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Creative Accounting: Techniques of Application-An Empirical Study among Auditors and Accountants of Listed Companies in Bangladesh

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Abstract

Creative Accounting, also known as Hollywood accounting, income smoothing, cosmetic accounting is a legitimate accounting application where by the accountants and auditors take advantage of the loopholes in the accounting policies as per International Accounting Standards (IAS) and Generally Accepted Accounting Principles (GAAP). It is not a fraudulent practice, as the concerned parties involved here only take the advantage of the accounting policy loopholes to better represent financial statements. This research is conducted on the empirical data collected from the auditors and the accountants of the listed companies of Bangladesh to determine the popularity of Creative Accounting application among accountants and auditors in Bangladesh. The paper discusses the various findings from the research which shows that at least some evidence of expense assetization and that there is any gap in the perception between the auditors and accountants regarding techniques and methods of creative accounting. The technique may be used to increase or decrease income in order to show higher or lower profit, to turn expenses into assets so as to increase profitability or to maneuver the net worth of the business.

Keywords: Creative Accounting; International Accounting Standard; Window Dressing; Net Worth of Business

1. Introduction

In the study of perception of Creative Accounting Techniques and Applications in Bangladesh's perspective, here the main objective is to investigate the gap analysis between the perception of auditors as well as the accountants in relation to creative accounting technique and application. In all financial audits carried out by the external auditors representing the audit firms, it is the norm to see that the financial statements are reflecting a true and fair view; this must be presented to the shareholders in the form of unqualified audit report as per Company's Act 1994. The Company's Act 1994 says that at every Annual General Meeting (AGM), the shareholders will appoint or re-appoint the auditor(s), who will take up the office for the next financial year.

According to Smith (1992), "considers that the highest part of the economic growth of the '80s is due to creative accounting that is to the accountants' skills than rather to a real economic growth". However, Jameson (1988), "appreciates the fact that accounting process in its essence, requires the operation with different motivations, different ideas. From this diversity, arise manipulation, cheating and falsification at some less scrupulous accounting members".

Creative accounting, also known as aggressive accounting, is the manipulation of financial numbers usually within the parameter of the law and accounting standards, but very much against their spirit and certainly does not provide the true and fair view of a company that accounts are supposed to. A typical aim of creative accounting will be to inflate profit figures (Karim, Fowzia & Rashid, 2014). A typical creative accounting incident involves both human effort and a bias towards some objective. Most typically, the objective is increased profits, inflated asset values, understated liabilities, and overstated shareholder value. The motivation of management and accountants typically being bonuses, promotion, and salary rises, etc.

Wikipedia states that, "creative accounting is an euphemism referring to accounting practices that may follow the letter of the rules of standard accounting practices, but certainly deviate from the spirit of those rules".

The terms "innovative" or "aggressive" are also sometimes used to define such practices, while other synonyms include cooking the books.

Wikipedia further states that the term refers to a systematic misrepresentation of the true income and assets of corporations or other organizations. "Creative accounting" is the root of a number of accounting scandals, and many proposals for accounting reforms – usually centering on an updated analysis of capital and factors of production that would correctly reflect how value is added.

2. Research Question

Research question that deals with this empirical study is as follows:

Q.1: Is there any gap in the perception between the Auditors and the Accountants regarding the techniques adapted for creative accounting practice in Bangladesh?

3. Research Methodology

This study combines both primary and secondary data. Secondary data was collected through referring to books, literatures, journals, industrial reviews, company's financial reports, and newspaper articles etc. as mentioned in the literature review.

Primary data was collected from the auditors and accountants practicing in Bangladesh. Sampling method was probability in nature. This should be noted that there are 1263 members in the Institute of Chartered Accountants of Bangladesh (ICAB) as of July 2012, of whom 344 are auditors and 919 are qualified accountants.

Of the 344 Auditors, they represent 158 Chartered Accountants Firm in the country. 79 Chartered Accountants Firms were surveyed (50%) for their response in the category of Auditors. A total of 50 Auditors were surveyed from listed companies and 100 Accountants was surveyed from non-listed companies as respondents as to form an opinion at national level and have a meaningful contribution.

Data was collected from these practicing auditors and accountants in Bangladesh by completing the questionnaire. Descriptive analysis and T – test was conducted to meet the research objectives and later on Chi Square test was conducted on the whole data collected to form opinions.

Descriptive analysis is a discipline that describes the main characteristics of a collection of data. The aim of the discipline is to summarize a set of data and T-test is a statistical examination of two population means.

The questionnaire was developed using 5 point Likert scale and all the data collected were first sorted into accountant and auditor. After this primary checking, all the respondents' questionnaire was thoroughly checked to ensure all the questions were answered accordingly.

Later each data finding was compared with the reference table and comments were made regarding the significance and non-significance of each variables.

4. Literature Review

The review begins by looking at empirical literature on creative accounting, beginning with Healy's (1985) highly cited article, until present. According to Smith (1992), "the highest part of the economic growth of the 80's is due to creative accounting that is to the accountants' skills than rather to a real economic growth. In the book, Accounting for Growth, he motivates the previous idea, exemplifying the cases of some British companies which use creative accounting practices (finding concrete proofs at 45 economic entities of Great Britain), taking the example of three companies which experienced the financial collapse shortly after they had presented their financial statements which clearly reflected financial stability. Here as well, Smith considers that the economic growth that took place in the 80's is mainly due to the fact of window dressing in the form of rosy financial statements". In here, Smith emphasized that the development of economic growth was on paper and figure rather than achieving it in real terms. That is the art and practice of creative accounting on its own merit.

According to Merchant and Rockness (1994), creative accounting "is any action on the part of management which affects reported income as well as provides no true economic advantage to the organization and may in fact, in the long-term, be detrimental". Here too, Merchant and Rockness highlights that it's "the management who portrays certain financial statements to look in a certain way as in it may not provide any economic advantage in real terms".

