

The impact of creative accounting on improving financial performance

Noor Fadhil Shahatha¹

Mohammed T Mohammed²

Khalid Jamal Fadhil³

¹AL-Farahidi University, Accounting department - n.shahatha@uofarahidi.edu.iq

²Imam Al-kadhum college , financial and banking dep. - Flecd9@alkadhum-col.edu.iq

³Alfarabi University College - Dr.Khaled.jamal@alfarabiuc.edu.iq

Abstract: In light of the economic developments, companies have begun to search for the best accounting tools that give a positive image of the company, even if this is at the expense of the accuracy of the accounting information resulting from the use of these tools. To increase the rewards achieved by management, the research problem stems from a question: Is there an impact of creative accounting in improving financial performance? The researchers assumed that the behavior, the ethical framework, and the accountant's familiarity with accounting rules helped in the emergence of creative accounting and the existence of effects of creative accounting on the financial performance of institutions. The researchers used the questionnaire form to determine the answers of the research sample about the research hypotheses. By finding more than one method for determining and analyzing the financial statements for the purpose of preventing companies from using one method whose purpose is to manipulate the financial statements.

Keywords: Creative Accounting, Financial Performance, Financial Statements

1- The creative accounting

1-1 The creative accounting concept

Many researchers, writers and specialists tried to put a definition of the concept of creative accounting, and due to the different orientations of these researchers and writers, many definitions of this concept appeared.

Measures and steps that are used to manipulate financial numbers in order to deceive Users of financial reports, which is any procedure or step towards managing profits or preparing for income(Mulford & Comiskey,2005:44)

set of methods and procedures for practicing the financial numbers game, including the arbitrary choice to apply accounting principles and fraud in the financial report and any other steps taken in order to manage profits or smooth (easier) income(mison,2010:35)

A set of methods invented by the accountant through his practical practice and his experience in the accounting field so that the numbers contained in the financial

statements appear in a way that reflects the interests of a party without the parties dealing with the economic unit, taking advantage of the accumulated experience as a result of accounting work practices and the flexibility provided by accounting principles in choosing from methods The accounting procedures to be followed(Al-obaide,2008:37)

1-2 styles using in creative accounting

All economic units seek to show the best picture of the financial position to express the extent of their economic stability because of this direct impact on the value of the economic unit Which clearly appear in the prices of its shares in the market and the amount of risk that lenders and investors assess based on the information disclosed by the financial statements of the economic unit Accordingly, the management of the economic unit, under certain circumstances, may resort to choosing among the accounting rules that allow for manipulation by using the appropriate accounting selection and providing misleading information to users of accounting information that results in irrational decisions. In this regard, many studies dealt with the division of creative accounting methods as one of the methods Impact on the financial statements From several angles, we can summarize the following(chabel,2002:21)

1- In terms of agreement with accounting principles

Creative accounting methods are classified into methods that are consistent with generally accepted accounting principles, accounting and auditing standards, and often these principles and standards are applied in terms of form only without substance. Accounting principles or standards such as economic units or special purpose institutions or manipulation resulting from transactions with sister economic units and related parties.

2- In terms of impact on the financial statements

It is classified into methods affecting the content, represented in the set of accounting information included in the financial statements, which is a summary of financial operations and the flow of resources inside and outside the project. This content is linked to a set of principles, standards and rules according to which the financial statements are prepared. Maximizing or reducing profits according to its strategy, and creative accounting also includes methods affecting the form that complements the content. On the real performance of the economic unit, although the change in the location of some items does not affect the result, but it leaves an impact on the user's ability to understand the financial performance of the economic unit.

3- In terms of the nature of the methods

in its impact on the financial statements, creative accounting uses real methods or misleading (not real) methods. Some studies have indicated that the management can manipulate the profit figure through investment decisions, which are operation, sales, and sale of some fixed assets and the reduction of some optional expenses such as research and development expense, Advertising and general and administrative expenses. The timing of implementing these decisions is one of the important points to achieve the desired goals. The management may sell some financial investments when their market value exceeds their cost, in order to compensate for the shortfall in normal

operating profits, as well as the economic unit to postpone the purchase of some assets to a later period of time The impact of that decision on the volume of cash flows.

The methods used in creative accounting provide two important elements. The first element is to influence the numbers of the financial statements, whether by increase or decrease. The second element is the availability of the element of intentionality, where management resorts to those real methods deliberately to achieve specific goals. In addition, creative accounting may use methods the fictitious or fictitious that is called the accounting methods because they depend on a group of accounting methods and variables in influencing the numbers of the financial statements.

