

Factors Affecting Creative Accounting Practices and Means Used to Limit their Effect on the Credibility of Financial Statements

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The research aims to study the foundations of knowledge for creative accounting and factors influencing their practices and means. These means are used to reduce the effect of these practices on the credibility of the data contained in the financial statements of Iraqi government banks. Two main hypotheses were formulated. To test these two research hypotheses, a questionnaire was designed and distributed to a sample of accountants and auditors working in Iraqi government banks. The research concluded that the factors chosen as indicators in the practices of creative accounting in Iraqi government banks had a significant effect and this effect varied from one paragraph to another. In addition, the means or methods that have been tested, had a significant effect on reducing or preventing the practices of creative accounting and minimising their impact on the credibility of the data contained in financial statements.

Key words: *Creative Accounting, Accounting Innovation, Accounting, Financial accounting.*

Introduction

Creative accounting is viewed as a process of converting accounting numbers into a desirable image by working to exploit accounting laws, principles and methods. Thus, the new numbers can give a positive advantage to the economic unit within the limits of generally accepted accounting principles and rules. Creative accounting has gained paramount importance due to the rapid and successive developments that have occurred

in the modern business environment. Scientific and technological developments, communication system, developments in various economic units regardless of their activity or size and world markets need rapid and appropriate solutions by management. Therefore, it has become necessary to keep pace with these change and developments and work towards finding creative solutions which are relevant to address these problems and help in making appropriate decisions at the right time. There is a clear divergence of views regarding the extent to which creative accounting practices have a negative or positive effect on the credibility of financial statements, whether they negatively or positively affect decisions made by users of accounting information. The concept of creative accounting and motives of management to apply it as well as the ethical perspective of creative accounting and practices are the research focus. In addition, the research addresses the factors affecting creative accounting practices by identifying the means that can be used to minimise the effect of these practices on the credibility of the data contained in the financial statements.

Research Framework

The research framework consists of the following:

Study Problem

The research problem implies that the management of economic units aims to achieve specific goals. These goals push management to tackle their data by inventing accurate accounting methods that take advantage of some of the accounting methods and policies or some legal loopholes to achieve these goals. Indeed, these methods have dangerous effects on the credibility of the data contained in financial statements, and thus the users of these statements are affected. Therefore, the research problem can be expressed through the following intellectual questions: What is meant by creative accounting? What are the most important practices of creative accounting? Is it possible to identify the factors affecting these practices in Iraqi government banks? Finally, what are the means that can be used to prevent or limit the practices of creative accounting and minimise their negative effect on the credibility of financial statements in Iraqi government banks?

Research Objectives

The research aims to achieve some objectives including identifying factors influencing management orientations to practice methods of measuring the effect of these factors. In addition, a survey and investigation are conducted through the views of accountants and auditors working in Iraqi government banks. The most important factors that lead to creative accounting practices contain an assessment of methods and means that can be used to prevent or limit the effect of such practices on the credibility of financial statements.

Research Importance

The importance of the research emerges from the variables represented by the practices of creative accounting and the factors affecting it. Potential methods should be used to reduce the negative effect of these practices on financial statements. Therefore, the research deals with a problem of serious effects which can threaten the future of economic units represented by using creative accounting methods in order to manipulate the numbers through exploiting flexibility in the application of accounting principles and rules and various accounting measurements to convert data according to what the management wants and those who prepare the financial reports.

Research Hypothesis

The research is based on two main hypotheses as follows:

- 1- Hypothesis I:** A number of factors have a significant effect on the orientations of the management of economic units to practice creative accounting methods.
- 2- Hypothesis II:** A number of means and method have a significant effect that can be used to minimise the effect of creative accounting practices on the credibility of financial statements.

Research Sample

The research sample is represented by a group of accountants and auditors working in Iraqi government banks, the most important of which are Rafidain Bank and Rashid Bank in the Al-Qadisiyah Governorate.

