and reliable financial information (IAS 8: Para.10). These are just indicative examples, as stated earlier.

No harm is intended with the flexibility inherent in accounting rules such as those cited above. In effect, the flexibilities are intended to ensure fair presentation of financial affairs of the entities. The harm begins when the choices within accounting rules are abused and used to suit managers self-interest (Bhasin, 2015). The abuse of discretions in accounting rules lead to the distortion of reported figures, and results in "creative accounting" which is both a curse and a blessing. When the choices within the accounting standards are used for the best interest of the firm and shareholders, it is a blessing, and when it is used for the managers' self-interests it turns into a curse. Creative accounting is therefore both a blessing and a curse "but practically creative accounting is a curse" as concluded by Faruq, 2014, p. 65).

Creative accounting is thus a consequence of the misuse (abuse) of flexibilities within the accounting standards. The discretions are misused to manage measurement (estimation and valuation issues), presentation and disclosures of elements of financial statements to serve the preparers interests. Under creative accounting, managers will make aggressive use of choices under

accounting rules in order to present the most favourable view of the company in its financial statements (Bhasin 2015, p.49), which is not necessarily a true view of affairs of that company. Thus, the flexibility within accounting rules is 'like a door left open' through which managers can be appropriately used or misused. This is repeatedly misused and providing the opportunity for managers to book what they wish shareholders to see (Jameson, 1988) rather than realism. It follows that, even if the spirit behind the parameters of accounting standards is on the whole good, the stricture is frequently misused, and reports are prepared to suit the preparers' intentions. The preparers of financial statements are capable of utilising the discretions inherent in accounting standards to execute 'creative accounting'. Accordingly, Faruq (2014) observes that creative accounting distorts (transforms) reported figures using accounting choices, estimates and other practices allowed by accounting regulations.

The flexibility inherent in accounting regulations and the ability to rationalise unethical practices, offer managers with clear avenues to execute creative accounting. The managers (preparers) have motives, and the opportunity provided by flexibilities in the accounting standards to rationalise and undertake abusive accounting practices. The possible rationalisations could be "it is only a small adjustment to wait for the turnaround." Everybody does it. After all, 'it is for the interest of the owners and we are hurting nobody."

Subsequent to the foregoing observation in this paper, creative accounting is construed and described as "a process through which unethical managers use the flexibility inherent in accounting rules to design financial reports such that they portray the desires of the management (creative views) rather than the views of shareholders (true and fair view) or of the corporation".

4.4.3 Creative Accounting: Do Auditors Owe a Thing?

It is reported elsewhere, in this paper, that, auditors have the responsibility of examining and providing reasonable assurance to corporate stakeholders, as to whether or not, financial statements are materially misstated due to fraud or errors. The phrase "reasonable assurance" signify the auditors' limitation to discover all material misstatements. But, does it mean, they should not be blamed when financials are massaged? In our opinion, the answer is the

opposite. According to Albeksh (2019), the auditors' close supervision may reduce the chances of applying creative accounting. In order to achieve this, auditors, should be competent and professionally qualified, familiar with accounting regulations and ensuing business practices, in addition to compliance, with strict ethical values (Khaneja & Bhargava, 2017). It follows that, the auditors, exercise of professional scepticism (questioning mindset), and adherence to strict ethical values and professional code of conduct would enable them to discover material misstatements in the financial statements. It is unfortunate that it is the breach of ethical rules that affect auditors' ability to detect the practices of creative accounting (Khaneja & Bhargava, 2017).

The pare reports further that creative accounting is executed by those charged with top responsibilities in the company for their own interest or for the interest of the company (henceforth, misplaced trust). Surprisingly, auditors are sporadically found to collaborate with companies' management in a number of fudging practices. For example, Arthur Anderson which was amongst the top five auditing firms in the world, was found guilty of being part of the number game for Waste Management Company (1998) and fined. In confirmation of the saying, "once a thief, always a thief", Arthur Anderson which was amongst the top five auditing firms in the world once more found to be part of the Enron scandal (2001), and thereafter entirely eliminated from accounting practices. Following this and other incidences regarding auditors and creative accounting in corporate world, it is argued in this paper that 'it is right to ask where were the auditors when things went wrong with the company because, nothing detrimental to financial statements can occur without their knowledge, unless they choose to turn a blind eye on it'.

