International Journal of Economics and Financial Issues

ISSN: 2146-4138

available at http: www.econjournals.com

International Journal of Economics and Financial Issues, 2015, 5(2), 544-551.

Creative Accounting and Financial Reporting: Model Development and Empirical Testing

Fizza Tassadaq, Qaisar Ali Malik*

Department of Business & Economics, FURC, Pakistan. *Email: qamalik@gmail.com

ABSTRACT

This paper empirically and critically investigates the issue of creative accounting in financial reporting. It not only analyzes the ethical responsibility of creative accounting but also focuses on other factors which influence the financial reporting like role of auditors, role of government regulations or international standards, impact of manipulative behaviors and impact of ethical values of an individual. Data has been collected through structured questionnaire from industrial sector. Descriptive and inferential statistics were used to generalize the results and conclude the findings. The study concluded that a company is involved in frauds or scandals because of several factors like unethical behaviors, agency problem and non professional attitude. Creative accounting is neither an illegal nor legal only the maximum use of it pushes a company in scandals. Creative accounting plays significant role in financial reporting but has been negatively correlated that means more managers involved in it may decrease the value of financial information. Government regulation/international standards have positive and significant role if it is flexible in financial reporting. As auditor's comment also plays positive and significant role in financial reporting. Ethics plays an important and positive role in financial reporting. The more ethical values mean lesser manipulative behaviors. So the manipulative behaviors only destroy the image of any company.

Keywords: Creative Accounting, Ethical Values, Role of Auditors, Government Regulations/International Standards, Manipulative Behaviors, Corporate Governance
JEL Classifications: M40, M41, M48

1. INTRODUCTION

Aggressive accounting, income smoothing, earnings management and creative accounting are the financial reporting gimmicks used to moderate company's financial reports to encourage investors to buy the company's stocks to increase the firm's market value (Mulford and Comiskey, 2002). These creative accounting practices in financial reporting have been termed as "the art of faking the balance sheet" (Bertolus), "the art of calculating the balance sheet" (Lignon), "the art of presenting a balance sheet" (Gounin), last but not least "the art of saving money" (Ledouble). In this rat race of making money through such practices; sometimes ethics and morals are usually not given due importance. However one cannot deny the pivotal role of ethics and morals because by not following ethics the success proves to be only temporary and short term. Some firms and managers misguide investors by deliberating falsifying the financial records. The type of financial tampering has no place when we study about ethics in creative accounting (Vladu and Cuzdriorean, 2013). So, one cannot deny the significance of ethics of creative accounting in financial reporting. That is why just and fair attitude must be kept in mind while doing financial reporting (Amat and Gowthorpe, 2004). Mostly stakeholders are unable to detect or understand the fact of financial number games because they do not have an accounting background or awareness about creative accounting. So, these kinds of individuals are incapable to do detailed analysis (Breton and Taffler, 1995). The manipulation of financial information depends on manipulative behaviors. One is "macro manipulation" and the other one is "micro manipulation." Macro manipulation is when the policy makers come to know that the changes which are about to be made will not be favorable to them they start lobbying against it. They start convincing their companions to reject the new rules. In micro manipulation the preparers try to hide the true results in order to keep the stakeholders away from the truth and show them the wrong picture on individual level (Gowthorpe and Amat, 2005).

The purpose of ethics in financial reporting with anticipated accounting standards is to re-determine the enterprise on the need to stay in ethics that may help to gain users confidence for company's services (Okafor, 2006). The idea of corporate governance came forward after the great setbacks received due to unethical conducts in accounts. So corporate governance discourages accounting manipulation. Within economics study there is an alliance between corporate governance and creative accounting (Berinde). There are two ways to investigate creative accounting the positive prospective of creative accounting is a primary source or coinage of financial accounting principle and tools to identify changes in macro and micro environment of business and it also gives way that how much change is required in accounting practices. Where as in negative prospective of creative accounting is to attract investors and to gain confidence of stakeholders, the enterprise does not all but some suspicious or unethical practices in their financial statements (Vladu and Matiş, 2010).