Theoretical Framework of the Research

Various aspects are discussed within this theoretical framework, as follows:

The Concept of Creative Accounting

In the early 1980s, the concept of creative accounting emerged when economic units faced some of the difficulties represented by the pressures to achieve the best level of profits at the time which were difficult to attain. These units have felt that there was a possibility to achieve the desired profit by following a variety of creative methods or practices. Creative accounting has been viewed as a process through which accountants use their knowledge of accounting principles and rules in order to address numbers recorded in the counts of their economic unit (Naser & Pendlebury, 1992). In other words, it is a set of procedures used to manipulate and modify financial figures through the use of practices and options of accounting principles. Therefore, it is a step towards the management of income or earnings (Amat & Blake, 2005, 22). Consequently, creative accounting is a process of converting accounting figures to a desirable image through the exploitation of principles and laws existing in accounting. Reaching new figures provides a positive feature of the economic unit without prejudice to any accounting principles (Oliver & Amat, 2003, 7). Economic units sometimes resort to trade-off between the accounting procedures to make

artificial or unreal improvement in their earnings and financial position by exploiting alternatives and gaps existing in accounting methods, external audit methods or benefiting from the multiplicity of existing alternatives. Accounting policies that can be followed in the areas of measurement and disclosure followed in preparing financial reports and statements. Thus, these negatively affect the quality of the figures shown by those reports and statements, whether for earnings or financial positions; hence affecting the negative effect on the credibility of financial ratios (Jones, 2007, 81). Therefore, these practices are called creative accounting, which are used to distort real income, assets and liabilities of the economic unit. Furthermore, these practices can provide dubious benefits to maintain economic unit accounts (Breton & Taffler, 2001, 98).

Sen and Lnanga raised the following questions: Are creative accounting practices considered a blessing or a curse? To be a blessing, these practises must improve or modify the accounting system. In this case, this becomes an addition to the balance of accounting knowledge. These practices are considered a curse and undesirable if unethical factors intervene in them and become an exaggeration and a misleading and deceptive state of accounting figures as creativity accounting as a method is not objectionable. However, when unethical factors intervene in creative accounting practices, the resulting financial statements become far from just and credible (Sen & Lnanga, 2000, 4).

Consequently, creative accounting consists of innovative practices through which accountants use their knowledge of laws and accounting rules to tackle the figures recorded in the accounts of economic units or for the purpose of manipulating them in order to achieve specific objectives. Therefore, it can be said that creative accounting includes a set of practices that do not represent a departure from generally accepted accounting principles. It also hides performance problems and reaches desirable objectives which negatively affect the credibility of financial statements, and thus leads to misleading users of financial reports.

Practices of Creative Accounting

Indeed, creative accounting practices affect financial data in financial statements represented by income and cash flow statement and statement of financial position. These practices can be clarified through the following :

Creative Accounting Practices Used in the Income Statement

Many creative accounting practices affect items in the income statement. These practices can be elucidated through the following:

- 1- Recording revenue quickly, despite the sales process is still in doubt: In some cases revenues can be recognised for accounting purposes as a result of the sales process before the process is completed on the ground and also prior to the exchange of benefits (Schilit, 2002, 24)..

- 2- Recording fake revenues within the current accounting period: some economic unit's record fictitious transactions in order to inflate revenues, despite the fact that these transactions are not related to operational transactions. Examples of these transactions include revaluation of some of the balance sheet balances in order to record fake revenues (Clikeman, 2003, 78).
- 3- Transferring current period expenses to prior periods, such as moving prior year expenses through decreasing the allowance or work on the transfer of prior period expenses to the current period,,such as the capitalisation of some operating expenses pertaining to the current year (Sen & Lnanga, 2000, 5).
- 4- Using an artificial cost for rent to block the cost of a new building from appearing in the balance sheet, for example, signing a long - term rent contract, through which payment of annual fixed rent expenses is made and thus get rid of the huge amount of new asset (Gaa & Dunmore , 2007, 3).
- 5- Increasing or decreasing the value of financial estimates during the accounting period, as well as the formation of some allowances and reserves for more or less than their real value (Clikeman, 2003, 78).
- 6- Working on the transfer of the current period revenues to a later period: This method aims to reduce profits of the current period and transfer them to a later period (Howard, 2002, 148).

