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Creative accounting practices in the context of applying International Financial Reporting Standards (IFRS): A critical approach to professional reality

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Abstract---This study aims to analyze creative accounting practices under the application of International Financial Reporting Standards (IFRS), focusing on how the flexibility of these standards may be used to present financial data in ways that do not explicitly violate rules. The research highlights the professional and ethical impact of such practices on the quality and credibility of accounting information. A qualitative analytical approach was used through a critical review of literature, professional reports, and real-world examples to understand the motives behind creative accounting and assess its implications in an international reporting context. The findings revealed that areas such as fair value measurement and asset impairment are especially vulnerable to creative manipulation. Key recommendations include reinforcing ethical controls, activating the oversight role of professional bodies, and providing clearer interpretive guidelines to limit excessive discretion—thus promoting transparency and protecting investor interests.

Keywords---Creative Accounting; International Financial Reporting Standards (IFRS); Financial Disclosure; Professional Responsibility.

Introduction

Creative accounting is one of the most controversial phenomena in contemporary accounting thought. It refers to practices that manipulate the presentation of financial statements without explicitly violating accounting standards. This phenomenon becomes even more complex under the application of the International Financial Reporting Standards (IFRS), which are designed to enhance transparency and comparability of financial data across countries.

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However, the judgment-based and principle-oriented nature of many IFRS standards has opened the door for flexible interpretations, which some accountants and management teams may exploit to achieve certain financial goals. This highlights the importance of critically studying this phenomenon to understand its impact on the quality of accounting information and professional practices.

Research Problem

To what extent does the flexibility of IFRS allow for creative accounting practices, and what are the professional and ethical implications of these practices on the credibility and quality of financial reporting?

Sub-questions:

1. What distinguishes creative accounting from accounting fraud or error?
2. Which IFRS areas are most vulnerable to misinterpretation or manipulation?
3. How do professional accountants perceive and deal with ethical dilemmas related to creative accounting?

Research Hypotheses:

H 1: Creative accounting is a distinct phenomenon from accounting fraud or error, characterized by specific intentions and techniques, although it may produce similar impacts on the credibility of financial reports.

H 2: The judgment-based nature of certain IFRS provisions broadens the scope for interpretation, thereby increasing the likelihood of adopting creative accounting practices.

H 3: Adherence to professional ethical standards and the presence of effective regulatory oversight help to curb creative accounting behaviors and enhance the quality and credibility of financial disclosures.

Research Methodology:

This study adopts a **qualitative and analytical approach**, relying on a critical review of existing literature, professional accounting reports, and illustrative examples. The aim is not to measure the extent of creative accounting statistically, but rather to understand its mechanisms, triggers, and implications within a professional and ethical context.

Research Significance :

The significance of this research stems from the growing global attention to the International Financial Reporting Standards (IFRS) as a tool for ensuring transparency and credibility in financial reporting, in contrast with the increasing prevalence of creative accounting practices that may undermine these standards. The study is theoretically important as it sheds light on the ethical and professional dilemmas associated with creative accounting, and the need to regulate the legitimate use of the flexibility offered by IFRS. On a practical level, the research provides a basis for understanding the extent of professionals' adherence to ethical standards and its impact on protecting investors' interests and achieving sound financial disclosure.

Research Objectives:

1. Clarify the theoretical concept and various forms of creative accounting.
2. Analyze the relationship between IFRS flexibility and creative accounting practices.
3. Evaluate the professional and ethical consequences of these practices on the quality of financial reports.

Research Axe:

Axis 1: Theoretical Framework of Creative Accounting Practices
Axis 2: Flexibility of IFRS and Areas of Professional Interpretation
Axis 3: Professional and Ethical Implications of Creative Accounting

Axis 1: Theoretical Framework of Creative Accounting Practices

Creative accounting is a significant issue in modern accounting, highlighting the gap between technical compliance and true transparency. Although standards promote consistency, the complexity of business operations allows room for flexible interpretations. Sometimes, this flexibility is used to enhance the appearance of financial results. Understanding this requires a clear definition and exploration of the concept's boundaries..