Creative accounting has been defined by Shah, (1998) "as the process by which management takes advantage of gaps or ambiguities in accounting standards to present a biased picture of financial performance". According to Shah, it is said to be the "deliberate steps taken by the management in order to take advantages of the gaps in the rules and regulation of the accounting standard to an extent that the financial presentation will provide the user of the information a rosy picture regarding the state of the affairs of the reporting entity as of a particular date".

In his opinion Jameson (1988), "appreciates the fact that accounting process in its essence, requires the operation with different motivations, different ideas. From this diversity, arise manipulation, cheating and falsification at some less scrupulous accounting members. It is he who states that these creative accounting practices do not break the law or the accounting standards; therefore, they comply with the law but not its spirit".

Since there is no agreed definition, Healy and Wahlen's concept (1999) is a widely accepted one. Their article on review earnings management relevant to standard setters which leads them to the definition; "Earnings management occur when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers." Here we see that Healy and Wahlen stresses the point that earning management as a synonym for creative accounting occurs when the Managers use judgment for the financial reports to be prepared for the stakeholders. Here the questions arise regarding who the stakeholders are. Stakeholders are any person/group who has a direct or indirect interest in the business and may be an employee, tax authority, law enforcing authorities, pressure groups, the banks, insurance companies and even the competitors.

"Financial reporting enables firms to communicate economic information about their firm's performance. This information can be used to compare firms, showing the differences in economic position and performance of each firm (Healy & Wahlen, 1999). In order to portray information, managers must follow defined standards, but within these, there is room for interpretation and application of judgment over the financial reporting. Judgment in financial reporting leads to opportunities for creative accounting. To repeat0, Healy and Wahlen's concept (1999) is widely accepted. Their article reviews earnings management relevant to standard setters which leads them to the definition; "Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers."

Almost in the same manner, Trotman (1993) defines creative accounting, appreciating that it is a communication technique with having the amelioration of the information provided to the investors in view. Thus, the economic entity is presenting to the investors or to the prospective investors financial statements passed through the filter of some techniques capable of generating a more favorable image on the market but also the illusion of some more attractive results that the normal (Balaciu, Bogdan & Vladu 2009).

In the literature, creative accounting can still be found under the name of income smoothing, earnings smoothing, cosmetic accounting or accounting cosmetics, financial crafts or accounting crafts.

“Creative accounting puts into practice in recent years not only in Bangladesh but also, in a lot of developed countries. However, it is marked that the level of window-dressing of company financial statements in some developing countries has significantly desecrated all known ethical standards (Fowzia & Rashid, 2011). Here, Karim Fowzia and Rashid are emphasizing that the practice of creative accounting is now universal and there is, now, no limitation as to its application. Even the developing countries are practicing it regularly as the accounting legislative or watch dogs of the accounting rules and policies at times are very weak. Bangladesh is no exception where there have been cases of financial frauds in companies like Hall Mark Ltd. and Destiny Groups.

Sen and Inanga (2001) summarize the speech of Jim Kennan, presented before the Australian Society of Accountants, which identified some significant effects of creative accounting. First, there are companies listed on the stock exchange, which show inflated profit and better financial position in their creative accounting statements to attract investors; this creation of accounts just misguides and creates confusion.

Yet, another purpose of adapting creative accounting technique may be the managers are interested in paying less taxes and dividends, the shareholders gain higher dividends, the employees obtain better salary and higher profit share, the authorities to collect more taxes (Junaid & Asif , 2014).

Creative accounting, also known as aggressive accounting, is the manipulation of financial numbers, within the parameter of the law and accounting standards, but very much against their spirit and certainly not providing the “true and fair” view of a company that accounts are supposed to. One thing to be made clear here is the application of creative accounting is far different from the fraud financial practice. Firstly, creative accounting when practiced though may not be with the right or ethical spirit, nevertheless it is done keeping the IAS / GAAP in the mind of the accountant, whereas fraud in financial statement is a deliberate practice without complying with the IAS or GAAP.

Creative accounting often fools auditors and regulators, for example: Enron, WorldCom, in the United States of America; Hallmark Group and Destiny Group in Bangladesh.

A typical creative accounting incident involves both human effort and a bias towards some objective. Most typically the objective may be to increase profits, inflate asset values, understate liabilities, and overstate shareholder value. The motivation of management and accountants are typically bonuses, promotion, salary increments, etc. Some companies may also reduce reported profits by applying accounting practices that follow required laws and regulations, but deviates from what those standards intend to accomplish. Creative accounting capitalizes on loopholes in the accounting standards to falsely portray a better image of the company. Although creative accounting practices are legal, the loopholes they exploit are often reformed to prevent such behaviors. Creative accounting is a description of accounting practices that are not considered illegal, but may be somewhat out of the ordinary.

Sometimes referred to as Hollywood accounting, earnings management, or cooking the books, the idea behind creative accounting practices is often to emphasize the positive aspects of the company's financial situation, while downplaying any negative factors. To an extent, accounting irregularities of this type can be misleading to potential investors, and thus are often considered to be unethical, even though the strategy may remain within the parameter of the law. As with most types of misrepresentation, the most effective examples of creative accounting are the ones that tell a portion of the truth, but downplay any elements that could alter the perception that the company wishes to convey to others.

For example, a company may portray the fact that it recently experienced significantly increased revenues during the last quarter. At the same time, little is said about the fact that expenses increased in proportion to that jump in sales, effectively offsetting that extra sales volume. If those who hear about the increase in sales do not probe a little deeper, the perception is likely to be that the company is now financially stronger, when in fact the business has achieved little to no growth at all. Again if we consider it may be the limitation of the users of the financial statements. It may be the financial statement users are not aware of the maneuvering of the accounting policies as to provide at times desired financial result.