The ethical decisions of the auditor are basically formed by the rules, policies and judgments of an organization. These things play a key role in forming the ethical decisions of the auditor forwards a report's fairness. He can decide on these things whether the final statement of the company matches the cash flows and other transaction. For this purpose method of accruals is used as any fraud in the transaction is difficult to find and the management can exploit the timings of changing of a certain transaction (Rabin, 2005). The ethical practices of creative accounting are there basically to help the external auditors to increase their efficiency and accuracy in finding any fraudulent act. It is difficult for people o differentiate between earning management and fraud. For an external auditor it is necessary to be able to differentiate the minor hair line difference between the two. External auditors can do the job of finding out whether it was a fraud or a financial error which resulted in the loss. And in order to stop the future fraud he should be able to find out the methodology of the fraudulent person. And to have the external auditors work at their best the regulators should provide them with the best guidance information and help them as much as they can (Kassem, 2012). After the recognition of major frauds of accounting like Enron and WorldCom in 2002, an improved system of codes and rules was required to avoid this. Major parties like investors, creditors, legislators and workforce took notice of such crisis (Gherai and Balaciu, 2011).

The objective of this paper is not only to figure out the importance of ethics in financial reporting but also point out those factors which cause unethical creative accounting practices. And how to limit those factors which cause unethical practices in creative accounting. And to develop a proposed model of creative accounting practices through literature review.

2. LITERATURE REVIEW

Much has been written on creative accounting. Anglo-Saxon is the first person, who wrote about creative accounting in his literature in 1970s. Watts and Zimmerman (1990) state in their literature about accounting practices and provides guideline about positive creative accounting. In a same manner Shah et al. (2011) concludes that creative accounting is a weapon which is used in a critical situation of a firm. They also conclude that creative accounting is not that bad if firm shows some flexibility in its accounting regulations. It also depends on the ethical environment of any firm that how and why management is using creative accounting techniques as a weapon. Some analyst shows the dark side of creative accounting practices. They think that mostly setbacks happen because of unethical conduct of creative accounting for example Enron and WorldCom etc. As Gherai and Balaciu (2011) predict in their literature, they said that enterprise stake is at risk when it indulges in practices of creative accounting. Because these practices give a firm only short term benefits. At the end enterprise would be surrounded with scandals. So there is really a need of close governance of financial reporting. It also concludes that management should try to find out all those causes which may provoke practices of creative accounting.

Managers and auditors play an important role in any firm. At the end manager gets rewards from the company's performance. Auditor's close supervision may reduce the chances of applying creative accounting. Yadav (2013) finds that involvement of outsides director may reduce the practices of creative accounting. And more the outside users, less creative accounting practices. He says that involvement of professionals in financials decision can build a trust of stakeholders on enterprise. So, qualified accountants can help companies about the use of creative accounting techniques. The study also suggests that corporate governance is a best way to reduce these practices. Kassem (2012) argues that the ethical practices of creative accounting are there basically to help the external auditors to increase their efficiency and accuracy in finding any fraudulent act. It is difficult for people o differentiate between earning management and fraud. For an external auditor it is necessary to be able to differentiate the minor hair line difference between the two. External auditors can do the job of finding out whether it was a fraud or a financial error which resulted in the loss and in order to stop the future fraud he should be able to find out the methodology of the fraudulent person and to have the external auditors work at their best the regulators should provide them with the best guidance information and help them as much as they can.

Yadav et al. (2014) also find the ways that help to reduce the effect of creative accounting on balance sheet. They present quite positive picture of creative accounting practices. According to them creative accounting practices may arise because of agency problem. As Diana and Beattrice (2010) describe the manipulative behaviors of users and also talk about that how could the creative accounting practices be beneficial for the users as well as lead them into crisis.

Amat and Gowthorpe (2004) also analyze that why the company's directors indulge in unethical practices of creative accounting. They also suggest using these creative practices creatively because it is hard to hide financial manipulation from the eye of regulatory authorities. Yet, creative accounting practices are a name of deception and unwanted practices. Largay (2002); Mulford and Comiskey (2002) stated that six principle which show the maximum use of creative accounting practices. For example flexibility in regulation, a dearth of regulations, assumptions about future, use of artificial transaction, timing, reclassification and presentation of financial number games.