1/Definition and conceptual boundaries of creative accounting

a: Definition of creative accounting: the definition of creative accounting varied from one economist to another, and the most important ones are:

--- Widely considered the father of accounting, Luca Paciolo first introduced the concept creative accounting more than five centuries ago. Summa de Arithmetica, in 1494, was the author's first accounting manual, in which he introduced the practices concerning creative accounting. Recently, accountants, auditors, academics, and other researchers have paid much attention to creative accounting. Such practices originated during the industrial revolution and have continued since then; however, creative accounting has significantly increased since the 1980s . **(Sanusi, 2014)**

-Creative accounting refers to the manipulation of financial information by using the flexibility provided in accounting standards to present a more favorable picture of a company's financial position or performance. This practice typically operates within the boundaries of accepted accounting principles but can distort the economic **.(Al-Hashimy, 2019)**

-It involves selecting accounting methods or timing transactions to achieve desired financial outcomes, often with the intent to influence stakeholders' perceptions or decisions, such as investors, creditors, or regulators **.(Hussein, 2015)**

- Unlike fraudulent reporting, creative accounting does not necessarily violate accounting laws or standards but exploits the gray areas of interpretation and disclosure. It lies between legitimate accounting choices and unethical misrepresentation **.(Cormier, 2006)**

- In literature, the term is often interchanged with "earnings management," "income smoothing," "financial engineering," and "cosmetic accounting." While "earnings management" is more commonly used in U.S. literature, "creative accounting" is the preferred term in European contexts **.(Griffiths, 1986)**

-The use of creative accounting raises ethical concerns about transparency and fair presentation. Although technically compliant, such practices can mislead users of financial statements and erode trust in financial reporting .**(Sohn, 2016)**

- " It is a term used to define some of the accountancy procedures applied by commercial banks administration to make unreal improvements, which are done by exploiting the loopholes, or even using the different accountancy policies alternatives provided by the accountancy standards in making the financial statements" **(I Jeoma, 2014)**

b-Common Techniques of Creative Accounting

Creative accounting techniques operate in the gray zones of accounting standards, enabling firms to shape financial reports strategically without outright violation of norms. Despite compatibility with formal rules, these practices often mislead stakeholders by distorting economic substance.

-Income Smoothing & Big Bath Accounting

Firms smooth earnings by delaying or accelerating the recognition of revenues/expenses to maintain stable reported performance or to take large write-offs in bad years (Big Bath), then boost future profits. This is common in settings with high analyst or investor . (Saleem, 2020)

- **Manipulation of Provisions/Reserves**

Executives intentionally overstate or understate provisions (e.g., for doubtful debts or litigation) to smooth earnings or manage capital ratios. These discretionary reserves are often reversed strategically **(Jones, 1991; Vladu et al., 2017)**

- **Premature or Delayed Revenue Recognition**

Recognizing revenue before delivery or deferring expenses to later periods inflates short-term performance—commonly used to meet quarterly targets or analyst forecasts **. (Cernusca, 2016)**

- **Off-Balance-Sheet Financing & Special Entities**

Companies continue to use SPEs, project financing, or structured leasing to hide liabilities. Though risky, this remains appealing under less stringent enforcement . **(Masli, 2022)**

- **Asset Valuation Bias (Fair Value Judgment**

Under IFRS 13 or IAS 36, managers apply optimistic unobservable inputs (Level-3), delaying impairments or inflating asset values to improve solvency and performance metrics . **(Elmashharawi, 2020)**

Capitalizing Expenses vs. Expensing

Firms capitalize costs like research and development (R\&D) or software that by nature should be expensed immediately; this artificially boosts short-term profits **(Mulford, 2022)**

- **Reclassification of Operating vs. Non-Operating Items**

Reassigning operating expenses into non-operating categories or capitalizing costs improves operating margin appearances without substantive operational change. **(Alhadab, 2023)**

- **Executive Incentives & Share-Based Remuneration Pressure**

Managers holding stock options or share ownership schemes may manage accruals or earnings to influence share price outcomes during option vesting or performance thresholds . **(Hammarbäck, 2020)**

c- Conceptual Boundaries of Creative Accounting

-Between Legitimate Creativity and Ethical Deviation

Creative accounting occupies a grey area between the legitimate use of accounting flexibility and ethical deviation in financial reporting. While certain standards allow for professional judgment and discretion, the intentional exaggeration or selective application of these choices may lead to deliberate financial misrepresentation. **(Mulford, 2022)**

