Chapter 8
The Effect of Accounting Manipulation on the Business Performances

Ionica Oncioiu
Titu Maiorescu University, Romania

Cristina Maria Ștefan
Valahia University, Romania

Valentin Radu
Valahia University, Romania

Georgiana Burlacu
Valahia University, Romania

ABSTRACT

The dual nature of creative accounting has been intensely debated since its emergence in the Anglo-Saxon economies. The lack of a common accounting language, different accounting systems at international level, applied in different languages, international legislation harmonized more or less correctly, amidst a turbulent economic environment, left room for multiple interpretations and meanings. This chapter presents the advantages of fair value in manipulating business performances by creative accounting, but there are voices that are challenging this concept because of its volatility and tendency to subjectivism, and also manipulating the models used to evaluate balance-sheet structures or profit and loss account. The results show that fair value was introduced by accounting norms in response to the deterioration of confidence in the financial statements and targets a new system for assessing the entity’s assets and liabilities.

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INTRODUCTION

The interests determined by factors such as intensity of competition or increased pressure on businesses to communicate the „digestible” results, especially from investors and analysts, make the information collected by market valuation experts and accountants mitigate the possible effects of creativity (Chen, Qu & Sun, 2017). If the purpose of creative accounting is to improve the accounts (or the image created for the company), taking advantage of the weaknesses and deficiencies of accounting regulation, the authors consider that this concept is nothing new, because the principle of accounting options has been known for a long time (Holthausen & Watts, 2001; Baker & Bettner, 1997; Caylor, 2010).

The emergence of creative accounting was influenced by the flexibility of international accounting rules (Damayant, 2013). Creative accounting is treated in most cases negatively (negative creation), designed to lead to achieving value for intangible assets able to respond to the wishes of managers on the company’s financial position and performance (Doukas, 2014). Simultaneous treatment of creative accounting as a tool to achieve the interests of accounting and accounting engineering is based on the accounting policies adopted by a patrimonial entity to produce and communicate information (Richardson, 2011; Jackson & Liu, 2010; Ball, Li & Shivakumar, 2015).

Accountants who accept the ethic challenge of creative accounting should be aware of the abuse to both the choice of accounting policies and to the handling of transactions (Byard, Li & Yu, 2011). Such accounting has developed mainly in Anglo-Saxon economies due to the freedom of the accounting profession. It was placed on the edge of the legal form and economic substance of transactions and events (Barth et al., 2014). Discussed in terms of accounting practitioners, creative accounting has facilitated the emergence of basic and alternative treatments used to solve problems (Ahmed, Neel & Wang, 2013; Barth, Landsman & Lang, 2008; Fan, Li & Zheng, 2016). Of course, issues of evaluation of assets are cases of creative accounting practice that involve subjective reasoning as it applies to the professional accountant or expert appraiser. Using creative accounting for intangible assets, for example, especially in its gray area favored by accounting rules, makes it difficult or even impossible to guess the true value of these assets (Li, 2010; Ozkan, Singer & You, 2012; Barth, 2013).

In this context, the following questions arise: will we return to accounting at the initial cost, in which intangible assets are recorded at outdated values and are therefore not relevant or reliable? How important are the psychological factors in accounting measurement? Can a model of assessment ensure the maximum quality of the accounting information on intangible assets? The answer to these questions, as well as various controversial issues of the fair value concept of intangible assets, are presented in the current draft of the International Accounting Standards Board (IASB) and the American Accounting Standards Board (FASB). As a result, today, we perceive an accelerated rate of change, aggressive disruptive phenomena and emerging economies that are rapidly developing against the backdrop of a Digital Era (Chen et al., 2010; He, Pan & Tian, 2017).

BACKGROUND

Theme creative accounting practices are addressed by several disciplines: accounting, information technology, psychology and management, but they have grown tremendously in recent decades throughout the entire spectrum of companies (Brown, 2010). Creative accounting is operating at shade where ac-