CREATIVE ACCOUNTING PRACTICES AND ITS EFFECTS ON FINANCIAL REPORTING

BY

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DECLARATION

I hereby declare that this submission is my own work towards the Master of Philosophy in Business Administration (Accounting Option) Degree and that, to the best of my knowledge; it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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DEDICATION

To my husband Mr. Collins Kankam-Kwarteng, my children Yaw NantwiKankam-Kwarteng, Kwame OwusuKankam-Kwarteng and KwasiAntwiKankam-kwarteng

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ABSTRACT

The study sought to describe the relationship between creative accounting practices and financial reporting based on the views of accounting professional in Kumasi. The study specifically aimed to investigate how tax management techniques influence financial reporting, the influence of change in accounting policy and financial reporting, the use of revenue recognition and financial reporting and the application of cost estimates in the financial reports. The study was designed as a descriptive research. Data was collected from selected accounting professionals in the Kumasi Metropolis. In all, eighty (88) accounting professionals participated in the research. The respondents were selected using convenient sampling technique. A structured questionnaire was used to collect the data from the eighty (88) respondents. The study was analyzed with the use of SPSS tools to derive frequencies, percentage, means and standard deviations for the interpretation of the data collected. The findings of the research,even though showed positive relationship between the study variables; creative accounting (tax management, change in accounting policy, revenue recognition, cost recognition) and the preparation of financial report, change in accounting policy recorded the least of all the variables. As majority of the respondents agreed to the influence of tax management, revenue recognition, and cost revenue on financial reporting, few respondents agreed to the importance of change in accounting policy and financial reporting. Based on the major findings, the study recommends that even though creative accounting is not illegal, regulatory bodies should continue to encourage companies and accounting professionals to be consistence with the International Accounting Standards in order to present financial report to increase the confidence of investors and tax agencies. Also, honest and good ethical conduct of accounting professional is required to reduce the incidence of creative accounting practices in Ghana.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The annual financial report is a key accountability document to stakeholders (Lang and Lundholm, 2003) and it is the heart of organizational financial management. The production of financial reports by companies in Ghana is based on relevant accounting standards and generally accepted accounting principles. Accrual accounting and accrual reporting are regarded as superior measures of a firm‟s performance when, on average, accruals have incremental information content over cash flow reporting (Dechow& Skinner, 2000). The use of discretionary accruals by managers of firms dampens the fluctuating nature of a firm‟s underlying cash flow and may provide more useful information to investors and other users of financial reports (Subramanyam, 1996; Dechow& Skinner, 2000).

It may be that "too much" smoothing is now a pervasive issue in financial reports, where aggressive smoothing is generated by financial statement preparers manipulating discretionary accruals (Dechow& Skinner, 2000). Smoothing is the practice whereby the volatility of periodic earnings fluctuations is deliberately reduced by utilizing discretions and methods available within accounting principles (Hepworth 1953; Copeland, 1968). Creative accounting may result from the adoption of various techniques and methods utilized by managers of firms such as accruals, changes in accounting methods and changes in capital structure (Jones, 1991).

Creative accounting is as old as the accounting profession itself. Creative Accounting continues to be a problem despite the fact that accounting scholars have over the years carried out several researches in order to understand and address it. Creative accounting continues to be practiced by various corporations in the world (Mulford&Comiskey, 2011). Creative accounting is referred to as income smoothing, earnings management, financial engineering and cosmetic accounting (Amat and Gowthorpe, 2000). Earnings management is the pervasive title used by researchers in the United States and Creative Accounting is the term frequently used by European researchers (Tweedie& Whittington 1990; De La Torre, 2009).

A common misperception is that creative accounting and fraud are synonymous. There is a clear distinction between creative accounting and fraud in financial reports. Fraud involves producing financial reports based on fictitious transactions, while creative accounting does not. Creative accounting occurs when actual transactions or events are manipulated or misrepresented(Dechow& Skinner, 2000).

Differences between profit and cash from operations, or more generally between accrual accounting and a company"s cash flow, are expected, indeed conventional (Surbramanyam 1996). Accrual accounting methods and standards assist companies to adjust for legitimate timing differences in an accounting period to improve comparability, helping to match expenses against income (Dechow& Skinner 2000). Timing differences are also a function of accounting standards, defining the difference between the Net Profit After Tax (NPAT) within financial statements and cash flows. Timing differences between the NPAT within financial statements and cash flows should approach zero over the long term (Holland & Ramsey 2003). The relationship between NPAT and cash flows is significant when identifying and measuring the accrual activity of the firm (Hribar& Nichols, 2007). Creative accounting cannot generate cash flows and firms are unlikely to use the timing of actual cash flows to manage earnings (Mulford&Comiskey 2002; Holland & Ramsay, 2003).

A financial report may contain the use of one creative accounting technique, or a concert of creative accounting techniques that produce a desired result. The difficulty with tracking one variable to measure one creative accounting technique is a practical one. The firm which desires to manipulate the performance ostensibly may do so using any or all of a wide array of its available creative techniques. Firms may use a particular technique being investigated in one year, but not use that technique in future years, preferring other methods available. Therefore, testing for the existence of a single or defined set of creative accounting techniques may not facilitate the capacity to determine the existence of creative accounting in financial reports. Notwithstanding these reservations, a research model focusing on the sum of the accruals (a total accruals approach) should facilitate the capture of a larger portion of manager manipulations (Jones, 1991).

This research is grounded in a survey of the investigation into the perception of accounting professionals in selected companies on the relationship between creative accounting and the preparation of financial reports.

1.2 Problem statement

For many years, scholars have debated about creative accounting; a term which is used to describe accepted accounting techniques which permit corporations to report financial results that may not accurately portray the substance of their business activities. Creative accounting topic has been controversial because in some countries such as Greece it is backed by law (Baralexis, 2004) while in some other countries such as Bangladesh it is considered illegal (Sen&Inanga, 2005). Likewise some scholars argue that creative accounting is legitimate and ethical while others consider it illegitimate and unethical (Healy &Wahlen, 1999).

Lack of knowledge of proper and effective financial information combined with the uncertainty of the business environment often leads corporations into serious problems regarding financial performances. Regardless of whether owner-manager or hiredmanager, if the financial information is wrongly reported, profitability of the company will be adversely affected. Consequently, corporation‟s profitability could be damaged because of inefficient financial management. Corporations have often failed due to effective and efficient reportage of financial records (Vuong, 1998).

Concerned with financial management practices, most previous researchers have concentrated on examining, investigating and describing the behaviour of corporations in practicing financial management. Five specific areas of financial management practices including accounting information systems, financial reporting and analysis, working capital management, fixed asset management and capital structure management have long attracted the attention of researchers (McMahon, et al. 1993). Their findings are mainly related to exploring and describing the behaviour of corporations towards financial reporting practices. Although they provided much descriptive statistical data and empirical evidence on corporations‟ financial reporting practices, it appears the issues of creative accounting practices in corporations in Ghana have not been researched into. Creative Accounting refers to the use of accounting knowledge to influence the reported figures, while remaining within the jurisdiction of accounting rules and laws, so that instead of showing the actual performance or position of the company, they reflect what the management wants to tell the stakeholders (Clarke, 2002). The techniques used for the purpose of creative accounting have been found to include modification of figures to avoid taxation, taking advantage of changes in accounting policies, revenue and cost recognition (Baralexis, 2004; Sen&Inanga, 2005).

As much as there are many studies that have attempted to unravel the problem of creative accounting (Baralexis, 2004; Sen&Inanga, 2005; Ayala & Giancarlo, 2006) the accounting practitioners and management cannot clearly point out whether it"s an illegal or unethical practice. Creative accounting by its nature, whether legal or illegal, involves modification of accounting figures (Gosh, 2010) which could easily provide misleading information to the users. Accounting information users may not have the privilege of holding inside information. It becomes necessary for the users of accounting information to be aware of the creative accounting practices culminating into financial reporting.

Such manipulative accounting practices requires scientific enquiry to predict its effects on the financial reporting of the corporations in Ghana. It is therefore important to investigate and report the nature of influence creative accounting has on the financial reporting of corporations in Ghana. The study specifically addresses the problem from the point of view of accounting professionals including accountants and auditor, both internal and external.

1.3 Research objectives

The general objective of the study is to examine the effects of creative accounting practices on financial reporting based on the views of accounting professionals in Ghana. The following specific objectives are stated to help achieve or realized the general objectives;

- To examine the tax management techniques and its influence on financial reporting
- To investigate change in accounting policy and it influence on financial reporting
- To assess revenue recognition techniques in the financial reporting
- To examine the use of cost recognition techniques in financial reporting

1.4 Research questions

- How does the tax management techniques use in creative accounting influence reporting
- To what extent does change in accounting policy influence preparation of financial reporting
- How does revenue recognition techniques influence financial reporting
- To what extent does cost recognition techniques influence financial reporting

1.5 Scope of the Study

A study of this nature should have covered a wider area of all the stakeholders in the financial information management of both public and private organization in Ghana. The study was however limited to accounting professionals in the private sectors with particular reference to accounting professionals identified in Kumasi for a narrow but important sector of the Ghanaian economy. It specifically concerns tax management techniques, changes in accounting policies, revenue recognition and cost recognition as creative accounting components and how they influence financial reports.

1.6 Significance of the study

A study into creative accounting and its impact on the financial management of the selected accounting professionals in the Kumasi Metropolis is significant for a number of reasons. It is important that the operations of selected Ghanaian firms with particular reference to creative accounting practices are studied to appreciate their contribution to the financial reporting of such organizations.

The study of the relationship between creative accounting practices and financial reporting is also important for policy makers to know how Ghanaian companies comply with the financial reporting standards of both local and international. The study is again important to future researchers in accounting to continuously build a broader understanding of creative accounting in relation to financial reporting and accounting standards in Ghana.

1.7 Overview of research methodology

To be able to achieve the research objectives and provide answers to the research questions mentioned above, the research design adopted include the use of both primary and secondary data. In order to gather the primary data a survey was used with the distribution of questionnaires. The target population will include all the accounting professionals in the Kumasi metropolis. The researcher estimates to select eightyeight(88) accountants using a convenience sampling techniques. This is because population of the defined accounting professional in Kumasi is in hundreds and the estimated eighty-eight (88) views can help achieve the research objectives and the research questions. The secondary data to be used include existing material such as publications in journals, relevant literature on the topic, books and internet material.

Data obtained was analysed with the use of Software Package for Social Science (SPSS). Tables and charts were used for effective interpretation and generalization of the data.

1.8 Organization of the Study

The study was organized into five chapters. Chapter one presented the general introduction the research which includes the background of the study, statement of the problem and research objectives, research questions, and significance of the study, scope and limitations of the study. Chapter two presents a review of theoretical literature and empirical literature that are relevant to the study area. The research methodology to achieve the objectives of the study is outlined in chapter three. The components of research methodology of the study include research design, population and sampling procedures, data sources, and data collection instruments and data analysis techniques. Chapter four will presents the data and the discussions of results. The analysis and discussion of the research findings were based on the study objectives and the research questions. The conclusions and recommendations are presented in chapter five.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents a review of literature relevant to the topic under study. Related literature both theoretical and empirical is presented in the chapter. This review of literature is divided into four segments which comprises concept of creative accounting, factors influencing creative accounting practices, the relationship between creative accounting and challenges associated with creative accounting practices.

2.1 Concept of Creative Accounting

The concept of creative accounting is usually used to describe the process through which the accounting professionals use their knowledge in order to manipulate the figures included in the annual accounts. Accounting has been defined as “the art of faking a balance sheet” (Bertolus, 1988), “the art of calculating the benefits” (Lignon, 1989), “the art of presenting a balance sheet” (Gounin, 1991), or “the art of saving money” (Ledouble, 1993).

The definitions of creative accounting have developed over time. Early literature reviewed the possibility that earnings may be smoothed or the amplitude (read volatility) of periodic earnings fluctuations reduced by utilizing discretions available within accounting principles (Hepworth 1953; Copeland 1968). Further research added to the definition of creative accounting the deliberate choices of managers to dampen the fluctuations around a normalized level of earnings or otherwise select specific methods which will enhance the earnings of the firm (Gibson & Francis, 1975; Barnea et al. 1976). In the years following, research into creative accounting became more prolific, identifying purposeful interventions by preparers of financial reports, taking advantage of existing rules and/or ignoring some or all other rules (Verrechia 1983;

Dempsey et al. 1993; Nasser, 1993; Merchant and Rockness, 1994).

Clever disclosure or presentation or non-disclosure of information also falls within the definition of creative accounting (Revsine, 1991; Nasser 1993; Deellaportas, 2005). Nasser (1993) asserts that even the most qualified auditor is unable to detect or identify the more sophisticated techniques used by some managers. Creative accounting research went on to expand the definition to include managers‟ attempts to mislead stakeholders or influence contractual outcomes directly linked to reported accounting numbers by transforming the financial accounts through use of accounting judgments (Healy &Wahlen, 1999; Chambers, 1999; Amat&Gowthorpe, 2000; Amat&Oliveras 2005).