To demonstrate this, the depreciation policy of a company can be used. Following a straight line method of depreciation will give separate non-cash transaction expenses on the other hand, following reducing balance method of depreciation will provide different types of financial results. Now both these are methods are accepted under IAS or BAS or GAAP. The question is the adaptation of the policy which a reporting entity takes in. In another instance, let's look into the material issuing techniques in a warehouse for example. First in First Out (FIFO) method may be applied, or Last in First Out (LIFO) method can be also adapted. Obviously both of them will generate different values of closing inventory figure in valuation and hence different value of cost of sales. Different values of cost of sales will result in different values of gross profit and ultimately, different values of net profit as well. Now, following as stated is not illegal. It is just maneuvering with the different accounting policy to best suit the desired intention of the management as to how to reflect its financial statements. A typical aim of creative accounting may be to inflate profit figures if that is the desire of the management, so some companies may also reduce reported profits in good years to smooth results.

Smoothing of result means in order to avoid showing fluctuations in the book of record, income may be smoothed. Say during year 1, a reporting company has revenue of US$ 250,000 and during year 2, it has earned revenues of US$ 375,000 and year 3 it has revenues of US$ 135,000 and in year 4 it has revenue of US$ 165,000. Now seeing this trend, an investor or a stakeholder may not be interested to invest in such type of company where the level of revenue fluctuations is so high. So, the management can ask the accountant to smooth the income evenly throughout the 4 years as discussed here so that nothing unusual looks at prima facie. Assets and liabilities may also be manipulated or maneuvered, either to remain within limits such as debt covenants, or to hide problems. Typical creative accounting tricks include off balance sheet financing, over-optimistic revenue recognition and the use of exaggerated non-recurring items. As a journalist, Griffiths, "I note that the figures presented to investors were completely changed to protect the guilty. This is in fact a scam and a legitimate name creative accounting" (Griffiths, 1995). Jameson states that "The accounting involves dealing with different views and resolve conflicts between them in order to present transactions. Such flexibility facilitates manipulation, deception and distortion" (Jameson, 1988).

Trotman defines creative accounting "as a technique aimed at improving communication of information provided to investors" (Trotment, 1993). Colossi on the other hand is of the opinion that " the expression designates creative accounting practices of accounting information, often at the limit of legality, practiced by some companies who have the advantage of normalization, seeking to beautify the image and financial position and economic performance and financial" (Colossi B).According to Naser K., "process by which, given the existence of breach rules, handling accounting figures, and taking advantage of flexibility, choose those practices of measurement and information processing that allows financial statements from which should be in what managers want; process by which transactions are structured in such a way as to enable the "produce" the desired accounting result." (Naser, 1993).

The following deserve to be quoted, without an order of priority: intensity of competition in a context of crisis; degradation results and financial position; need financing: insufficient equity, the need to meet certain indicators (rate indebtedness, the result per share increased pressure on enterprises to communications the "elegant", especially coming from investors and analysts; desire to ensure a stable course to launch private companies wish to be given listed (Milford & Chomsky, 1996). Accounting for pension reserves, capitalization of costs, investment accounts and short-term claims of customers, accounting for inventories of tangible and intangible assets and accounting for long-term debt is not an option and some creativity (Moeller & Landry, 2009). The term “window dressing” has similar meaning when applied to accounts, but is a broader term that can be applied to other areas. In the US, it is often used to describe the manipulation of investment portfolio performance numbers. In the context of accounts, “window dressing” is more likely than “creative accounting” to imply illegal or fraudulent practices, but it need to do so.

The techniques of creative accounting change over time and according to the requirement of management. As accounting standards change, the techniques that fit will also change. Many changes in accounting standards are meant to block particular ways of manipulating accounts, which means that intent on creative accounting need to find new ways of doing things. That is why it is called creative accounting. The creativity of the accountant is seen here to match his professional accounting knowledge getting blended with the management desire in order to prepare the financial books of records. At the same time, other, well intentioned, changes in accounting standards open up new opportunities for creative accounting (the use of fair value is a good example of this).

Many (but not all) creative accounting techniques change the main numbers shown in the financial statements, but make themselves evident elsewhere, most often in the notes to the accounts. The market has been surprised before by bad news hidden in the notes, so a diligent approach can give an edge. Assets and liabilities may also be manipulated, either to remain within limits such as debt covenants, or to hide problems. Typical creative accounting tricks include off balance sheet financing, over-optimistic revenue recognition and the use of exaggerated non-recurring items. Takeovers and acquisitions also create opportunities for creative accounting.

5. Hypothesis

Let us frame out the hypothesis at first;

H_A: To increase the income as to show higher profit

H_A: To assetize expenses instead of writing them off

H_A: To show receivables and inventory growing faster than sales

H_A: To decrease expenses as to show higher profit

H_A: To increase the assets and decrease the liabilities

H_A: To increase the cash flow of the business

Listed Company- Accountant & Auditor

Table 1: Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Showing higher income and profit * Respondent Type	153	100.0%	0	.0%	153	100.0%
Assetizing expenses instead of writing them off * Respondent Type	153	100.0%	0	.0%	153	100.0%
Showing receivables or inventories growing faster than sales * Respondent Type	151	98.7%	2	1.3%	153	100.0%
Decreasing expenses for higher profit * Respondent Type	153	100.0%	0	.0%	153	100.0%
Affecting net worth of business * Respondent Type	153	100.0%	0	.0%	153	100.0%
Increasing cash inflows * Respondent Type	153	100.0%	0	.0%	153	100.0%

Table 2: Showing higher income and profit * Respondent Type Cross tabulation

			Respondent Type		Total
			Accountant	Auditor	
Showing higher income and profit	Always	Count	2	16	18
		% within Respondent Type	1.9%	32.0%	11.8%
	Frequently	Count	2	9	11
		% within Respondent Type	1.9%	18.0%	7.2%
	Sometimes	Count	96	23	119
		% within Respondent Type	93.2%	46.0%	77.8%
	Rarely	Count	3	2	5
		% within Respondent Type	2.9%	4.0%	3.3%
Total		Count	103	50	153
		% within Respondent Type	100.0%	100.0%	100.0%

H_0: There is no difference between the opinions of two groups in saying that to increase the income to show higher profit.

H_A: There is a difference between the opinions of two groups in saying that to increase the income to show higher profit.

