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CREATIVE ACCOUNTING TECHNIQUES ON EQUITY AND LIABILITIES TO TOURISM ENTITIES

Case Study

Keywords
Tourism,
Travel,
Accounting,
Financial planning,
Capital

JEL Classification
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Abstract

Our research is topical in the context in which accounting takes an increasingly important role in the social life of each individual and implicitly of the society it belongs to and aims to present the alternative accounting concepts and practices of creative accounting on equity and liabilities to tourism entities. In determining the arguments to justify the real need for knowledge in this area we must delineate the research field Creative Accounting. In this sense, the research envisaged a systematization and reconsideration as well a synthesis and antithesis of the concepts presented on this topic in the specialized literature, in the regulations of various professional bodies and authorities. The knowledge of the patrimonial system, of its capacity to generate profits at a time is insured with both accounting and an accurate and effective control.

INTRODUCTION

Today's society is much deeper, it has become one of knowledge, freedom and dynamism, and tourism specifically illustrates its valences. Of course, the journey always meant, in essence, the journey in time and space, discovery, communication and spiritual enrichment.

Both the specialty studies and the practice in the field give particular importance to the preparation of the financial statements, importance given both to those who prepare them and to the users of the financial information.

The "finished products" of accounting are the financial statements which may have a significant impact on society, changing the behavior of individuals, generating significant social implications and changes.

MATERIALS AND METHODS

Knowledge of the patrimonial system, its ability to generate profit at a given moment is ensured by accounting and by a demanding and efficient control.

Given the contradictions in the definition of creative accounting, several researchers have defined as:

- Trotman defines creative accounting *as being a communication technique for improving the information provided to investors* (Trotman, 1993).
- Colasse believes that the expression creative accounting designates "*the practices of accounting informing often at the limit of legality practiced by some establishments that taking advantage of the limits of normalization try to embellish their financial situation and of their economic and financial performance* (Raybaud-Turrillo, Teller, 1996).
- Stolowy reduces the significance of the concept of creative accounting, adding that *"frauds have nothing creative, the practice of accounting options exists for a long time and are not creative accounting, the inherent subjectivity of the evaluation is inevitable and always exists, only few financial mechanisms that generate true creative accounting* " (Stolowy, 1994)..
- Griffiths states that *"any company crops their benefits. The published synthesis documents are prepared on the basis of registers that have been "arranged" in a delicate manner, sometimes even cut. The figures presented to investors have been entirely handled in order to protect the guilty ones- managers* (Griffiths, 1995).

Most of the papers in the field present the negative significance of creative accounting and its use in order to mislead the external users of the synthesis papers.

And yet, authors like Malb and Giot point out that creative accounting should not be assimilated to something negative. Accounting innovation is necessary to keep up with economic, legal and social developments. *"At its origin creative accounting is virtuous: it provides for accounting means to keep up with the increasing development of markets and the proliferation of financial products. The problem derives from the fact that it starts to manifest quickly the instinctive perversity of businessmen* (Malb, Giot, 1995)

Ristea M. gives many examples of manipulation of the accounting truth (Ristea, 2004):

- *application of the options related to permitted accounting policies, basic and alternate treatments;*
- *the preferential application of evaluations in accounting;*
- *asset impairment test;*
- *reevaluation of fixed assets;*
- *changing the evaluation methods for stocks*
- *the subjective evaluation of intangible assets and of financial titles;*
- *changing the rate of depreciation;*
- *flexibility of policies for provisions;*
- *internal prices for asset disposal and between subsidiaries of the same group;*
- *handling accounts by structuring and postponing real transactions;*
- *increasing the difference between the book value and the purchase price by sub-valuing the purchased asset and imputing the difference on the reserves;*
- *erforming "leaseback" operations, through which an asset is soled followed by its lease from the buying company. The effect of such a transaction is to improve the treasury, lower the indebtedness rate and increase the benefit;*
- *mitigating the loss of receivables by subscribing to an insurance, which has the effect of improving the result with the difference between the value of the impairment of the receivable and the premium paid;*
- *the issue of hybrid securities through which companies can convert some debt into equity.*

Accounting engineering is defined by some authors as representing *"the process by which given the existence of loopholes in the rules the accounting figures are manipulated and, taking advantage of the flexibility, are chosen those practices of measuring and information that enable the transformation of the synthesis documents from what they should be what management wants* "or the *„ process by which transactions are structured in a way that „ produces" the desired accounting result* "(Munteanu, Zuca, 2011).