Over time researchers have escalated the severity of the manager‟s intent used within the definition. The escalation is found in the words used in the definitions from "influence" (1968), to "deliberate dampening" (1976), to "purposeful intervention" (1994) and "mislead" (1999).

The purpose of financial reports set out above is that financial reports are for users to obtain useful information to facilitate their economic decisions regarding the firm. There seems to be no room for this information to be misleading. If financial reports do contain creative accounting, on the face of it they are also designed by the managers to mislead users.

Managers may have used methods and discretions available in the accounting standards to flatter the firm‟s performance or financial position by applying favourable accounting choices, estimates or other accounting practices. Even where the departures from the accounting standards are fully disclosed, and the effects of the departure are contained in reports, suspicion by the user of further undisclosed departures from the accounting standards may diminish the value of financial statements (Perks, 2004).

More recent research has built on measurement tools designed to test for creative accounting by articulating (testing, contrasting and comparing) differences between the balance sheet and the income statement (Jones, 1991; Subramanyam, 1998). This definition measures differences between working capital requirements (calculated from changes in balance sheet measures) and company earnings (profit before tax, extraordinary items and discontinued operations) to identify unexpected accruals (or creative accounting), recognized by some as the Jones (1991) model (Davidson et al., 2005; Hsu &Koh, 2005).

A necessary condition of creative accounting is that it occurs within the constraints of the choices available within the accounting standards and therefore is not easily detected (Shah, 1996; Herbohn, 2008). Previous research suggested a key way in which creative accounting may be detected is to measure the total accruals of a firm to identify firms with large differences between cash from operations and reported earnings and correspondingly abnormally large accruals (Dechow& Skinner 2000; Hribar& Collins 2002).

A more recent model designed to identify unexpected accruals (creative accounting) adjusted the Jones (1991) model, specifically the use of a balance sheet to measure the level of non-accrual activity for a firm (or the surrogate for cash flow). Proponents of this approach instead preferred cash from operations (instead of the balance sheet surrogate) to represent the non-accrual activity of the firm, arguing balance sheet items may be contaminated by accrual activity without effecting the reported profit. The reasons for using cash from operations are a) increases in earnings from creative accounting are unlikely to generate operating cash flows (Mulford&Comiskey 2002) and b) cash flows from operations formed part of the financial reporting requirements in Australia from 1992 (and was therefore readily available) (Coulton et al., 2004). The model developed by Hribar and Collins (2002) facilitates the identification of creative accounting empirically through the measurement of unexpected accruals.

2.2 Creative Accounting Techniques

The literature deals extensively with the identification and description of creative accounting techniques. Authors who have written texts identifying specific techniques and providing detailed illustration of the creative accounting techniques within corporate practice include De La Torre (2009), Clarke et al. (2003), Shilit 2002, Mulford and Comiskey (2002), Naser (1993), Smith (1992) and Briloff (1971). Of these, Clarke et al. (2003) detail creative accounting techniques utilized by Australian companies in Australia during 1960–2003.

Accounting Method Change. An accountant can decide within the within the new accounting standards that may influence a modification to the recorded profit for a specific accounting period. For instance, the decision that may influence the acceptance of a modified accounting standards maybe required to re-evaluate a decision on a prior estimate in the accounting records(Mulford&Comiskey, 2002; Shilit, 2002; Dellaportas, 2005). For example, 38% of Bond Corporation Holdings‟ operating profit in 1988 was the result of the adoption of a new standard ASRB 1012 "Foreign CurrencyTranslation", Bond Corporation collapsed by 1991(Clarke et al., 2002).

Asset Valuation. Valuation of asset: valuation of asset according to Chambers (1998) is stated at cost, may not be represent the present value of the asset in question.

Capitalization of the specific asset is considered subjective and over stating or understating, may depend on the willingness of the accountant or manager and may subsequently change the recorded profit for the period (Naser, 1993; Dellaportas, 2005; De La Torre, 2009,). The listing of One. Tel"s spectrum license in the financial reports as an asset at cost, $500 million, at the time of the Telco entering into a deed of administration may be a case of misplaced asset values (Clarke et al., 2002).

Consolidation Treatments. Grouping separate entities together present to an opportunistic manager a number of different opportunities: the choice of merger or type of combination, the calculation of fair value and thereby the recognition of goodwill value on consolidation (Tweedie& Whittington 1990; Shilit, 2002). Evidence of considerable choice and variable estimation for goodwill on consolidation is identified in an early Australian study (Gibson & Francis, 1975).

Expenditure moved inter period: costs amortization according to Shilit (2002) conversely, slowly and expenditure cost that have a future advantage moves to cost from one accounting period to another. Dellaportas (2005) found that an accountant who can move cost may be in position to engage in creative accounting. Wilson and Shailer (2007) in an Australian company named Tooth and Co deferred cost and brought forward in the following accounting period to ensure recording profits were smaller when the organization was involved in a political battle against prohibition.

Items considered extraordinary: the acceptance of IAS in many countries have restricted references to extraordinary items or abnormal because of the abuse of the words and the application by accounting professionals who may decide to record and news that is favourable as normal income and any unfavourable news as extraordinary

(De La Torre, 2009)

Also the standards allows some items to be treated differently form the profit and loss account with no reference to it being extraordinary. In Australia, 5 companies wrote $1.473 billion in what they considered abnormal expenditure. All these were suspicious of being recurring; MIM $224 million, Gold Mines of Kalgoorlie $335 million, Adelaide Brighton $446 million Goodman Fielder $150 million and BHP $318 million (Clarke et al., 2003).

Assets considered intangible. Aggressive capitalization policies assist managers to report profits instead of losses by deferring expense to another period (Mulford&Comiskey, 2002). On the other hand, one of the more difficult judgments that a manager makes is gauging when and asset is permanently impaired (Shilit 2002 p129; Dellaportas 2005 p194). In 1988, Westmex capitalised expenses, increasing the reported intangible asset to $239 million ($18 million in 1987), resulting in the suppression of the real costs of acquisitions and operations. In 1990 Westmex had a liquidator appointed (Clarke et al., 2003).

Liability Reduction. An undervalued liability has an embedded loss that stays on the balance sheet until the liability is settled, at which time a loss or expense results (Mulford and Comiskey, 2002). Off-balance sheet financing is where there is an obligation to the firm to settle a debt which is not reflected on the balance sheet (Dellaportas 2005; De La

Torre 2009). By 1974 Cambridge Credit Corporation Ltd had a prolific number of subsidiaries, joint ventures and other inter entity arrangements leaving the real indebtedness of the company obscured. Eventually bad debts on loans to subsidiaries highlighted the creative accounting practices of the firm"s managers (Clarke et al., 2003).

Merger Accounting. Companies that effectively control non-subsidiaries through complex relationships can lead to off balance sheet financing and may facilitate a transfer of assets from the parent"s balance sheet to effect a sale (typically profit on sale) without losing control of the asset (Tweedie& Whittington, 1990; Naser, 1993; Dellaportas, 2005). The Australian corporate version of a Ponzi scheme was evident in the fall of the Stanhill Group in 1963. A complex labyrinth of public and private companies continually disguised the poor performance of the various related group companies, related and associate companies (Clarke et al., 2003).

Revenue Recognition. There are many creative accounting techniques involving revenue recognition, including premature revenue recognition, revenue without transferring the sale risk or payment obligation, cost reductions recognised as revenues, accelerating sales by extending payment periods, and so on (Dellaportas, 2005; De La Torre, 2009). HG Palmer recorded its highest profits in 1964, a year before being placed into receivership, where it was discovered sales were recognized where there was no probability of collection (Clarke et al., 2003).

Tax Effect Adjustments. Timing differences between tax paid and tax payable can be utilized as a shield by recognizing taxation losses as an asset, reversing these when profits are made requiring tax to be paid (Breton &Taffler, 1995; De La Torre, 2009).

Adsteam had built a substantial asset in the form a Future Income Tax Benefit through the early 1990s which the Australian Securities Commission (ASC) stated should have been written off (Adsteam‟s demise came in 1992) (Clarke et al., 2003).

2.3 Factors influencing Creative Accounting practices

It is useful to identify the various motives of managers who utilize creative accounting and creative accounting practices (Davidson et al., 2005; Hsu &Koh, 2005; Cohen &Martinov-Bennie, 2006). The creative practices evolve and change according to the regulatory environment and changes to regulation affecting the firm and its situation, yet the motives are relatively constant (Nasser, 1993; Herhohn&Ragunathan, 2008).

From the broadest view, managers‟ motivations are anchored in the belief and understanding that financial reports are used by parties other than the managers that produce the reports (Sterling,1985). Managers believe that they are able to target specific changes or adjustments they might make in financial reports at specific users in order to influence specific outcomes from existing and potential contracts with those users, i.e. increase in the share price (Dharan& Lev, 1993).

Manager motives for creative accounting fit into three categories (Hsu &Koh, 2005): managing market expectations (Wilson & Shailer, 2007), information asymmetry (Healy &Palepu, 2001; Carlin and Ford, 2006) and managing credibility (Dechow& Skinner, 2000). The discussion that follows is not intended to be an exhaustive examination of the potential motivations for creative accounting; rather, it is included to contextualize the descriptive purpose of this research.

Managing Market ExpectationsAn efficient market builds into the price of the firm not just the known facts concerning a firm, i.e. those contained within financial reports, promotional literature and other published data, but the market also factors into the price of a share the future economic opportunities and expectations of the firm (Lev

&Kunitzky 1974; Watts & Zimmerman 1978; Verrecchia 1983; Merchant &Rockness 1994). Bridging a performance gap between actual projections of the future known to managers and expectations of the market is often facilitated by a manager adopting creative accounting (Healy &Wahlen 1999; Dechow& Skinner 2000).For example, a firm may have strong sales and profitability in the reported period, but be aware of a future sales decrease due to the completion of a contract in a future unreported period. The reported results may lead the market to believe the firm is strong and input into the price of the share continued strong sales for the firm. The manager may wish to signal to the market a decrease in profitability. A manager can do this by reducing the profit in the reported period using a different accounting method or the more generous use of discretionary accruals, thereby bridging the gap between future expectations of the market and the known expectations of the manager (Healy &Palepu, 2001).

A manager may want to influence expectations of the firm by way of a distraction (Collingwood,1991), where accounting choices and management discretion are used by the manager in a counter-intelligence styled strategy. An example of a distraction is where a firm will project to the market an issue using an accounting change, like writing off an extraordinary loss, thereby distracting the market from the real issue which is poor sales or loss of market share. Managers are not able, even if they wish, to release all of the private information they possess about a firm. The information withheld has been referred to as blocked communication. Schipper(1989) argues managers have incentives to adopt creative accounting techniques to communicate blocked information about the firm as a method of managing future market expectations.

Information AsymmetryCorporate disclosure is critical to all stakeholders of the firm and comes in many forms. Some of these include the financial reporting requirement; securities market notifications, press releases, analysts‟ recommendations and corporate websites (Healy &Palepu 2001). Meckling andJensen (2006) suggests that the selfinterested manager of a firm has incentives to expropriate investor‟s funds through paying excessive remuneration, making detrimental investment/operating choices, and obtaining perquisites. An information asymmetry exists between stakeholders and managers; for example, stakeholders are unlikely to possess the same insight as managers into the opportunity cost associated with repurchase of shares (Carlin & Ford, 2006). The use of creative accounting by managers in instances where financial reports are altered to meet benchmarks in order for managers to receive direct monetary benefit has been corroborated (Schipper, 1989).

Healy (1985) reviewed the effect of linking managers‟ remuneration directly to reported accounting numbers and/or a stock price at given dates. Managers are likely to use accounting choices, estimates and other techniques to manipulate financial reports in order to achieve the benchmarks or signal to the market "good" news immediately preceding the designated stock price dates in a direct attempt to increase the stock price on that date (Zmijewski& Hagerman 1981; Healy, 1985). Managers are able to engage in opportunistic behaviour because monitoring costs are expensive, and therefore the agency problems between executives and stakeholders are not completely eliminated (Dechow& Sloan 1991).

Managing CredibilityThe credibility of executives is enhanced through consistency, growth and profit. The early Ball and Brown (1968) study elaborating on the link between a firm‟s release of information and changes to share price has spawned much research about the effect of creative accounting on a firm (more than is be elaborated in this dissertation). For example, the literature suggests that investors view a zero or positive surprise in reported earnings as evidence of a well-managed firm (Bartov et al., 2002; Anthanaskou et al., 2009). In the negative sense, studies have suggested that the credibility of managers is diminished by inconsistency, variability and downward revisions in earnings (Skinner 1994; Kasznick&McNichols, 2002). There is therefore a strong desire for executives to smooth income and report consistent growth, or steadily growing earnings across multiple periods (Hepworth 1953; Skinner 1994; Wilson & Shailer, 2007). Managers can use accounting choices and discretion (through the judicious use of accruals and prepayments, for example) in order to smooth the income from one financial period to another (Subramanyam, 1996).