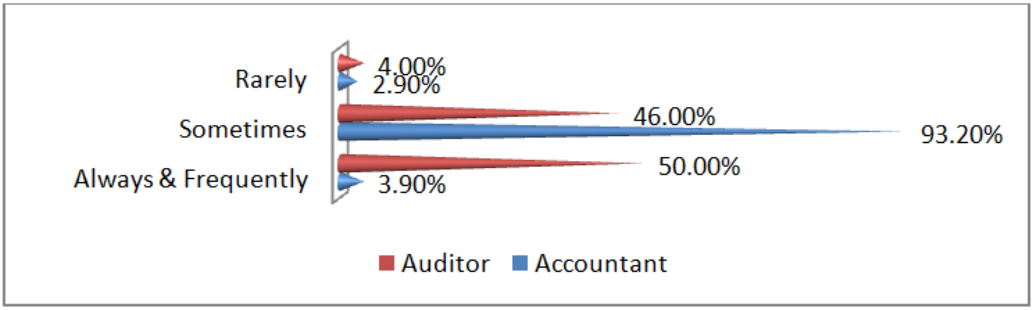
Table 3: Observed frequencies (expected frequency) of respondent's opinions

	Always & Frequently	Sometimes	Rarely	Total
Accountant	4 (19.52)	96 (80.11)	3 (3.37)	103
Auditor	25 (9.48)	23 (38.89)	2 (1.63)	50
Total	29	119	5	153

Chi-square value = $\sum \frac{(O-E)^2}{E}$

The degrees of freedom are (R-1) (C-1) = (2-1) (4-1) = 3. At 5% level of significance, the critical value from G-distribution is calculated. Since that means chi-square value falls into the critical region, the decision is to reject null hypothesis. So at 5% level of significance, it can be said that there is enough evidence to support the claim that there is gap between the opinions of two groups about its application in and there will be a perception gap in the view point of auditors and accountants here and hence there are differences of opinions.

Figure 1: Graphical representation of the analysis of the questionnaire



Looking into the above graph we can see that 93.20% of the accountant feels that sometimes the creative accounting are techniques practiced in order to show a higher profit than usually is .Whereas 50% of the auditors feel that it is a tool always or more frequently used to enhance the profit of the company. So, obviously we note there is a significant gap between the two respondents.

Table4: Observed frequencies (expected frequency) of respondent's opinions

Contingency Table			
	Always & Frequently	Sometimes	Rarely
Accountant	19.52287582	80.11111111	3.366013072
Auditor	9.477124183	38.88888889	1.633986928

Chi-square value = $\sum \frac{(O-E)^2}{E}$

The degrees of freedom are (R-1) (C-1) = (2-1) (4-1) = 3. At 5% level of significance, the critical value from G-distribution is calculated. Since that means chi-square value falls into the critical region, the decision is to reject null hypothesis. So at 5% level of significance, it can be said that there is enough evidence to support the claim that there is gap between the opinions of two groups about its application in Obviously there will be a perception gap in the view point of auditors and accountants here. Hence, there are differences of opinions.

Observed	Expected	O - E = V	V*V=X	X/E
4	19.52287582	-15.52287582	240.9596736	12.34242721
96	80.11111111	15.88888889	252.4567901	3.151333025
3	3.366013072	-0.366013072	0.133965569	0.03979948
25	9.477124183	15.52287582	240.9596736	25.42540005
23	38.88888889	-15.88888889	252.4567901	6.491746032
2	1.633986928	0.366013072	0.133965569	0.081986928
Chi-Square Value				47.53269272

Table 5: Assetizing expenses instead of writing them off * Respondent Type Cross-tabulation

			Respondent Type		Total
			Accountant	Auditor	
Assetizing expenses instead of writing them off	always	Count	2	10	12
		% within Respondent Type	1.9%	20.0%	7.8%
	frequently	Count	2	12	14
		% within Respondent Type	1.9%	24.0%	9.2%
	sometimes	Count	94	26	120
		% within Respondent Type	91.3%	52.0%	78.4%
	rarely	Count	5	2	7
		% within Respondent Type	4.9%	4.0%	4.6%
Total		Count	103	50	153
		% within Respondent Type	100.0%	100.0%	100.0%

H_0: There is no difference between the opinions of two groups in saying that to assetize the expenses instead of writing them off.

H_A: There is a difference between the opinions of two groups in saying that to assetize the expenses instead of writing them off.

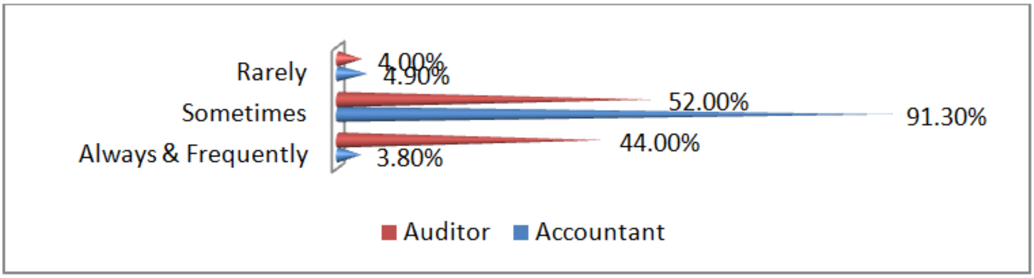
Table 6: Observed frequencies (expected frequency) of respondent's opinions

	Always & Frequently	Sometimes	Rarely	Total
Accountant	4 (17.50)	94 (80.78)	5 (4.71)	103
Auditor	22 (8.50)	26 (39.22)	2 (2.29)	50
Total	26	120	7	153

Chi-square value = $\sum \dfrac{(O-E)^2}{E}$

The degrees of freedom are (R-1) (C-1) = (2-1) (4-1) = 3. At 5% level of significance, the critical value from G-distribution is calculated. Since that means chi-square value falls into the critical region, the decision is to reject null hypothesis. So at 5% level of significance, it can be said that there is enough evidence to support the claim that there is gap between the opinions of two groups about its application in Obviously there will be a perception gap in the view point of auditors and accountants here. And hence there are differences of opinions.

