

**PERCEPTION OF CREATIVE ACCOUNTING: GAP ANALYSIS –
SOLUTION AMONG AUDITORS AND ACCOUNTANTS IN
BANGLADESH**

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A Thesis Submitted to Asia e University in
Fulfillment for the Requirements for the
Degree of Doctor of Philosophy

24 May 2016

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ABSTRACT

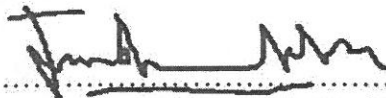
Creative Accounting is the practice that accountants and auditors may do in order to provide a rosy picture of the financial statements but of course keeping within the parameter of the accounting rules and regulations as laid down by International Accounting Standard , Bangladesh Accounting Standard or even Generally Accepted Accounting principles. The inception of creative accounting practice can be traced back to the times of Luca Pasioli when the double entries of the book keeping system emerged and even beyond that.

The main purpose of the study was to investigate the perception of the accountants and auditors towards the application of creative accounting practices. Both primary and secondary data were collected and the mixed-methods were employed. The research was carried out by preparing a structured questionnaire. The questionnaire had five components. Components encompassed spheres like is creative accounting a blessing or a curse , the techniques applied to practice creative accounting, the application of creative accounting , the effects of creative accounting and finally the solution of creative accounting. The questionnaire was a closed ended structured question and made on 5 point likert scale.

The main finding of the research was that creative accounting techniques applied in the financial statements was due to the fact that International Accounting Standards (IAS), Generally Accepted Accounting Principles (GAAP) or even International Financial Reporting Standard(s) (IFRS) guidelines regarding accounting policy for financial statement disclosures have its own limitation in certain areas. The implication of the research was to recommend preventive measures of such practices in the financial statements.

APPROVAL PAGE


I certify that I have supervised /read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in quality and scope, as a thesis for the fulfilment of the requirements for the degree of Doctor of Philosophy.



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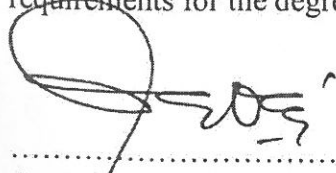


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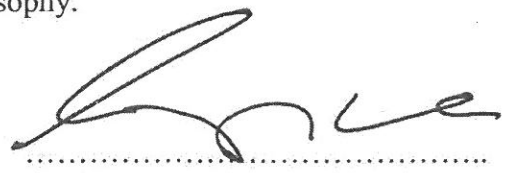


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DECLARATION

I hereby declare that the thesis is submitted in fulfillment of the Doctor of Philosophy (PhD) degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that this material has not been submitted either in whole or in part for a degree at this or any other university. In making this declaration , I understand and acknowledge any breaches in this declaration constitute academic misconduct , which may result in my expulsion from the program and / or exclusion from the award of the degree.

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I am immensely indebted to many people in the writing of this thesis. Without their help , guidance , encouragement and support this thesis would not have been prepared.

Firstly, I would like to thank the Almighty Allah , without His support I could not have written this thesis and submitted on time.

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Thirdly , I take the opportunity to sincerely thank and appreciate all the motivational words and encouragements from the day one at Asia E University by none other than the most eminent personality Prof. Dr. Oo Yu Hock , my PhD Advisor. Without his guidance and encouragement I could not have been at this stage exactly on time.

Fourthly , I take the opportunity to thank the Dean , School of Graduate Studies (SGS) , Prof. Dr. Siow Heng Loke for his encouragement and always welcoming me at the campus with a broad smile.

Fifthly , I would like to thank my better half ,Ms. Rehnuma Karim , without her support beside me and always encouraging me to complete the work on time perhaps the report could not have completed on time.

Sixthly, my sweet little angels. Ajwaad , my eldest son , my twins , Azraaf and Aryaan who have sacrificed my time in their life so that I can complete the thesis on time. My cute angels never insisted me for my time as they knew and appreciated that what I am doing is really a daunting task.