4.4.4 Ethics of Creative Accounting: The Unresolved Conundrum?

Accounting profession is among those which accept the duty of acting in the public interest. Thus, the International Federation of Accountancy (IFAC) exists to "serve the public interest" (IFA 2014, Para.4). Thus, the profession, and so, the accountants and auditors work for the interest of a wide range of stakeholders, beyond the stockholders. The accounting profession serves the public by providing financial information required for decision making, such that, a fault of the accounting profession is therefore a fail of the public. The public needs to trust the works of professional accountants and information resulting from

the accounting process. Ethical behaviour augments the public confidence on the accountants' services (Okafor, 2006). It is a means by which professionals guarantee the public of its fiduciary responsibility (Sivarkumar, 2003). Kaveh et al., (2014) define ethics as a set of rules and principles accepted and followed by a particular community, to guide that community in the distinction and differentiation between what is good and what is bad (p.85).

The concept of ethics can practically be narrowed to any specific commune or group of common intent such as accounting, lawyers, engineers, and the many others. Similarly, accounting profession is directed by a set of outlined and accepted rules, principles and behavioural expectations that must be observed by each practitioner in order to create and sustain public trust on professional errands and accounting code of ethics. In line with this observation, Abbott (1983, p.2) observes, "ethical codes are the most concrete cultural form in which professions acknowledge their societal obligations." Triyuwono (2015) associate it with spirituality. The author opined that, ethics is "holistic principles of the code plus sincerity, love and divine will" (p.254). In this paper, ethics is viewed as what we cannot see but which is essential for professionals and felt by the public when exercised. It is more than the written laws, articulated codes and beyond what we can easily reminisce. Ethics is a phenomenon of inner conviction, and yearning to do what is right fittingly without harming others, either in short-term or long-term, even with their absence and unconsciousness.

The accountancy profession code of ethics is wrapped into fundamental principles[3] of independence and objectivity, professional competence and due care, integrity and confidentiality, and professional behaviour. All practicing professionals in the field, whether in public practice (auditors) or in business practice (accountants) must abide by these fundamental principles. To adhering with and upholding ethical values is to sort out what is good and what is bad, and the practice of what is good. It calls for the commitment to the proverbial golden rule of "do unto others as you would love others do onto you." It is a denial of the targeted integration theory of "the end justifies the means," and embracing the principle of 'the good end must be justified by the candid means. This reminds managers and professional accountants of the fact that any good intention to shareholders must be achieved through

3 Code of Ethics for Professional Accountants, pg.1105

suitable and legitimate means. Once a good effect is found on a wrong cause and achieved through an ill-means, it is void and as bad as any bad effect of a good cause through a good means. Creative accounting could be abusive means to a good effect and grounded on wrong cause, and could therefore be wrongful, unethical and punishable.

Managers and professionals need to be reminded that unethical practices have always been rewarded. Wrong deeds for disciplinary measures and shame and good deeds for the bonus, exalt and respect. It is therefore, worth-noting that, 'the decisions agreed within the walls of board rooms and actions executed for self-interest or firm's shot-term benefits, but which defeats the purpose of shareholders' or corporate wealth maximisation shall never go scot-free.' Accordingly, King David of the Bible consents, "Judge me oh Lord......according to my integrity," (Psalm 7:8). On this verse, David is willingly admissive to the Lord's judgment for his state of integrity and honesty (the managers' decisions and actions). The lesson we draw from this phrase, is clear and unambiguously suggesting that no unfaithfulness, dishonesty or disregard of values shall ever go unpunished. And those sharing such values should be willing to take the blame for their wrongful decisions and actions.