Manipulation in financial reporting gives only short term benefit. As Efiok and Eton, (2012) deeply explain about macro manipulation. According to them manipulation of accounts may affect the price of share and capita market of firm. Macro manipulation does increase the risk of investor which may cause loss. They suggested that company should fill the loophole of the regulatory and management decisions, they must be based on actual financial report.

Corporate governance plays pivotal role in any firm's financial decision making. Corporate governance works like top management that manages and controls company performance. Corporate governance evaluates things like "An Eye." According to Romulus, Sorin et al. (2012) working of corporate governance etc all depends on the structure of corporation, directors and their management participation. So, well designed structure of audit denies the practices of creative accounting. That's why corporate governance is a best way to control unethical practices of creative accounting. Almost in same manner Vladu and Matiş (2010) explain the relationship of corporate governance and creative accounting. They relate relationship with agency theory. According to them conflicts between manager and owner may be the cause of creative accounting practices. Because management takes decision to safe their interests instead of owners. According to Bartov and Mohanram (2004), the top management has an advantage of timing their stock in such order that they have option of applying the decision first and then revealing the information. According to research done by Meek et al. (2007) there is direct relationship between a CEO and the stock option compensation and handling of accruals given the condition of huge control of CEO on stock option compensation. For the sake of management rewards, company's good financial performance is very necessary. As higher the profit higher will be reward of manager.

Ethics tells any enterprise that what is right and what is wrong for them. By following right ethics means you are out of crisis. But here right ethics does mean that what is right as an individual prospective. It means perfect way is to consider professional as well as societal ethics. Afolabi and Oluseye (2013) conducted research on manufacturing firms of Nigeria. They concluded that financial reporting does have effect on managerial and investment decision making. They also state high transparency means to avoid corporate fraud. Al Momani and Obeidat (2013) investigate that how much an auditor is ethically capable to detect creative accounting practices. And also find out that how much an auditor's ethics can effect the practices of creative accounting.

On the basis of the above review the holistic view of factors affecting the creative accounting practices in an organization can be safely portrayed as shown in Figure 1.

Theoretical frame work

On the basis of review of literature theoretical framework is developed for testing purposes (Figure 2).

3. METHODOLOGY

Many researchers have conducted research on this topic with different variables and different economic settings. This research is based on quantitative research design. Primary and secondary data has been used. Primary data has been gathered through structured questionnaires where as secondary data has been collected from different published sources. Questionnaire is adopted from the study Lin and Yang (2006). Data collected from industrial sector through questionnaires. Sample was about 120 professionals but we got only 80 professional's response. Multiple regression and correlation analysis is conducted to find out the relationship between dependent and independent variables. Descriptive statistics is used to find out the percentages and frequencies of respondents.

Literature permits developing the hypotheses as under:

1. H1: Awareness of creative accounting techniques has a significant impact on financial reporting.
2. H2: Government regulations or standards have a positive impact on financial reporting.
3. H3: Auditor's comments have a significant impact on financial reporting.
4. H4: Ethical values have a positive impact on financial reporting.
5. H5: Manipulative behavior has negative impact on financial reporting.

4. RESULTS AND DISCUSSION

Descriptive statistics were used to find out the frequency and percentage of responses against various questions. 62.6% of respondents shown their trust on financial information whereas 15.1% so not trust on financial reporting information whereas 22.5% were unsure about it. 77.6% of respondents agreed that financial report is a key element of any company whereas 12.5% disagreed to it whereas 10% remained neutral (Table 1).

While asked about purpose of use of creative accounting in financial reporting; 38.8% respondents said that companies go for creative accounting techniques because of fierce competition; 11.3% respondents said because of the benefit to manipulator; 32.5% respondents said that because of the basic need to chase

Table 1: Trust on financial statements and key elements

	Frequency	Percent	Valid percent	Cumulative percent
Trust				
Completely untrustworthy	3	3.8	3.8	3.8
Untrustworthy	9	11.3	11.3	15.0
Neutral	18	22.5	22.5	37.5
Trustworthy	39	48.8	48.8	86.3
Completely trustworthy	11	13.8	13.8	100.0
Key element				
Strongly disagree	4	5.0	5.0	5.0
Disagree	6	7.5	7.5	12.5
Neutral	8	10.0	10.0	22.5
Agree	25	31.3	31.3	53.8
Strongly agree	37	46.3	46.3	100.0