C. Mulford and E. Comiskey (2002) fit the creative accounting practices into five categories:

- *recognition of premature or fictitious income;*
- *aggressive capitalization policies for cost and the use of extended depreciation periods;*
- *misrepresentation of assets and liabilities;*
- *creativity in the profit and loss account;*
- *issues related to cash flow reporting.*

Apart from the opinions on creative accounting in which is perceived as a mechanism for manipulating the information contained in the financial statements, there are other views in which it's perceived as a technique that can lead to the discovery of new solutions to the new emerged problems and to meet the objectives of a true image of the financial position and performance of an enterprise.

„Conducting surveys on tourist activity appears to be a necessity of the modern age, providing public information needs, guiding institutions, both at micro and macro levels, premising of the conduct of other fields that coexist in closely related to tourism - management, marketing, etc.” (Boiţă, Costi, et. all. 2014).

RESULTS AND DISCUSSIONS

Creative accounting is defined as the totality of methods aimed at adjusting the outcome in order to maximize or minimize it or the presentation of financial statements without these two being mutually exclusive.

The creative presentation of accounting information is a complex mechanism that refers to the reasons for making account manipulation, the types of information presented, the types of manipulation related to the presentation of information. (http://www.rasfoiesc.com/legal/contabilitate).

In our opinion, *"the creative accounting is the result of flexibility that exists within the accounting rules which, if applied in good faith helps ensure a true and fair view of the financial position and performance of economic entities"* (Groşanu, 2013).

The notion of creative accounting has several correspondent names depending on the country where they are used as presented in Table 1 (Annex 1).

Users of accounting information can contribute to the use of creative accounting through the excessive importance given to the accounting result. Investors generally seek stable increases in the results and therefore encourage economic entities to smooth their outcomes to meet their exigencies.

Thus, listed companies are afraid to publish volatile results, with dramatic increases and decreases. They prefer to show a slight but steady profit growth from year to year (Feleagă, Malciu, 2002, a).

An entity that publishes steady growth of profit from year to year will be more appreciated than the entity that publishes profits in one year and losses in another year, although their cumulative amount is the same for both entities.

The idea that the entities would act with the intention to smooth their results was suggested by Hepworth (1953) and developed by (Gordon, 1964) with the following theorems (Feleagă, Malciu, 2002, b):

- *the criterion a manager uses in the process of selecting accounting principles is maximizing his own utility;*
- *the utility of the manager increases with the increase of the safety of his position, the share of the profit and the size of the company he is leading;*
- *satisfaction of shareholders, in terms of profit growth rate, is essential for managers to be able to act to achieve their own goals.*
- *an example of smoothing result is Microsoft which delayed recognition of some of the profit from the sale of software products to cover in future years, any upgrade costs.*

In the contemporary economy, physical assets are not the only component of economic entities. Increasingly within economic entities there are presented intangible assets that contribute substantially to the realization of the economic benefits.

If, in the case of physical assets, the issue of valuation and presentation is somewhat resolved, particular issues raise with the recognition, assessment and presentation of the intangible assets of an economic entity.

The extent of intangible assets combined with the relative inaccuracy of accounting rules on these assets, create fertile ground for creating the manifestation of creative accounting.

The way capital is circulated on liberalized financial markets has the consequence of giving absolute priority to the financial factor.

As a result, the goal of maximizing shareholder value serves as a justification for using financial engineering techniques and of the accounting supports associated with them.

The coexistence of different accounting references explains, in part, the growing deviation of creative accounting.

In order to favor their listing on international financial markets and to facilitate comparisons with groups in the same industry, many companies are tempted to use foreign accounting references.

Taking into account the competitive market mechanisms and the tendency of modern states to intervene in the economy with tax, we can easily notice what a significant role the taxes play, whether we refer to direct or indirect ones, being *used as a lever of economic policy through which we can Accentuate or brake certain areas of activity, and increase or curb consumption in a particular category of goods or services* (Todor, et. all., 2017).