Another stream of research has reviewed the need for managers to maintain covenants. Opportunistic management of Balance Sheet items within financial reports is also directly related to the agency issues between managers and lenders (Lev &Kunitzky, 1974; Watts 1978), where the cost of contracting out of the monitoring costs is too great for the stakeholders (Jensen &Meckling, 1976). Stakeholders, typically financiers, often rely on covenants in the finance contract to help monitor the performance of the managers within the finance contract.

By way of example, this is illustrated by a manager of a firm (the borrower) who keeps an asset and the corresponding liability from the balance sheet of the firm via a contract with a third party supplier (where the risks and benefits of the asset are conferred to the borrower). Where this asset is a significant value then financial reports would understate the debt-to-equity ratio to an existing lender or potential financier. Avoiding a covenant violation will benefit the borrower, to the detriment of the lender (Mulford&Comisky 2002). A variation on this theme is the non-consolidation of captive finance companies set up to remove receivables and debt from the holding company (Briloff 1971, Leasco example; Nasser 1993, GMAC example p189).

Recognizing Premature or Fictitious Revenue: Mulford and Commisky (2002) found that creative accounting operations usually start with revenue recognition, since it has direct effect on earnings. They explain premature revenue recognition to include recognition of revenue for a proven sale in a period before that called by mainly accepted accounting standards. On the order side, suspicious revenue recognition involves recording revenue for a sale which does not exist.

Big Bath Accounting: Jones (2011) explains big bath accounting as a managerial practice to remove all the unfavourable issues in one go. In this strategy, managers write off more cost as practicable in the accounting period, so that the future performance will appear brighter. It is mostly used in takeovers and in acquisition accounting.

Using Cookies Jar Reserves: This defines overstatement for accrued expenditure when revenue is high so that profit is brought to the level that is good to maintain the business the future. It also suggests the failure to make available all the accrual expenditure to show high profits during hard times when it becomes necessary (Shah and Butt, 2011). Also, Levitt (1998) this strategy includes ensuring unrealistic assumptions to estimate liabilities for such items as return on sales, losses on loan and warranty cost, that they pile accruals in cookie jar when the good times and reachinto them when needed in the bad times

Aggressive Capitation and Extended Amortization Policies: one strategic means for organizations to lower the expenditure is aggressively capitalizing expenses that should have been expended. Even though determination of the area of an expenses to capitalize is direct in many cases, items as straightforward response promoting and software development cost demand judgement in ensuring whether capitalization is appropriate of not. To expand amortization periods costs that have been capitalized previously is applied to reduced expenditure and boost earnings (Mulford and Comiskey, 2002)
Inventory Manipulation: Organizations sometimes manipulate inventory by either valuing the stock or by modifying it. In periods where profits required to be improved, the quantity can be modified by using a specific rigorous inventory-stake. According to Jones (2011) provision for slow moving stock and absolute and modifying the real policy of inventory estimation are the practices of changing values for inventory.

Material concept abuse: this explains the misapplication of the principle of materiality by deliberately recording mistakes within a specific percentage ceiling. Levitt (1998) explains that companies engaging in the operations attempt to provide an excuse for it with an argument that the effect of the net income is too small to matter.

Generous with Bad debts: Firms that are based on credit policy, make provisions doubtful and bad debts relying on their own judgement. When they wish to decrease loss, managers can predict that there will be a low level of repayment (Jones, 2011) ***Creative with income statement:*** this explains the practice of presenting a different area of earning power applying the method of the income statement instead of the manner in which transactions are itemize. For instance, firms may indicate that a nonrecurring earning as other revenue, a recurring revenue caption and recurring expenditure may be considered as non-recurring. This will result in larger levels of recurring earnings by not changing total net income(Mulford&Comiskey, 2002)

Cash flow reporting problems: another means organization communicate larger earning power is recording higher and highly sustainable flow of cash. A firm‟s clearly earning power will be greater with potential of recurring of operational flow of cash.

Thus, a company can categorize operational expenses as financing and investing items. Mulford and Comiskey (2002) explain that even if these processes will not modify the total change in cash, it will improve the flow of cash from operations.

2.4 Creative accounting and financial reporting

Research into creative accounting and financial reporting became more prolific, identifying purposeful interventions by preparers of financial reports, taking advantage of existing rules and/or ignoring some or all other rules (Verrechia 1983; McNichols and Wilson, 1988; Schipper, 1989; Craig and Walsh, 1989; Merchant, 1990; Resvine, 1991; Dempsey et al., 1993; Nasser, 1993; Merchant and Rockness, 1994).

Creative accounting research went on to expand its definition to include managers‟ attempts to mislead stakeholders or influence contractual outcomes directly linked to reported accounting numbers by transforming the financial accounts through use of accounting judgments (Healy &Wahlen, 1999; Chambers, 1999; Amat and Gowthorpe, 2000; Amat&Oliveras, 2005).

Over time researchers have escalated the severity of the manager‟s intent used within the definition. The escalation is found in the words used in the definitions from "influence" (1968), to "deliberate dampening" (1976), to "purposeful intervention" (1994) and "mislead" (1999).

The purpose of financial reports set is that they are for users to obtain useful information to facilitate their economic decisions regarding the firm. There seems to be no room for this information to be misleading. If financial reports do contain creative accounting, on the face of it they are also designed by the managers to mislead users.

Managers may have used methods and discretions available in the accounting standards to flatter the firm‟s performance or financial position by applying favourable accounting choices, estimates or other accounting practices. Even where the departures from the accounting standards are fully disclosed, and the effects of the departure are contained in reports, suspicion by the user of further undisclosed departures from the accounting standards may diminish the value of financial statements (Perks, 2004).

More recent research has built on measurement tools designed to test for creative accounting by articulating (testing, contrasting and comparing) differences between the balance sheet and the income statement (Subramanyam 1998). This definition measures differences between working capital requirements (calculated from changes in balance sheet measures) and company earnings (profit before tax, extraordinary items and discontinued operations) to identify unexpected accruals (or creative accounting), recognised by some as the Jones (1991) model (Davidson et al. 2005 p250; Hsu and Koh, 2005).

A necessary condition of creative accounting is that it occurs within the constraints of the choices available within the accounting standards and therefore is not easily detected (Herbohn, 2008). Previous research suggested a key way in which creative accounting may be detected is to measure the total accruals of a firm to identify firms with large differences between cash from operations and reported earnings and correspondingly abnormally large accruals (Dechow& Skinner 2000; Hribar& Collins, 2002).

2.5 Review of Empirical Studies on Creative Accounting and Financial Reporting

There have been a number of studies on creative accounting to empirically address its techniques, reasons for its usage and how it can affect organization performance.

Researchers have made a detail assessment in an attempt to find out the suspicious applications of accounting standards and methods and the findings of these investigations suggested that corporations‟ accounts were effectively modified to showcase a good reputation of the company and persuade investors to accept a smaller rate on their investment (Stolowy& Breton, 2000)

Breton and Taffler (1995) conducted a case study experimental method to evaluate the effect of window dressing on investor analyst assessment of an organization‟s annual financial figures

They applied a case study from the financial reports of two organizations which had removed all the information identified. One of the accounts had been left unchanged, to demonstrate as a control and the remaining was modified to obtain different adjustments of the window dressing operations.

In the case study investigation, 63 experienced investor analysts were controlled conditions, who after finishing and completing in the core task, provided in a short individual questionnaire.

In the end, window dressing modification rates in the investigation were very low. They, thus suggested that investor analyst did not modify their accounting analysis directly to take into account creating accounting in the financial reports.

Shah (1998) attempted to explore the terrain of creative accounting in England, emphasising on the intentions and constrains on creative accounting practices, by evaluating accounting operations of two companies in UK which applied creative accounting instruments. Shah (1998) concluded that creative accounting in the UK is influenced by two important reasons; performance indicators and stakeholder contracts. Also, analysis indicated that managers took advantage of the flaws in the accounting standards to showcase a partial picture of financial performance.

Although most of the researches regarding creative accounting has emphasized on a large and advanced nations like United Kingdom (UK) and United State of America (USA), there are lot of studies conducted in other countries. For Instance, Amat et al., (2003) analysed the effect of creative accounting operations on recording earnings of listed companies in Spain. It was found in the study that the aggregate effect of creative accounting operations on earnings accounted 20% of the accumulated reported earnings.

In 2004, Baralexis investigated why, how to what extent, and in what dimension of creative accounting was being practiced in Greece. The findings of the research revealed that creative accounting was used in Greece regularly, and to a considerable extent basically with a blessing of the legalities. The results also concluded that large companies augmented profits for the external financing, while smaller companies understated profits to under pay income tax.

Kucukkocaoglu and Kucuksozen(2005) conducted a research in Turkey to find out modified financial statements of companies listed in Intanbul Stock Exchange using logistic regression model. The finding showed that profits on assets and ratio of funding expenditure to operating funding were the factors that can be applied to find out the modification of the financial statements.

Bayirli (2006) emphasize on the scope, incentive variable, limits, operational policies and results of creative accounting in Turkey. In order to assess the creative accounting operations of Turkey organizations he applied accruals policies and used adjusted Jones model by including country specific factors. One of the critical revelations his research was that the intentions of creative accounting practices by applying accruals goes down as the size of the firm increased. He also found that as the extent of financial leverage improves the intentions of applying creative accounting operations also improves.

In a study conducted by Omurgonulsen and Omurgonulsen (2009) on creative accounting practices in Imarbank,one of the banking scandals in Turkey, applying case study procedure, they have suggested that significance motivations of creative accounting operations in that case were problems in the legal models for banking and accounting, inefficiencies in the independence governmental regulations and supervision institutions, practical problems in ensuring legal and ethical rules because of the slow operations of the judicial process. Also individual greed of the business owners and top level managers of Imarbank and its clients were received as stimulating factors of creative accounting.

Osazevbaru (2012) studied the influenced of creative accounting on company value in Nigeria, and the results of the study showed that it can affect the company"s value positively. Another study which was also conducted in Nigeria is by Idris et al., (2012).

Applying survey procedures, they researched the practice of creative accounting, it attributes, techniques and prevention. The revelations of the investigation recorded that the GAAP in Nigeria produce a gap which can lead to the practice of creative accounting and also showed that the new standards for International financial reporting will go a long way to reduce the practice, because it includes more area that the company practice. They suggested that the appropriate waysto prevent the use of creative accounting is to ensure that both preventive and strong punitive punishments on those use creative accounting.

Conclusion

The chapter concludes on the concept of creative accounting and financial reporting is well discussed by considering the historical background and the related empirical studies of the existing and previous literature. Some accounting professionals and researchers consider creative accounting as an illegal practice, however some the group of researchers who think that it includes take the opportunity in the accounting standards and see it as illegal. If creative accounting starts with the gaps in the standards of accounting it can be one of the biggest roles belong to the standards preparers reducing the possibility of negative influence of creative accounting.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the methodology used in carrying out the study. The major consideration in social science research is to obtain adequate information or data that allows accurate descriptions of situations or relationships between certain variables. Social science research seeks to understand the attitudes of people about whom facts are collected and to account for the resultant opinions. A research is important in any discipline and it is critical to the growth of any particular profession (Aina, 2002). He contends that the survey research is carried out through a systematic and comprehensive collection of information about the opinions, attitudes, feelings, beliefs and behaviours of people. Kumekpor (2002), stated that when the term „survey‟ is applied to social phenomena, it implies a careful scrutiny or investigation of a demarcated geographical area in order to have a comprehensive view of the nature, conditions and composition of the social groups, institutions or premises within such a defined area. The methodology for this study was treated under the following subheadings: research design, population of the study, sample size, sampling technique, instrumentation for data collection, data collection procedure and method of data analysis.

3.1 Research Design

For any research to be carried out successfully there is the need to plan as to how to carry out the research. This is usually referred to as a research design. Thus, once the problem has been correctly formulated, a design is developed in order to provide a format for the steps in the study. The nature of the problem defines the type and plan that will be used.

A research design is the overall plan for collecting data in order to answer research questions. It involves the specific data analyzing techniques or methods the researcher intends to use. Several research strategies can be adopted in a research of this nature such as exploratory research, design, descriptive research design and explanatory research design (Yin, 2003).

The study was a descriptive research design. The researcher chose the descriptive method because the study aims at describing the existing conditions of variables between the creative accounting techniques, motivation for the use of creative accounting and the challenges associated with creative accounting practices. This type of research design method is deemed useful for diagnosing a problem and describes the trend or state of a phenomenon of a relative large scale. This makes room for meaningful generalizations.

3.2 Data Sources

Primary data.The ultimate goal in conducting primary research is to learn about something new that can be confirmed by others and to eliminate biases in the process (Driscoll, 2011). It should be noted that there are many methods of generating primary data. However, in business research, surveys are the most common method of generating primary data (Zikmund, 2003). This was the method used in this study. A survey can also be defined as a research technique where information is collected from a sample of people by means of a questionnaire (Eybers, 2010). In other words, a survey is a systematic method for gathering information from individuals for the purposes of describing the attributes of the larger population of which the individuals are members.