- **Technical and Regulatory Boundaries**

One of the most important conceptual boundaries lies in the fact that creative accounting is generally practiced within the technical framework of Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS). However, in some cases, these practices may extend beyond acceptable limits and become outright fraud, making it difficult to draw a clear line between legality and misconduct. **(Stolowy, 2004)**

-Conservative vs. Opportunistic Earnings Management

Creative accounting practices are sometimes categorized as conservative earnings management, which aims to reduce volatility and provide stability. In other instances, they are opportunistic, used to achieve personal or managerial benefits such as performance bonuses or hiding poor results. This reveals a broad spectrum of motives and consequences. **(Healy, . , 1999)**

- **Motivations and Institutional Context**

The practice of creative accounting largely depends on the organizational context, such as the regulatory environment, governance level, and market pressures. Thus, understanding the conceptual boundaries requires analyzing the specific setting of each firm or industry. **(Schipper, 1989)**

- **Precision vs. Ambiguity in Standards**

The boundaries of creative accounting are also shaped by the clarity or ambiguity of accounting standards. Vague standards or those allowing wide estimation margins increase opportunities for creative accounting, whereas more specific and precise standards limit such practices. **(Nelson, 2002)**

2-- FRAUDULENT FINANCIAL STATEMENTS

Financial statement fraud is the manipulation of the information used to prepare the financial statements released to the public and financial institutions. Manipulating these statements allows the business to portray a better but false financial picture, or to hide a disbursement of money, liabilities or assets: **(Godwin Emmanuel OYEDOKUN, 2018)**

a. Description of Financial Statement Fraud

These frauds involve the manipulation of the information used to prepare the financial statements released to the public or other interested parties. The frauds are generally done to show that some financial target, sales or budget projections have been fulfilled. The intended result is usually either to increase share prices of publicly listed companies or obtain finance on more favourable conditions that would have otherwise been available. Alternatively, the results may be manipulated to show a lower taxable income in order to reduce a tax liability.

These frauds have a number of forms and can be companywide or limited to an area or person within the business. Generally, they fall into either sales and expense manipulation (profit and loss figures), or asset valuation and hiding liabilities (balance sheet items). These frauds focus on one of two main objectives:
i. to make the performance look better than reality (to entice investment or to 'make the figures'); or
ii. to make the performance look worse (to lower the company's tax liability).
The victims of these frauds are usually investors, shareholders or financiers. They lose the value of their investments especially when share prices fall after the frauds are discovered. Theoffender is not the company itself, but some of the people within the company, whether top company officers or other managers in divisions of the business.

b. Categories of these frauds

i. Manipulating Timing
ii. Falsifying Entries

c. Differences between creative accounting and fraudulent accounting.

Creative accounting refers to the use of accounting techniques to present financial information in a way that may enhance a company's appearance without technically violating accounting rules. It involves exploiting the flexibility within accounting standards—such as revenue recognition timing, asset revaluation, or subjective estimates—to portray a more favorable financial position. Although these practices may be within the legal framework, they are often viewed as unethical because they mislead financial statement users and obscure the company's real performance **(Amat, 2004).**
Fraudulent accounting, on the other hand, is an outright violation of legal and ethical boundaries. It involves intentional deception through the falsification of accounting records, misrepresentation of financial data, or deliberate omission of material facts. The primary motive behind fraudulent accounting is to mislead stakeholders—investors, creditors, regulators—for personal or organizational gain. These acts are criminal offenses and can lead to severe legal consequences, including imprisonment and financial penalties . **(Rezaee, 2005)**
The fundamental distinction lies in **intent** and **legality**. Creative accounting operates within the gray areas of accounting standards, often bending but not breaking the rules. In contrast, fraudulent accounting clearly crosses ethical and legal lines. Moreover, the long-term effects of fraudulent accounting can be catastrophic, as evidenced by corporate collapses such as Enron and WorldCom.

3- Motivations and objectives behind creative accounting practices

The basic idea of creative accounting is based on finding the so-called loopholes in laws and accounting standards with the intention of enhancing financial statements and presenting the business in a positive light. Creative accounting can have a positive impact on business, but only when it is applied in a positive sense and in a minimal scope. However, it often happens that companies cross boundaries of minimalism and abuse such practice, which can lead to fatal consequences. One thing is certain, creative accounting most often has a negative effect on financial reporting. In most cases, company management is responsible for the manipulation of financial reporting, as their instructions are followed by the employees responsible for financial reporting. The main motives for applying creative accounting are:
- obtaining personal gain;
- competition;
- attracting investors;
- increasing or maintaining the level of capital;

- buying time for not settling debts;
- beating analysts' forecasts about future company performance.