CREATIVE ACCOUNTING TECHNIQUES

Considering the double representation of the patrimony of the economic entities in the form of assets, on the one hand, and of equity and liabilities, on the other hand, it is obvious that creative accounting techniques related to fixed assets will, in some cases, affect the size of the equity or liabilities.

For this reason, creative accounting techniques have been approached on the basis of the influence on the balance sheet items and indirectly are also affected the elements of the profit and loss account.

In order to present the creative accounting techniques that have their cause in the situations of freedom allowed by accounting policies and principles, we need to analyze these elements, to highlight their limitations.

Before presenting creative accounting techniques, we first propose a classification of ways in which operations can be reflected in the books, in order to prove the existence of creative accounting and show where it is placed.

I believe that can be distinguish three categories of financial reporting (Dumitrescu, 2014):

- *reflecting the operations as they are, respecting the letter and spirit of the law, making sure that every time you are allowed more accounting options, to choose those that best reflects the true image;*
- *reflecting accounting operations by respecting the rule of law (rather than its spirit), and when they are allowed more choice, more accounting options, to choose those that best leads to what managers want; also, when estimates are to be made, they will bear the mark of subjectivity and try to adjust the result in the way it is desired;*
- *use of forgeries, use of illegal methods which are contrary to the letter of the law and are not admitted.*

Creative accounting techniques on equity and liabilities

The creative accounting techniques with impact on equity or liabilities will be described below.

Capital premiums (Groşanu, 2013)

Capital premiums have the role of creating equality between new shareholders and old shareholders and represent the price paid by new shareholders to become co-owners in an economic entity.

Capital premiums can be used for three purposes: capitalization, switch to reserves or coverage of the expenses generated by the issue and sale of new shares.

The costs of issuing and selling new shares are initially recorded as an asset in the formation costs and hence, there is creative accounting: either the formation costs are amortized and directly influence the outcome or the costs of formation are covered by the issue premiums.

The choice of the second option is justified by the fact that it affirms that it does not affect the interests of any shareholder, but it favors the state by not including the expense and therefore a higher profit tax is paid.

However, by applying this variant, the result remains higher and external users are misled because it gives priority to the variation of the result and less to the variation of the capital premiums.

Provisions policy

Provisions are intended to cover risks, expenses or losses that are uncertain either in terms of their size or when they will be realized.

They occupy an intermediate position between equity and liabilities. By requiring estimates, provisions create conditions for smoothing out the results.

Example: Entity A has a turnover of 1,000 lei in the 1st year and the expenses related to this turnover are 600 lei. It is estimated that in the years to come the sales will fall and it is possible for the entity to enter the area of losses and not be profitable anymore. Thus, entity A decides to make a provision for risks and expenses in year 1 in the amount of 200 lei. In year 2 there is the risk that generates expenses of 50 lei. The actual turnover in year 2 is 700 lei, and the expenses related to turnover are 500 lei (Groşanu, 2013).

Profit and loss account for those two years is as follows: (Annex 2, Table 2).

It is noted that the entity appears to have a particular evolution of the result, but its estimate of the size of the provision is exaggerated if we take into account that the risk has caused an actual loss of only 50 lei. If, say, the maximum supported size of the had to be 100 lei; the profit or loss account would present as follows: (Annex 3, Table 3).

In these circumstances, one can see an involution of the result, which affects investors especially if the entity is listed on the stock market.

Therefore, how accounting estimates are made is fundamental to changing the results.

Sales followed by the return of the sold goods (Groşanu, 2013).

Some entities may have formal or informal arrangements whereby the buyer can return the goods that have not been sold.

In this situation, the seller will draw up a cancellation invoice and the goods will be restituted. In essence, this practice is not intended to influence the results, but can be considered under certain circumstances as a way of smoothing the result if the economic performance is inadequate in the year of sale.

In this way, the profit will be recognized in the year of sale and in the following year, when the return takes place, there will be a decrease in profit. One of the reasons why the annual financial statements are approved after a certain period after the end of the year is to identify events and transactions subsequent to the closure of the exercise but which relate to the year ended in order to influence the outcome of that exercise.