Secondary data. A comprehensive literature search was conducted in order to identify appropriate creative accounting studies and factors that have an impact on the financial reporting of organizations. Therefore, several data searches were done to identify why accounting professionals engage in creative accounting, the techniques and approaches of creative accounting and the challenges associated with creative accounting practices. The secondary data was therefore gathered from existing thesis and research publications on creative accounting and financialreporting.

3.3 Population

A study population can be described as all the elements for which information is required. The survey research is characterized by the selection of random and nonrandom samples from populations to obtain empirical knowledge of a contemporary nature. This knowledge allows generalizations to be made about characteristics, opinions, beliefs, and attitudes of the entire population of accounting professionals being studied. Busha and Harter (1980) have stated that the concept of population is fundamental to research. They describepopulation as any set of individuals or objects that possesses at least one common characteristic. Kumekpor (2002) defines population as the total number of all units of the phenomenon to be investigated that exists in the area of investigation.

3.4 Sample Size Determination

Sampling is the process of selecting study units from the target population as a complete survey of the entire population is usually extremely difficult if not impossible.

According to Aina (2002) sampling is the selection of some units from a study"s population of interest. It is a technique that allows a researcher to make inference about a population based on the nature of the sample. Kumar and Phrommathed(2005) state that sampling is the process of selecting a few (a sample) from a bigger group (the sampling population) to become the basis for the estimating or predicting the prevalence of the unknown piece of information, situation or outcome regarding the bigger group. A total number of eighty-eight (88) accounting professionals were selected to participate in the research. In determining a sample size of this a study nature the researcher considered the four approaches presented by Smith and Albaum (2010). They suggest that sample size can be arbitrarily or judgmentally determined, use of minimum cell size needed for analysis, budget-based determination and the application of standard error formula. In evaluating the relationship between creative accounting practices and financial reporting, the eighty-eight (88) accounting professionals selected to participate in the study were arbitrarily chosen. This is because of the sensitive nature of the topic understudy.

3.5 Sampling Technique

Sampling is the selection of a fraction of the total number of unites of interest to decision makers for the ultimate purpose of being able to draw general conclusions about the entire body of units (Parasuraman, Grewal& Krishnan, 2004). A conclusion can be made from the sample about the population to achieve the research objective" (Saunders et al.,2007). Sampling must be done correctly or it would introduce bias or error in the results. The sample must be selected properly, or it will not represent the whole (Alreck& Settle, 2005). There are different sampling techniques that can be used in selecting a sample from a population; probability and non-probability sampling techniques. In this study a convenient sampling strategy which a non-probability sampling technique was used to select the eighty-eight (88) respondents who participated in the study. Convenience sampling technique was used because of the sensitive nature of creative accounting practices in organization. Because most of the accounting professionals were not ready to participate in the study, accountants who were willing were selected for the study which justifies the use of convenience sampling. Also, accounting professionals who were ready and willing to part take in the studies filled the questionnaire. This also makes the selection of the respondents a convenience sampling which is a non-probability sampling technique.

3.6 Data collection instrument

Questionnaire was designed to collect the responses from the eighty-eight (88) accounting professionals on the relationship between creative and corporate financial reporting. A questionnaire according to Kumar (2005) is a written list of questions, the answers to which are recorded by respondents. He further stated that it is important that the questions are clear and easy to understand. In this study, the purpose of the measuring instrument was to obtain primary data to describe the relationships between creative accounting techniques and financial reporting. The measuring instrument for this study consisted of four (4) sections. Section A is the control measures which consisted of the gender of respondents, age, educational qualification of the participants, years of practice as accounting professions and position occupy by the participants. Section B provides items on the tax management techniques use in the preparation of financial report. Section C lists items that define changes in accounting policy and how it influence financial reporting. Section D establishes the relationship between creative accounting practices such as revenue recognition and financial reporting. Section E presents the items for cost recognition in the preparation of financial reports.

3.7 Methods of Data Analysis

The data collected were examined, categorized, tabulated and recombined the evidence to address the research objectives and the research questions. Information gathered from various respondents (accounting professionals) were first edited and tallied in frequency distribution tables. The values corresponding to frequencies were later converted into percentages to facilitate comparison among the responses. Means and standard deviations of the various items were derived and analysed.The information gathered was further analysed by developing a description and theoretical propositions that led to the study of creative accounting and financial reporting. The objectives and design of the study were based on such propositions, which in return reflected a set of research questions for the study.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.0 Introduction

In this chapter the data collected from the eighty (88)respondents in Kumasi metropolis is presented and analysed. The analysis is done based on the research objectives and the research questions. The areas captured in the analysis includes demographic characteristics of the respondents such as gender, age, educational background, period of practicing as an accountant professional, position in the current company. The analysis continues with the presentation of responses on the relationship between creative accounting and financial reporting as it measures specifically the views of accounting professionals on creative accounting practices and financial reporting. The responses rate of the research is 100%. This is because of the convenience sampling employed which ensured that exactly 88 people have filled the questionnaire, therefore making the responses rate 100%

4.1 Background Information of Respondents

The findings shows that accountants who hold managerial position agree that creative accounting techniques are used in financial statements and therefore it affects financial reporting. This is because respondents who occupy managerial position take part in the decision making process in their organization. Though majority of the responses obtained from the findings come from the non-managerial accounting they do not agree with the use of creative accounting techniques in preparing financial statement that affects financial reporting, because they do not directly work towards decision making in their organization. The demographic characteristics of gender, age, educational background and the period of years of practicing accounting are important but were not considered, the position of the respondents (accountants) were highly considered because of the fact that it influence the respondent understanding and appreciation of the techniques use in creative accounting and financial reporting

4.1.1 Current position of respondents

The position one occupies in an organization may influence the person understanding of the techniques use in creative accounting and financial reporting. In the accounting professional industry, practitioners are categorized as managerial and non-managerial. The managerial and non-managerial position includes senior accountants, assistant accountants, accountants, accounts clerks, and others categories of accountants as may be defined by their companies. In this study, the researcher sought to find out the level and positions occupied by the sampled respondents in the Ashanti Region. Respondents were asked to simply indicate whether they occupy a managerial position or nonmanagerial position. The responses are provided in the table below;

Table 1: Position of respondents

Position/rank	Frequency	Percentage (%)
Managerial position	29	33.0
Non-managerial position	59	67.0
Total	**88**	**100**

Source: Field survey, 2016

The table shows the number of respondents who occupy managerial and nonmanagerial positions. 29 of the respondents, representing 33.0%, indicated that they occupy managerial position, whiles 59 of the respondents, showing 67.0% of the total sampled respondents indicated that they are non-managers. Responses from the participants of the study are an indication that, both managerial positions and nonmanagerial positions are duly represented in the study, even though majority of the views reflect non-managerial positions in the accounting professional industry.

Table 2: Cross tabulation of the demographic characteristics of respondents

Characteristics	**Category**	**Total**	**Managers**	**Non-Managers**
Gender	Male Female	61(69.3%) 27(30.7%)	18(62.1%) 11(37.9%)	43(72.9%) 16(27.1%)
Total		88(100%)	29(33.0%)	59(67.0%)
Age	20-29 30-39 40 and above	22(25.0%) 48(54.5%) 18(20.5%)	9(40.9%) 14(29.2%) 6(33.3%)	13(59.1%) 34(70.8%) 12(66.7%)
Total		88(100%)	29(33.0%)	59(67.0%)
Education	Diploma/HND First degree Master‟s	29(32.9%) 43(48.9%) 16(18.2%)	8(27.6%) 14(32.6%) 7(43.8%)	21(72.4%) 29(67.4%) 9(56.2%)
Total		88(100%)	29(33.0%)	59(67.0%)
Years of practice as accountant	Less than 3yrs 3-5yrs 6-9yrs 10yrs +	11(12.5%) 18(20.5%) 48(54.5%) 11(12.5%)	4(36.4%) 6(33.3%) 11(22.9%) 8(72.7%)	7(63.6%) 12(66.7%) 37(77.1%) 3(27.3%)
Total		88(100%)	29(33.0%)	59(67.0%)

Source, field survey, 2016

Gender of Respondents: The gender of respondents was considered in the research study to give a balancedopinion from respondents based on the relationship between creative accounting practices and financial reporting. With reference to the gender, out of the 88 participants, 61 of the respondents, which represents (69.3%), are Male‟s which recorded 18(62.1%) managerial and 43(72.9%) non-managers whilst 27 of the respondents, which constitute (30.7%) were Female‟s and recorded 11(37.9%) managers and 16(27.1%) non managers.

Age of Respondents: The age of the respondents is important to the research. In terms of managerial position age may play significant role in selecting the most appropriate person. Out of the 88 participants, 22 of the respondents, which represents (25.0%) falls within the age group of 20-29 whereby 9(40.9%) are of managers and 13(59.1%) are non-managers. 48 of the respondents, which represents (54.5%), falls within the age group of 30-39 whereby 14(29.2%) are managers and 34(70.8%) are non-managers. 18 respondents, which represent (20.5%), are within the age group of 40 years and above whereby 6(33.3%) are managers and 12(66.7%) are non-managers. This suggests that majority of the sampled respondents are in their youthful age. The significance of the age relating to the views of accounting professionals practices exists in areas of creative accounting and financial reporting.

Educational Background of Respondents: The educational background of the respondents is also important to the studies. The opportunities that are offered accounting professionals may also be influenced by their educational background. On the issue of educational background, the respondents recorded mix responses. 29 of the respondents, which represents (32.9%) have diploma/HND educational background whereby 8(27.6%) are managers and 21(72.4%) are non-managers. 43 of the respondents, which represents (48.9%) have First degree educational background whereby 14(32.6%) are managers and 29(67.4%) are non-managers. 16 of the respondents, which represents (18.2%) have Master‟s educational background whereby 7(43.8%) are managers and 9(56.2%) are non-managers. It can also be noted that the diverse nature of the educational levels of respondents provides is an assurance that the participants of the study are in a position to provide responses relevant to achieve the research objectives.

Period of years as accounting Professional: The appreciation and understanding of a particular industry may be linked to the accumulated experience and knowledge. In the field of accounting, the number of years accounting professionals have worked in an industry may contribute to their assessment of the creative accounting and financial reporting in their operations. In this study, respondents were asked to indicate the period of years they have worked as accounting professionals. In terms of practice as an accounting professional, 11 of the respondents, which represents (12.5%) have less than 3 years practice as an accountant whereby 4(36.4%) are managers and 7(63.6%) are non-managers. 18 respondents, representing (20.5%) have 3-5 years practice as an accountant whereby 6(33.3%) are managers and 12(66.7%) are non-managers. 48 of the respondents, representing (54.5%) have 6-9 years practice as an accountant whereby 11(22.9%) are managers and 37(77.1%) are non-managers. 11 of the respondents, which constitutes (12.5%) have 10 years and above practice as an accountant whereby
8(72.7%) are managers and 3(27.3%) are non-managers.

4.2. Tax management techniques and financial reporting

The creative accounting practices variables used to measure responses from accounting professionals included taxation. The preparers of financial report may be motivated to engage in creative accounting for the purpose of taxation. In this study the respondents were asked to indicate from a scale representing: (strongly disagree to strongly agree) how they agree or disagree on the creative accounting practices on taxation management in the financial report. The responses are presented in the table below;

Table 3: tax management techniques and creative accounting

Variables	SCALE	Managers	Non-managers	Total

Asset valuation adjustment is used for creative accounting	SD D N A SA	1(3.4%) 3(10.3%) 2(6.9%) 11(37.9%) 12(41.4%)	3(5.1%) 5(8.5%) 10(16.9%) 19(32.2%) 22(37.3%)	4(4.5%) 8(9.1%) 12(13.6%) 30(34.1%) 34(38.6%)
Total		29(100%)	59(100%)	88(100%)
Tax effect adjustment in order to manage earnings.	SD D N A SA	4(13.8%) 6(20.7%) 4(13.8%) 10(34.5%) 5(20.7%)	5(8.5%) 5(8.5%) 6(10.2%) 22(37.3%) 21(35.6%)	9(10.2%) 11(12.5%) 10(11.4%) 32(36.4%) 26(29.5%)
Total		29(100%)	59(100%)	88(100%)
Profitability figures are modified in order to avoid taxation	SD D N A SA	1(3.4%) 4(13.8%) 4(13.8%) 8(27.6%) 12(41.4%)	5(8.5%) 6(10.2%) 4(6.8%) 15(25.4%) 29(49.2%)	6(6.8%) 10(11.4%) 8(9.1%) 23(26.1%) 41(46.6%)
Total		29(100%)	59(100%)	88(100%)
Expenses moved inter period for the purpose of creative accounting:	SD D N A SA	4(13.8%) 1(3.4%) 6(20.2%) 8(27.6%) 10(34.5%)	3(5.1%) 6(10.2%) 4(6.8%) 19(32.2%) 27(45.8%)	7(8.0%) 7(8.0%) 10(11.4%) 27(30.7%) 37(42.0%)
Total		29(100%)	59(100%)	88(100%)

Source: field work, 2016

Asset Valuation adjustment is used for creative accounting: Respondents gave mixed responses on asset valuation adjustment is used for creative accounting. Out of the 88 participant, 4 of the respondents, representing (4.5%), strongly disagree that asset valuation adjustment is used for creative accounting where 1(3.4%) is a manager response and 3(5.1%) are non-managers responses. 8 of the respondents, which

represents (9.1%), disagree that asset valuation adjustment is used for creative accounting as (10.3%) were managers responses and (8.5%) were non-managers responses. 12 respondents, which constitutes (13.6%), remain neutral on the above statement which recorded 2(6.9%) managers responses and 10(16.9%) non-managers responses. 30 of the respondents, indicating (34.1%), agree to the fact that asset valuation adjustment is used for creative accounting which recorded 11(37.9%) managers responses and 19(32.2%) non-managers responses. 34 respondents,
representing (38.6%), strongly agree that asset valuation adjustment is used for creative accounting and 12(41.4%) are managers responses whilst 22(37.3%) are non-managers responses.

