

**Maria M d lina VOINEA**

School of Economics and Business Administration,  
Faculty of Economics and Business Administration,  
Alexandru Ioan Cuza University of Iasi

# ACCOUNTING - A NORMATIVE REPRESENTATION OF THE ECONOMIC REALITY?

---

## **Keywords**

*Creative accounting*  
*Fraud*  
*Tax evasion*

## **JEL Classification**

*M14*

---

## **Abstract**

*An irony of our times may be that, although hundreds of satellites are monitoring the Earth's activity and that the use of informatics has been generalized, allowing the collection, accumulation, transmission and processing of an impressive volume of data – however, the accuracy of the economic-financial data, remains wedded to the demands of reporting of the results and the handling techniques. Despite the many sources of information, however, financial and accounting information, remains the main source reflecting the economic activity and also the results of those activities, as for their own managers, but also for the great diversity of third parties: customers, suppliers, employees, investors, banks, state institutions, etc.*

*Although sometimes regarded as science or art, accountancy, has managed to make world's biggest economist to have big faith in it. If they don't understand it, they can easily imagine that accounting as science is very precise, similar to math. In reality, the accounting information is neither simple nor accurate and rarely meets all requirements of the various users.*

## 1. INTRODUCTION

Accounting can be considered the representative instrument of the enterprise's life, based on principles, rules and professional judgment. The purpose of the company's accounting representation is the preparation and the presentation of the annual financial statements, which should give users an accurate picture of its activity. However, there are plenty of situations in which the users of the accounting information can be influenced in one way or another, through the presentation of distorted accountants images, so their behaviour can be manipulated. The presentation of artificial accounting images is only to emphasise the information asymmetry and to influence the financial markets operation.

People in charge who control the form and content of the presented financial statements by the corporation, will ensure that they built the perfect picture overall, with the help of their creativity and artistic skills. They'll certainly not make a serious effort to reach out to the users needs.

Accounting emerged from the need to have a long-term record of everything that is going on, in financial and economic terms, in a society. For a good period of time this happened, accounting being considered absolute fairness, winning the confidence not only of specialists from other fields but also of the ordinary people or users of accounting information.

With time, however, more and more scandals were the result of accounting regulations failure, and so, were brought to the eyes of those above appointed, and have spoiled this "immaculate" image enjoyed by the whole phenomenon. Even if "the accounting world" is in one indignant posture, due to the occurrence of many phenomena of the same kind, the specialists, don't want to accept that everything started from them, because of the various stratagems, which have been used in the accounting management, in order to have the desired results, both personally and professionally.

The economic reality is in fact, the sum operations within an economy, and its legal representation, suppose the recording of it, in accordance with the accounting regulations at the time of the economic reality, precisely in

order to provide what it needs and, especially, as it should be. "Normalization is the deliberate applying process of the accounting rules in order to solve problems relating to the production and use of information." [16]

Theoretical and practical development of accounting, needs to be closely dependent on the cultural environment of each country separately, being understood that all its components, such as the economic, tax, political, social and even religious must be specific to each territory. „Choosing and designing an accounting system, needs to take into an account, the fact that no accounting system is perfect for a country economic reality. [...] The design of a national system represents a complex process, both political and strategic, which takes into account the international accounting geography and the particular interests of each country.” [1] It requires a continuous adaptation to everything that appears in the field.

## 2. CREATIVE ACCOUNTING

In the globalization background, characteristic of the business environment, it has to be made a financial information analysis of various corporations. However, this is very difficult due to the lack of a common language in the accounting field, at the international level.

The same events or transactions, take different interpretation in accounting systems from different countries, in different languages, creating a kind of Babel Tower, which emphasizes once again the poor compatibility existing between the applied rules. "For more than 30 years, the world accounting report seems to recede, with the creation of the International Accounting Standards Committee (IASC)." [8]

„The idea of seeing in accounting the language of business” [17] is not recent, the same we can say about normalization, considering the fact that the domain of accounting could not exist without a certain continuity of the rules, which make possible to compare the recorded results, both, in time and space. Due to the growth of multinational businesses, accountants have faced many more unanswered questions than were used to, during the time when the "company" concerned only to

satisfy the diverse needs of the population within the territory of a single country.