Figure 2: Graphical representation of the analysis of the questionnaire



Well, a very interesting comparison is found here. 91.3% of the accountant responded that sometimes the expenses are assetized to show higher profit which means in the profit and loss account instead of debiting the expenses the expense is rather transferred to the balance sheet as posted under assets. That is also debited so, conceptually there is no wrong about it. However the consequence of the above is severe. In profit and loss account expenses is understated resulting in inflation of net profit. On the other hand, expenses being assetized mean the balance sheet fixed asset is overstated resulting in increase of total assets and hence a better situation in the company is reflected, whereas 44% of the auditor responded that this is frequently or always being practiced.

Table 7: Observed frequencies (expected frequency) of respondent's opinions in

Contingency Table			
	Always & Frequently	Sometimes	Rarely
Accountant	17.50326797	80.78431373	4.712418301
Auditor	8.496732026	39.21568627	2.287581699

Chi-square value = $\sum \frac{(O-E)^2}{E}$

The degrees of freedom are (R-1) (C-1) = (2-1) (4-1) = 3. At 5% level of significance, the critical value from G-distribution is calculated.

Since that means chi-square value falls into the critical region, the decision is to reject null hypothesis. So at 5% level of significance, it can be said that there is enough evidence to support the claim that there is gap between the opinions of two groups about its application in Obviously there will be a perception gap in the view point of auditors and accountants here. Hence there are differences of opinions.

Observed	Expected	O - E = V	V*V=X	X/E
4	17.50326797	-13.50326797	182.338246	10.41738299
94	80.78431373	13.21568627	174.6543637	2.161983628
5	4.712418301	0.287581699	0.082703234	0.017550062
22	8.496732026	13.50326797	182.338246	21.45980895
26	39.21568627	-13.21568627	174.6543637	4.453686275
2	2.287581699	-0.287581699	0.082703234	0.036153128
Chi-Square Value				38.54656503

H_0: There is no difference between the opinions of two groups in saying that to show the receivables and inventory growing faster than sales.

H_A: There is a difference between the opinions of two groups in saying that to show the receivables and inventory growing faster than sales.

Table 8: Showing receivables or inventories growing faster than sales * Respondent Type Cross tabulation

			Respondent Type		Total
			Accountant	Auditor	
Showing receivables or inventories growing faster than sales	always	Count	2	4	6
		% within Respondent Type	1.9%	8.3%	4.0%
	frequently	Count	4	18	22
		% within Respondent Type	3.9%	37.5%	14.6%
	sometimes	Count	75	24	99
		% within Respondent Type	72.8%	50.0%	65.6%
	rarely	Count	22	2	24
		% within Respondent Type	21.4%	4.2%	15.9%
Total		Count	103	48	151
		% within Respondent Type	100.0%	100.0%	100.0%

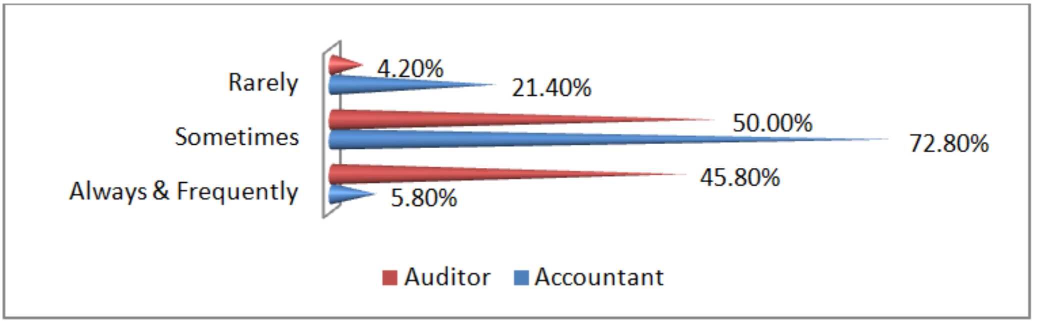
Table 9: Observed frequencies (expected frequency) of respondent's opinions

	Always & Frequently	Some Times	Rarely	Total
Accountant	6 (19.10)	75 (67.53)	22 (16.37)	103
Auditor	22 (8.90)	24 (31.47)	2 (7.63)	48
Total	28	99	24	151

Chi-square value = $\sum \frac{(O-E)^2}{E}$

The degrees of freedom are (R-1) (C-1) = (2-1) (4-1) = 3. At 5% level of significance, the critical value from G-distribution is calculated. Since that means chi-square value falls into the critical region, the decision is to reject null hypothesis. So at 5% level of significance, it can be said that there is enough evidence to support the claim that there is gap between the opinions of two groups about its application in Obviously there will be a perception gap in the view point of auditors and accountants here. Hence there are differences of opinions.

Figure 3: Graphical representation of the analysis of the questionnaire



From looking the graph above it can be noted that 72.8% of the accountants think that sometimes this practice is done in order to inflate the stock value and receivables value. Now these both are current assets. Improvement in current assets will lead to better working capital position of the company and their cash ratio or liquidity ratio as a whole may provide a better picture. As by subtracting current assets from current liabilities we get the figure of working capital, so, following such a trend may improve the reporting entities creditability. On the other hand 45.8% of the auditors think that this is a frequently used techniques to window dress the books of records.

Table 10: Observed frequencies (expected frequency) of respondent's opinions in

Contingency Table			
	Always & Frequently	Sometimes	Rarely
Accountant	19.09933775	67.52980132	16.37086093
Auditor	8.900662252	31.47019868	7.629139073

Chi-square value = $\sum \frac{(O-E)^2}{E}$

The degrees of freedom are (R-1) (C-1) = (2-1) (4-1) = 3. At 5% level of significance, the critical value from G-distribution is calculated. Since that means chi-square value falls into the critical region, the decision is to reject null hypothesis. So at 5% level of significance, it can be said that there is enough evidence to support the claim that there is gap between the opinions of two groups about its application in Obviously there will be a perception gap in the view point of auditors and accountants here and hence there are differences of opinions.