If sales of goods are followed by their return in the following year, prior to the approval of the annual financial statements for the year ended, there are ways of eliminating the effects on the result, as follows: revenues from the sale will be canceled at the end of the year (by registering the reversal invoice issued in the following year), and inventories will be considered as third-party products and therefore the stock changes for the products sold will also be canceled.

The only negative impact on the seller remains the collection of VAT in the sale period but this will be recovered in the year when the invoice is canceled.

Example: In December 2012, 10,000 kg of X finished product are sold at a sales price of 8 lei / kg + 24% VAT. The cost of the products sold is 5 lei / kg. The finished products were totally obtained in 2012. In February 2013, according to the signed contract, 7,000 kg of the products sold in December will be returned. It is required to determine the result in 2012 and 2013 (Grosanu, 2013).

Accounting records in 2012 and 2013 are: (Annex 4, Table 4).

By applying this accounting version, in 2012 gross result is worth 30,000 lei with a turnover of 80,000 lei and 2013 gross result is the loss in value of 21,000 lei as a result of a turnover of -56 000 lei.

It is clearly seen that there isn't fair for 2013 to start from a negative result, and 2012 to have a profit also for the products not sold.

It is true that the situation in 2013 is not known at the time of sale but, as mentioned above, the financial statements for 2013 are finalized several months after the closure of the 2012 exercise so that we can identify the post-2012 events occurring in 2013 but which should be included in the 2012 reporting.

In our example, the turnover of 2012 is overstated, as is the profit and 2013 starts with a handicap generated by the overvaluation registered in 2012.

In essence, the example analyzed can be formulated as follows: In 2012, 10,000 kg of product X was sold, and in 2013 some of these products (7,000 kg) would be returned to the entity.

Therefore, we actually sold 3,000 kg and 7,000 kg we consider to be in custody at the customer.

If you approach the problem thus accounting records in 2012 and 2013 are as follows: (Annex 5, Table 5).

With this way of solving the problem, the result in 2012 is 9,000 lei, corresponding to a turnover of 24,000 lei (the final sale is 3,000 kg and the margin is 3 lei / kg which means a gross profit of 9,000 lei).

If the return of the products is made after the approval of the financial statements, in 2012 there will be a profit of 30,000 lei, with accounting records similar to those in the first variant above, and the refund in 2013 will be treated from the accounting point of view or similar to the approach of the first option, if the amounts are not significant, or by using account 1174.

CONCLUSIONS

The controversies and fiery polemics carried between the different types of thought current or various economists are those that offer a particular charm to the economic science.

Economists have rarely been in a position to share, if not unanimously at the very least, as a majority a common point of view.

Despite all the divergences, one can say that there is a single consensus among economists: everyone agrees that information is an essential element in any kind of economic activity.

Followers of the asymmetric information market theory develop various models that experience the way the economic environment can function in the absence of informational transparency.

However, the traditional approach to information did not definitively surrender and formulated a new theory based on transaction costs.

Often, information is available but is not accessible for free, access to information naturally involves some costs.

Both the economic, legal and social growth, as well as the obligation of information users, has made accounting innovations and the development of creative accounting has been based on this.

Creative accounting will continue to perform to create artifice that seems to bring performance to societies as long as there are professional accountants.

In our opinion the flexibility of international accounting standards is allowing the existence and perpetuation of creative accounting.

Creative accounting is in fact a negative approach that erroneously leads to the preparation of financial statements designed to satisfy the wishes of private managers with regard to the performance of companies.

As a consequence, the financial statements do not reflect the true economic and financial situation of the company but on the contrary shows what the manger wants.

The image presented by an entity through the accounting reports and the quality of the accounting information depends on the professionalism and objectivity of the producers of accounting information, but also on the correct perception of the message transmitted through the accounts by the users of the information, of their qualities and power of understanding.

Management decisions on the quantity, quality and timing of the information supply depends on the cost and benefits of production and dissemination of accounting information.

Accounting policies adopted by an enterprise make it possible to simultaneously treat creative accounting as a tool in the realization of accounting interests on the one hand, but also as an accounting engineering on the other hand to produce and communicate information.

