

CREATIVE ACCOUNTING PRACTICES IN INDIA: A STUDY

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Abstract

"By and large, every set of published accounts in the corporate world have been based on books of accounts, which have been gently cooked or completely roasted. Shockingly, few loopholes in the accounting standards provide enough room for the use of "Creative Accounting (CA)" practices. Thus, CA practices do not provide a "true and fair" view of the FS(s), since lot of crunching of financial numbers is done, within the purview of applicable laws and prevailing accounting standards. Recently, the use of CA has become a controversial issue since there are parties, both in favor and against, the use of such practices. The practice of CA is always a deliberate attempt to gain undue advantage for accountants, managers and companies. Therefore, strong punitive measures should be promptly taken against all those found culpable in the act of CA. We recommend that "effective rules and regulation of accounting, audit and CG practices should be put in places, within the corporate-sector, to forestall the negative incidence of CA practices in India." The paper analyses the meaning of Creative Accounting and its presence in India. It also focuses on the techniques of creative accounting and suggestions to curb the CA practices in India."

Keywords: Creative Accounting, GAAP, IFRS, Corporate Governance, Forensic Accounting.

Introduction

Creative accounting is also known as earning management and referring to accounting practices that follows the letter of rules of standard accounting practices but certainly deviate from the spirit of those rules. Creative accounting practices are different from fraudulent practices and thus are not illegal but immoral in terms of misguiding investors. The practices, which are followed in manipulating the books, are duly authorized by accounting system and thus cannot be considered as violation of any rule or regulations. It is characterized by excessive compliance and the use of novel ways of characterizing income, assets, or liabilities and the intent to influence readers towards the interpretations of desired results. Creative accounting is root cause of number of accounting scandals and many proposals for accounting reform are focusing on removing such practices. Financial statement is the result of the financial accounting process that accumulates, analyzes records, classifies, summarizes, verifies, reports, and interprets the financial data of a business firm, which reflect the financial position, performance and change in financial position of an enterprise. However, in recent years, creative accounting is becoming increasing popular running through companies, which lead to considerable allegation about the practice of creative accounting. Companies are able to manipulate the financial statements through various types of creative accounting techniques. It attracts more and more attention in the whole financial market and its presence distorts the true and fair view of the financial position of companies, and may cause serious corporate failure.

Definitions of Creative Accounting

Creative accounting is referred to also as income smoothing, earnings management, earnings smoothing, financial engineering and cosmetic accounting. The preferred term in the USA, and consequently in most of the literature on the subject is 'earnings management', but in Europe the

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