Creative Accounting Practices Used in Cash Flow Statement

There are many creative accounting practices that affect items in the cash flow statement. These practices are explained by (Robert, 2006, 11) and (Ramanth, 2010, 35) as follows:

1. Currency exchange rates are manipulated to improve the financial and operational position of the economic unit.
2. Cash flows generated from fixed assets are recorded as major operating activities.
3. The payment of liabilities is postponed to reveal cash flows to improve the economic unit's image and display it better.
4. Some of the cash flows are deleted, such as loan interests as well as research and development expenses.
5. Cash assets are increased through working on revealing cash inflows and not showing cash outflows emerging in the cash flow statement during the current accounting period.
6. Self –financing transactions are manipulated through operational activities to improve operational activities and hide real financing activities by deleting and no -recording some of these activities.

Creative Accounting Practices Used in the Financial Position Statement

There are many creative accounting practices that affect items in the financial position statement. These practices can be clarified through the following :

1. Items of intangible assets are evaluated higher than their real value such as trademark. Intangible assets are recognised in contravention of the rules set out by the International Accounting Standards. For example, recognition of the goodwill that has not been purchased (Robert, 2006, 7).
2. Lack of commitment to the historical cost principle in determining asset values in the balance sheet, and also changing the method of depreciation and manipulation of generally accepted depreciation ratios in order to reduce them (Joel, 1985, 76).
3. Bad debts are concealed in order to reduce the allowance for doubtful debts as well as making deliberate errors in the classification of accounts receivables (Joel, 1985, 78).
4. Long - term investments in securities are listed under current or short –term investments to increase the working capital, as well as changing the methods used to account for them by using the equity instead of cost method or vice versa (Oliver, et.al., 1989, 70).
5. Physical inventory reports include items of slow-moving stagnant and obsolete goods, as well as manipulating the evaluation of prices without annual justification (Oliver, et. al, 1989, 73-76).
6. Prior year profits are added to the current year rather than treating them within the retained earnings account in order to increase and improve the profits of the current year (Robert, 2006, 8).

Consequently, the use of these methods can be driven by managerial motives that vary according to sizes, the nature of the activity and sharing of the market of the economic unit. The stability of the level of profits achieved through the belief of management depends on how it fits with the expectations of users of financial reports. To improve the image of performance, various tools must be followed by which to adjust the level of profits from one period to another.

Factors Affecting Creative Accounting Practices

Creative accounting is linked to the introduction of changes and developments in the field of accounting or work policies and procedures in the economic unit, as well as in professional practices and various accounting and managerial expertise. Therefore, this innovation has become representative of a very important competitive advantage and an important tool to manage and tackle various accounting problems within the economic unit through the use of a range of methods to generate creative accounting ideas and benefit from them. The most important factors affecting the creative accounting practices can be explained through the following:

Flexibility in applying accounting and principles of the rule standards: Flexibility means providing freedom to the accountant to choose between different accounting methods, as long as the choice is consistent with generally accepted accounting principles (Merchant, 1994, 94).

- 1- The diversity of alternative accounting measurement and reliance on personal estimates: Accounting based on an accrual basis is characterised by relying on many accounting estimates that are calculated based on the events that occurred in the current fiscal year. This entails obligations to be paid in the future. It also requires an estimate chosen by management which achieves its objectives (Kieso, et. al., 2001, 168).
- 2- Lack of commitment to the application of governance mechanisms: The governance mechanisms used by creditors, investors, shareholders, employees, and other stakeholders to exercise control over the economic unit and management to ensure the protection of their interests within this unit.
- 3- Many users of accounting information do not have cultural elements.
- 4- Audit devices are weak in discovering practices for creative accounting, also existing gaps in the external audit methods are not detected.
- 5- Financial analysts do not pay sufficient attention to the aspects of creative accounting applications and practices.
- 6- The absence of clear penalties, whether administrative or financial upon both accountants, auditors who violate and are complicit with the management of economic units in conducting creative accounting practices.
- 7- Lack of clear penalties on economic units that are proven to practice creative accounting, if these practices affect the credibility of the data included in the financial statements.