Tax effect adjustment in order to manage earnings: On the issue of tax effect adjustment in order to manage earnings, respondents were asked to choose from a scale (strongly disagree to strongly agree) and their responses have been indicated as fellows. 9 of the respondents, which constitutes (10.2%), strongly disagree on the issue that tax effect adjustment is used in creative accounting in order to manage earnings whereby 4(13.8%) are managers responses and 5(8.5%) are non-managers response. 11 of the respondents, which represents (12.5%), disagree that tax effect adjustment is used in creative accounting in order to manage earnings as 6(20.7%) were managers responses and 5(8.5%) were non-managers responses. 10 respondents, which constitutes (11.4%), remain neutral on the above statement which recorded 4(13.8%) managers responses and 6(10.2%) non-managers responses. 32 of the respondents, indicating (36.4%), agree to that tax effect adjustment is used in creative accounting in order to manage earnings which recorded 10(34.5%) managers responses and 22(37.3%) non-managers responses. 26 respondents, representing (29.5%), strongly agree that tax effect adjustment is used in creative accounting in order to manage earnings and 5(20.7%) are managers responses whilst 21(29.5%) are non-managers responses.

Profitability figures are modified in order to avoid taxation:

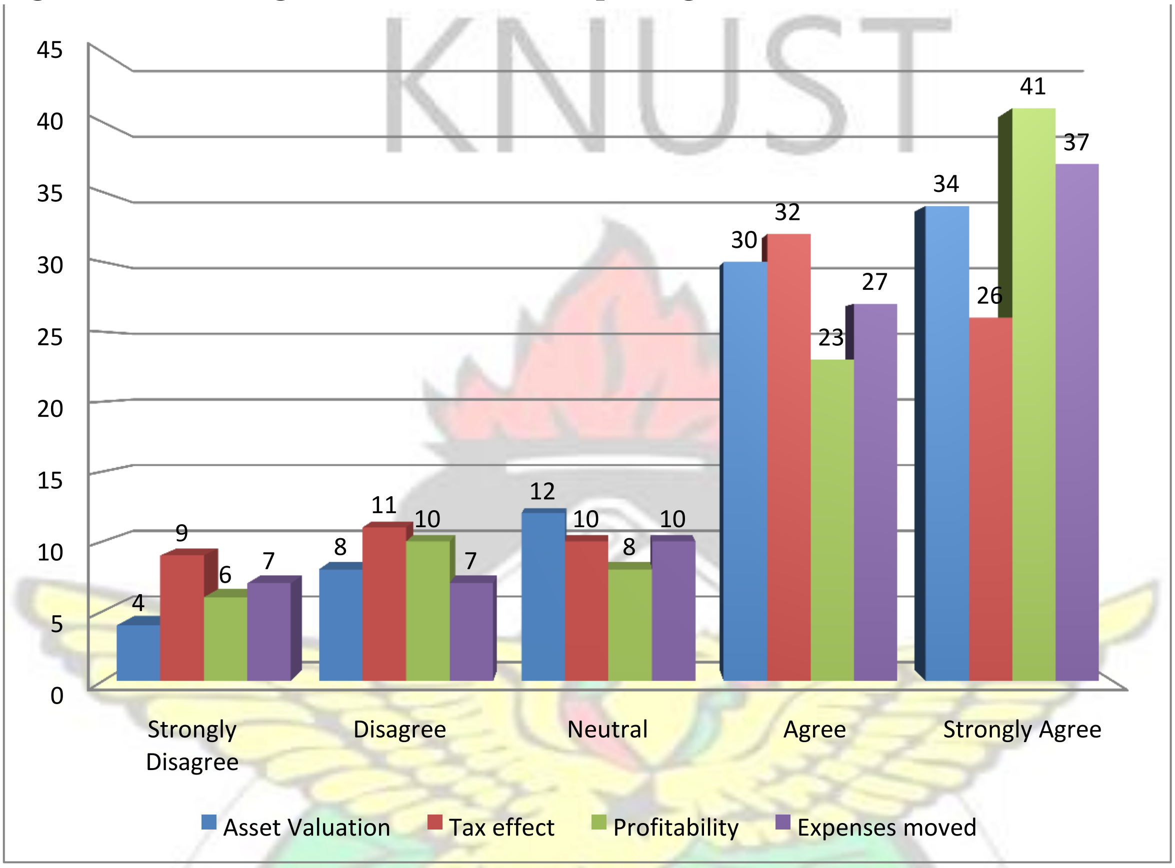
The respondents were required to indicate the level of agreement on whether it was easy to predict the subsequent year‟s profits in their firm. The aim of this question was to assess the respondent‟s perception on the predictability of profits. If respondents could easily predict the firm‟s profitability, then it is interpreted as a red flag for creative accounting practices.

6 of the respondents, which constitutes (6.8%), strongly disagree on the issue that profitability figures are modified in creative accounting to avoid taxation whereby 1(3.4%) are managers responses and 5(8.5%) are non-managers responses. 10 of the respondents, which represents (11.4%), disagree that profitability figures are modified in creative accounting to avoid taxation as 4(13.8%) are managers responses and 6(10.2%) are non-managers responses. 8 respondents, which constitutes (9.1%), remain neutral on the grounds that profitability figures are modified in creative accounting to avoid taxation which recorded 4(13.8%) managers responses and 4(6.8%) nonmanagers responses. 23 of the respondents, indicating (26.1%), agree to that profitability figures are modified in creative accounting to avoid taxation which recorded 8(27.6%) managers responses and 15(25.4%) non-managers responses. 41 of the respondents, representing (46.6%), strongly agree that profitability figures are modified in creative accounting to avoid taxation and 12(41.4%) are managers responses whilst 29(49.2%) are non-managers responses.

Expenses moved inter period for the purpose of creative accounting: On the issue of expenses moved inter period for the purpose of creative accounting, respondents were asked to choose from a scale (strongly disagree to strongly agree) and their responses have been indicated as fellows. 7 of the respondents, which constitutes (8.0%), strongly disagree on the issue that expenses are moved inter period for the purpose of creative accounting whereby 4(13.8%) are managers responses and 3(5.1%) are non-managers responses. 7 of the respondents, which represents (8.0%), disagree that expenses are moved inter period for the purpose of creative accounting as 1(3.4%) is a manager response and 6(10.2%) were non-managers responses. 10 respondents, which constitutes (11.4%), remain neutral on the above statement which recorded 6(20.2%) managers responses and 4(6.8%) non-managers responses. 27 of the respondents, indicating (30.7%), agree to that expenses are moved inter period for the purpose of creative which recorded 8(27.6%) managers and 19(32.2%) non-managers. 37 respondents, representing (42.0%), strongly agree that expenses are moved inter period for the purpose of creative accounting and 10(34.5%) are managers responses whilst 27(45.8%) are non-managers responses. The results of the research confirm the assertions made made by Dellaportas (2005). The explanation provided Dellaportas (2005) suggests that a manager who is able to move cost may be in a better position to smooth income. The implication is that a manager who decides to influence financial reports can move expenses inter period as a creative accounting technique.

The responses provided on the relationship between tax management practices as a creative accounting tool confirms the suggestion by Van and Vanstraelen (2005). The arguments put forward by Van and Vanstraelen (2005) is that accounting information is designed more to meet other demands, including determination of income tax and dividend payments. The research results also clearly agree with Sanusi and Izedonmi(2014) who enlisted the tax evasion as one among various other reasons why firms engage in creative accounting. It means that companies in trying to avoid payments of taxes at certain may engage in creative accounting in order to modify figures on the financial reports.

Figure 1: Tax management and financial reporting



Source: Field work, 2016

This ***(figure 1)*** shows a graphical presentation on tax management techniques in creative accounting and financial. It showcase the various responses from the respondents on the issue of how they agree or disagree that asset valuation, tax effect to manage earnings, profitability figures modified and expenses moved inter periodically influence creative accounting practices on financial reporting.

4.2.1 Descriptive Statistics on tax management in creative accounting practices

Table 4: Statistics on tax management and creative accounting

Items/variables	N	Mean	Std. Deviation
Asset valuation adjustment is used for creative accounting	88	3.9318	1.14265
Tax effect adjustment in order to manage earnings	88	3.6250	1.30703
Profitability figures are modified in order to avoid taxation	88	3.9432	1.28079
Expenses moved inter period for the purpose of creative accounting	88	3.9091	1.25612
Valid N (listwise)	88		

Source: field survey, 2016

According to responses on Asset valuation adjustment is used for creative accounting "" shows (mean 3.9318, standard deviation 1.14265), this indicates that respondents agree that preparers of financial report engage in assert valuation adjustment as creative accounting to influence the outcome of the financial statement for the purpose of tax avoidance. Response on "Tax effect adjustment in order to manage earnings" also reveals (mean 3.6250, standard deviation 1.30703), this means that respondents also agree to the fact that tax effect adjustment is computed to influence the figure in the financial statement for the purpose of taxation. Responses on "Profitability figures are modified in order to avoid taxation" shows (mean 3.9432, standard deviation 1.28079), this means that, respondents agree that profitability figures are modified in the financial reports in order influence the outlook of the financial reports. Lastly, response on "Expenses moved inter period for the purpose of creative accounting" reveals (3.9091, standard deviation 1.25612), this means that respondents agree on that expenses move inter period can be used as creative accounting in the financial statement of company.

4.3 Change in accounting policies and financial reporting

The assessment of the motive behind the use of creative accounting according to Hsu and Koh (2005) is important in creative accounting studies. In this research, creative accounting practices that can influence the preparation of financial reports accounting were professionals were listed for respondents to indicate from a scale of strongly disagree to strongly agree, the extent of influence of the variables. The respondents are presented and analysed in this section.

Table5 change in accounting policies for creative accounting

Variables	SCALE	Managers	Non-managers	Total
Provision of depreciation methods	SD D N A SA	7(24.1%) 5(17.2%) 2(6.9%) 7(24.1%) 8(27.6%)	12(20.3%) 15(25.4%) 6(10.2%) 13(22.0%) 13(22.0%)	19(21.6%) 20(22.7%) 8(9.1%) 20(22.7%) 21(23.9%)
Total		29(100%)	59(100%)	88(100%)
Inventory valuation estimates	SD D N A SA	3(10.3%) 6(20.7%) 2(6.9%) 8(27.6%) 10(34.5%)	8(13.6%) 13(22.0%) 3(5.1%) 19(32.2%) 16(27.1%)	11(12.5%) 19(21.6%) 5(5.7%) 27(30.7%) 26(29.5%)
Total		29(100%)	59(100%)	88(100%)
Provision for warranties	SD D N A SA	5(17.2%) 14(48.3%) 3(10.3%) 5(17.2%) 2(6.9%)	11(18.6%) 21(35.6%) 9(15.3%) 11(18.6%) 7(11.9%)	16(18.2%) 35(39.8% 12(13.6%) 16(18.2%) 9(10.2%)
Total		29(100%)	59(100%)	88(100%)
Provision for bad debt	SD D N A SA	7(24.1%) 5(17.2%) 3(10.3%) 7(24.1%) 7(24.1%)	17(28.8%) 10(16.9%) 8(13.6%) 12(20.3%) 12(20.3%)	24(27.3%) 15(17.0%) 11(12.5%) 19(21.6%) 19(21.6%)
Total		29(100%)	59(100%)	88(100%)

Source: Field survey, 2016

Provision of depreciation methods: Respondents gave mixed responses on provision of depreciation methods as change in accounting policy. Out of the 88 participant, 19 of the respondents, representing (21.6%), strongly disagree that provision of depreciation methods is seen as change in accounting policy where 7(24.1%) are managers responses and 12(20.3%) are non-managers responses. 20 of the respondents, which represents (22.7%), disagree that that provision of depreciation methods is seen as change in accounting policy as 5(17.2%) were managers responses and 15(25.4%) were non-managers responses. 8 respondents, which constitutes (13.6%), remain neutral on the above statement which recorded 2(6.9%) managers responses and 6(10.2%) nonmanagers responses. 20 of the respondents, indicating (22.7%), agree to the fact that that provision of depreciation methods is seen as change in accounting policy which recorded 7(24.1%) managers responses and 13(22.0%) non-managers responses. 21 respondents, representing (23.9%), strongly agree that that provision of depreciation methods is seen as change in accounting policy and 8(27.6%) are managers responses whilst 13(22.0%) are non-managers responses.