Professionals in public practice and in business practice should be mindful and adhere to the codes of ethics and act ethically at all times and without exceptions. They must avoid practices, such as, abusive creative accounting and misstatement that may mislead and harm investors in the long run even if they may have short-term justifications. Although, it is generally understood that "some people are honest all the time (10%), some people are dishonest all the time (80%), and most people are honest sometimes" (10%). Much as it may be difficult to strictly abide by ethical values all the time, it is a goal, worth pursuing by every professional.

4.4.5 Critical Thoughtfulness: So, is Creative Accounting, Ethical or Unethical?

The question of ethics of creative accounting is surrounded with varied feelings and arguments. There are two opposing currents, one current considers creative accounting as a legitimate and normal practice in accounting and other opines otherwise. Bhasin (2015); Griffiths (1986) view creative

accounting as a legitimate practice and exercised within the jurisdiction of accounting standards. On the other hand, Archer (1996, p.55) ponies that, "even in circumstances where creative accounting would arguably serve a worth purpose, that purpose would be at least as well served by honest communication." The author totally opposes the argument that, creative accounting is not a form of lying, and should not be justified in whatsoever means. Creative accounting is linked with "false, misleading or untruthfully accounting" (Bayou et al., 2011). According to Gowthorpe and Amat (2005), creative accounting is morally reprehensible and unjust exercise of power. It is considered as deceitful and undesirable practice (Ezeani et al., (2012).

Although there is no consensus on ethics of creative accounting, the accountants and managers should never do anything that harms investors or threatens their career. They should at all times behave ethically, even if, it means to suffer personal losses. The books must be prepared in due course of the arm's length concept, substance over form and focus on long-term goal of the firm, and of stakeholders' wealth maximisation. This is the intention and spirit of accounting standards and rules and discretions thereto. The financial statements need and should reflect the reality of the company's affairs and not otherwise. Financial reports should not be intended to mislead the users whatsoever. Doing so, is going astray of the fiduciary duty and betrayal of the sprit behind flexibilities inherent in accounting rules, regulations and standards.

Subsequent to a critical thoughtfulness into what creative accounting real implies, and a reflection on ethics and ethical values for professional accountants, it is convincing to conclude that creative accounting is neither good nor ethical. Creative accounting is largely derived by the managers' self-centredness and short-term purposes. Besides, it involves concealing the truth and serving external parts of the organisation with obscured information. Creative accounting thus end up making a way to fraudulent reporting, and it is therefore unethical and breaches the professional code of conduct and ethical values. We maintain that, when the motive is wrong, nothing can be right. Since creative accounting is based on the wrong motive, that is, to cheat and mis-inform corporate stakeholders, the practice is entirely wrong and nothing can be right about it.

5.0 Conclusion and Recommendations

The study explores the motives, opportunities and critically discusses the ethics of creative accounting, in view of fraudulent reporting and professional accountancy code of conduct. Consistent with Kaaya (2015a), the study employed qualitative and content data analysis approach which offers knowledge and understanding of a definite phenomenon to enable the drawing of inferences (Downe-Wamboldt, 1992; Corbin and Straus, 2008).

The results indicate that, overall creative accounting is unacceptable accounting practice motivated by, among others, information asymmetric and conflicting interests, avoidance of violation of financial covenants, to maintain and achieve stable and predictable growth of earnings and profits, to achieve a planned performance level. This is meant to maintain the status quo and hide disgraceful performance resulting from poorly performing economy and managers' personal behaviour and traits, and practically, using the flexibilities inherent in corporate accounting and reporting system. The finding implies that, creative accounting is possibly executable when managers have reasons or motives to practice, when the door is left open, and in the form of discretional reporting and when they can reasonably justify the practice. Unfortunately, all three factors, are commonly in play most times.