Observed	Expected	O - E = V	V*V=X	X/E
6	19.09933775	-13.09933775	171.5926494	8.984219857
75	67.52980132	7.470198675	55.80386825	0.826359136
22	16.37086093	5.629139073	31.6872067	1.935585846
22	8.900662252	13.09933775	171.5926494	19.27863844
24	31.47019868	-7.470198675	55.80386825	1.773228979
2	7.629139073	-5.629139073	31.6872067	4.153444628
Chi-Square Value				36.95147689

Table 11: Decreasing expenses for higher profit * Respondent Type Cross tabulation

			Respondent Type		Total
			Accountant	Auditor	
Decreasing expenses for higher profit	Always	Count	1	4	5
		% within Respondent Type	1.0%	8.0%	3.3%
	Frequently	Count	3	17	20
		% within Respondent Type	2.9%	34.0%	13.1%
	Sometimes	Count	38	26	64
		% within Respondent Type	36.9%	52.0%	41.8%
	Rarely	Count	61	3	64
		% within Respondent Type	59.2%	6.0%	41.8%
Total		Count	103	50	153
		% within Respondent Type	100.0%	100.0%	100.0%

H_0: There is no difference between the opinions of two groups in saying that to decrease expenses as to show higher profit.

H_A: There is a difference between the opinions of two groups in saying that to decrease the expenses as to show higher profit.

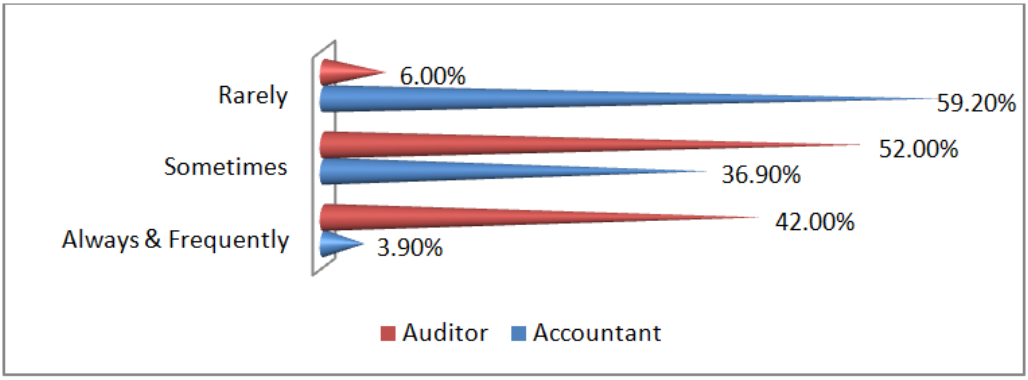
Table 12: Observed frequencies (expected frequency) of respondent's opinions in

	Always & Frequently	Sometimes	Rarely	Total
Accountant	4 (16.83)	38 (43.09)	61 (43.09)	103
Auditor	21 (8.17)	26 (20.92)	3 (20.92)	50
Total	25	64	64	153

Chi-square value = $\sum \frac{(O-E)^2}{E}$

The degrees of freedom are (R-1) (C-1) = (2-1) (4-1) = 3. At 5% level of significance, the critical value from G-distribution is calculated. Since that means chi-square value falls into the critical region, the decision is to reject null hypothesis. So at 5% level of significance, it can be said that there is enough evidence to support the claim that there is gap between the opinions of two groups about its application in Obviously there will be a perception gap in the view point of auditors and accountants here. Hence, there are differences of opinions.

Figure 4: Graphical representation of the analysis of the questionnaire



Here we can see that 59.2% of the respondents from accountants responded that rarely such is practiced in the books of the records where as 36.9% of the accountant respondents admitted that sometimes it is used to decrease the expenses and increase the profitability of the business. In contrast, 42% of the auditors feel that it is a frequently used tool and technique whereas only 3.9% of the accountant responded in same category which clearly shows that there is a perception gap between both the accountants and the auditors in their look into the financial statements.

Table 13: Observed frequencies (expected frequency) of respondent's opinions in

Contingency Table			
	Always & Frequently	Sometimes	Rarely
Accountant	16.83006536	43.08496732	43.08496732
Auditor	8.169934641	20.91503268	20.91503268

Chi-square value = $\sum \frac{(O-E)^2}{E}$

The degrees of freedom are (R-1) (C-1) = (2-1) (4-1) = 3. At 5% level of significance, the critical value from G-distribution is calculated. Since that means chi-square value falls into the critical region, the decision is to reject null hypothesis. So at 5% level of significance, it can be said that there is enough evidence to support the claim that there is gap between the opinions of two groups about its application in Obviously there will be a perception gap in the view point of auditors and accountants here. Hence, there are differences of opinions.

Observed	Expected	O - E = V	V*V=X	X/E
4	16.83006536	-12.83006536	164.6105771	9.780744971
38	43.08496732	-5.08496732	25.85689265	0.600137223
61	43.08496732	17.91503268	320.9483959	7.449196689
21	8.169934641	12.83006536	164.6105771	20.14833464
26	20.91503268	5.08496732	25.85689265	1.23628268
3	20.91503268	-17.91503268	320.9483959	15.34534518
Chi-Square Value				54.56004138

H_0: There is no difference between the opinions of two groups in saying that by increasing assets and decreasing liabilities to affect the net worth of the business.

H_A: There is a difference between the opinions of two groups in saying that by increasing assets and decreasing liabilities to affect the net worth of the business.

