An Empirical Analysis of Various Factors Effecting Creative Accounting

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Abstract: In this paper research is done to find out various factors which are main driver to involve in Creative Accounting by the Company. Empirical research is done on various factors like involvement of inside management in creative accounting, role of outside auditors, incentives given to auditors and its impact on creative accounting and what role Corporate Governance can play to reducing Creative Accounting in Company’s balance sheet. Discussion is also done on various companies which have been involved in creative accounting and what they received in return. Either they wind up or became bankrupt. Various types of techniques of creative accounting and its impact on various items of balance sheet is also discussed.

Keywords: Creative Accounting, Corporate Governance, Creative Disclosure Framework, Financial Scandals, Financial Reporting, Sarbanes-Oxley


I. INTRODUCTION

When we open this true Pandora’s Box: Creative Accounting then we understands when and why exactly the concept first appeared and what influenced its development that arose many questions. With hindsight a few favorable circumstances to this concept can be identified, circumstances first related to the economical advent of world states but at the same time to need of economic entities to create for them a good reputation in an increasingly competitive and tough economic environment. About this particular moment, that is first mention belongs to the founder of accounting Luca Paciolo. This ambition of making figure more appealing or opposite is as old as 500 years. Thus, Luca Paciolo was shaping in his already renowned De Arithmetica, the first accounting manual, practices of creative accounting.

Creative accounting refers to the use of accounting knowledge to influence the reported figures, while remaining within the jurisdiction of accounting rules and laws, so that instead of showing the actual performance or position of the company, they reflect what the management wants to tell the stakeholders.

A. Definitions of Creative Accounting

Creative Accounting refers to the use of accounting knowledge to influence the reported figures, while remaining within the jurisdiction of accounting rules and laws, so that instead of showing the actual performance or position of the company, they reflect what the management wants to tell the stakeholders.

“Purposeful intervention in the external financial reporting process with the intent of obtaining some exclusive gain”.

“Creative accounting is the transformation of financial accounting figures from what they actually are to what preparer desires by taking advantage of the existing rules and/or ignoring some or all of them”. (Kamal Naser, 1993:2)

“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. The figures which are fed twice a year to the investing public have all been changed in order
toprotect the guilty. 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.” (Ian Griffiths, 1986:1)

„Is the deliberate dampening of fluctuations about “some level of earnings considered being normal for the firm””. (Barnea et al. 1976)

“ Is any action on the part of management which affects reported income and which provides no true economic advantage to the organization and may in fact, in the long-term, be detrimental”. (Merchant and Rockness, 1994)

„Involves the repetitive selection of accounting measurement or reporting rules in a particular pattern, the effect of which is to report a stream of income with a smaller variation from trend than would otherwise have appeared”. (Copeland, 1968)

Schipper (1989) observes that „creative accounting” can be equated with „disclosure management”, „in the sense of a purposeful intervention in the financial reportingProcess”.

Many terms can be used to describe the practices of changing the facts in accounting, e.g. cooking the books, aggressive accounting, massaging the numbers, window dressing, earnings management, etc.

II. OBJECTIVES

Objective of the study is to find out the relationship between creative accounting and types of industries which adopt creative accounting to manipulate the financial figures. Types of creative accounting mean how many ways creative accounting may be done and what are the solutions of creative accounting so that the effect of creative accounting may be minimized. Relationship between corporate governance and creative accounting.

Ethical behavior of auditors to reduced the effects of creative accounting.

Who are the parties who will get the benefits of creative accounting and what is the after effect of creative accounting on the life of the organization. We have taken examples worldwide of creative accounting.

We also want to try the answer whether it is good or it brings company into the crisis. These are the some questions for which we want to search the answer.

III. REVIEW OF LITERATURE

Hussey & Ong (1996) stated that creative accounting first became very prevalent in the 1980. Due to loopholes of accounting regulations, companies could produce accounts which flattered their financial performance. It talks about type of creative accounting like capitalizing interest, brand accounting, methods of depreciation, stock valuation, and accounting standards which prevent the major abuses which used to occur and has issued a number of regulations in the form of Financial Reporting Standards.