In order to present their business in the best possible light, companies use various techniques to manipulate financial information. Manipulations usually occur where accounting standards require accounting estimates. The most widely used creative accounting techniques are:

- manipulation of off-balance sheet financing items;
- changes in accounting policies and depreciation methods;
- manipulation of other income and expense items;
- changes in the value of money;
- overestimation of revenues by recording fictitious sales revenues;
- manipulation of receivables write-offs;
- manipulation of accruals. Since creative accounting is increasingly being used in a negative sense, resulting in numerous accounting scandals with huge consequences, it is necessary to establish efficient methods that will limit or minimise manipulation of financial information. Efficient techniques for preventing creative accounting
include: **(Branka Remenarić, 2018)**
- adaptation of accounting standards in terms of limited use of estimates and consistency in the application of accounting methods;
- recognising and insisting on the role of internal and external audit in identifying and reporting unfair estimates, and preventing
accounting manipulations;
- change of audit service providers from one accounting period to another;
- hiring independent directors and members of the audit committee;
- establishing effective corporate governance controls;
- company persistence in developing a whistleblower policy;
- continuously making employees aware of the code of ethics;
- placing emphasis on the development and application of forensic accounting;
- making investors aware of the practice of manipulating financial information;
- consistent enforcement of penalties by national authorities.

Axis 2: Flexibility of IFRS and Areas of Professional Interpretation

One of the most prominent features of the International Financial Reporting Standards (IFRS) is their inherent flexibility, which allows accounting professionals considerable discretion in handling various financial transactions. While this flexibility can enhance the adaptability of financial reports to each entity's unique context, it can also open the door to creative or even manipulative accounting practices if not guided by strict ethical standards. In this regard, professional judgment plays a central role in interpreting and applying IFRS appropriately.

1- Characteristics of IFRS in terms of professional judgment.

Economic changes in companies necessitated the existence of international accounting standards (IAS), also known as financial reporting standards or IFRS. The International Accounting Standards Committee (IASC) and International Accounting Standards Board (IASB) issued various standards to address specific accounting fields. **(Judy, 2012)**

a- Definition of international Financial Reporting Standards (IFRS)

• It is a set of general rules issued by a specialized committee and body determining accounting policies and treatments for financial transactions and events, aiming to provide reliable, objective, and comparative information. (Fadhala, 2023)Issued by the International Accounting Standards Board (IASB) and includes the following: **(IFRS.2019:10)**

• International Financial Reporting Standards (IFRS).
• International Accounting Standards (IAS).
• Interpretations of the International Financial Reporting Standards Interpretations Committee (IFRSIC).
• Previous SIC Interpretations.

These standards are applied to the financial statements (statement of financial position at the beginning of the period, statement of profit and loss, statement of changes in equity, statement of cash flows, notes, comparative information relating to the previous period, and statement of financial position at the end of the period). **(IFRS.2019:10)**

b-. Objectives of financial reporting for general use

Multiple-use categories use accounting information for economic decision-making. Financial statements are prepared and presented by a conceptual framework, identifying current investors, global financial market users, and other financial information users. (Dawood, 2023)-.Suppliers and Trade Creditors: Adopting IFRS standards leads to improved comparison, estimating whether a company will be able to repay debts etc. **(Fadhala, 2023)**

- Customers and lenders: The IFRS enables analysts to give more accurate and less distracting earnings forecasts which in turn will improve the accuracy of analysts' forecasts (Abbas, 2023)

-Audience: Improving the quality of general-purpose financial reporting**.(Fadhala & Saad, 2023)**

The goal is to continuously improve the accounting profession and promote ethical practice in professional organizations.

c-. Characteristics of IFRS in Terms of Professional Judgment

One of the most distinctive features of the International Financial Reporting Standards (IFRS) is the wide scope given to professional judgment in their application. Unlike some national accounting systems that are rules-based and highly prescriptive, IFRS is designed to be principles-based, giving preparers and auditors the responsibility of interpreting standards in light of the specific circumstances of the entity. **(Alexander, 2014)**

Professional judgment under IFRS is necessary at various stages of financial reporting, such as: **(Nobes C. &., 2020)**

-Recognizing and measuring assets and liabilities.
- Assessing materiality.
- Estimating fair values.
- Determining impairment.
- Choosing appropriate accounting policies when alternatives exist.