Figure 1: Conceptual model of factors affecting creative accounting

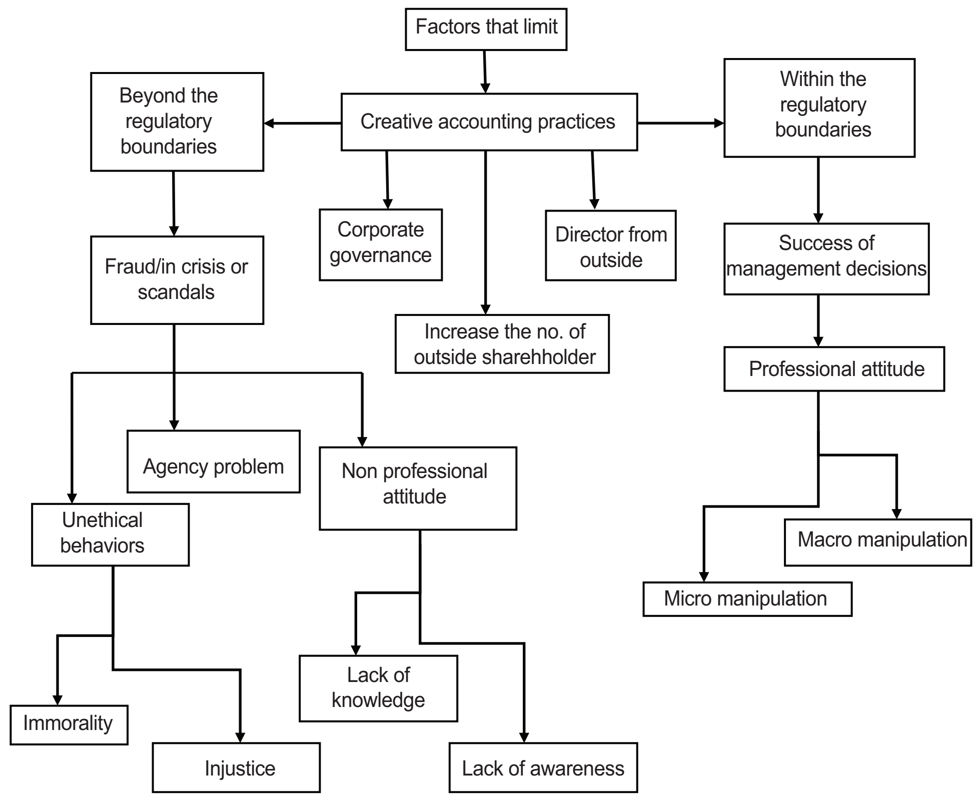
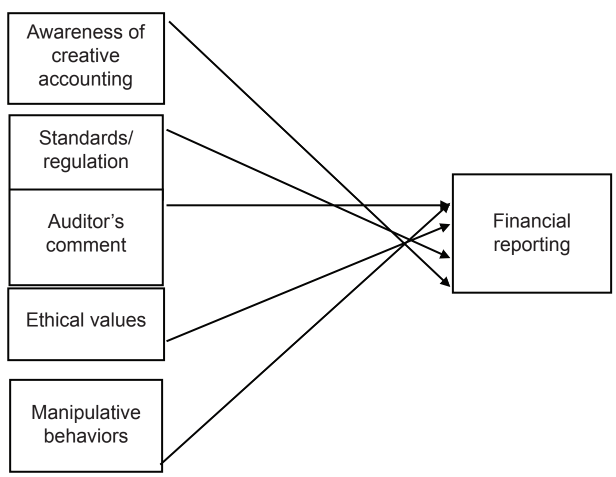


Figure 2: Theoretical frame work



investment and 17.5% respondents said because of the materialize of statement making art. While respondents were asked about ease of using creative accounting techniques for manipulation; 31.3% respondents showed neutral towards putting creative accounting techniques in financial reporting; 32.5% declared it hard to use whereas 36.3% said it to be easy to use in financial reporting. Similarly respondents were asked about ease of detection of creative accounting techniques in financial reporting; 37.5% respondents were neutral towards detection of creative accounting techniques; 37.6% declared it hard to detect whereas 25% said it to be easy to be detected in financial statements (Table 2).