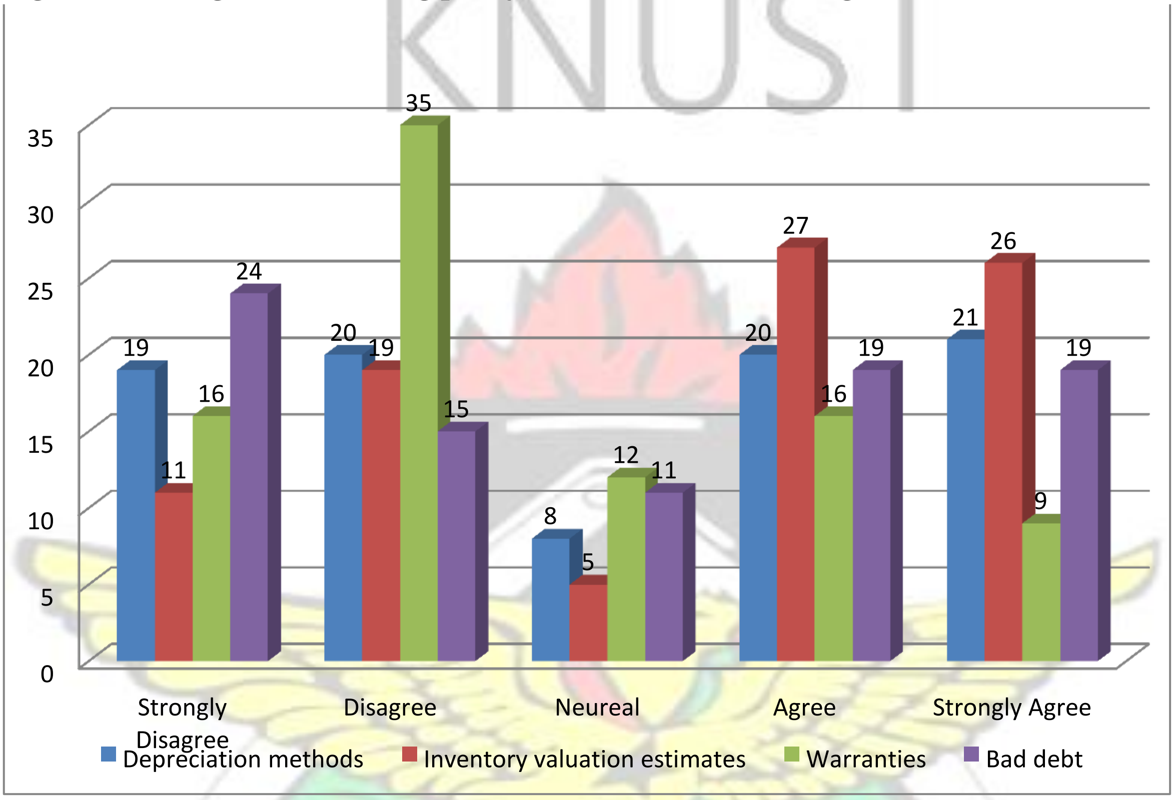
Inventory valuation estimates: With reference to inventory valuation estimates as change in accounting policy, 11 of the respondents, which represents (12.5%), strongly disagree that inventory valuation estimates is seen as a change in accounting policy whereby 3(10.3%) responses were from managers and 8(13.6%) are non-managers. 19 of the respondents, representing (21.6%) disagree to the notion above as 6(20.7%) are managers responses and 13(22.0) are non-managers responses. 5 respondents, which constitutes (5.7%), remain neutral on the above statement which recorded 2(6.9%) managers responses and 3(5.1%) non-managers responses. 27 of the respondents, indicating (30.7%), agree to the fact that inventory valuation estimates is seen as a change in accounting policy which recorded 8(27.6%) managers responses and 19(32.2%) non-managers responses. 26 respondents, representing (29.5%), strongly agree that inventory valuation estimates is seen as a change in accounting policy and

10(34%) are managers responses whilst 16(27.1%) are non-managers responses.

Provision for Warranties: Out of the 88 participants, 16 of the respondents, which represents (18.2%), strongly disagree that provision for warranties is seen as change in accounting policy as 5(17.2%) are managers responses and 11(18.6%) are nonmanagers responses. 35 respondents, representing (39.8%), disagree to the notion that provision for warranties is seen as change in accounting policy whereby 14(48.3%) are managers responses whilst 21(36.6%) are non-managers responses. 12 of the respondents which constitutes (13.6%), remain neutral on the above statement as 3(10.3%) are managers responses and 9(15.3%) are non-managers responses. 16 of the respondents, representing (18.2%), agree to the fact that provision for warranties is seen as change in accounting policy as it yield 5(17.2%) managers responses and 11(18.6%) are non-managers responses. 9 of the respondents, which indicates (10.2%), strongly agree that provision for warranties is seen as change in accounting policy as it gave out 2(6.9%) managers responses and 7(11.9%) non-managers responses.

Provision for bad debt: Out of the 88 participants, 24 of the respondents, which represents (27.3%), strongly disagree that provision for bad debt is influence financial reporting as 7(24.1%) are managers responses and 17(28%) are non-managers responses. 15 respondents, representing (17.0%), disagree to the notion that provision for bad debt influence financial reporting whereby 5(17.2%) are managers responses whilst 10(16.9%) are non-managers responses. 11 of the respondents, representing (12.5%), remain neutral on the above statement as 3(10.3%) are managers responses and 8(13.6%) are non-managers responses. 19 of the respondents, representing (21.6%), agree to the fact that provision for bad debt influence financial reporting as it yield 7(24.1%) managers responses and 12(20.3%) are non-managers responses. 19 of the respondents, which indicates (21.6%%), strongly agree that provision for bad debt influence financial reporting as it gave out 7(24.1%) managers response and 12(20.3%) non-managers response.

Figure 2: Change in accounting policy and creative accounting



Source: field work, 2016

This ***(figure 2)*** is a cluster column graph showing the responses on change in accounting policy and its effects on financial reporting. Respondents were asked to choose from a scale how they agree or disagree that provision for depreciations methods, inventory valuation estimates, provision for warranties and provision for bad debt as changes in accounting policy influence financial reporting on creative accounting practices.

4.3.1 Descriptive Statistics on changes in accounting policy and financial reports

A descriptive statistics were derive from the responses provided by the accounting professional to determine the mean and the standard deviation values of the extent to which changes in accounting policy can influence the preparation of financial reports.

Table 6: statistics on change in accounting policy and financial reporting

Items (Variables)	N	Mean	Std. Deviation
Provision of depreciation methods	88	3.0455	1.51551
Inventory valuation estimates	88	3.4318	1.42873
Provision for warranties	88	2.6250	1.26230
Provision for bad debt	88	2.9318	1.53724
Valid N (listwise)	88		

Source: field survey, 2016

The average response on "Provision of depreciation methods" also reveals (mean 3.0455, standard deviation 1.51551), this means that, respondents remains neutral that provision of depreciation methods is a creative accounting practice use for the purpose of influencing financial reports. Responses on "Inventory valuation estimates"recorded (mean 3.4318, standard deviation 1.46983). This means that respondents remain neutral on the statement that inventory evaluation estimates is used as a creative accounting technique to influence preparation of financial reports. The average response on "Provision for warranties" shows (mean 2.6250, standard deviation 1.26230), this indicates that respondents remain neutral on the above statement. Lastly, the average response on "Provision for bad debt" reveals (mean 2.9318, standard deviation 1.53724) which means that, the respondents remain neutral to the above statement as a creative accounting practice in the preparation of financial reports.

4.4 Revenue recognitionand financial reporting

The effects of creative accounting on financial reporting have been presented and analysed in this section. The presentation is based on the responses by accounting professional regarding the extent to which elements of revenue recognition practices affect the preparation of financial reports. The responses are based on scale of strongly disagree to strongly agree.

Table7: creative accounting and financial reporting

Variables	SCALE	Managers	Non-managers	Total
Revenue without transferring the sales risk	SD D N A SA	2(6.9%) 4(13.8%) 1(3.4%) 10(34.5%) 12(41.4%)	7(11.9%) 10(16.9%) 6(10.2%) 18(30.5%) 18(30.5%)	9(10.2%) 14(15.9%) 7(8.0%) 28(31.8%) 30(34.1%)
Total		29(100%)	59(100%)	88(100%)
Accelerating sales by extending payment period	SD D N A SA	4(13.8%) 3(10.3%) 4(13.8%) 9(31.0%) 9(31.0%)	9(15.3%) 6(10.2%) 1(1.7%) 27(45.8%) 16(27.1%)	13(14.8%) 9(10.2%) 5(5.7%) 36(40.9%) 25(28.4%)
Total		29(100%)	59(100%)	88(100%)
Cost reduction recognized as revenue	SD D N A SA	2(6.9%) 2(6.9%) 2(6.9%) 12(41.4%) 11(37.9%)	4(6.8%) 9(15.3%) 8(13.6%) 23(39.0%) 15(25.4%)	6(6.8%) 11(12.5%) 10(11.4%) 35(39.8%) 26(29.5%)
Total		29(100%)	59(100%)	88(100%)
Premature revenue recognition	SD D N A SA	3(10.3%) 7(24.1%) 3(10.3%) 10(34.5%) 6(20.7%)	8(13.6%) 9(15.3%) 6(10.2%) 22(37.3%) 14(23.7%)	11(12.5%) 16(18.2%) 9(10.2%) 32(36.4%) 20(22.7%)
Total		29(100%)	59(100%)	88(100%)

Source: Field survey, 2016

Premature revenue recognition: Respondents gave mixed responses on premature revenue recognition. Out of the 88 participant, 11 of the respondents, representing (12.5%), strongly disagree that premature revenue recognition influence financial reporting where 3(10.3%) are managers response and 8(13.6%) are non-managers response. 16 of the respondents, which represents (18.2%), disagree that premature revenue recognition influence financial reporting as 7(24.1%) are managers responses and 9(15.3%) are non-managers responses. 9 respondents, which constitutes (10.2%),

remain neutral on the above statement which recorded 3(10.3%) managers responses and 6(10.2%) non-managers responses. 32 of the respondents, indicating (36.4%), agree to the fact that premature revenue recognition influence financial reporting which recorded 10(34.5%) managers responses and 22(37.3%) non-managers responses. 20 respondents, representing (22.7%), strongly agree that premature revenue recognition is a method of creative accounting and 6(20.7%) are managers responses whilst
14(23.7%) are non-managers responses.

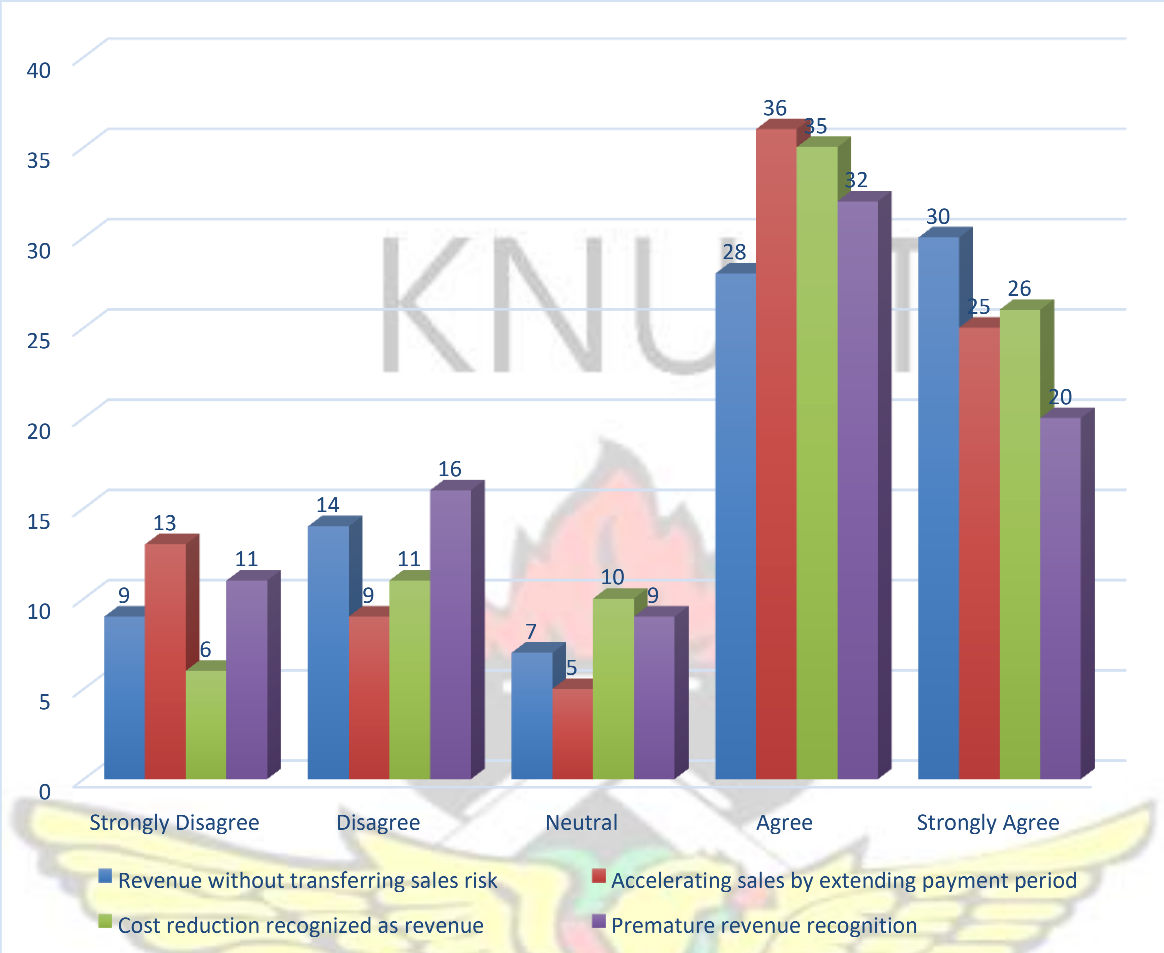
Revenue without transferring the sales risk: With reference to this, 9 of the respondents, which represents (10.2%), strongly disagree that revenue without transferring the sales risk influence financial reporting in which 2(6.9%) are managers responses whilst 7(11.9%) are non-managers responses. 14 of the respondents, which constitutes (15.9%), disagree revenue without transferring the sales risk influence financial reporting as 4(13.8%) were managers responses and 10(16.9%) were nonmanagers responses. 7 respondents, which constitutes (8.0%), remain neutral on the above statement which recorded 1(3.4%) manager response and 6(10.2%) nonmanagers responses. 28 of the respondents, indicating (31.8%), agree to the fact that revenue without transferring the sales risk influence financial reporting which recorded 10(34.5%) managers responses and 18(30.5%) non-managers responses. 30