This flexibility allows IFRS to be applied across diverse economic environments, industries, and entity sizes globally. However, it also places a high demand on the ethical integrity, experience, and technical competence of accounting professionals. Misuse of judgment may lead to earnings management, creative accounting, or even fraudulent reporting, especially when management incentives are misaligned with transparency and accountability. **(Healy, . , 1999)**

In particular, standards like IAS 36 (Impairment of AssetsIAS 38 (Intangible Assets), and IFRS 9 (Financial Instruments) are heavily reliant on management assumptions and forecasts, making them especially sensitive to professional bias. **(IASB, 2023**)

To ensure appropriate use of professional judgment, IFRS encourages full disclosure of the assumptions and methods used. The role of external auditors and regulators becomes crucial in assessing whether judgments are reasonable and in compliance with the spirit of IFRS. Thus, the concept of professional judgment is both a strength and a vulnerability of the IFRS system. **(Tweedie, D. P., & Whittington, G., 2015)**

2- Key areas prone to creative practices

International accounting standards are a fundamental tool for ensuring transparency and reliability in financial reporting. However, their inherent flexibility and reliance on professional judgment allow significant room for the application of creative accounting techniques. Management may exploit this discretion under certain circumstances, either to achieve strategic goals or to mask the company's true performance. Some accounting areas are particularly susceptible to such practices, especially those involving subjective estimates or forward-looking assumptions, such as asset impairment, provisions, and fair value measurement. This section aims to highlight these key areas and analyze how they may be exploited in the context of creative accounting.

a- Asset Impairment (IAS 36)

Asset impairment testing is one of the most sensitive areas subject to creative accounting practices. IAS 36 requires that entities review assets for impairment indicators and estimate recoverable amounts, which involve subjective judgments such as cash flow forecasts and discount rates. Management can manipulate these assumptions to avoid recognizing impairment losses and artificially inflate asset values, especially during periods of financial stress or when seeking to meet investor expectations. **(Epstein, 2010)**

b- Provisions and Contingent Liabilities (IAS 37)

IAS 37 governs the recognition of provisions and contingent liabilities. The standard allows for considerable discretion in estimating the timing and amount of future obligations. Companies may either understate or overstate provisions depending on strategic objectives—such as smoothing earnings or creating hidden reserves for future periods. **(Jones, 2011)**This subjectivity opens the door for earnings management and misrepresentation of financial health.

c- Fair Value Measurement (IFRS 13)

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value accounting, especially for financial instruments and investment property, provides room for subjective inputs—particularly in Level 2 and Level 3 valuations, where observable market data is limited. Manipulating fair values can lead to overstatement of assets or income. **(Nobes C. &., 2015)**

3- Real-world examples from various professional settings.

Real-world cases represent a powerful lens through which we can understand how creative accounting unfolds in practice. Investigations in global financial reporting reveal that manipulative practices are not confined to small firms or weak regulatory environments, but extend to major financial and industrial corporations, which demonstrates the gravity and widespread nature of this phenomenon. **(Griffiths, 1986)**

Example 1: Enron Corporation

Enron is one of the most iconic cases of creative accounting. The company utilized Special Purpose Entities (SPEs) to keep significant liabilities off the balance sheet, portraying a misleadingly healthy financial position. This deception led to the company's collapse in 2001, causing massive investor losses and eroding public trust in the accounting profession. **(Healy, . , 1999)**

Example 2: Germany's Wirecard Group

Germany's Wirecard fraud scandal involved inflated revenues and the recording of fictitious cash balances in Asian bank accounts. Upon exposure in 2020, over €1.9 billion vanished from its balance sheet, leading to the company's collapse and the imprisonment of senior executives. **(Times, Wirecard: Anatomy of a Fraud, 2020.)**

Example 3: Fair Value Pricing in Banks During the Financial Crisis (2007–2008)