When respondents were asked about the impact of creative accounting techniques on financial reporting while making it

Table 2: Purpose and ease of use of financial statements

	Frequency	Percent	Valid percent	Cumulative percent
Purpose of use				
A fierce competition among companies	31	38.8	38.8	38.8
The benefit of the manipulator	9	11.3	11.3	50.0
The basic need to chase investment	26	32.5	32.5	82.5
The materialize of the statement making art	14	17.5	17.5	100.0
Ease of use				
Very hard	8	10.0	10.0	10.0
Hard	18	22.5	22.5	32.5
Neither	25	31.3	31.3	63.8
Easy	27	33.8	33.8	97.5
Very easy	2	2.5	2.5	100.0
Ease of detection				
Very hard	5	6.3	6.3	6.3
Hard	25	31.3	31.3	37.5
Neither	30	37.5	37.5	75.0
Easy	16	20.0	20.0	95.0
Very easy	4	5.0	5.0	100.0

more attractive than it really is; 65% respondents said that creative accounting techniques have significant impact on financial reporting; 21.3% respondents said that creative accounting techniques have moderately significant impact on financial reporting; 10% respondents said that creative accounting techniques have slightly significant impact on financial reporting whereas 3.8% respondents said that creative accounting techniques have no significant impact on financial reporting. Similarly respondents were asked about whether the use of creative accounting techniques is a good treatment for financial reporting. 42.5% people respond neutrally about it whereas 22.5% disagreed to it that the use of creative accounting techniques is good and 35% agreed to it that the use of creative accounting techniques is good for financial reporting. When asked about how the company may reduce the use of creative accounting; 45% said that the company may reduce the use of creative accounting by strengthening its internal auditors; 10% said that the company may reduce the use of creative accounting by strengthening its external auditors, 28.8% said that the company may reduce the use of creative accounting by improving its accounting standards whereas 16.35% said that the company may reduce the use of creative accounting by increasing punishments (Table 3).

Respondents were asked about which party may suffer from loss due to creative accounting techniques. 17.5% people think that company may suffer from loss due to creative accounting techniques. 12.5% people think that customers may suffer due to creative accounting techniques. 56.3% people think that investors may suffer whereas 13.8% people think that society may suffer from loss due to creative accounting techniques. While respondents were asked about where mostly manipulation is done in financial statements; 42.5% people think that mostly manipulation is done in off balance-sheet financing through creative accounting techniques. 18.8% people think that mostly manipulation is done in depreciation policies. 15% people think that mostly manipulation is done in off balance-sheet financing through extraordinary items whereas 23.8% people think that mostly manipulation is done in off balance-sheet financing through valuation of money. When asked about legality of creative accounting techniques. 35.1% people considered it to be legal, 35% considered it to be illegal whereas 30% were neutral about the legality of it (Table 4).

When asked about trustworthiness of auditors' comments 65.1% shown their trust on it, 17.5% shown their mistrust whereas 17.5% were neutral about trustworthiness of auditors' comments. Similarly respondents were asked about the importance of role of government regulations in preventing creative accounting techniques. 37.5% respondents said that these play an important role in preventing creative accounting practices, 18.8% respondents said that these do not play an important role in preventing creative accounting practices whereas 43.8% respondents said that these play a moderate role in preventing creative accounting practices. When respondents were asked about the usefulness of international standards in preventing creative accounting techniques; 61.3% said it to be useful, 5.1% said it to be useless whereas 33.8% were not sure about the usefulness of international standards in preventing creative accounting techniques (Table 5).