From the view of the multiplicity of accounting alternatives and methods, existing flexibility will be within the areas of accounting innovation represented by both accounting measurement and accounting information systems (Balaciu, 2010: 54). If these practices are within the regular framework of accounting, they are considered to be accounting innovation. However, if these practices are outside the limits of the regular framework of accounting they are considered as manipulation and fraud. Therefore, flexibility in the selection of accounting alternatives and the preparation of accounting estimates lead to a fair and true picture for net profit and financial position, so the work would be within the regular framework of accounting and should meet the needs of users of accounting information. However, if flexibility led to misleading the result of activity and financial position, the work would be outside the regular framework of accounting, thus these practices are considered to be manipulative and rather than innovative (Jones, 2007, 82).

Consequently, it can be said that following all legal and regulatory procedures of accounting does not prevent the exercise of techniques and methods of creative accounting in economic units. Since the multiplicity of accounting methods and treatments for one case means

that there are clear shortcomings in the conceptual and practical framework accounting, which provides an opportunity for practicing creative accounting methods.

Methods Used to Limit the Effect of Creative Accounting Practices on the Credibility of Financial Statements

Many methods can be used to limit the effect of creative accounting practices on the credibility of financial statements as follows:

- 1- Reducing accounting measurement alternatives by reducing accounting alternatives and treatments available to accountants or identifying the conditions by which each treatment can be used. Therefore, the International Accounting Standards Committee in the last amendments cancelled the standards of alternative accounting treatments and developed a standardised treatment for each case (Merchant, 1994, 94).
- 2- Limiting the misuse of certain accounting policies: This is completed through the enactment of laws and rules that reduce the use of certain accounting policies. For example, contingency item in the United Kingdom was abolished, as well as working on the activation of the consistency assumption, which is intended so that accountants who prepare the financial statement should be consistent in the use of accounting policies (Balaciu, 2010, 55).
- 3- Working on the development of accounting culture amongst both investors, people in business, and users of accounting information through the establishment of training courses, specialised programs and seminars to educate this group and raise their cultural awareness in the accounting field and explain creative accounting practices and the most important developments in the accounting and auditing fields (Robert, 2006: 8).
- 4- There is a need for audit offices to employ staff with a high degree of competence, integrity and vigilance, where the efficient auditor designs audit procedures to obtain sufficient evidence about distortions arising from the practices of creative accounting (Ramanth, 2010, 36).
- 5- The stock exchange should adopt strict penalties for economic units that are proven to be involved by using creative accounting methods and misleading users of financial statements. (Oliver, et.al.1989, 70).
- 6- Establishing new professional ethical bases and standards related to creative accounting practices and work with the concept and mechanisms of corporate governance to limit the negative phenomena of creative accounting and reduce the damages that may arise from their existence after the economic and financial crises that may hit the economies of many countries and financial collapses in many world markets as well as relying on private sector to increase economic growth rates (Clikeman, 2003, 78).
- 7- Financial analysts should be interested in both aspects of accounting and creative accounting applications.

- 8- Work to activate professional regulations of accounting through tightening penalties on accountants and auditors who are found to be complicit with management in the application of creative accounting methods (Jones, 2007, 81).

Practical Aspect of the Research

This section describes the practical aspect of the research as follows:

Population and Research Sample

The research population consists of accountants and auditors working in Iraqi government banks. For the research sample, a group of Iraqi government banks was chosen, the most important of which are Rafidain Bank and Rasheed Bank in Al-Qadisiyah Governorate. The researchers relied on personal interviews for the research sample in addition to designing a questionnaire form as a source to obtain the necessary data to conduct the research. The questionnaire was subject to content validity and reliability tests. It was presented to a number of arbitrators who were competent and efficient in the field of financial accounting to express their opinions about the suitability of paragraphs to the field to which they belong and their linguistic soundness. The questionnaire was modified according to the opinions and suggestions provided by those arbitrators.