During the 2007–2008 global financial crisis, several banks leveraged the flexibility in fair value measurement (then under IAS 39) to reclassify financial assets, thus minimizing reported losses. For example, banks shifted assets from "mark-to-market" to "held-to-maturity" categories to avoid recognizing significant impairments. **(Laux, 2009)**

Example 4: UK-based Tesco Company
In 2014, UK retail giant Tesco admitted to overstating its quarterly profits by around £263 million. This was achieved by accelerating revenue recognition while delaying the recording of associated costs. The revelation triggered a severe investor confidence crisis and a sharp decline in share value. **(News, 2014)**

Example 5: Juhayna Food Industries – Egypt
In 2020, Juhayna faced a governance crisis after the arrest of its chairman, Safwan Thabet, resulting in delayed financial disclosures and reporting inconsistencies. Analysts questioned the accuracy of several items, particularly the valuation of investments and cash flow projections. There was also ambiguity in the presentation of legal and tax risk provisions, raising concerns about the use of creative accounting to conceal the crisis's financial impact, especially given the lack of transparent disclosures during that time. **(Times, Egypt's Business Climate and the Juhayna Case, 2021)**

This example highlights how political and economic pressures may push publicly listed family businesses to manipulate financial statement elements like provisions and cash assumptionsto preserve market image and stock price stability, reinforcing the need for full disclosure and independent oversight . **(]: Elbaz, 2022)**

Example 6: Algérie Télécom – Algeria
Between 2016 and 2019, internal financial reports revealed that Algérie Télécom adopted a flexible approach in estimating provisions for doubtful receivables, particularly from public clients and governmental bodies. The company delayed recognizing adequate provisions despite clear difficulties in collection, allowing it to present inflated operating profits. This is a classic creative accounting practice aimed at enhancing the financial image before supervisory authorities and state auditors.
This case illustrates the challenges faced by public-sector firms in Algeria, often torn between governmental oversight and pressures to show positive results—creating fertile ground for manipulating estimates through discretionary judgment**. (سمي, 2021)**

Example 7: Public University Hospital – Public Healthcare Sector
A field study conducted in a Tunisian public university hospital (2018–2020) uncovered creative accounting practices in evaluating fixed assets. Medical equipment that was obsolete or no longer in use was kept on the books at high carrying values without undergoing proper impairment testing, in an attempt to avoid operational budget cuts, as financial efficiency was tied to maintaining existing asset levels. **(Cherif, 2020)**

This manipulation reflected collusion between administrative and accounting units to avoid accountability before funding or regulatory agencies, underscoring the importance of rigorous application of IAS 36 in non-profit and public entities as well. **(Mekki, 2022)**

Axis 3: Professional and Ethical Implications of Creative Accounting (with a Critical Approach)
Creative accounting does not merely affect numbers on a balance sheet—it challenges the very ethical and professional foundations of the accounting profession. The discretionary nature of many accounting standards provides a grey area where ethical judgment becomes crucial. This axis explores how creative accounting practices compromise the reliability of financial information, examines the responsibilities of accounting professionals in detecting and preventing such behaviors, and critically assesses the role of oversight bodies in maintaining ethical integrity within the financial reporting ecosystem. By adopting a critical perspective, this section highlights the systemic and institutional weaknesses that enable such practices to persist, despite the existence of ethical codes and regulatory frameworks.
1- **Impact on the quality and reliability of accounting information**
a-Quality Financial Information Definition :
the most important definitions are presented as follow:

- " Quality Financial Information is regarded as the credibility of the financial information that is free from misrepresentation coupled with its benefits for the users, developed with certain standards to achieve the predetermined objectives" . **(Habesh Fares, 2018)**
- It is also defined as "the extent to which the financial statements provide fair and trustworthy information about commercial banks performances and financial status**". (Nakib, 2004)**

Taking into consideration the previous definitions, the Quality Financial Information is seen as the credibility amount in the financial statements with its benefits to the users, which are free from any kind of distortion or misrepresentation, developed with certain legal and regulatory standards.

b. Quality Financial Information Importance

The importance of the quality of financial information can be summarized as follow:

- Quality Financial Informationis regarded as a standard that helps to achieve financial information goals.
- It allows to choose the helpful information for the major users to rationalize their decisions i.e. the more useful the
information are, the more helpful they become in rationalizing decisions.
- It is used as a trade-off basis between the accounting methods for measurement and disclosure in the financial statements.

c. The Impact of Creative Accounting

Creative accounting refers to the manipulation of financial reporting within the boundaries of accounting standards but with the intention of presenting a misleading picture of a company's financial performance or position. While not necessarily illegal, such practices distort the reliability, relevance, and comparability of financial statements, compromising their usefulness for stakeholders including investors, creditors, regulators, and analysts **(Jones, 2011)**.