Table 14: Affecting net worth of business * Respondent Type Cross tabulation

			Respondent Type		Total
			Accountant	Auditor	
Affecting net worth of business	Always	Count	1	5	6
		% within Respondent Type	1.0%	10.0%	3.9%
	frequently	Count	4	16	20
		% within Respondent Type	3.9%	32.0%	13.1%
	sometimes	Count	33	25	58
		% within Respondent Type	32.0%	50.0%	37.9%
	Rarely	Count	65	4	69
		% within Respondent Type	63.1%	8.0%	45.1%
Total		Count	103	50	153
		% within Respondent Type	100.0%	100.0%	100.0%

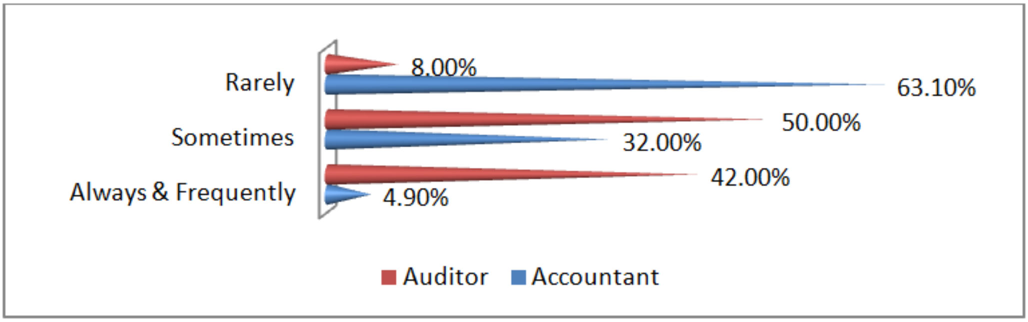
Table 15: Observed frequencies (expected frequency) of respondent's opinions

	Always & Frequently	Sometimes	Rarely	Total
Accountant	5 (17.50)	33 (39.05)	65 (46.45)	103
Auditor	21 (8.50)	25 (18.95)	4 (22.55)	50
Total	26	58	69	153

Chi-square value = $\sum \frac{(O-E)^2}{E}$

The degrees of freedom are (R-1) (C-1) = (2-1) (4-1) = 3. At 5% level of significance, the critical value from G-distribution is calculated. Since that means chi-square value falls into the critical region, the decision is to reject null hypothesis. So at 5% level of significance, it can be said that there is enough evidence to support the claim that there is gap between the opinions of two groups about its application in Obviously there will be a perception gap in the view point of auditors and accountants here. Hence, there are differences of opinions.

Figure 5: Graphical representation of the analysis of the questionnaire



Looking at the graph, we can say that 63.10% of the accountant responded that rarely it is practiced in the books whereas 32% did response sometimes it is used. On the other hand,as 50% of the auditors responded that it is the situation by which assets are increased and liabilities are decreased. The resulting situation will be either improvement of current assets or declining current liabilities. If current assets are increased than automatically working capital position will be better as current rises and at the same time any of the liabilities getting less, so reflecting a positive trend in the capital market.

Table 16: Observed frequencies (expected frequency) of respondent's opinions in

Contingency Table			
	Always & Frequently	Sometimes	Rarely
Accountant	17.50326797	39.04575163	46.45098039
Auditor	8.496732026	18.95424837	22.54901961

Chi-square value = $\sum \frac{(O-E)^2}{E}$

The degrees of freedom are (R-1) (C-1) = (2-1) (4-1) = 3. At 5% level of significance, the critical value from G-distribution is calculated. Since that means chi-square value falls into the critical region, the decision is to reject null hypothesis. So at 5% level of significance, it can be said that there is enough evidence to support the claim that there is gap between the opinions of two groups about its application in Obviously there will be a perception gap in the view point of auditors and accountants here. Hence, there are differences of opinions.

Observed	Expected	O - E = V	V*V=X	X/E
5	17.50326797	-12.50326797	156.33171	8.931572679
33	39.04575163	-6.045751634	36.55111282	0.936109853
65	46.45098039	18.54901961	344.0661284	7.407080012
21	8.496732026	12.50326797	156.33171	18.39903972
25	18.95424837	6.045751634	36.55111282	1.928386297
4	22.54901961	-18.54901961	344.0661284	15.25858483
Chi-Square Value				52.86077338

Table 17: Increasing cash inflows * Respondent Type Cross tabulation

			Respondent Type		Total
			Accountant	Auditor	
Increasing cash inflows	always	Count	1	6	7
		% within Respondent Type	1.0%	12.0%	4.6%
	frequently	Count	4	13	17
		% within Respondent Type	3.9%	26.0%	11.1%
	sometimes	Count	31	24	55
		% within Respondent Type	30.1%	48.0%	35.9%
	rarely	Count	66	6	72
		% within Respondent Type	64.1%	12.0%	47.1%
	never	Count	1	1	2
		% within Respondent Type	1.0%	2.0%	1.3%
Total		Count	103	50	153
		% within Respondent Type	100.0%	100.0%	100.0%

H_0: There is no difference between the opinions of two groups in saying that by increasing cash flow either by increasing cash operating income or decrease cash operating expenses.

H_A: There is a difference between the opinions of two groups in saying that by increasing cash flow either by increasing cash operating income or decrease cash operating expenses.

Table 18: Observed frequencies (expected frequency) of respondent's opinions

	Always & Frequently	Sometimes	Rarely & Never	Total
Accountant	5 (16.16)	31 (37.03)	67 (49.82)	103
Auditor	19 (7.84)	24 (17.97)	7 (24.18)	50
Total	24	55	74	153

Chi-square value = $\sum \frac{(O-E)^2}{E}$

The degrees of freedom are (R-1) (C-1) = (2-1) (4-1) = 3. At 5% level of significance, the critical value from G-distribution is calculated. Since that means chi-square value falls into the critical region, the decision is to reject null hypothesis. So at 5% level of significance, it can be said that there is enough evidence to support the claim that there is gap between the opinions of two groups about its application in Obviously there will be a perception gap in the view point of auditors and accountants here. Hence, there are differences of opinions.

Looking at the graph we can say that 65.00% of the accountant responded that rarely it is practiced in the books, whereas 30.1% did response sometimes it is used. On the other hand, 38% of the auditors responded that it is the situation always or frequently practiced. So we can notice a perception gap between the respondents.