1-3 Characteristics of creative accounting

Creative accounting is a form of manipulation and fraud in the accounting profession, as it is characterized by several characteristics that, in turn, show us the characteristics of the creative accountant represented in the (Al-zakbe& Al-garere,2007:14)

- 1- A questioning and creative accounting and financial mindset
- 2- The ability of the accountant to imagine and intuition
- 3- The accountant's ability to analyze and compile
- 4- The accountant's reliance on instructions based on scientific facts and not on instructions derived from administrative centers
- 5- The accountant has courage and self-confidence
- 6- The profession accountant can develop himself in terms of criticism, refinement and evaluation of ideas, information and means of analysis that he uses

1-4 Management's motives for using creative accounting methods

There are several factors that led the administration to resort to the use of creative accounting methods, which are as follows(emad,2011:83):-

- 1- Positive impact on the company's reputation in the markets in order to improve the financial value related to its performance
- 2- Influencing the company's share price in the financial markets, where the aim is to maximize the financial value and then improve the prices of those companies' shares in the financial markets
- 3- Improving the financial performance of the company with the aim of achieving personal interests that will be positively reflected on the companies' managements in order to present them well before the Board of Directors
- 4- Tax manipulation by reducing profits and revenues and increasing expenses in order to reduce the tax margin resulting from them
- 5- Professional classification in order to obtain an advanced classification for the company over its competitors in the field of work based on financial indicators and criteria.

1-5 Factors and reasons for the emergence of creative accounting

There are many reasons and factors that led to the emergence of creative accounting, as follows:

- 1- Intense competition between different companies and an attempt to reflect a better image of the company by showing it the best competing companies, even if that was through creating profits made by the company's management.
- 2- Companies generally prefer to record in their financial reports a steady stream of growth in profits rather than a statement of fluctuating profits with a series of large rises and falls in this field, and this is achieved by finding large savings on liabilities through which the recorded profits can be improved(Al-aga,2011:82).
- 3- Creative accounting can help maintain stock price or inflation by reducing apparent levels of borrowing, which makes the company appear less risky.
- 4- Manipulating profit for the purpose of linking it to expectations or predictions. In some companies, which tend to generalize accounting policies within the usual accounting rules that would match or reconciliation recorded profits with profit forecasts.
- 5- The multiplicity of accounting methods and policies that give the preparers of financial statements freedom in order to present misleading data to serve multiple interests(Nafaa,2015:88)

2- The concept of financial performance

The concept of financial performance in companies and institutions of all kinds is of great interest, because of the importance of this concept in maintaining the survival and continuity of the economic unit (Kadhim,2022:2).

(A basic approach that does not aim to achieve the financial goals of the economic unit, but rather goes beyond them to achieve the general and strategic goals) (Adres&Algalbe,2009:43)

The financial performance defined as (the economic unit ability of is to optimally utilize its resources and resources in long-term and short-term uses in order to create wealth)(Mohammed,2010:45) While the financial performance is defined as(A reflection of the might and ability of the company to achieve its goals)(Nadem,2009:131)

2-1 Financial performance characteristics

Financial performance has multiple characteristics that enable the success of the economic unit in the optimal use of the available financial means in order to achieve the goals. These characteristics are as follows(Daden,2006:42):

- 1- Giving a clear image about the financial situation in the economic unit
- 2- The financial performance stimulates the economic unit to make more effort to achieve better future performance than the previous one
- 3- A stimulating tool for making investment decisions and directing them towards successful companies. It works to motivate investors to go to the company or stocks whose financial criteria indicate progress and success over others.
- 4- Financial performance is a basic and effective means to achieve the objectives of the economic unit

2-2 The importance of financial performance

The importance of financial performance stems from the fact that it aims in general to evaluate the performance of economic units from several angles that help data users who have financial interests in the company to identify strengths and weaknesses in the economic unit. In general, the importance of financial performance is represented in the following (Al-zagbe & Al-garere, 2007:234):

- 1- Evaluating the profitability of the company, regardless of whether the institution is private or public, it aims primarily to achieve profit
- 2- Financial performance reveals the strengths and weaknesses of the institution, and thus good financial performance has become a prerequisite for ensuring the institution's survival in a competitive environment.
- 3- Financial performance aims to obtain high levels of performance, a dynamic procedure, as the success in achieving the goals of the institution achieves the required satisfaction and strengthens the motivation of the institution and its parties.
- 4- Enable to know and follow the activity of the institution
- 5- It helps in evaluating the development of the company's activity

2-3 Financial performance

For financial performance input, including the following (Al-saed, 2000:174)

Efficiency: is seen as getting the work done in a correct way, and by that we mean obtaining the largest amount of output, i.e. results in exchange for using the least amount or the least cost of the resources and means used. Or intangible like working hours

Effectiveness: It means doing the right things and expressing the achievement of the set goals, regardless of the possibilities used. The effectiveness is evaluated in terms of the difference between the achieved result and the predetermined goals. On this basis, it can be said that financial performance is a mixture between the concepts of efficiency and effectiveness because financial performance translates into effectiveness (achievement of the set goals). And efficiency (the rationality of resource use). We note that there is a close relationship between both efficiency and effectiveness, but this does not mean that they are synonymous, as effectiveness is more affected by the institution's relationship with the external environment and its capabilities to adapt, exploit opportunities and avoid threats to achieve growth and continuity, unlike efficiency that depends more on the extent of the institution's exploitation For the rationally available resources, and since performance involves the two dimensions (efficiency and effectiveness), it is related to the internal and external environment variables of the institution.