Table 3: Imapct on reporting and usage

	Frequency	Percent	Valid percent	Cumulative percent
Impact on reporting				
Not significant	3	3.8	3.8	3.8
Of little significant	8	10.0	10.0	13.8
Moderate	17	21.3	21.3	35.0
Significant	42	52.5	52.5	87.5
Highly significant	10	12.5	12.5	100.0
Good to use				
Strongly disagree	2	2.5	2.5	2.5
Disagree	16	20.0	20.0	22.5
Neutral	34	42.5	42.5	65.0
Agree	20	25.0	25.0	90.0
Strongly agree	8	10.0	10.0	100.0
Reducing use				
Streng then internal auditor	36	45.0	45.0	45.0
Strengh then external auditor	8	10.0	10.0	55.0
Improving accounting standards	23	28.8	28.8	83.8
Increasing punishment	13	16.3	16.3	100.0

Table 4: Loss suffering, manipulation and legality

	Frequency	Percent	Valid percent	Cumulative percent
Loss suffering				
Company	14	17.5	17.5	17.5
Customers	10	12.5	12.5	30.0
Investor	45	56.3	56.3	86.3
Society	11	13.8	13.8	100.0
Manipulation				
Off balance-sheet finance	34	42.5	42.5	42.5
Depreciation policy changing	15	18.8	18.8	61.3
Extraordinary and exceptional items	12	15.0	15.0	76.3
Valuation of money	19	23.8	23.8	100.0
Legality				
Legal	5	6.3	6.3	6.3
Quite legal	23	28.8	28.8	35.0
Neutral	24	30.0	30.0	65.0
Quite illegal	20	25.0	25.0	90.0
Illegal	8	10.0	10.0	100.0

Table 5: Auditors' comments, government regulations and international standards

	Frequency	Percent	Valid percent	Cumulative percent
Auditors' comments				
Completely untrustworthy	6	7.5	7.5	7.5
Untrustworthy	8	10.0	10.0	17.5
Neutral	14	17.5	17.5	35.0
Trustworthy	33	41.3	41.3	76.3
Completely trustworthy	19	23.8	23.8	100.0
Government regulations				
Irrelevant	5	6.3	6.3	6.3
less important	10	12.5	12.5	18.8
Medium	35	43.8	43.8	62.5
Important	16	20.0	20.0	82.5
Essential	14	17.5	17.5	100.0
International standards				
Useless	1	1.3	1.3	1.3
Quite useless	3	3.8	3.8	5.0
Neither	27	33.8	33.8	38.8
Quite useful	34	42.5	42.5	81.3
Useful	15	18.8	18.8	100.0

When asked about the main manipulators of creative accounting techniques in financial reporting; 28.8% declared accountants to be the main manipulators, 43.8% deemed it to be managers, 17.5% thought it to be auditors whereas 10% said that CEOs are primarily the main manipulator of creative accounting techniques. Similarly when asked about the role of ethics in preventing creative accounting techniques 47.6% agreed to it that ethics may prevent creative accounting techniques in financial reporting, 22.6% disagreed to it that ethics may prevent creative accounting techniques in financial reporting whereas 30% were not sure about it. When asked about the role of ethical values in demolishing use of creative accounting techniques in financial statements; 51.3% agreed that ethical values can help demolish creative accounting practices, 17.5% disagreed to it whereas 31.3% were not sure about it (Table 6).

Inferential statistics results showed that manipulating behaviors and financial reporting are negatively associated though as per through *F* and *t* statistics, the relationship was found insignificant (Table 7).

Table 6: Manipulators, risk reception and ethics

	Frequency	Percent	Valid percent	Cumulative percent
Manıpulators				
Accountant	23	28.8	28.8	28.8
Manager	35	43.8	43.8	72.5
Auditor	14	17.5	17.5	90.0
CEO	8	10.0	10.0	100.0
Risk perception				
Be apt to reject	4	5.0	5.0	5.0
Little	15	18.8	18.8	23.8
Somewhat	32	40.0	40.0	63.8
Much	24	30.0	30.0	93.8
Be apt to use	5	6.3	6.3	100.0
Ethics				
Strongly disagree	5	6.3	6.3	6.3
Disagree	13	16.3	16.3	22.5
Neutral	24	30.0	30.0	52.5
Agree	29	36.3	36.3	88.8
Strongly agree	9	11.3	11.3	100.0
Ethical values				
Strongly disagree	4	5.0	5.0	5.0
Disagree	10	12.5	12.5	17.5
Neutral	25	31.3	31.3	48.8
Agree	26	32.5	32.5	81.3
Strongly agree	15	18.8	18.8	100.0

For the relationship between creative accounting and financial reporting techniques inferential statistics reports that overall model is significant as *P* (0.025) <0.05 and standardized coefficient beta (−0.251) shows negative interaction between predictor (independent variable) and dependent variable (Table 8).