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TABLE OF CONTENTS

	Page
ABSTRACT	ii
APPROVAL PAGE	iii
DECLARATION	iv
ACKNOWLEDGEMENT	vi
TABLE OF CONTENTS	viii
LIST OF TABLES	xiii
LIST OF FIGURES	xviii
LIST OF ABBREVIATION	xxi

CHAPTER

1. INTRODUCTION	
1.1 Introduction	1
1.2 Contribution of the thesis	2
1.3 Background of the study	7
1.4 Focus of the study with problem statement	10
1.5 Research Questions	12
1.6 Purpose of the study	12
1.7 Significance of the Study	14
1.8 Assumption	15
1.9 Meaning of the term Creative Accounting	15
1.10 Organization of all the chapter in the thesis	15

2.	LITERATURE REVIEW	
2.1	Introduction	19
2.2	Creative Accounting literature at International Level	19
2.3	Creative accounting literature at global label	22
2.4	Creative accounting - literature highlighting the techniques	34
3.	CREATIVE ACCOUNT TECHNIQUES'	
3.1	Introduction	75
3.2	Introduction to Creative accounting	75
3.3	Detecting any creative accounting practice	82
3.4	Secrets of Creative Accounting	83
3.5	A census on these non exhaustive of the techniques of creative accounting	84
	3.5.1 Tangible asset	84
	3.5.2 Goodwill	84
	3.5.3 Depreciation	85
	3.5.4 Inventories	86
	3.5.5 Provision of liabilities and assets	86
3.6.1	Revenue & expenses recognition	87
3.6.2	Cookie jar accounting	87
3.6.3	Changing attitude method	88
3.6.4	One time charge	88
3.6.5	Cookie jar reserve	89
3.6.6	Big Bath Technique	89

3.6.7	Big Bet Future	90
3.7	Creative accounting approach	91
3.7.1	Recognizing the sales pre- maturely	91
3.7.2	Increasing the interest receivables	92
3.7.3	Including non operating & profit statement	92
3.7.4	Treating loans as sales	93
3.7.5	Swappings	93
3.8	Creative accounting approach	
3.8.1	Provisions	94
3.8.2	Reduce taxation	95
3.8.3	Big Bath accounting	96
3.8.4	Increase closing inventory	96
3.8.5	Capitalize expenses	97
3.8.6	Lengthen depreciation	98
3.8.7	Be generous to yourself	99
3.9	Increase asset	99
3.9.1	Enhancing Goodwill	99
3.9.2	Enhancing brands and intangibles	100
3.9.3	Revalue tangible fixed assets	101
3.10	Motivation to practice creative accounting	102
3.10.1	Personal incentive	102
3.10.1.1	Increased salaries	103
3.10.1.2	Bonus related pay	103
3.10.1.3	Share and share options	103

3.10.1.4	Job security	104
3.10.1.5	Personal satisfaction	104
3,10.2	Market operation	104
3.10.3	Profit smoothing	105
3.10.4	Norms	105
3.10.5	Special circumstances	106
3.10.5.1	Meaning of gearing	106
3.10.5.2	Non issues	107
3.11	Commonly used	107
3.11.1	Flexibility	108
3.11.1.2	lack of regulation	108
3.11.1.3	Timing of some transaction	108
3.11.1.4	Artificial transaction	108
3.11.1.5	Re classification and presentation	109
3.11.2	Reasons for consequences of creative accounting	109
3.11.3	Reviews of largest financial scam in Bangladesh – Hallmark Group	111

4. RESEARCH METHODOLOGY

4.1	Introduction	116
4.2	Data Structure	116
4.3	Sampling Method	116
4.4	Research Paradigm	118
4.5	Survey Method	125

4.6	Questionnaire	128
4.7	Pilot Study	129
4.8	Data analysis of pilot study	130
4.9	Hypothesis Development	137
4.10	Research Questions	140
4.11	Data Entry	141
4.12	Limitations of Research Methodology	141
5.	ANALYSIS, FINDINGS, AND CONCLUSION	
5.1	Introduction	142
5.2	Hypothesis	142
5.3	Background and data analyses	144
5.4	Answer of basic questions from questionnaire – page 1	145
5.5	2 nd component of the analysis	153
5.6	Contingency table	154
5.7	Hypothesis testing	155
6.	CONCLUSION & RECOMMENDATION	
6.1	Introduction	278
6.2	Background and recap of research questions	278
6.3	Summary of major findings	282
6.4	Recommendations	297
	REFERENCES	302
	ANNEXURE – QUESTIONNAIRE	301