Naser (1992) stated that much is written about Creative accounting and about the various schemes of window dressing and off-balance sheet financing and very little information is available how widely such schemes are used by various companies. He has done a little empirical study to find the relationship whether creative accounting is related to the types of companies or industrial classifications, the reason behind the use of creative accounting, perceived legitimacy, consequences of the continued use of creative accounting, and measures to be taken to minimize its use. Because of much concern topic about creative accounting, it was difficult to obtain data from companies about their own creative accounting practices. However, it was felt by researchers that external auditors ought to represent an alternative source of creative accounting providing that their client information will keep secret.

Smith (1998) classified accounting firms as “structured”, “intermediate” or unstructured in terms of their audit methodologies. Using US data at a time when the Big 8 accounting firms still predominated, he classified 22 auditing firms. The number of accounting income increasing policy changes was higher for „structured” auditors and massively lower for „unstructured” auditors.

Littrell (1980) stated about the issue of creative accounting such as cost allocation between product lines and transfer prices between subsidiaries, which become matter of public record rarely and supposed to be internal accounting affairs.

Blake & Salas (1996) explained that creative accounting is seen as widespread in the U.K. and undermines the credibility as a
disease.
During 1990’s, creative accounting problem identified in Spain within the „Continental European” model of accounted regulations. Matiș, Vladu&Cuzdriorean (2012) described creative disclosure as a feature of creative accounting. It is also known as impression management in literature. It can be found in corporate annual report under forms of distortion of narratives of numerical and graph manipulation. They gave importance to theoretical framework than empirical study because interpretation of empirical analysis is impossible without theoretical guidance.
Creative presentation must be regarded as a complex mechanism that includes motives for engaging in manipulation of accounts, types of information disclosed and types of manipulation strictly connected to presentation of information. They also explained about “Polly Anna Principle” (concept introduced by Hildebrandt and Synder, 1988) managers used to present financial performance of the firm in the best light possible using only positive words.

Table no. 1- Rewards of the managing Profits (Earnings Management) & Financial Position

<table>
<thead>
<tr>
<th>Category</th>
<th>The Objectives &amp; Benefits Companies Trying To Achieve</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share-Price Effect</td>
<td>Higher Share Price&lt;br&gt;Reduce Share Price Volatility&lt;br&gt;Increase Firm Value&lt;br&gt;Lower Cost of Equity Capital&lt;br&gt;Increased Value of Stock Options</td>
</tr>
<tr>
<td>Borrowing Cost Effects</td>
<td>Improve Credit Rating&lt;br&gt;Lower Borrowing Costs&lt;br&gt;Relaxed or Less Stringent Financial Covenants</td>
</tr>
<tr>
<td>Management Performance</td>
<td></td>
</tr>
<tr>
<td>Evaluation Effects</td>
<td>Increased Bonuses based on Profits/ Share Price</td>
</tr>
<tr>
<td>Political Cost Effects</td>
<td>Decreased Regulations&lt;br&gt;Avoidance of Higher Taxes</td>
</tr>
</tbody>
</table>

Source: The Financial Number Game by Charles W. Mulford & Eugene E. Comiskey, 2002 (John Wiley & Sons)

Park (1958) kept different approaches to explain the types of thought necessary for developing accounting idea’s principle. What are the thought process in creative accounting and how we organise our thinking?
Creative thinking is necessary for measuring enterprise financial position and operating performance and providing information geared to managerial decision making. Mere technical advancement cannot fill the bill. The impetus for creative development must
come in greater measure from thinking generated within the intellectual circle of our own profession. Must create receptiveness for the innovations and should anticipate the demand for each new informational device and its supporting rationale and educate the users of financial information to their future needs

Moldovan, Achim & Avram (2010) focused on how information provided by accounting effects external users, and mainly on how and why distorted information gets outside of the organization into the hands of unsuspecting users. It was also explained there is an inverse casual relationship between true and fair view principal and creative accounting.