For the relationship between auditors' comments and financial reporting techniques inferential statistics report that overall model is significant as *P* (0.007) <0.05 and standardized coefficient beta (0.299) shows that influence of predictor (independent variable) on dependent variable is positive (Table 9).

For the relationship between ethical values and financial reporting techniques inferential statistics report that overall model is significant as *P* (0.005) <0.05 and standardized coefficient beta (0.312) shows that influence of predictor (independent variable) on dependent variable is positive (Table 10).

For the relationship between government regulations/international standards and financial reporting techniques inferential statistics report that overall model is significant as *P* (0.048) <0.05 and standardized coefficient beta (0.222) shows that influence of predictor (independent variable) on dependent variable is positive (Table 11).

5. CONCLUSION

A person cannot eliminate the creative accounting practices but can reduce the use of it. Firstly As proposed in model, this paper shows both sides of picture of creative accounting practices. Here we only point out that why companies negatively use creative accounting techniques. A company is involved in frauds or scandals because of several factors like unethical behaviors, agency problem and non professional attitude. Unethical behaviors is a cause of lack of moral values which might be individual as well as professional and other one is injustice which forced you to get involved in frauds. Agency problem is another cause of crossing the boundaries of laws or regulations. When manager is not getting his deserved rewards then he negatively uses creative accounting techniques only for his own interest. Non professional attitude may be a cause of crossing the boundaries of laws or regulations. This all happens when wrong person is on the wrong position which means lack of knowledge and lack of awareness of creative accounting techniques.

Table 7: Manipulative behaviors and financial reporting

	Unstandardized coefficients		Standardized coefficients	*t*	Significant
	B	Standard error	Beta	B	Standard error
(Constant)	4.595	0.313		14.681	0.000
Manipulative behaviours	−0.255	0.137	−0.206	−1.860	0.067

[a]Dependent variable: Financial reporting

Table 8: Creative accounting techniques and financial reporting

	Unstandardized coefficients		Standardized coefficients	*t*	Significant
	B	Standard error	Beta	B	Standard error
(Constant)	4.631	0.279		16.625	0.000
Creative accounting techniques	−0.249	0.109	−0.251	−2.285	0.025

[a]Dependent variable: Financial reporting

Table 9: Auditors' comments and financial reporting

	Unstandardized coefficients		Standardized coefficients	*t*	Significant
	B	Standard error	Beta	B	Standard error
(Constant)	2.996	0.405		7.389	0.000
Auditor's comments	0.293	0.106	0.299	2.762	0.007

[a]Dependent variable: Financial reporting

Table 10: Ethical values and financial reporting

	Unstandardized coefficients		Standardized coefficients	*t*	Significant
	B	Standard error	Beta	B	Standard error
(Constant)	2.623	0.345		7.608	0.000
Ethical values	0.289	0.099	0.312	2.903	0.005

[a]Dependent variable: Financial reporting

Table 11: Regulations, standards and financial reporting

	Unstandardized coefficients		Standardized coefficients	*t*	Significant
	B	Standard error	Beta	B	Standard error
(Constant)	3.330	0.386		8.620	0.000
Regulations/standards	0.275	0.137	0.222	2.008	0.048

[a]Dependent variable: Financial reporting

This paper also finds out some other points which limit the creative accounting practices. Corporate governance can control the practices of creative accounting because it works as an eye. If companies can increase its number of outside directors, the social responsibility of company increases because it will be answerable to many of people. If there is a director from outside of the company it may reduce the practices of creative accounting. Secondly, if we talk about results some highlighted outcomes are in front of us. Creative accounting is neither an illegal nor legal only the maximum use of it pushes a company in scandals. If companies strengthen its internal auditors, creative accounting practices may reduce. Lastly it explains the relationship of creative accounting practices, government regulations/international standards, role of auditors, ethical values and manipulative behaviors with financial reporting. Creative accounting plays significant role in financial reporting but has been negatively correlated that means more managers involved in it may decrease the value of financial information. Government regulation/international standards have positive and significant role if it is flexible in financial reporting. As auditor's comment also plays positive and significant role in financial reporting. Ethics plays an important and positive role in financial reporting. The more ethical values mean lesser manipulative behaviors. One cannot deny the role of ethics in company as well as in financial reporting. Now a day's company's ethical values are the way to save a company from scandals and frauds. So the manipulative behaviors only destroy the image of any company.