One of the most critical consequences of creative accounting is the erosion of **reliability**—a key qualitative characteristic of accounting information. Financial statements affected by aggressive revenue recognition, off-balance-sheet financing, or the underestimation of liabilities may comply with the form of standards but fail in substance. For instance, the manipulation of depreciation methods or asset impairment can inflate earnings or net asset values, misleading users about the economic reality of the business **(Mulford, 2022)**

Creative accounting also undermines **comparability** between firms and over time. When companies apply accounting treatments inconsistently or use discretionary judgments to achieve desired outcomes, it becomes challenging for external stakeholders to make fair evaluations. This practice hampers benchmarking and may affect decisions related to investment or credit allocation **(Healy, . , 1999).**

Furthermore, the **transparency** of financial reporting is significantly reduced under creative accounting schemes. Transparency involves the full and honest disclosure of relevant financial information. However, when earnings management or financial engineering strategies are used, financial reports may conceal risk exposures, performance weaknesses, or liquidity concerns. This lack of transparency compromises market efficiency and may lead to financial scandals or crises when the reality surfaces **(Schipper, 1989)**.

In addition, the **faithful representation** of financial statements is distorted. This means that the numbers presented no longer reflect economic phenomena accurately. Investors might make decisions based on earnings that are artificially boosted or liabilities that are understated, leading to misallocation of resources and potential financial losses . **(Beasley, 1996)**

Ultimately, creative accounting reduces the **credibility** of the entire accounting system. Once stakeholders become aware of such manipulations, even if minor, trust is damaged not only in the

company concerned but also in the broader financial reporting environment. This could result in a higher cost of capital, increased scrutiny by regulators, and a loss of investor confidence . **(Levitt, 1998)**
Critical Perspective: The International Financial Reporting Standards (IFRS) framework still lacks robust mechanisms to curb manipulations within interpretative margins. This allows certain entities to use professional judgment not as a tool for faithful representation, but as a means of financial distortion.

2- Accountability of Accountants and Auditors in Mitigating Creative Accounting Practices

Accountants and auditors are entrusted with the responsibility of ensuring the accuracy, transparency, and fairness of financial reporting. Their role is not merely technical but also ethical and professional. However, the increasing complexity of financial transactions, the broad leeway in accounting standards (especially under IFRS), and the pressure from management to meet performance targets, have created challenges in fulfilling this responsibility.

Professional accountants may find themselves in ethical dilemmas, particularly when management pressures conflict with their duty to maintain objectivity and integrity. Despite the existence of ethical codes like the IESBA Code of Ethics for Professional Accountants, enforcement remains problematic in many jurisdictions. In practice, auditors may face client retention risks or commercial conflicts that compromise their independence . **(DeFond & & Zhang, 2014)**

Critically, there is evidence that external auditors do not always identify or report aggressive accounting tactics, especially when these fall within acceptable interpretations of IFRS. This raises questions about the effectiveness of audit procedures and the depth of professional skepticism applied in practice. **(Francis, 2004)** In some high-profile accounting scandals (e.g., Wirecard, Steinhoff), auditors were criticized for failing to detect or act on red flags despite their central oversight role.

Moreover, internal auditors who are ideally placed to monitor and report on creative practices often lack the necessary autonomy or support from audit committees, particularly in less regulated markets. This weakens the internal control environment, allowing aggressive or misleading practices to persist unnoticed.

3- Role of Regulatory and Professional Bodies in Monitoring and Reducing Deviations: A Critical Perspective

Regulatory and professional institutions are expected to set high standards for financial reporting and auditing practices. They must also ensure accountability through licensing, inspection, enforcement, and disciplinary mechanisms. However, in many cases, these institutions are reactive rather than proactive.

