

FEATURES OF CREATIVE ACCOUNTING AS AN ELEMENT OF ACCOUNTING SCIENCE

The modern system of accounting regulation and accounting regulation has created the preconditions for the creation of such a balance sheet policy, which has given rise to a new direction in accounting "creative" accounting [1, p. 131]. At present, the ability to obtain complete and transparent information on the activities of various organizations is a guarantee of market stability, as creative accounting embodies a fine line between acceptable accounting methods and fraudulent practices.

Practices of the above stated phenomenon has been among the most important topics on the worldwide agenda since the collapse of major US companies, such as World.com, Enron and Xerox. These companies differ a lot in their cores and operations, but share the same wreckage causes, which is the creative accounting. But before discussing the modern tendencies it is important to unveil the history of creative accounting and its theoretical basis.

Further research of the creative accounting problematic can find reflection in systematization of this definition, uncovered in the works of foreign scientists. Despite the ability of differences of typical groups of defining the «creative accounting» there could be outlined the most common features of this phenomena:

1. Confession of creative accounting assumes the existence of the objective truth, which is attainable as the result of following all the accepted accounting principles;

2. Positive aspect of creative accounting is observed in using of the professional judgment of the accountant in order to reflect in the reports legal, economic and financial innovations which do not have yet the appropriate accounting regulation rules;

3. The basement of creative accounting is embodied in loopholes and ambiguities of regulation principles;

4. Both negative and positive aspects are admitted, sometimes the usage of creative accounting is even approved under certain circumstances;

5. Creative accounting is aimed at distortion of financial figures in the interests of company's management. Where in the management is oriented at the creation of the desirable perception of financial statements by the most influential stakeholders or smoothing of non-distinctive deviations in financial data, prevention of short-term tendencies in decision making and negative reactions of stakeholders;

6. Creative accounting is based on deep knowledge of accounting legislation and adept use of accounting tools and instruments, complex analytical elaborations enabling the data transformation.

Despite the fact that the majority of creative accounting essential



characteristics are not directly connected with the intent to conform the concept of reliable and conscientious sight of financial reports, the features themselves do not univocally testify about the presence of distortions aimed at damaging the stakeholder's interests. Leaning on the investigations of foreign authors, the essential features of creative accounting can be formulated the following way:

- requires deep knowledge of legislation and accounting standards, expertise and skills of its application, as well as decision reasoning;
- appears as a driving force, catalyzing further development of accounting theory and methodology;
- the application area is out of the force of imperative norms of current legislation or in cases authorized by law and reporting standards implies withdrawal from imperative norms.

Consistently analyzing the essence of creative accounting there can be outlined its major dignities and drawbacks:

1) Virtues:

- ensures the opportunity to boost the development of accounting on the morrow of business amplification;
- eliminates the probability of drab mistakes in financial statements, which are inevitable in case of sticking to accounting regulators' rules;
- allows to tailor the accounting system for the needs of each company and ensure following the principles of neutrality, information credibility, timeliness of data submission and disclosure.

2) Drawbacks:

- high risks of veiling and falsifications in financial statements;
- subjectivism and conventionalism of financial reporting data.

From the accountant's side motives can be proper (the degree of professionalism, following the ethical standards) and imposed (direct administration and owners pressure).

In order to present business in a positive light, companies use various methods of creative accounting. The basis for manipulative procedures lies in accounting estimates that are permitted within accounting standards. The techniques used in creative accounting relate to manipulation of off-balance sheet financing items.

Implemented in a minimal scope and with positive intent, creative accounting can be considered a good practice, however, as it is often misused, it becomes necessary to insist on measures that will diminish the practice of manipulating financial statements by companies in order to reach the desired goals. Such measures include adaptation of accounting standards in the sense of limiting the use of accounting estimates, and establishing consistency in the application of accounting methods.

References:

1. Konon Bagrii (2021). Evolution of Creative Accounting and Ways of Its Improvement. *Visnyk Chernivets'koho torhovel'no-ekonomichnoho universytetu [Bulletin of the Chernivtsi Trade and Economic Institute]*, vol. IV (84), pp. 129-144 (in Ukr.).