LIST OF TABLES

Table		Page
001	Global name for creative accounting	39
002	Common labels for the financial number games	46
003	Potential gains and losses for mal practicing	49
004	“ Creative” reasons for creative accounting	62
005	Ways of creative accounting	63
006	Contingency Table for hypothesis testing (CTHT)	154
007	Summary of responses against hypothesis testing(SRHT)	155
008	Observed frequency of Respondent (OFR)	157
009	Observed frequency of Respondent (OFR)	159
010	Observed frequency of Respondent (OFR)	160
011	Observed frequency of Respondent (OFR)	163
012	Observed frequency of Respondent (OFR)	166
013	Observed frequency of Respondent (OFR)	167
014	Observed frequency of Respondent (OFR)	169
015	Observed frequency of Respondent (OFR)	171
016	Observed frequency of Respondent (OFR)	173
017	Observed frequency of Respondent (OFR)	175
018	Observed frequency of Respondent (OFR)	177
019	Observed frequency of Respondent (OFR)	179
020	Observed frequency of Respondent (OFR)	181
021	Contingency Table	183

022	Summary of responses against hypothesis	184
023	Observed frequency of Respondent (OFR)	185
024	Observed frequency of Respondent (OFR)	186
025	Observed frequency of Respondent (OFR)	188
026	Observed frequency of Respondent (OFR)	189
027	Observed frequency of Respondent (OFR)	191
028	Summary of responses against hypothesis	193
029	Observed frequency of Respondent (OFR)	194
030	Observed frequency of Respondent (OFR)	195
031	Observed frequency of Respondent (OFR)	197
032	Observed frequency of Respondent (OFR)	198
033	Observed frequency of Respondent (OFR)	199
034	Observed frequency of Respondent (OFR)	201
035	Case processing summary	203
036	Respondents cross tabulation	204
037	Observed frequency of Respondent (OFR)	205
038	Observed frequency of Respondent (OFR)	206
039	Chi square value	208
040	Respondents cross tabulation	209
041	Observed frequency of Respondent (OFR)	210
042	Observed frequency of Respondent (OFR)	211
043	Chi square value	212
044	Respondents cross tabulation	213
045	Observed frequency of Respondent (OFR)	215

046	Chi square table	215
047	Respondents cross tabulation	216
048	Observed frequency of Respondent (OFR)	217
049	Observed frequency of Respondent (OFR)	218
050	Chi square value	218
051	Case processing summary	220
052	Respondent cross tabulation	220
053	Observed frequency of Respondent (OFR)	222
054	Observed frequency of Respondent (OFR)	223
055	Respondent type cross tabulation	224
056	Observed frequency of Respondent (OFR)	225
057	Observed frequency of Respondent (OFR)	226
058	Respondent type cross tabulation	228
059	Observed frequency of Respondent (OFR)	229
060	Observed frequency of Respondent (OFR)	230
061	Respondent type cross tabulation	231
062	Observed frequency of Respondent (OFR)	232
063	Observed frequency of Respondent (OFR)	233
064	Case processing summary	235
065	Respondent type cross tabulation	236
066	Observed frequency of Respondent (OFR)	236
067	Observed frequency of Respondent (OFR)	238
068	Respondent type cross tabulation	239
069	Observed frequency of Respondent (OFR)	240