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Annex 1. Table 1

Country	The equivalent of creative accounting
Switzerland	Bilanzmanipulation (manipulation of the balance sheet), Bilanzkosmetik (makeover of the balance sheet), heisse Luft;
Germany	Trickserein, Bilanzartistik, geschonte Jahresrechnung, Serifenblasen
Holland	Winstegalisatie (equalization of profits), Creatif boekhouden, Creatieve jaarverslaggeving,Winststuring, Windstflattering, Verliesmaximalisatie
France	Bricolage, Fabricated accounts, Unlimited creativity
SUA	Cooking the books, fabricated numbers, fiddle the numbers, more debits than credits, earnings management
Italy	Politiche di bilancio
Japan	Furyo Kessan (contabilitate neadecvată), Funshoku (window-dressing), Kara- uri (dummy, „empty sales”), Mae-da-oshi
Australia	Fudging, Manipulative accounting, Feral accounting
Great Britain	Window-dressing, Accounting for profits, Bubbles, Enormities

Source: Audit Committee Newsletter, KPMG, June 2003 quoted by Balaciu D., Bogdan V., Vladu A.B., A brief review of creative accounting literature and its consequences in practice, Annales Universitas Apulensis Series Economica, vol. 11, no. 1, p. 176

Annex 2.Table 2

Elements of revenue and expenditure	Year 1	Year 2
Fiscal value	1.000	700
Income from provisions	0	200
Turnover costs	(600)	(500)
Other operating expenses	0	(50)
Expenditure on provisions	(200)	0
Operating result	**200**	**350**

Source: Groşanu A. (2013). *Creative accounting*. ASE Publishing, Bucharest, p. 15

Annex 3. Table 3

Elements of revenue and expenditure	Year 1	Year 2
Fiscal value	1.000	700
Income from provisions	0	100
Turnover costs	(600)	(500)
Other operating expenses	0	(50)
Expenditure on provisions	(100)	0
Operating result	**300**	**250**

Source: Groşanu A. (2013). *Creative accounting*. ASE Publishing, Bucharest, p. 15

Annex 4. Table 4

<table>
<tr><th>Year 2012</th><th>Year 2013</th></tr>
<tr><td>Registration of production cost
6xx = Miscellaneous accounts 50.000</td><td rowspan="3">Return of products not sold by the customer through issuing a refund invoice
4111 = 701 -56.000
4111 = 4427 -13.440
345 = 711 35.000</td></tr>
<tr><td>Obtaining finished products
345 = 711 50.000</td></tr>
<tr><td>Sale of finished products
4111 = 701 80.000
4111 = 4427 19.200</td></tr>
<tr><td>Unloading the management of the finished product
711 = 345 50.000</td><td rowspan="2">Closure of expenditure and revenue accounts
701 = 121 -56.000
711 = 121 35.000</td></tr>
<tr><td>Closure of expenditure and revenue accounts

121 = 6xx 50.000
701 = 121 80.000</td></tr>
</table>

Source: Groşanu A. (2013). *Creative accounting*. ASE Publishing, Bucharest, p. 15

Annex 5. Table 5

<table>
<tr><th>Year 2012</th><th>Year 2013</th></tr>
<tr><td>Registration of production cost
6xx = Miscellaneous accounts 50.000</td><td rowspan="3">Return of products not sold by the customer through issuing a refund invoice
4111 = 418 -56.000
4428 = 4427 -13.440
345 = 354 35.000</td></tr>
<tr><td>Obtaining finished products
345 = 711 50.000</td></tr>
<tr><td>Sale of finished products
4111 = 701 80.000
4111 = 4427 19.200</td></tr>
<tr><td>Unloading the management of the finished product
711 = 345 50.000</td><td rowspan="3">Closure of expenditure and revenue accounts</td></tr>
<tr><td>Recording invoice from February 2013 (the date of registration is 31.12.2012)
418 = 701 -56.000
418 = 4428 -13.440
354 = 711 35.000</td></tr>
<tr><td>Closure of expenditure and revenue accounts
121 = 6xx 50.000
701 = 121 24.000
711 = 121 35.000</td></tr>
</table>

Source: Groşanu A. (2013). *Creative accounting*. ASE Publishing, Bucharest, p. 15