Each country has a unique way in which they express their needs and fulfil them. This was reflected in accounting, which needed a lot of uniformity, achieved through the normalization and harmonization rules. Harmonization is “the process by which rules or national norms, different from one country to another, sometimes divergent, are improved for being comparable”. [9]

But, besides this, the accountants were faced with a number of forms, which helped competing firms to show their identity, due to the expanded economic sector to report. The need for accounting information is much faster and diverse, because of managers, that wanted to use it to attract as much third parties as they can and to be different from other firms in the same sector, winning in this way both, at the image level as well as at the financial level.

Thus, in order to meet managers requirements, and not only, the accountants sought different solutions to cope with the rising tide of information requirements. However, considering that they wanted a better image for the enterprise, solutions were innovative, creative, sometimes one step ahead to normalization, without flouting the law, but by taking advantage of their „loopholes”.

And because of the uncertainty that surrounds the space in which they conduct business activity, more and more figures in the financial statements are estimated, because it can't be measured with certainty. Here comes the company manager who chooses from the multitude of accounting policies that respond to his interests, which leads to the thought that the result can be a convenient and not necessarily true. [15]

The process of estimation involves judgments based on the most recent and reliable information available. For example, you can ask estimates for: doubtful customer, stocks moral depreciation, the value of assets and fair financial debt, terms of useful life, as well as the expected consumption of economic benefits, generated by the assets subject to depreciation, obligations arising from warranties, etc.

In other words, there are several ways that accountants have tried to "embellish" or, why

not, to represent an "economic reality" and not the true one. Instead of representing the fair presentation, every accountant, who resorts to these things, makes the representation of a "true image" according with its own economic reality.

Creative accounting is a theorized phenomenon since 1973, but it really brought the attention of the world far more later, with the first signs of uncertainty, related to the ability of the financial and economic environment to keep prices under control, which became unstable on short term, but also the correct measurement of anything that means good owned by an entity. The culminating moment was the outbreak of the economic crisis, due in large part to financial scandals that have taken the use of the techniques on which is based the creative accounting.

The English term „creative accounting” was first used, according to film critic David Ehrenstein, in the 1968 film "The Producers", directed by Mel Brooks. [11] In literature, however, this notion appeared in 1976 in a book written by British researcher John Abrams, who considered that the use of creative accounting is one of the clues that bring into question the economic crisis and that it has a close connection with the incompetence of managers and the decline in business. [2]

Financial and accounting scandals had as starting point the liquidity problems that have faced businesses, which raised a question mark over their future existence. Those concerned, have tried as much as possible to keep the situation under control in order to keep the company afloat, but not all of them have used the legal and generally accepted methods. Corporate governance also did not worked at the required level, shareholders receiving the annual financial statements already handled.

Even if the accounting manipulations do not involves necessarily a bankruptcy firm, they will surely have implications in the future, meaning that a low-credibility of information will result additional costs in the future periods (loans with higher interest rates, for example). All these things have spent maybe and due to the fact that in the world we live, appearance has become more important than existence, accounting being considered “the art of selling the economic performance of the enterprise.” [18]

All that means creative accounting can be considered as having the basis in the positive accounting theory, proposed and debated for years-a row by R. L. Watts and J. L. Zimmerman in two papers, which were made to explain in detail this vision.

We cannot, however, overlook that, positive accounting began to "bloom" since the early 1960s, with the works by Ball and Brown, Beaver, and many others (in 1968), who introduced the empirical financial methods in financial accounting. Further, the literature was based on the idea that accounting numbers offer information regarding the safety decision to invest in the stock market, but also that the forecasting information can help to establish the relationship between stock prices and accounting numbers. [20]

Even if forecasting information, learned the accountant to "read" fair the accounting numbers concerning the stock market and to choose the most appropriate inventory, did not managed to predict and explain accounting choices. Although it has not reached a common ground, regarding the definition of creative accounting, we conclude that we are talking about the use of the knowledge gained by the accountants, to give a solution to the unsolvable problems from the normalization point of view, taking into account primarily the techniques that have the desired effect of specialists and, not only, but also the desired effect when speaking about the performance and financial position of the enterprise. [14]

One important thing is clearly the fact that, for the same problem, creative accounting can easily find at least two ways of solving. At first sight, this seems one negative though, considering the fact that the two solutions have different influences on the financial statements and in consequence, on the company's image and performance. We can understand why creative accounting is not seen with good eyes by almost all the accounting world.

In other words, creative accounting is based on accounting methods and practices that come from standards, with certain additions or deprivation, in order to present the most 'attractive ' image of the company, on performance and financial position.