070	Observed frequency of Respondent (OFR)	241
071	Respondent type cross tabulation	242
072	Observed frequency of Respondent (OFR)	243
073	Observed frequency of Respondent (OFR)	244
074	Respondents type cross tabulation	245
075	Observed frequency of Respondent (OFR)	246
076	Observed frequency of Respondent (OFR)	247
077	Respondents type cross tabulation	248
078	Observed frequency of Respondent (OFR)	249
079	Observed frequency of Respondent (OFR)	250
080	Respondent type cross tabulation	252
081	Observed frequency of Respondent (OFR)	253
082	Observed frequency of Respondent (OFR)	254
083	Case processing summary	257
084	Respondents type cross tabulation	258
085	Observed frequency of Respondent (OFR)	259
086	Observed frequency of Respondent (OFR)	260
087	Respondents type of cross tabulation	261
088	Observed frequency of Respondent (OFR)	262
089	Observed frequency of Respondent (OFR)	263
090	Respondents type of cross tabulation	265
091	Observed frequency of Respondent (OFR)	266
092	Observed frequency of Respondent (OFR)	267
093	Respondents type of cross tabulation	268

094	Observed frequency of Respondent (OFR)	269
095	Observed frequency of Respondent (OFR)	270
096	Respondents type of cross tabulation	271
097	Observed frequency of Respondent (OFR)	272
098	Observed frequency of Respondent (OFR)	273
099	Respondent type of cross tabulation	274
100	Observed frequency of Respondent (OFR)	275
101	Observed frequency of Respondent (OFR)	277

LIST OF FIGURES

Figure		Page
01	Accountants and Auditors view toward CA	146
02	Accountants and Auditors views towards blessing or curse –	147
03	Accountants and Auditors view towards disclosure in financial statement	149
04	Accountants and Auditors view towards BAS	150
05	Accountants and Auditors view CA as a legitimate business tool	152
06	Graphical representation of the analysis	158
07	Graphical representation of the analysis	159
08	Graphical representation of the analysis	162
09	Graphical representation of the analysis	164
10	Graphical representation of the analysis	166
11	Graphical representation of the analysis	168
12	Graphical representation of the analysis	170
13	Graphical representation of the analysis	172
14	Graphical representation of the analysis	174
15	Graphical representation of the analysis	176
16	Graphical representation of the analysis	178
17	Graphical representation of the analysis	180
18	Graphical representation of the analysis	182
19	Graphical representation of the analysis	186
20	Graphical representation of the analysis	187

21	Graphical representation of the analysis	189
22	Graphical representation of the analysis	190
23	Graphical representation of the analysis	191
24	Graphical representation of the analysis	195
25	Graphical representation of the analysis	196
26	Graphical representation of the analysis	197
27	Graphical representation of the analysis	199
28	Graphical representation of the analysis	200
29	Graphical representation of the analysis	202
30	Graphical representation of the analysis	206
31	Graphical representation of the analysis	211
32	Graphical representation of the analysis	214
33	Graphical representation of the analysis	217
34	Graphical representation of the analysis	222
35	Graphical representation of the analysis	226
36	Graphical representation of the analysis	229
37	Graphical representation of the analysis	232
38	Graphical representation of the analysis	237
39	Graphical representation of the analysis	240
40	Graphical representation of the analysis	244
41	Graphical representation of the analysis	247
42	Graphical representation of the analysis	250
43	Graphical representation of the analysis	253
44	Graphical representation of the analysis	259

45	Graphical representation of the analysis	263
46	Graphical representation of the analysis	266
47	Graphical representation of the analysis	270
48	Graphical representation of the analysis	273
49	Graphical representation of the analysis	276

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LIST OF ABBREVIATION

Abbreviation	Meaning
AVCO	Average Costing
BAS	Bangladesh Accounting Standard
BSA	Bangladesh Standard of Auditing
CA	Creative Accounting
Cr.	Credit
Dr.	Debit
FIFO	First in First Out
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standard
ICAB Bangladesh	Institute of Chartered Accountants of Bangladesh
LIFO	Last In First Out
RBM	Reducing Balance Method
ROI	Return on Investment
SLM	Straight Line Method
SEM	Structured Equation Model
SPSS	Statistical Package for Social Science
SGS	School of Graduate Studies