The reliability test is one of the most important elements of testing the quality of a questionnaire. Cronbach Alfa was used to test the reliability of the questionnaire. The calculated Cronbach Alfa for the questionnaire was (0.86) for the study variables. This clearly indicates that the reliability of the questionnaire was high. Thus, the value of Cronbach alpha correlation coefficient is acceptable if it is equal to or greater than (0.75), (Anastasi, 1982, 117).

Five-points Likert scale was used to measure, analyse and interpret the opinions of the research sample. The five-weight levels assigned to the responses were (1) completely disagree, (2) not agree, (3) neutral, (4) agree and (5) completely agree to measure the degree of agreement of respondents.

The statistical package for Social Science (SPSS16 version) was used. A set of statistical methods were used such as the arithmetic mean which is attributed to the greater value of a five-point Likert scale. The study is acceptable if it received the highest percentage of 60% i.e., if the arithmetic mean exceeds three degrees of the scale space. Also, (t) test for one sample was used in order to test the hypotheses of the research through inference about the arithmetic mean of the statistical population and indicate its statistical significance and that the relationships between the variables of the research are real and not due to pure chance.

Results of the Distribution of the Questionnaire and Analysis of the Demographic Characteristics of Sample Members

The questionnaire was distributed to the research sample represented by accountants and auditors in the sample of Iraqi government banks. The results of the distribution of questionnaires to research sample members are shown in Table (1).

Table (1) shows that the questionnaires distributed were (52) forms. The number of questionnaires retrieved and analysable was (50) forms. The percentage of these questionnaires amounted to (96.1%). The questionnaires not returned amounted to two questionnaires, with a percentage of (3.9%).

Table 1: Results of the questionnaire distributed to members of the research sample

Explanation	Frequency	Percentage
Distributed questionnaires	52	100%
Questionnaires retrieved and analysable	50	96. 1%
Not-returned questionnaires	2	3. 9%

Table (2) shows the analysis of the demographic characteristics of sample members with respect to age, gender, educational qualification and years of experience.

As seen from Table (2), (44%) of research sample members are aged between 46-60 d, and (22%) are older than 60. The percentage of males in the research sample s amounted to (30%). The percentage of females was (70%). In addition, the percentage of individuals, responding to the questionnaire who obtained a diploma amounted to (32%) a Bachelor degree (60%) and Master's degree (8%). As a result, respondents were qualified to understand the subject matter. Finally, Table (2) shows that the largest percentage of the research sample regarding years of experience was of 25-35 years, with a percentage of (50%).

Table 2: Analysing demographic characteristics of research sample members.

Explanation	Category	Frequency	Percentage	Cumulated percentage
Age	Less than 25 years	5	10%	10%
	From 25-45 years	12	24%	34%
	From 46-60 years	22	44%	78%
	More than 60 years	11	22%	100%
Gender	Male	15	30%	30%
	Female	35	70%	100%
Educational qualification	Diploma and less	16	32%	32%
	BA	30	60%	92%
	Masters and above	4	8%	100%

Years of experience	Less than 15 years	4	8%	8%
	From 15-25 years	12	24%	32%
	From 26-35 years	25	50%	82%
	More than 35 years	9	% 18	100%

Descriptive Analysis and Test Hypotheses of the Research

Descriptive Analysis and First Hypothesis Test

The first hypothesis states that: There is a significant effect of factors in the orientation of economic unit management to practice creative accounting methods. Table (3) shows the arithmetic mean relative weight and standard deviation of variables of the first hypothesis. The results shown in Table (3) indicate that the arithmetic means of the first hypothesis variables ranged between (3.167-4.556) and the hypothetical mean (3) on a five-point Likert scale which refers to the high level of effect of factors on the practice of creative accounting in Iraqi government banks. Paragraph number (1) came first and achieved the highest weight arithmetic mean mathematically probable, which amounted to(4.566) and standard deviation of (0.674) and a weight percentage reached (91%). This paragraph related to the first factor represented by flexibility in the application of accounting principles, rules and standards. This result means that this is the most influential factor in forcing the management of Iraqi government banks to practice creative accounting.