3 - implementation

The following table shows the answers to the first hypothesis (behaviour, the ethical framework, and the accountant's knowledge of accounting rules, which helped in the emergence of creative accounting)

(1)Table Statistical analysis of the results of the first thesis

Ref	details	average direction	standard deviation	Weighted percentiles	The element's relative importance
1	Creative accounting is common in many organizations	62	1.070	62	10
2	Creative accounting is a legitimate tool in the business environment	3.6	1.036	70	8
3	Creative accounting is an ethical challenge for management	3.06	1.088	63	9
4	Attention to the ethical aspects of accountants minimize the use of creative accounting	3.85	0.899	76.42	4
5	Creative accounting is accepted in the financial statements of institutions	3.91	0.987	77.46	3
6	Increasing the experience of accountants and auditors helps in revealing the use of creative accounting for the presentation of financial statements	4.25	0.916	86	1
7	Using forensic accounting to lessening creative accounting problems	3.99	0.781	79.62	2
8	Increasing accountants and auditors' knowledge of professional guides and standards issued by institutions specialized in the accounting and auditing profession to limit the use of creative accounting	3.81	0.982	75.62	6
9	To take deterrent legal measures by the relevant	3.72	1.229	76	5

	bodies regulating the profession to limit the use of creative accounting				
10	Creative accounting is a problem that cannot be solved	3.55	1.057	70.81	7

The results of the analysis showed the answers of the sample members to the first hypothesis using the average trend and as shown in the previous table, where the answers with a high average represent a positive trend and are the most important in influencing among the ten variables in the first hypothesis, while the answers that recorded a low average show the negative trend, which is contrary to Expectations for researchers about the importance of these paragraphs.

From the foregoing, it is noted that all the standard deviation values for the first hypothesis paragraphs are close to the correct one, and this indicates the homogeneity and convergence of the answers of the sample members.

The following table shows the answers to the second hypothesis (the existence of the impact of creative accounting on the financial performance of institution)

(2)Table Statistical analysis of the results of the second thesis

Ref	Details	average direction	standard deviation	Weighted percentiles	The element's relative importance
1	Creative accounting is a major challenge facing the financial performance of companies	4.27	0.813	85.5	2
2	Not using fixed financial methods and policies from year to year, making it difficult to improve financial performance	4.10	0.830	81.62	5
3	Information provided by financial statements without the use of creative accounting is more reliable for users	3.92	0.981	77	8
4	Using creative accounting to increase the percentage of liquidity in institutions	3.92	0.91	78.21	6
5	Using creative accounting to increase the incentive administrative reward at the expense of the reliability of	4.31	0.691	85.82	1

	financial statement information				
6	Creative accounting is used for tax evasion	4.11	0.673	83	4
7	Creative accounting seeks to maximize profits	3.81	0.891	76.58	9
8	Creative accounting helps reduce the effects of failure on the financial performance of enterprises	3.93	0.93	78	7
9	When institutions disclose a change in the accounting policies used in the economic unit, this helps to reveal whether creative accounting was used	4.18	0.679	85	3
10	Creative accounting contributes to increasing the value of companies	3.8	0.880	76	10

Analysis of the results of the answers to the paragraphs of the second hypothesis showed that the fifth paragraph is the highest (The use of creative accounting to increase incentive rewards) and the first paragraph was ranked second, which is (Creative accounting is a major challenge facing performance) The ninth paragraph was ranked third (Institutions disclosed about changing the accounting policies used in the economic unit. This helps in revealing whether creative accounting was used) And then the sixth paragraph (uses creative accounting for tax evasion)

Conclusion

Creative accounting is a form of manipulation and fraud in the accounting profession. Creative accounting is used for its impact on the financial statements. To provide misleading information to users of accounting information that results in irrational decisions, and companies generally prefer to record in their financial reports a steady stream of growth in profits rather than a volatile earnings statement.

And to reduce the impact of creative accounting by preventing the change of accounting foundations used. And finding more than one method for determining and analyzing the financial statements for the purpose of preventing companies from using one method whose purpose is to manipulate the financial statements. And request the provision of information using tools that give a better idea of the users of the information. And measuring the profits of companies in more than one way for the purpose of determining whether those profits are real or not

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