One major issue is the lack of harmonization and enforcement. Although the IFRS is globally recognized, its application varies widely, and some jurisdictions lack robust supervisory frameworks. Weak enforcement and the absence of punitive measures embolden some entities to stretch interpretative boundaries for self-serving purposes . **(Sikka, 2009)**

Critically, the structure of many regulatory bodies poses conflicts of interest. For instance, in several countries, professional bodies are responsible both for promoting the profession and disciplining members—an inherent contradiction that may hinder effective enforcement. Additionally, regulatory capture by large audit firms or politically connected entities may dilute reform efforts . **(Coffee, 2006**)

Furthermore, the lack of public accountability and limited stakeholder representation within standard-setting bodies such as the IASB has raised concerns about inclusivity and responsiveness. There are calls for a broader reform of accounting governance to enhance transparency, independence, and responsiveness to public interest . **(Bengtsson, 2011)**

In conclusion, while the responsibilities of accountants, auditors, and regulators are clear in principle, practical execution remains fraught with limitations. Strengthening ethical education, reforming oversight structures, and increasing stakeholder scrutiny are essential to prevent the misuse of creative accounting and to restore trust in financial reporting.

Conclusion

In conclusion, this study reveals that creative accounting is not merely a technical maneuver within the boundaries of accounting standards, but rather a multifaceted issue involving professional, ethical, and regulatory dimensions. The analysis demonstrated that the discretionary flexibility embedded in certain international standards is at times exploited to beautify the financial position of firms, which undermines the quality and credibility of financial disclosures. Moreover, the role of professionals and oversight bodies remains central and must be constantly reassessed to ensure the protection of users' interests in accounting information. In light of the above, the following hypotheses will be tested:

Hypotheses Testing

H1: Creative accounting is distinct from fraud or error in terms of motives and techniques.

✓☐ *Partially confirmed*: The study indicates that while creative accounting may not break the law outright, it often blurs ethical boundaries.

H2: The judgment-based nature of IFRS widens the scope for manipulation.

✓☐ *Fully confirmed*: Evidence shows that vague areas like asset impairment, provisions, and fair value valuation are prone to creative practices.

H3: Ethical standards and regulatory oversight help curb creative accounting.

✓☐ *Fully confirmed*: Strong governance and ethical environments reduce manipulation and enhance transparency.

Results

Based on the research, the following findings were concluded:

1. **Creative accounting undermines confidence in financial reporting** by misleading users such as investors and lenders, often resulting in misinformed financial decisions.
2. **IFRS provisions contain loopholes in professional judgment**, particularly in areas like fair value measurement and asset impairment, allowing excessive flexibility.
3. **External auditors do not always detect aggressive accounting practices**, especially when done within acceptable standards, questioning the audit's effectiveness.
4. **Professional accountants often face managerial pressure,** which may compromise their objectivity or silence ethical concerns to protect their careers.
5. **Weak internal control systems facilitate manipulation**, especially in organizations with blurred lines between oversight and executive functions.
6. **Professional ethics are inconsistently enforced**, particularly in developing economies, despite existing codes of conduct.
7. **Some creative accounting is rationalized as cosmetic performance enhancement,** blurring the line between manipulation and legal optimization.
8. **Investors are the most affected by financial misreporting**, as they base decisions on distorted market value, resulting in losses when corrections occur.
9. **The current standards lack consistent global enforcement**, allowing selective interpretation and application across jurisdictions.
10. **Absence of effective accountability reinforces impunity**, as in many cases, perpetrators face no professional or legal consequences.

Recommendations

1. **Revise ambiguous IFRS clauses**, particularly those relying on unverifiable estimates, such as intangible asset valuation.

2. **Enhance ethics education** in accounting curricula and provide ongoing integrity training for professional accountants.
3. **Reevaluate auditor independence**, reducing conflicts of interest by limiting engagement terms with the same client.
4. **Empower independent audit committees** within corporations to monitor sensitive areas and management assumptions.
5. **Enforce strict penalties against harmful creative practices**, such as willful misstatements of provisions or early revenue recognition.
6. **Develop early detection mechanisms** through AI-powered systems and inconsistent ratio analysis.
7. **Mandate detailed disclosure of accounting estimates,** including rationales and boundaries of professional judgment used.
8. **Promote transparency in executive remuneration, l**inking rewards to qualitative performance indicators, not just profits.
9. **Strengthen the independence of professional oversight bodies,** preventing influence from large corporate players.
10. **Work towards global alignment in interpreting and applying IFRS,** especially in judgment-based areas.

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