Paragraph (2) achieved a weighted arithmetic mean of (4.121) and standard deviation(0.576) with a weight percentage of (82%). This factor is represented by the large number of alternatives in accounting measurement and estimate. The least influence factor was indicated in paragraph (6). It is about lacking enough attention by financial analysts of the creative accounting aspects of applications. It achieved the arithmetic mean of (3.167), standard deviation (0.454) and weight percentage (63). As a result, this factor is the least effective regarding the practice of creative accounting .The general index of the arithmetic means was (3.580) and standard deviations (0.506) and weight percentile (71%). The previous table also shows the low dispersion of the research sample responses on the influence of factors concerning the practice of creative accounting, which reflects the consistency and convergence of views of respondents on the level of effectiveness of these factors. The table also indicates the convergence of arithmetic mean values where there were no differences in the views of research sample respondents. In general, all factors have a high relative effect in the practice of creative accounting by the management of Iraqi banks. Therefore, their weighted arithmetic means were greater than the hypothetical mean (3) according to the five-point Likert scale. However, the percentage of effect varies from factor to factor.

Table 3: Arithmetic mean, relative weight and standard deviation of the first hypothesis variables

Paragraph	Arithmetic mean	Relative weight	Standard deviation
Flexibility in applying accounting principles, rules and standards	4.566	91%	0.674
Frequent alternatives in accounting measurement and estimation	4.121	82%	0.576
Failure to implement corporate governance mechanisms	3.244	65%	0.458
Weak accounting culture amongst users of financial statements	3.221	64%	0.456
Weak auditor role in revealing creative accounting practices	3.762	75%	0.513
Financial analysts are not interested in the aspects of creative accounting applications	3.167	63%	0.454
Lack of clear penalties for practitioners of creative accounting methods	3.201	64%	0.456
Failure to tighten penalties on banks that practice creative accounting	3.362	67%	0.466
Overall indicators	3.580	71%	0.506

For the first hypothesis test using (*t*) test, the null and alternative (existence) hypothesis must be determined as follows:

- 1- Null hypothesis (H_0): There is no significant effect of a number of factors in the orientation of the management of Iraqi government banks for practicing creative accounting methods.
- 2- Alternative hypothesis (H_1): There is no significant effect of a number of factors in the orientation of the management of the Iraqi government banks to practice creative accounting methods.

The results of the first hypothesis test can be illustrated in Table (4). It shows the one sample (*t*) test used regarding the first null hypothesis. The values of calculated (*t*) were greater than the tabulated value, in addition the associated significance values were all less than the significance level which was used in the test of (0.05). The decision rule of (*t*) test this result leads to rejecting the null hypothesis (H_0) at the sample level covered in the research and accept the alternative hypothesis (H_1) that a number of factors have a significant effect on the orientation of the management of Iraqi government banks for practicing creative accounting methods.

Descriptive Analysis and Testing Hypothesis II

The second hypothesis states that “There is a statistically significant effect of a number of means and methods that can be used to limit the effect of creative accounting practices on the credibility of financial statements. The arithmetic means, relative weight and standard deviation of the variables of the second hypothesis are shown in Table (5).