It shouldn't be understood that everything that accounting is about, is false, reason why, we'll try to show the difference between creative accounting and fraud, lawful or unlawful tax evasion. Tax evasion means when taxpayers end up not fulfilling all or part of the tax obligations. [5]

We can say that dodging is what the State does not wish, but it should not be forgotten that everyone wants to do what they want, regardless of what the State wants. According to N. Hoanță, the State itself may instigate the development of tax evasion because it tries to make as far as possible that contributors consume, even much more that they can afford. We're talking about two things that the State is aimed at „achieving” tax evasion as capital formation and support of interest groups. [10]

Maybe you wonder why we have directed attention to the tax evasion.; because creative accounting is known as „lawful” tax evasion or permissible, legal, if we can see it that way, and fiscal fraud, which is fraudulent, unlawful tax evasion or illegal, which is why we talk about the two forms of tax evasion. [4]

„Lawful” tax evasion means reducing tax base as a result of the "personal" interpretation of the reglementations, with or without intention, without violating the law or being considered as a contravention or offence. [4] So this sort of evasion shows how the tax payers are seeking solutions to take advantage of loopholes and law inconsistency, legal tax evasion appearing most often at the time of the changing regulations. Taxpayers come up with some unexpected combinations of rules, but complying with the letter of the law, the guilt of this sort of evasion being that the legislature has not made more restrictive rules, whose interpretation is clear and concise, without leaving room for interpretation. [4]

E. Dinga considered that we should abandon the term "legal" tax evasion because tax evasion makes reference just for violation of the law, in other words we are dealing with a "legal violation of the law", that is where appears the conflict of terms. [7]

In fact, the idea that tax evasion is subjective and occurs as a result of the incapacity of finding solutions in the accounting rules for solving different problems, but the fact that there

is a certain tolerance in relation to the conduct of the taxpayer which appeals to such techniques, leads directly to the concept we are talking about, creative accounting. [7]

Therefore, through creative accounting we can define those accounting methods and techniques through which you want to obtain results as close as possible to those desired by managers. In other words it takes advantage of gaps, inaccuracies or inconsistency of the tax regulations to minimize as far as possible the impact of the outcome of fiscal pressure for the enterprise. [7]

On the other hand, the illicit tax evasion is considered a „criminal” offence or administrative offence because it involves the evasion of taxes and charges, deliberately, by hiding a portion or the entire taxable object. To define a fiscal fraud we must make the connection between economic theory and economic law, commercial and criminal law, which enforce sanctions on the use of these practices. Evasion is determined by the existing possibilities to commit it, the experience, creativity and intelligence of some of the taxpayers, as well as the legislative vacuum, based on lack of morality, in which some managers emphasized the inequality in the economic system. [5]

Accounting fraud is illegal tax evasion and lies in creating the image of a probative value as such in accordance with the regulations, with false documents having different purposes depending on the desired result, namely the decrease in revenue, the increase of the expenses, establishing unreal balances, or keeping duplicate records, the true one and the false one. [12] In other words, the accounting fraud is a deliberate and premeditated action through the distortion of financial statements, it can be committed both by the management, people that actually do it, but also by the employees, having two forms, fraudulent financial reporting and misrepresentation of assets. [19]

Once we distinguish lawful from the unlawful evasion we must establish the real difference between them, and this is very difficult. It's hard to define what is legal and illegal, and why not, what is the error realized by unintentional accounting and one made

deliberately. We cannot consider that between legal and illegal is delimitation, but rather a continuity. As regards our differentiation we can tell you that when creative accounting is being used multiple times, the taxpayer can get very easy to make the accounting fraud, considering that even the creative accounting may be deliberated done. [10]

One of the problems that arise when the Fisc discovers the use of innovative methods and techniques, is that they are judged in correspondence with the norms in force and not with those existing at the time that they were "created". In other words, it can happen that although at the time the person has taken the decision to use complex operations, they just "taking advantage" of the law gaps, but at the time they were discovered are found to be illegal because the law has changed, and there is the possible occurrence of tax fraud. [3]

### 3. CONCLUSIONS

Contrary to this belief, E. Dinga considered that as long as is said about creative accounting that is "correct", as "just" the intelligent use of the existing loopholes of the financial and accounting rules, and not the violation of them, we cannot talk about tax fraud nor about accounting fraud. [7]

Also, if at creative accounting we can speak about imagination, creativity and innovation, of course, there is nothing creative in fraud, representing only illegal mechanisms to create an "other" reality. [6] In other words, creative accounting is at the limit of what is permitted and what is forbidden by the normative framework, unlike the fraud that is the worst method to use, to manipulate the behaviour of users accounting information. [19]