respondents, representing (34.1%), strongly agree that revenue without transferring the sales risk influence financial reporting and 12(41.4%) are managers whilst 18(30.5%) are non-managers.

Accelerating sales by extending payment period: Respondents were asked to choose from a scale (strongly disagree, disagree, neutral agree and strongly agree) to the extent they agree or disagree that accelerating sales by extending payment is a revenue recognition. Out of the 88 participants, 13 of the respondents, representing (14.8%), strongly disagree that accelerating sales by extending payment is a revenue recognition as 4(13.8%) are managers responses and 9(15.3%) are non-managers responses. 9 respondents, representing (10.2%), disagree to the notion that accelerating sales by extending payment is a revenue recognition whereby 3(10.3%) are managers responses whilst 6(10.2%) are non-managers responses. 5 of the respondents which constitutes (5.7%), remain neutral on the above statement as 4(13.8%) are managers responses and 1(1.7%) is non-managers response. 36 of the respondents, representing (40.9%), agree to the fact that accelerating sales by extending payment is a revenue recognition as it yield 9(31.0%) managers responses and 27(45.8%) are non-managers responses. 25 of the respondents, which indicates (28.4%), strongly agree that accelerating sales by extending payment is a revenue recognition as it gave out 9(31.0%) managers responses and 16(27.1%) non-managers responses.

Cost reduction recognizes as revenue: Respondents were asked to choose from a scale (strongly disagree, disagree, neutral agree and strongly agree) to the extent they agree or disagree that cost reduction is recognized as revenue. Out of the 88 participants, 6 of the respondents, representing (6.8%), strongly disagree that cost reduction is recognized as revenue as 2(6.9%) are managers responses and 4(6.8%) are non-managers responses. 11 respondents, representing (12.5%), disagree to the statement above whereby 2(6.9%) are managers responses and 9(15.3%) are nonmanagers responses. 10 of the respondents which constitutes (11.4%), remain neutral on the above statement that cost reduction is recognized as revenue as 2(6.9%) are managers responses and 8(13.6%) is non-managers response. 35 of the respondents, representing (39.8%), agree to the fact that cost reduction is recognized as revenue as it yield 12(41.4%) managers responses and 23(39.0%) are non-managers responses. 26 of the respondents, which indicates (29.5%), strongly agree that cost reduction is recognized as revenue as it gave out 11(37.9%) managers responses and 15(25.4%) non-managers responses.

Figure 3: Revenue Recognition and Financial Reporting



Source, field work, 2016

This ***(figure 3)*** shows a cluster column graphical presentation on revenue recognition and financial reporting with the various responses from the respondents on the issue of how they agree or disagree that revenue without transferring sales risk, accelerating sales by extending payment period, cost reduction recognized and premature revenue recognition influence financial reporting on creative accounting practices.

4.4.1 Descriptive Statistics on revenue recognition and financial reporting A descriptive statistics were derive from the responses provided by the accounting professional to determine the mean and the standard deviation values of revenue recognition use in preparing financial reports.

Table8: Descriptive statistics on revenue recognition and financial reporting

Items (variables)	N	Mean	Std. Deviation
Premature revenue recognition:	88	3.6364	1.36611
Revenue without transferring the sales risk	88	3.5795	1.38731
Accelerating sales by extending payment period:	88	3.7273	1.21037
Cost reduction recognized as revenue	88	3.3864	1.35130
Valid N (listwise)	88		

Source: field survey, 2016

The descriptive statistics responses on “Premature revenue recognition:”reveals (mean 3.6364, standard deviation 1.36611), this means that, respondents agree that premature revenue captured in the financial statement is a creative accounting technique use to influence the outcome of the financial report.

According to responses on “Revenue without transferring the sales risk” shows (mean 3.5795, standard deviation 1.38731), this indicates that respondents agree that revenue without transferring the sales is a creative accounting tool used in the preparation of financial reports.

Responses on “Accelerating sales by extending payment period:” also reveals (mean 3.7273, standard deviation 1.21037), this means that respondents agree to the fact that the use of accelerating sales by extending payment period is a creative accounting technique use in preparing financial reporting.

Average response on “Cost reduction recognized as revenue” also reveals (mean 3.3864, standard deviation 1.35130), this means that, respondents are neutral on the ground thatCost reduction recognized as revenue is not recognized as creative accounting tool influencing financial reporting.

4.5 Cost recognition and financial reporting

The component of financial statements includes cost. The computation and presentationon the financial statement is recognized by the International Accounting Standards (IAS). The modification of figures in the financial statement may involve directly attributable cost, cost of installation equipment, actual price of items and dismantle cost. The respondents were asked to indicate the extent to which the preparation of financial statements is influenced by creative accounting practices. The respondents were measured according the managers and non-managers categories of the respondents.

Table 9: Cost recognition and financial reporting

Variables	SCALE	Managers	Non-managers	Total
Directly attributable cost	SD	3(10.3%)	6(10.2%)	9(10.2%)
	D	4(13.8%)	10(16.9%)	14(15.9%)
	N	2(6.9%)	5(8.5%)	7(8.0%)
	A	9(31.0%)	19(32.2%)	28(31.8%)
	SA	11(37.9%)	19(32.2%)	30(34.1%)
Total		29(100%)	59(100%)	88(100%)
Cost of installation of equipment:	SD	2(6.9%)	11(18.6%)	13(14.8%)
	D	4(13.8%)	5(8.5%)	9(10.2%)
	N	2(6.9%)	3(5.1%)	5(5.7%)
	A	12(41.4%)	24(40.7%)	36(40.9%)
	SA	9(30.0%)	16(27.1%)	25(28.4%)
		29(100%)	59(100%)	88(100%)
Actual purchase price of items	SD	3(10.3%)	3(5.1%)	6(6.8%)
	D	3(10.3%)	8(13.6%)	11(12.5%)
	N	1(3.4%)	9(15.3%)	10(11.4%)
	A	16(55.2%)	19(32.2%)	35(39.8%)
	SA	6(20.7%)	20(33.9%)	26(29.5%)
Dismantle cost	SD	1(3.4%)	10(16.9%)	11(12.5%)
	D	7(24.1%)	9(15.3%)	16(18.2%)
	N	1(3.4%)	8(13.6%)	9(10.2%)
	A	11(37.9%)	21(35.6%)	32(36.4%)
	SA	9(31.0%)	11(18.6%)	20(22.7%)

Source: Field survey, 2016

Directly attributable cost: With reference to directly attributable cost as cost recognition, 9 of the respondents, which represents (10.2%), strongly disagree that directly attributable cost recognized influence financial reporting whereby 3(10.3%) responses were from managers and 6(10.2%) are non-managers. 14 of the respondents, representing (15.9%), disagree to the notion directly attributable cost recognized influence financial reporting as cost as 4(13.8%) are managers responses and 10(16.9%) are non-managers responses. 7 respondents, which constitutes (8.0%), remain neutral on the above statement which recorded 2(6.9%) managers responses and 5(8.5%) non-managers responses. 28 of the respondents, indicating (31.8%), agree to the fact directly attributable cost recognized influence financial reporting as cost which recorded 9(31.0%) managers responses and 19(32.2%) non-managers responses. 30 respondents, representing (34.1%), strongly agree that directly attributable cost recognized influence financial reporting as cost and 11(37.9%) are managers responses whilst 119(32.2%) are non-managers responses.

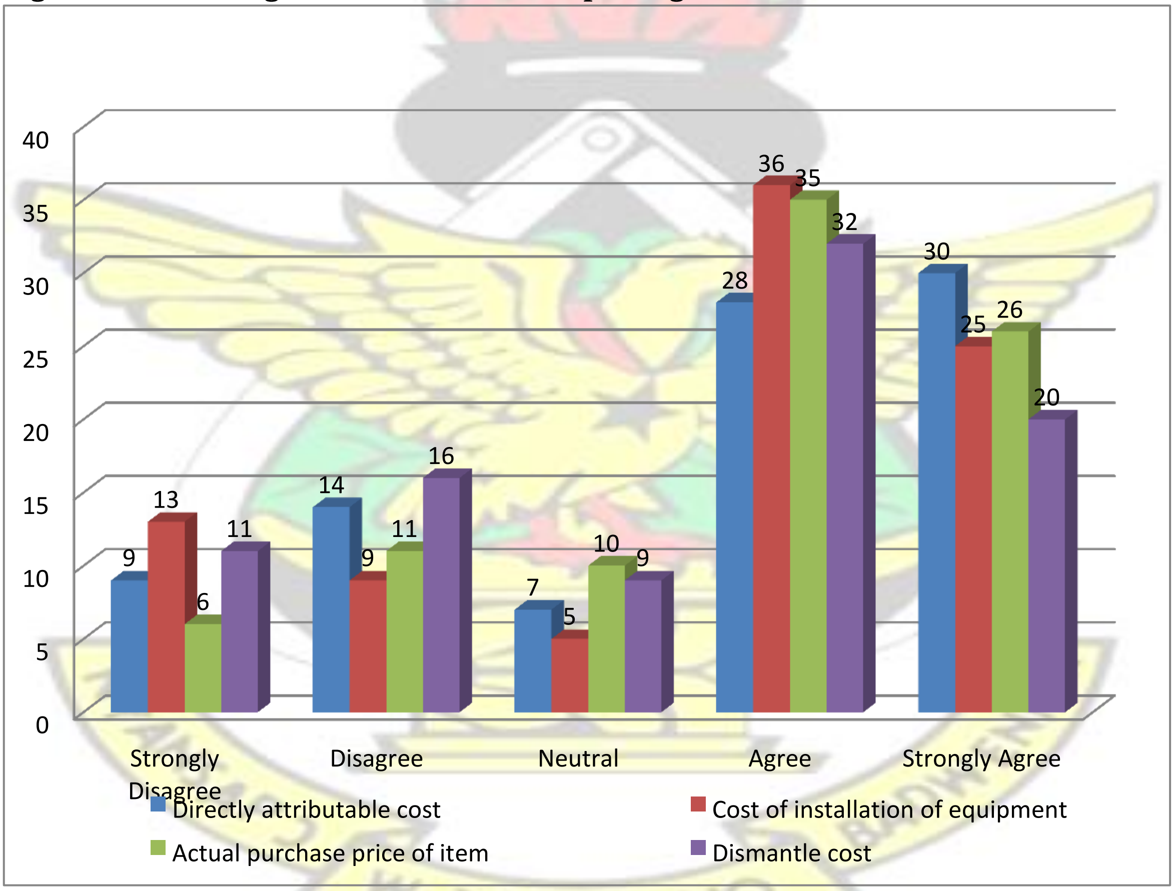
Cost of installation equipment: Out of the 88 participants, 13 of the respondents, which represents (14.8%), strongly disagree that cost of installation of equipment influence financial reporting as 2(6.9%) are managers responses and 11(18.6%) are non-managers responses. 9 of the respondents, representing (10.2%), disagree to the notion that cost of installation of equipment influence financial reporting whereby 4(13.8%) are managers responses and 5(10.2%) are non-managers responses. 5 of the respondents which constitutes (5.7%), remain neutral on the above statement as 2(6.9%) are managers responses and 3(5.1%) are non-managers responses. 36 of the respondents, representing (40.9%), agree to the fact that cost of installation of equipment influence financial

reporting as it yield 12(41.4%) managers responses and 24(40.7%) are non-manages. 25 of the respondents, which indicates (28.4%), strongly agree that cost of installation of equipment influence financial reporting as it gave out
9(30.0%) managers responses and 16(27.1%) non-managers responses.