Table 4: Results of the first hypothesis test

Paragraph	Calculated (<i>t</i>) Values	Significance level	Result (Decision)
Flexibility in applying accounting principles, rules and standards	16.429	0.05	Reject the null hypothesis and accept the alternative Hypothesis
Frequent alternatives in accounting measurement and estimation	13.761	0.05	
Failure to implement corporate governance mechanisms	3.767	0.05	
Weak accounting culture amongst users of financial statements	3.721	0.05	
Weak auditor role in revealing creative accounting practices	10.503	0.05	
Financial analysts are not interested in the aspects of creative accounting applications	2.901	0.05	
Lack of clear penalties for practitioners of creative accounting methods	3.116	0.05	
Failure to tighten penalties on banks that practice creative accounting	5.492	0.05	
Paragraph	7.461	0.05	
Tabulated (<i>t</i>) value was 2.704 at the significance level of 0.05			

The results contained in Table (5) indicate the arithmetic means of research variables with regard to measures or means through which the creative accounting practice was strived or prevented. These arithmetic means range between (3.112-4.121) and the hypothetical mean of (3) on the five-point Likert scale which refers to the high level of the importance of the means mentioned in striving or preventing the practice of creative accounting by Iraqi banks. It is clear from table (5) that paragraph (1) came first which achieved the highest weighted arithmetic mean of (4.121), standard deviation (0.576) and a weight percentage of (82%). These relate to reducing the number of accounting alternatives and treatments available and identifying the conditions in which each treatment can be used. This implies that this mean is very important in deterring accountants and auditors not to engage in creative accounting.

Table (5) also shows that paragraphs (3) and (8) achieved a weighted arithmetic means of (3.702) and (3.762), standard deviation (0.513) and (0.504) with a weight percentage of (75%) and (74%) respectively. These results represent the development of accounting culture amongst users of financial statements and the tightening of sanctions on accountants and auditors who were involved in compacting with the management of banks in the application of creative accounting.

Table 5: Arithmetic mean, relative weight and standard deviation of the second hypothesis variables

No.	Paragraph	Arithmetic mean	Relative weight	standard deviation
1	Reduce the number of accounting alternatives and treatments available and identify the conditions under which each treatment can be used	4.121	82%	0.576
2	Consistency in the use of accounting policies adopted as a method of calculating depreciation on assets and the methods of valuation of inventories	3.421	68%	0.471
3	Development of accounting culture amongst users of financial statements	3.762	75%	0.513
4	Training auditors to discover creative accounting methods	3.112	62%	0.453
5	The Stock Exchange adopts deterrent penalties for banks found to be involved in creative accounting methods	3.181	64%	0.455
6	Implement corporate governance mechanisms	3.362	67%	0.466
7	Interest of financial analysts in aspects of accounting applications and methods of creative accounting	3.466	69%	0.694
8	Severe penalties for accountants and auditors complicit with the managements of banks in the application of creative accounting methods			
	Overall indicators	3.702	74%	0.504

However, the least important means was referred to in paragraph (5) which relates to the adoption of the Stock Exchange deterrent penalties for banks found to be involved in the use

of creative accounting methods. This paragraph achieved an arithmetic mean of (3.181), standard deviation (0.455) and relative weight of (46%). As a result, this method is the least important in combating or preventing the practice of creative accounting. The table also shows the low dispersion of responses of the research.

Table 6: Results of the second hypothesis test

No	Paragraph	Calculated (t) Values	Significance level	Result (Decision)
1	Reduce the number of accounting alternatives and treatments available and identify the conditions under which each treatment can be used	13.761	0.05	Reject the null hypothesis and accept the alternative hypothesis
2	Consistency in the use of accounting policies adopted as a method of calculating depreciation on assets and the methods of valuation of inventories	6.320	0.05	
3	Development of accounting culture amongst users of financial statements	9.848	0.05	
4	Training auditors to discover creative accounting methods	2.784	0.05	
5	The Stock Exchange adopts deterrent penalties for banks found to be involved in creative accounting methods	2.812	0.05	
6	Implement corporate governance mechanisms	5.492	0.05	
7	Interest of financial analysts in aspects of accounting applications and methods of creative accounting	10.503	0.05	
8	Severe penalties for accountants and auditors complicit with the managements of banks in the application of creative accounting methods	4.748	0.05	
	Overall indicators	7.033	0.05	
Tabulated (t) Value was 2.704 at the significance level of 0.05				