REFERENCES

Afolabi, A., Oluseye, M. (2013), Effect of financial reporting on investment decision making of manufacturing firms in nigeria. European Journal of Humanities and Social Sciences, 22(1), 1127-1142.

Al Momani, M.A., Obeidat, M.I. (2013), The effect of auditors' ethics on their detection of creative accounting practices: a field study. International Journal of Business and Management, 8(13), 118-136.

Amat, O., Gowthorpe, C. (2004), Creative accounting: nature, ıncidence and ethical ıssues. Journal of Journal of Business Ethics, 57, 55-64.

Bartov, E., Mohanram, P. (2004), Private information, earnings manipulations, and executive stock- option exercises. The Accounting Review, 79, 889-920.

Breton, G., Taffler, R.J. (1995), Creative accounting and investment analyst response, accounting and Business Research, 25(98), 81-92.

Diana, B., Beattrice, V.A. (2010), Creative accounting – players and their gains and loses. Annals of Faculty of Econmics, 1(2), 813-819.

Efiok, S.O., Eton, O.E. (2012), Creative accounting and managerial decision on selected financial institutions in Nigeria. International Journal of Business Research and Management, 3(1), 35-47.

Gherai, D.S., Balaciu, D.E. (2011), From creative accounting practices and enron phenomenon to the current financial crisis. Annales Universitatis Apulensis Series Oeconomica, 13(1), 34-41.

Gowthorpe, C., Amat, S.O. (2005), Creative accounting: some ethical issues of macro- and micro-manipulation. Journal of Business Ethics, 57, 55-64.

Kassem, R. (2012), Earnings management and financial reporting fraud: can external auditors spot the difference? American Journal of Business and Management, 1(1), 30-33.

Largay, J. (2002), Lessons from enron. Accounting Horizons, 16(2), 154.

Lin, J.W., Yang, J.S. (2006), The effect of audit committee performance on earnings quality. Managerial Auditing Journal, 21(9), 921-933.

Meek, G.K., Rao, R.P., Skousen, C.J. (2007), Evidence on factors affecting the relationship between CEO stock option compensation and earnings management. Review of Accounting and Finance, 6(3), 304-323.

Mulford, C.W., Comiskey, E.E. (2002), The Financial Numbers Game, Detecting Creative Accounting Practices. Canada: John Wiley & Sons. Inc.

Okafor, G.O. (2006), The ethics of accountancy profession, Journal of Global Accounting, 2(1), 70-75.

Rabin, C. (2005), Determinants of auditors attitudes towards creative accounting. Meditari Accountancy, 13(2), 67-88.

Shah, S., Butt S., Tariq, Y.B. (2011), Use or abuse of creative accounting techniques, International Journal of Trade, Economics and Finance, 2(6), 531-536.

Sorin, B., Ramona, R.P., Adrian, G. (2012), Qualitative study regarding the relationship between corporate governance and creative accounting. Annals of Faculty of Economics, 1(2), 642-647.

Vladu, A.B., Cuzdriorean, D.D. (2013), Creative accounting, measurement and behavior. Annales Universitatis Apulensis Series Oeconomica, 15(1), 107-115.

Vladu, A.B., Matiş, D. (2010), Corporate governance and creative accounting: two concepts strongly connected? Some interstinginsights highlighted by constructing the internal history of a literature. Annales Universitatis Apulensis Series Oeconomica, 12(1), 332-346.

Watts, R.L., Zimmerman, J.L. (1990), Positive accounting theory: a ten year perspective. Accounting Review, 65(1), 131-156.

Yadav, B. (2013), Creative accounting: a literature review. The SIJ Transactions on Industrial, Financial and Business Management (IFBM), 1(5), 181-193.

Yadav, B., Kumar, A., Bhatia, B.S. (2014), Concept of creative accounting and its different tools. International Journal of Management and Social Sciences Research (IJMSSR), 3(2), 66-74.