Even if creative accounting brings adjustments to the company's image, it cannot be put on the same line with fraud, bad faith action that violates the law, because creative accounting takes into account the reglementation, but does not comply with the spirit of it. The techniques used in creative accounting are based on the gaps of accounting rules but also on professional argument. [13]

After the "debate", we consider that the solution given to the question – "Accounting, a

normative representation of the economic reality?" is one with two "answers" ... If we can say so. Normally and correctly, accounting deals with this, to give a common ground of the financial and economic order, so, to be able to offer the "identity card" of each post from the Companies Register. And this is done successfully, until they turn to techniques for the results management, through which the real becomes the faithful image of the owner of the "identity card number". This can be done in time, it becomes a true economic "Utopia", that is why the normative representation can no longer be taken into account.

#### 4. References

- [1] Apostol, C., *Analiza diagnostic a s n t ii financiare a întreprinderii pe baza bilan ului*, Ia i, 2010.
- [2] Argenti, J., *Corporate Collaps: The Causes and Symptoms*, Ed. McGraw Hill Book Co Ltd, Londra, 1976.
- [3] Bi a, C., Costea, I., Capot , M., D nc u, B., *Utilizarea paradisurilor fiscale între evaziune fiscal legal i fraud fiscal* , Ed. BMT Publishing House, Bucure ti, 2005.
- [4] Bistriceanu, Gh. D., *Sistemul fiscal al României*, Ed. Universitar , Bucure ti, 2008.
- [5] Brezeanu, P., *Fiscalitate. Concepte, teorii, politici i abord ri practice*, Ed. Wolters Kluwer România, Bucure ti, 2010.
- [6] Cernu c , L., *Strategii i practici contabile*, Ed. Economic , Bucure ti, 2004.
- [7] Dinga, E., *Considerații teoretice privind evaziunea fiscal vs frauda fiscal* , Studii financiare – Abord ri teoretice i modelare, No. 4, 2008.
- [8] Feleag , N., *Contabilitatea din România la ora convergen elor cu directivele europene i referen ialul interna ional*, România în Uniunea European . Poten ial de convergen , supliment al Revistei de Economie teoretic i aplicat , 2006, p. 94.
- [9] Feleag , N., *Sisteme contabile comparate*, vol. I, Ed. Economic , Bucure ti, 1990.
- [10] Hoanță, N., *Evaziune fiscal Ed. a II-a revizuit i ad ugit* , Ed. C. H. Beck, Bucure ti, 2010.
- [11] [http://en.wikipedia.org/wiki/Creative\\_accounting](http://en.wikipedia.org/wiki/Creative_accounting) , accesat la ora 10:23, în data de 12.03.2012.
- [12] Iordache, E., Bizon, M., Julean, M., Ursu, I., Capot , M., Gearb , R., *Manualul specialistului în fiscalitate*, Ed. Irecson, Bucure ti, 2005.
- [13] Ionescu, C., *Contabilitatea în fața provocărilor ingineriilor financiare*, Economie teoretic i aplicat , No. 5, 2006.
- [14] Malciu, L., *Contabilitate creativ* , Ed. Economic , Bucure ti, 1999.
- [15] Munteanu, V., Zuca, M., *Considera ii privind utilizarea contabilit ii creative în denaturarea informa iilor din situa iile financiare i „maximizarea” performan elor firmei*, revista Audit Financiar, Anul IX, nr. 3, 2011.
- [16] O.M.F.P. 3055, pentru aprobarea Reglement rilor contabile conforme cu Directivele europene, publicat în Monitorul Oficial, Partea I, nr.766 din 29 octombrie 2009, pct. 259, alin. (1) – (2).
- [17] Petri , R., *Armonizarea i convergen a contabilit ii române ti*, Analele Universit ii “ tefan cel Mare”, Suceava, 2005.
- [18] Pigé, B., Paper, X., *Reporting financier et gouvernance des entreprises: le sens des normes IFRS*, Editions EMS, Paris, 2005.
- [19] Rusu, G. A., *Profesionistul contabil între reglementare și raționament profesional*, Ed. Sedcom Libris, Ia i, 2010.
- [20] Watts, R. L., Zimmerman, J. L., *Positive Accounting Theory: A Ten Year Perspective*, The Accounting Review, Vol LXX, No. 1, 1990.