The table also indicates the convergence of arithmetic means values in that there were no differences in the views of respondents of the research sample. In general, all the means had high relative importance in combating or preventing the practice of creative accounting by the managements of Iraqi banks, where the general index of their weighted arithmetic means amounted to (3.515) which was greater than the hypothetical mean of (3) according to the five-point Likert scale. However, relative importance varies from one means to another. For the second hypothesis test using (*t*) test, the second null hypothesis and the alternative hypothesis must be determined, as follows:

1. Null hypothesis (H_0): There is no significant importance for a number of measures and methods to combat or prevent the exercise of creative accounting in Iraqi government banks.
2. Alternative Hypothesis (H_1): There is significant importance for a number of measures and methods to combat or prevent the exercise of creative accounting in the importance of Iraqi government banks.

The results of the second hypothesis test can be illustrated in Table (6). The Table shows the (*t*) test for one sample used regarding the second null hypothesis. The values of the calculated (*t*) test were greater than the tabulated values. In addition, the significance values associated with all of them were less than the significance level used in the test, which was (0.05).

According to the decision rule of (*t*) test, this result leads to rejecting the null hypothesis (H_0) at the sample level covered in the research and accepting the alternative hypothesis (H_1). Hence it is proved that there was a significant importance to a number of methods in combating the practice of creative accounting in Iraqi government banks.

Conclusions and Recommendations

The research reached a number of conclusions and suggests some recommendations.

Conclusions

A number of conclusions were reached through the research as follows:

- 1- Creative accounting is a set of methods and procedures undertaken by the management of economic units to obtain benefit for some of the stakeholders in these units. These methods and procedures have numerous risks such as loss of confidence in the economic unit and thus weakening the competitive advantage of these units and their ability to continue.
- 2- The research sample agreed on the factors under consideration that have a high effect in the practice of creative accounting methods in Iraqi government banks and their effects vary between factors.
- 3- The factors of flexibility in the application of accounting principles, rules and standards, multiplicity of alternatives in accounting measurement and estimate, and the absence of strict penalties for those who practice creative accounting methods

were the three most influential factors in the practice of creative accounting in Iraqi banks.

- 4- The techniques and methods to combat or prevent the practice of creative accounting that were studied were of great importance from research sample respondents in facing creative accounting methods in Iraqi banks and the degree of their importance varies from one means to another.
- 5- Activating the role of professional regulation by tightening penalties imposed on accountants and auditors who are complicit with bank management in practicing creative accounting methods, reducing the choice of accounting alternatives and treatments, and adopting deterrent penalties by the financial stock exchange regarding the banks proven to be involved in these practices. These procedures, no doubt, will limit or reduce the application of creative accounting methods.

Recommendations

In light of the conclusions reached, the research recommends the following:

- 1- The issuance or amendment of certain accounting standards by professional organisations and the Accounting Standards Committee to legalise management's ability to manipulate financial statements and establish adequate controls to use available accounting alternatives in the field of accounting measurement. This could reduce the use of some accounting policies that are wrongly exploited, as well as activate the consistency assumption in the use of certain accounting policies.
- 2- Attention should be given to sound preparation of auditors and raise their professional competence and focus on strengthening and upgrading as well as enhancing their ethical behaviour for the purpose of adhering to international accounting laws, policies and standards and thereby reducing or preventing the risk of creative accounting practice.
- 3- The importance of the role of Accountants and Auditors' Association, to conduct educational sessions for its members so that the negative effects of the practice of creative accounting methods on the profession of accounting and auditing are shown.
- 4- The role of professional organisations should be activated regarding the introduction of legislation that includes penalties impressed on accountants and auditors who are found to be involved with the management of economic units that practice creative accounting applications.
- 5- The role of the financial stock exchange should be active in the provision of legislation, including deterrent penalties for economic units engaged in methods of creative accounting.



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