Actual purchase price of items: Out of the 88 participants, 6 of the respondents, which represents (6.8%), strongly disagree that actual purchase price of items influence financial reporting as 3(10.3%) are managers responses and 3(5.1%) are non-managers responses. 1 respondents, representing (12.5%), disagree to the notion that actual purchase price of items influence financial reporting whereby 3(10.3%) are managers responses and 8(13.6%) are non-managers responses. 10 of the respondents, representing (11.4%), remain neutral on the above statement as 1(3.4%) is a manager response and 9(15.3%) are non-managers responses. 35 of the respondents, representing (39.8%), agree to the fact actual purchase price of items influence financial reporting as it yield 16(55.2%) managers responses and 19(32.2%) nonmanagers responses. 26 of the respondents, which indicates (29.5%%), strongly agree that actual purchase price of items influence financial reporting as it gave out 6(20.7%) managers responses and 20(33.9%) non-managers responses.

Dismantle cost: Respondents were asked to choose from a scale (strongly disagree, disagree, neutral agree and strongly agree) to the extent they agree or disagree that dismantle cost influence financial reporting. Out of the 88 participants, 11 of the respondents, representing (12.5%), strongly disagree that dismantle cost influence financial reporting as 1(10.3%) is a manager response and 10(16.9%) are non-managers responses. 16 respondents, representing (18.2%), disagree to the statement above whereby 7(24.1%) are managers responses and 9(15.3%) are non-managers responses. 9 of the respondents which constitutes (10.2%), remain neutral on the above statement that dismantle cost influence financial reporting as 1(3.4%) is a manager response and 8(13.6%) are non-managers response. 32 of the respondents, representing (36.4%), agree to the fact that dismantle cost influence financial reporting as it yield 11(37.9%) managers responses and 21(35.6%) non-managers responses. 20 of the respondents, which indicates (22.7%), strongly agree that dismantle cost influence financial reporting as it gave out 9(31.0%) managers responses and 11(18.6%) non-managers responses

Figure 4: Cost recognition and financial reporting



Source: field work, 2016

This is a column graph showing responses by respondents on the issue of cost recognition and its influence on financial reporting. Variables such as direct attributable cost, cost of installation of equipment, actual purchase price of items and dismantle cost recognized as cost influence financial reporting on creative accounting as the graph shows.

4.5.1 Descriptive Statistics on cost recognition and financial reporting

Table 10 statistics on cost recognition and financial reporting

Items/Variables	N	Mean	Std. Deviation
Directly attributable cost	88	3.6364	1.36611
Cost of installation of equipment	88	3.5795	1.38731
Actual purchase price of items	88	3.7273	1.21037
Dismantle cost	88	3.3864	1.35130
Valid N (listwise)	88		

Source: field survey, 2016

Response on “Directly attributable cost:”reveals (mean 3.6364, standard deviation 1.36611), this means that, respondents agree that directly attributable technique is use by accountants in the preparation of the financial reports. It can also be stated that majority of the accounting professional consider directly attributable coat as a creative accounting practice that can influence financial reports.

Response on “Cost of installation of equipment:” shows (mean 3.5795, standard deviation 1.38731), this means that, respondents agree that cost of installation of equipment can be used to modify figures in the financial statements. The implication is that preparers of financial statement practice creative accounting through the manipulation of cost on installation of equipment. This suggests that cost of installation of equipment is a creative accounting technique use to influence financial reports.

The descriptive statistical responses for actual purchase price of item show a mean of 3.7273 and standard deviation of 1.21037. The mean value is above 3.5. This means that majority of the respondents agree to the use of actual purchase price of an item as a creative accounting technique in the preparation of financial reports.

Moreover, the average response on “Dismantle cost: reveals (mean 3.3864, standard deviation 1.35130), this means that, respondents were neutral that dismantle cost can be modified in the financial report. The implication is that the dismantle cost can be used as a creative accounting technique to influence financial report.

CHAPTER FIVE

SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter draws summary on the various findings identified and their implication gives a conclusion and provides recommendations to firms or companies in reference to creative accounting and financial reporting.

5.1 Summary of findings

Findings collected by the researcher after reviewing existing literatures and responses from customers after questionnaires were administered to them have been summarized below.

5.1.1 Background information on respondents

- The research revealed that most of the respondents were males which constitute 69.3%.
- It also shows 48 of the respondents‟ falls within 30-39 years which represent 54.5%.
- The research also revealed that majority of the respondent were First degree holders which represents 48.9%
- It revealed that, most of the respondents have worked for a period of 6-9 years which represents 54.5%.
- The study also shows that, 67.0% 0f the respondents are non-managerial position.

5.1.2 Tax management and financial reporting

The study revealed that majority of the respondents representing 38.6% strongly agree on the issue that asset valuation adjustments are used for creative accounting. Based on the analysis, it clearly shows that respondents agree to the fact that tax effect adjustment to manage earnings influence financial reporting which recorded 36.4%. Thus, profitability figures are also modified to avoid taxation which has influenced the financial reporting as 46.6% of the respondents strongly agree to that notion. Basically, the analysis also revealed that, 42.0% of the respondents strongly agree on the issue that expenses moved inter period for the purpose of creative accounting influence the financial reporting of a particular firm or company.

5.1.3 Changes in accounting policy and financial reporting

Respondents strongly agree on the issue that provision of depreciation methods influence financial reporting in reference to creative accounting. Inventory valuation estimates as means of influencing financial reporting gave out a positive response whereby 30.7% of the respondents agree to that notion. On the issue of provision for warranties, 39.8% of the respondents disagree to the fact that provision for warranties influence financial reporting whereas 27.3% been the highest responses from respondents strongly disagree that provision for bad debts influence financial reporting in creative accounting.

5.1.4 Revenue recognition and financial reporting

The analysis revealed that 34.1% of the respondents strongly agree that revenue without transferring the sales risk influence financial reporting in creative accounting.

Respondents were of the view that accelerating sales by extending the payment period influence financial reporting in creative accounting as 40.9% respondents agree to it. With regards on cost recognized as revenue, 39.8% agree that cost being recognized as revenue influence financial reporting in creative accounting. Moreover, 36.4% of the respondents agree that premature revenue recognized influence financial reporting in creative accounting.

5.1.5 Cost recognition and financial reporting

Analysis on directly attributable cost revealed that, 34.1% strongly agree that attributable cost influence financial reporting. On the issue of cost of installation of equipment, respondents agree that it has influence on financial reporting as it generated 40.9% responses from the respondents. Again, 39.8% of the respondents agree that actual purchase price of items influence financial reporting in creative accounting whilst 36.4% of the respondents also agree that dismantle cost influence financial accounting in creative accounting.

5.2 Conclusion

The objective of this research was to examine creative accounting practices and financial reporting. Based on the evidence gathered, it can be concluded that creative accounting is considered a big problem in exhibiting financial reports disclosed by organizations which is affected by diverse benefits appreciated by different interest groups within a particular organization. This is because managers may decide to present higher profit in order to earn more compensation and to improve market price of the share of the organization. Managers can also use creative accounting toshow low profit margins so that they can deny demand of increase in salaries and incentives of the workers and pay lower taxes to the government.

Creative accounting is not illegal but it takes advantage of gaps in the accounting regulations and standards. It cannot be said to be fraud since it only takes place within the framework of the laws of the land. It takes advantage of many options available in standards of accounting to present the transactions like different procedure of depreciation method and itemizing useful life of theassets, manyalternatives available in revenue recognition as well as loss recognition, different procedures are available in estimating stock inventory whether use FIFO or LIFO method for valuing inventory. Managers apply creative accounting method of techniques which adjust their benefit in a particular year and exhibit higher profit. However, creativity in the accounting and falsifying financial statements is the primary responsibility which always lies on the shoulders of company owners or management as facts remains that companies are penalized and sanctioned by regulatory agencies caught in the practice of creative accounting.

5.3 Recommendations

The recommendations made in the research are hereby provided;

- In order to improve quality of financial reporting and to increase the faith of investors in company‟s financial report, organizations should ensure good corporate governance. There should be constant monitoring and evaluation of financial reports presented by management to ensure good governance practices. Because financial reporting is a true indicator of a company‟s operating activities, it should provide true information to shareholders about the company‟s state of affairs so that investors can take decision to invest in the company or not. In this area, independent auditors can be employed to check the state of affairs of the company and give true and quality information to the shareholders and stakeholders.
- Enforcing the international accounting standards will help prevent the formation of creative accounting and thus forming a fully functioning system of comparable financial statements, which will increase trust of the enterprise, improve the ability to raise funds and mutual competitor‟s comparability.

- Thirdly, honesty and ethical behaviour in business is largely dependent on monetary policy of each country. The government should create enabling environment for organizations to respond honestly to the payment of taxes. Accessibility to financial support by the organizations may also go a long way to motivate organization to engage in creative accounting. Of course, the ideal situation for banks and financial authorities is to constantly monitor the operations and annual report of organizations in order to minimize the incidence of creative accounting in financial reports.
- Regulatory bodies should also make laws which will reduce the chance of alternative accounting methods or techniques. They should make the provisions that if one company chose one method in good year; the company should choose the same method or technique in the unfavourable year also.
- Also, companies should introduce forensic accounting for white collar fraud detection, fraud prevention and reduce alternative choice of accounting treatment in accounting standards.

In the end, one can conclude that it is not possible to reduce the impact of creative accounting completely because of involvement of managers and auditors and slow work of regulatory bodies. We can work towards to reduce the impact of creative accounting by means of implementing the necessary measures such as streamlining the accounting processes, having credible and trusted auditing system and more effective corporate governance.

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APPENDIX

<u>KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY</u>

<u>SCHOOL OF BUSINESS</u>

(Research Questionnaire)

This study focuses on "*the relationship between creative accounting and financial reporting*". It measures specifically the views of accounting professionals on creative accounting practices and financial reporting. The study is purely academic-oriented, as such I would like to assure you that your responses would not be used for any other purpose other than the reasons stated above. I humbly request that you read the items carefully and respond to them. Objective responses will be highly appreciated.

Thank you very much for participating in this study.

1. Gender…………………………………………………………….
2. Age of respondents……………………………………………….
3. Educational background a) Diploma/HND [ ] b) Degree [ ] c) Master‟s [ ]
4. Years of period as accounting professional less than

   3yrs [ ] 3-5[ ] 6-9 [] 10+ [ ]
5. Position in the current company a) Managerial [ ] b) Non-Managerial [ ]

Tax management techniques and financial reports

To what extent do you agree or disagree with the following statements relating to the techniques for creative accounting practices.			
1. Strongly disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly agree			

6.	Asset evaluation adjustment is used to management taxation which is stated in the financial reports	1	2	3	4	5
7.	Tax effect adjustment in order to manage earnings	1	2	3	4	5
8.	Profitability figures are modified in order to avoid taxation	1	2	3	4	5
9.	Expenses moved inter period for the purpose of taxation	1	2	3	4	5

Change in accounting policies and financial reports

To what extent do you agree or disagree with the following statements relating to the existence of the following in the financial reports due to changes in accounting policies						
1. Strongly disagree 2. Disagree 3. Neither agree nor disagree Agree 4. Agree 5. Strongly agree						
10.	Provision of depreciation methods	1	2	3	4	5
11.	Inventory valuation estimates	1	2	3	4	5
12.	Provision for warranties	2	3	4	4	5
13.	Provision for bad debt	1	2	3	4	5

Revenue recognition and financial reports

To what extent do you agree or disagree with the following statements relating to the existence of the following in the financial reports due to creative accounting practices			

1. Strongly disagree 2. Disagree 3. Neither agree nor disagree Agree 4. Agree 5. Strongly agree						
14.	Premature revenue recognition	1	2	3	4	5
15.	Revenue without transferring the sales risk	1	2	3	4	5
16.	Accelerating sales by extending payment period	2	3	4	4	5
17.	Cost reduction recognized as revenue	1	2	3	4	5

Cost recognition and financial reports

To what extent do you agree or disagree with the following statements relating to the existence of the following in the financial reports due to creative accounting practices						
1. Strongly disagree 2. Disagree 3. Neither agree nor disagree Agree 4. Agree 5. Strongly agree						
18.	Directly attributable cost	1	2	3	4	5
19.	Cost of installation of equipment	1	2	3	4	5
20.	Actual purchase price of items	2	3	4	4	5
21.	Dismantle cost	1	2	3	4	5