DEDICATION

This thesis is dedicated to
my ever supportive wife Rehnuma Karim
and my sweet angels Ajwaad , Azraaf & Aryaan
who always have inspired me to complete my PhD

CHAPTER 1

INTRODUCTION TO THE STUDY

1.1 Introduction:

This chapter describes briefly the entire outline regarding the thesis which will include a background of the study followed by problem statement then the focus of the study, the research questions, the assumptions based upon which I have carried out the thesis, the research methodology and data collection method. Thereafter definitions of some key words followed by a chapter by chapter brief outline how I have organized the thesis. Creative accounting also known as cosmetic accounting, hollywood accounting, earning management, income smoothing, aggressive accounting, all they are the synonyms for the term creative accounting.

This thesis is prepared and submitted to the school of graduate studies for the fulfillment requirement for the degree of Doctor of Philosophy (PhD) at Asia E University, in Kuala Lumpur, Malaysia. The title of the thesis is Perception of Creative Accounting Technique and Application : GAAP analysis - Solution Among the Auditors and Accountants I Bangladesh. The rationality for the research conducted in Bangladesh is just because, I am from Bangladesh and the practice in Bangladesh regarding the creative accounting techniques are getting into the more and more on the rise.

The research is carried out by preparing a structured questionnaire. The questionnaire is broken down in five components or parts. Part A contains the questions regarding under circumstances the creative accounting is considered as blessing in Bangladesh. Part B contain set of questions stating the techniques used to practice

creative accounting. While part C , contains the application of creative accounting which has again the sets of questions. Part D revolves around the effects of creative accounting while the last part , Part E contains the solution of creative accounting. The questionnaire is a closed ended structured questions and is made on 5 point Likert scale. The respondents are either accountant nor auditor , as defined by the Institute of Chartered Accountants of Bangladesh. Only those who are the ,members of the Institute of Chartered Accountants of Bangladesh are considered here as the study/ research population. Also the respondent group is homogenous. The data collected from primary source using face to face interview. The rationale between using face to face interview is it is conducive and the respondents feedback can be understandable and as the questionnaire is of sensitive so face to face interview had to be conducted. The data collected than where sorted between the accountant and auditors. The accountants and the auditors provided information from both private and public sector. The data then collected is analyzed first of all at by entering them into SPSS and then checking by Chi-Square test to provide us sufficient feedback based on which the analysis was done. The respondent were both the accountants and auditors both from listed and non listed companies. The data after analyses discussions were provided and finally recommendations were provided of the subject matter.

1.2 Contribution of this thesis:

Bangladesh is a very small economy as far as geographical context is concerned. Though in such a small economy our education rate of literacy is very few. The mass people are not aware of many facts and creative accounting is inclusive among those

facts. As mentioned Bangladesh is a country with literacy rate very low, in our 45 years of independence we already had 2 major stock market crashes. Both the crashes were due to the fact of uneducated investors and lack of awareness among youth investors regarding accounting, finance and business concept. The stock market crash were 3 million investors who lost all their fund. The first stock market crash was in 1996 and the last one was in 2011. A lot of financial scam happened during this time and highlight a few is Hall Mark group , Destiny Group and emergence and disappearance of many MLM (multi level marketing) companies who have just played with mass people's money at their all ease. Of the 5 professional people I have tried interviewing in addition to my primary questionnaire fill up the entire respondent was very reluctant to talk about the issues of creative accounting practices in Bangladesh and also referred to me that as they have filled up the questionnaire for academic purpose that was sufficient for them, giving interview was not possible, moreover when I wanted it to be tape recorded it was simply out of question. Though to me it was apparent from their practice that they are practicing such creative accounting tools or assisting management in consulting ideas regarding loopholes in IAS and GAAP to better represent income statements, avoid taxes and so on. These practices where mass people lost everything and many even lost their life due to suicidal cases prompted me more to research into the area and identify the grey areas where such practices are carried out in financial statements. Since only a handful academician in Bangladesh have carried out research in Creative Accounting practice , so I believe my findings and contributions in this research will contribute immensely for mass people awareness so that they do not fall prey to such ill intentions of corrupted management.