Figure 6: Graphical representation of the analysis of the questionnaire

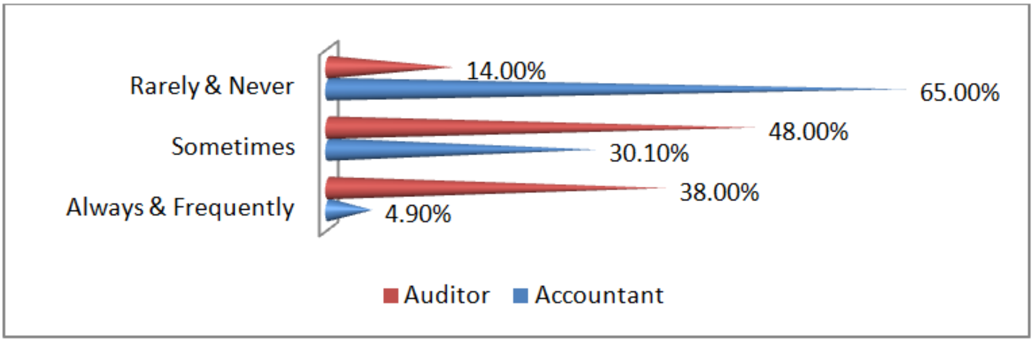


Table 19: Observed frequencies (expected frequency) of respondent's opinions in

Contingency Table			
	Always & Frequently	Sometimes	Rarely & Never
Accountant	16.15686275	37.02614379	49.81699346
Auditor	7.843137255	17.97385621	24.18300654

Chi-square value = $\sum \frac{(O-E)^2}{E}$

The degrees of freedom are (R-1) (C-1) = (2-1) (4-1) = 3. At 5% level of significance, the critical value from G-distribution is calculated. Since that means chi-square value falls into the critical region, the decision is to reject null hypothesis. So at 5% level of significance, it can be said that there is enough evidence to support the claim that there is gap between the opinions of two groups about its application in Obviously there will be a perception gap in the view point of auditors and accountants here. Hence, there are differences of opinions.

Observed	Expected	O - E = V	V*V=X	X/E
5	16.15686275	-11.15686275	124.4755863	7.704192842
31	37.02614379	-6.026143791	36.31440899	0.980777507
67	49.81699346	17.18300654	295.2557136	5.926807161
19	7.843137255	11.15686275	124.4755863	15.87063725
24	17.97385621	6.026143791	36.31440899	2.020401664
7	24.18300654	-17.18300654	295.2557136	12.20922275
Chi-Square Value				44.71203918

6. Conclusion

The response to the 1st question of the part B the respondents were as follows:

1. Listed companies' auditors and accountants:

Looking into the graph above, it can see that 93.20% of the accountant feels that sometimes the creative accounting is techniques are practiced in order to show a higher profit then usually is whereas 50% of the auditors feel that it is a tool always or more frequently used to enhance the profit of the company. So, obviously it can be noted that there is a perception gap between the two respondents.

2. The response to question number 2 of the questionnaire part B following were the responses:

Listed companies auditors and accountants responded as follows: A very interesting comparison is found here. 91.3% of the accountant responded that sometimes the expenses are assetized to show higher profit. This means in the profit and loss account instead of debiting the expenses the expense is rather transferred to the balance sheet andposted under assets. That is also debited so, conceptually they is no wrong about it. But the consequence of the above is severe. In profit and loss account expenses is understated resulting in inflation of net profit. On the other hand, expenses being assetized mean the balance sheet fixed asset is overstated resulting in increase of total assets and hence a better situation in the company is reflected, whereas 44% of the auditor responded that this is frequently or always being practiced.

In response to question number 3 of the questionnaire part B following were the responses:

1. Responses from the auditors and accountants of the listed companies are as follows:

From looking the graph above it can be noted that 72.8% of the accountants think that sometimes this practice is done in order to inflate the stock value and receivables value. Now these both are current assets. Improvement in current assets will lead to better working capital position of the company and their cash ratio or liquidity ratio as a whole may provide a better picture. As by subtracting current assets from current liabilities we get the figure of working capital, so following such a trend may improve the reporting entities creditability. On the other hand, 45.8% of the auditors think that this is a frequently used techniques to window dress the books of records.

In response to question number 4 of the questionnaire part B following were the responses:

2. Responses from the auditors and accountants of the listed companies are as follows:

Here we can see that 59.2% of the respondents from accountants responded that rarely such is practiced in the books of the records where as 36.9% of the accountant respondents admitted that sometimes it is used to decrease the expenses and increase the profitability of the business. In contrast, 42% of the auditors feel that it is a frequently used tool and technique whereas only 3.9% of the accountant responded in same category. This clearly shows that there is a perception gap between both the accountants and the auditors in their look into the financial statements.

In response to question number 5 of the questionnaire part B following were the responses:

1. Responses from the auditors and accountants of the listed companies are as follows:

Looking at the graph we can say that 63.10% of the accountant responded that rarely it is practiced in the books where as 32% did respond that sometimes it is used; whereas 50% of the auditors responded that it is the situation by which assets are increased and liabilities are decreased. The resulting situation will be either improvement of current assets or declining current liabilities, if current assets are increased than automatically working capital position will be better as current rises and at the same time any of the liabilities getting less, so reflecting a positive trend in the capital market.

In response to question number 6 of the questionnaire part B following were the responses:

2. Responses from the auditors and accountants of the listed companies are as follows:

Looking at the graph we can say that 65.00% of the accountant responded that rarely it is practiced in the books where as 30.1% did respond sometimes it is used whereas 38% of the auditors responded that it is the situation always or frequently practiced. So, we can notice a perception gap between the respondents.

Summing up the above we can say that most of the respondent in the part B of the questionnaire supported the research question 2, which states that there is any gap in the perception between the auditors and accountants regarding techniques and methods of creative accountings. Most of the respondent supported the different methods that are being used and adapted in Bangladesh but it is to be highlighted as well that they marked a difference between the creative accounting practice between the accountants and the auditor especially among the listed companies.

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