Specifically, the study found that, even though, creative accounting is executed within the jurisdictions of accounting standards, whereas financial statement fraud overturns these standards, both practices, intend to represent false financial information to users, the main beneficiaries being the managers of corresponding corporations. Both, practices are thence, deceitful, illusive and involves some form of lying and represent a 'form of unfaithfulness in corporate financial reporting.' The result implies that, it is practically very difficult to draw line between financial statements fraud and creative accounting, as they are well-nigh indistinguishable. Secondly, it is reported that, even though auditors are not entirely hired to discover false reporting, they should design their function, such that, all material misstatement are discovered and reported to shareholders. The results infer that, 'it is right to ask where were the auditors when things went wrong with the company because, nothing detrimental to financial statements can occur without their knowledge, unless they choose

to turn a blind eye to it. Thirdly, the study found that, creative accounting is largely derived by the managers' self-centredness and short-term purposes and involves concealing the truth by serving the external parts of the organisation with obscured information. This implies that, creative accounting is based on the wrong motive (to cheat and mis-inform stakeholders) and nothing can be right about it, it breaches professional code of conduct and violates fiduciary duty and therefore, unethical. Fourthly, the auditors add to the credibility of reported figures by giving professional opinion on the truth and fairness of financial statements and its compliance with pertinent accounting standards. Although, they, only give, reasonable as opposed to absolute assurance, auditors are required to be professionally qualified, exercise attitude of professional scepticism throughout the auditing to ensure that all matters of material impact on financial statements are brought to light and communicated to relevant stakeholders. This result implies that, 'it is right to ask where were the auditors when things went wrong with the company because, nothing detrimental to financial statements can occur without their knowledge, unless they choose to turn blind eyes or have become professionally incompetent.

Generally, the results reported in this paper challenges and calls for financial reporting regulators, standard setters, capital market authorities, accounting educators (HLIs), corporate market participants and other corporate stakeholders to take proactive actions to stop the practice of number fudging as it has bad results to corporates, capital markets and accounting profession and practitioners. In line with this challenge, and on the basis of these findings, the study makes the following recommendations to address the issue of creative accounting:

First, emphasis in training of forensic accounting skills for accountants and auditors so that they are able to untangle complicated accounting manoeuvres and heighten the qualitative nature of reporting.

Second, the International Accounting Standards Board (IASB) and International Public Sector Accounting Standards Board (IPSASB), and, the national standard setters, such as the National Board of Accountants and Auditors (NBAA) should set more rigorous, high quality standards with optimal accounting choices and encourage the use of substance over form.

Third, the financial reporting regulators and capital market authorities should take serious punitive actions to perpetrators of creative accounting practice and strengthen financial reporting enforcement and monitoring mechanisms that is, strong audit committee and independent internal audit function.

Fourth, the professional accountancy bodies should strive to build a strong ethical culture to the professional accountants through continuous ethics, and provision of awareness and training programs on fraud and professional code of conduct and,

Lastly, the Higher Learning Institutions (HLIs) around the world, that is, universities should design and implement accounting education programs that are introspective and which emphasis, through mentorship or otherwise, the practice of professionalism and adherence to ethical values and appropriate professional behaviour in order to facilitate the creation of a strong ethical culture to learners, who are, subsequently, practitioners in the accounting profession.

We state that, creative accounting is real. It has happened in the past. It is happening now and has the potentials of happening in the future, and the chances of occurring can only be increasing in this volatile, uncertain, complex and ambiguous business world. Notably, creative accounting has a serious impact on the credibility of financial reports and can indeed seriously impact companies' sustainability and accounting profession.

Even as creative accounting may not necessarily result in a fraudulent view of the companies' financial statements, it truly, produces a creative view of such financial statements, which is not a true view of the business, and therefore, misleads the users of financial statements. It is untruthfully reporting and deceitful, and there is, therefore, no line between creative accounting and fraudulent reporting, they are practically indistinguishable.

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