

## **PERCEPTION OF THE CONCEPT OF CREATIVE ACCOUNTING**

The reliability of financial statements is of paramount importance to their users, including potential investors (essentially focused on the return on their investment), lenders (focused on a company's ability to repay the borrowed funds), contractors and competitors (focused on a company's financial standing and its efficiency), employees (assessing the security of their employment) and above all to the key stakeholders: owners of the company who are interested in management quality and effectiveness, the company's economic situation and any information necessary to make decisions.

Since the separation of these functions, it has been the final product of accounting, i.e. financial statements that has become one of the most important elements of corporate governance, constituting the main source of information on the company's financial situation, and also an invaluable source of information which could be used to create an early warning systems to help forewarn of the possibility of a crisis. For information coming from the accounting system to be useful, it should also be reliable and at the same time reflect the economic reality in the best way possible. Meanwhile, the accounting measurement process is marred by subjectivity and, because of its very nature, forced to remain under the influence of individual judgments. The key to understanding the essence of creative accounting is that accounting measurement is not fully objective.

The term 'creative accounting' gained immense popularity in the UK, becoming a cute synonym for a practice designating financial and accounting data manipulation. This infamous acclaim can be attributed to the journalist I. Griffiths who wrote in 1986: *"Every company in the country is fiddling its profits. Every set of published accounts is based on books which have been gently cooked or completely roasted. (...) It is the biggest con trick since the Trojan horse... In fact this deception*

*is all in perfectly good taste. It is totally legitimate. It is creative accounting*” unambiguously defining creative accounting. Other English authors spoke of creative accounting in a similar vein, thus confirming readers’ belief that creative accounting is a clever manipulation of data. American and Australian authors also perceived creative accounting as a phenomenon involving manipulation, not necessarily illegal, but one teetering on the edge of the law and misleading users of financial reporting.

British or American authors’ definitions of creative accounting are often cited by South American authors, mainly from Brazil and Venezuela. They dub creative accounting 'business strategy' which leads to increased uncertainty among users of financial statements. However, they also suggested that creative accounting should be treated as a 'necessary evil', which cannot be avoided. In Spanish and French professional literature, creative accounting surfaced relatively early, shortly after the term gained fame in England: already in 1992, Giner pointed out that there are areas in accounting that even require autonomous individual judgment and estimation. A similar view was voiced by Gabas, who drew attention firstly to the fact that there is no normative accounting, and secondly, that creative accounting is simply the possibility of choice between different solutions for which there are no clearly defined mathematical rules. Apparently, Spanish and also French scientists do not afford creative accounting negative meaning, as do many other authors.

A similar position is assumed by numerous Polish authors, who suggests that creative accounting should not be, under any circumstances associated with manipulation of accounts, but should rather be conceived, firstly, as an inherent characteristic of accounting since the measurement process in accounting is marked by subjectivity and, due to its very nature, is subject to the influence of individual judgment, and secondly as an activity leading to the proper implementation of financial reporting. Most of authors from Poland perceive creative accounting as an ambivalent phenomenon an area of freedom allowed in accounting. Creative accounting consists in a presentation of economic events that is both within the bounds of law and, which is important, compliant with properly interpreted accounting principles which are not directly indicated by regulations. Ukrainian and

Russian authors shared the Polish sentiment, with most of them asking to perceive creative accounting as a result of accounting policy that paints a picture of the business entity in a situation where there is no clearly specified method. Also authors from Croatia, Bosnia, Slovenia and Romania believed that creative accounting also has a positive aspect, namely it involves a sensible use of genuine, untried ideas to record unusual and new situations, which still paints a fair picture of the company. By contrast, Slovak, Czech and Serbian authors usually defined creative accounting as modification of data, transforming the latter from what they are to such as are welcomed by data compilers.

Verification what a surfer who browses the net for information on the term "creative accounting" could learn about it gives an idea on how the terms "creative accounting" functions in everyday language and how it is construed by the public. The study was conducted from February to April 2015.

The authors typed the term "creative accounting" in the language of the country in a public search engine of each surveyed country and analysed the data found on the first two pages of the returned searches (i.e. the first 20 results). Finally, the results were classified according to the language of the entered phrase, due to the fact that in many countries there is more than one official language.

What is more, a significant impact on what the user will find out by typing the term «creative accounting» in the search engine may be related to the fact that in the countries of Central and Eastern Europe and South America, a large portion of the search results involved scientific papers on creative accounting and therefore in these countries creative accounting in everyday language is perceived in line with its definition in professional literature, or as an ambivalent phenomenon. At the same time, in countries where the results of the search for the term "creative accounting" involved predominantly press reports of accounting scandals, creative accounting will be tantamount to manipulation or accounting fraud.

Accounting came to face the need of quantifying the economic reality, so that this reality is presented as faithfully and truthfully as possible. In order to ensure the fulfilment of this task in the face of ever more complex economic events, it is no

longer possible to lay down exhaustive rigid rules – only the flexibility of rules and regulations gives a chance for a reliable reflection of reality – it is this choice among the different methods of treatment (permitted by law) that should bear the name "creative accounting". At the same time, there is a real threat of manipulation of financial reporting, particularly if favourable circumstances to commit fraud are provided by the very, highly necessary, flexibility of the accounting system. Echoing the words of a US researcher into creative accounting, one can enquire which is better: „Accounting - by Principle or Design?“

In today's world, the concept of creative accounting has been distorted and most people wrongly associate it with unfair and misleading behaviour or even fraud. Subjectivity is an inherent element of the accounting measurement process and because of its very nature the process has to be subject to individual judgment, although creative accounting, contrary to what is currently happening, should not under any circumstances be associated with accounting manipulation. It should rather be perceived, firstly, as an inherent feature of accounting and, secondly, as guidance leading to the proper implementation of financial reporting. Accountants' creative accounting behaviour, in the proper sense of the term, is beneficial for users of financial statements: It allows for the most precise quantification and presentation of economic events according to their economic content. Lack of this element of creativity and a mere rigid reliance on fixed, pre-imposed rules and principles would divorce the image shown in books of accounts from economic reality even more acutely.

*Hryhorevska O, Ph.D., Associate Professor,*

*Babich V., student,*

*Kyiv National University of Technology and Design*

## **ACCOUNTING SOFTWARE REPAIR OF FIXED ASSETS**

Given the rapid economic development and the spread of technological progress necessary in the implementation of effective economic activity is improving the