Gherkin & Baldacci (2011) has taken examples of accounting scandals that have left traces in the history due to their strong impact like the Enron phenomenon, Parmalat, WorldCom, Xerox, Xerox, Hold Royal, or Equitable Life bankruptcy are few examples. Enron, WorldCom which were collapsed in year 2002 used accounting techniques to show manipulated accounts which decrease the confidence in financial reporting, audit reports and regulations governing the professional accountancy. To improve old rules and setup new stream lines were supported by all countries affected by the bankruptcy crisis.

Thus the law Sarbanes-Oxley from 2002 is one of the reforms that have repercussions throughout the world by adopting the standards belonging to foreign trade companies in U.S. market and determination of other countries to study its provisions and act on his own benefit. Many countries made law related to corporate governance like Newzeland and Australia.


Healy & Wahlen (1999) described about how standard setters should decide or make accounting standards to reduce the possibility of earning management. Information about the company is provided by the financial reporting which show the true and fair view of company but managers should manipulate the financial numbers than actual due to their personnel interest like to increase their management compensation, to provide low salary to employees, to pay fewer dividends to the shareholders.

Standard add value if they enable financial statement to show difference between the relevance’s and reliability of accounting information under alternative standards.

Balaciu, Bogdan & Vladau (2009) has done short review of creative accounting topics and its development to know about what are the motivations for creative accounting literature and solution to this creative accounting term. They tried to correlate creative accounting with different interest area like bankruptcies, audit, governance, financial market, the public sector and quality of financial reporting to prevent creative accounting by taking various articles from scientific data source like Science Direct, Emerald, Repec, Google Scholar etc.

Shah (1996) examined the process of creative compliance in case of complex convertible securities issued by U.K. listed companies between years 1987-1990. There was an active dialectic of creativity in designing these types of instruments. A shift from avoidance to rules to avoidance again. Lawyers, accountants and bankers all were involved in creative compliance.

IV. RESEARCH METHODOLOGY

A. Description Of The Research Problem

Creative accounting is one of the best methods which are used by the firms to play with number games. Every organization in the world incorporates this technique in their business and tries to increase their earnings. Many organization gets success and many fails. Corporate governance also plays an important role in creative accounting. There are various factors that influence creative accounting in the organization. As a result, I have taken qualitative approach for my research to know the accountants, university teachers’ personal opinion about the various corporate governance factors that has an impact on creative accounting. This detailed questionnaire design with 18 questions, are framed according to the topic for my research. The result of this survey are based on 60 respondents from the people that belongs to financial sector i.e. Chartered Accountants, Company Secretary, CA/CS Student and Assistant Professors Of Commerce Department who have some idea about accounting techniques. The analysis of the questionnaire is done by taking quantitative approach with the help of statistical software called SPSS. The purpose of my research is to find out the relation between corporate governance and creative accounting.

B. Aims And Objectives Of The Research

Creative accounting is always considered as bliss or a curse. Some companies consider this ethical and some considers it unethical. My research revolves all around these things. I am looking at the various factors that are considered by the company to incorporate creative accounting as their accounting technique. The aims and objectives of the project are:

1) To identify the techniques that is associated with creative accounting
2) To develop research questions that can answer the purpose of the research.
3) To analyze the questions by placing the data set using statistical tools.
4) To interpret the data based on analysis and findings.

C. Methodology

1) Questionnaire Design: The questionnaire aims to examine the current outlook and viewpoint of the financial consultant and Academician about the relation between creative accounting and the various corporate governance factors. In order to accomplish the purpose of the research, a questionnaire is made with 18 questions that solve the main aim of the study. One of the best psychometric response scale i.e. Likert scale is used for the response. In this study, 5 points scale is used where 1 indicates strongly disagree to 5 strongly agree which is suitable adequate accuracy at present.

2) Selection Of The Sample: Creative accounting and corporate governance are not the general topic in people’s daily life. It is considered as very professional. After considering the above line, the questionnaire was distributed among 60 including professional Chartered Accountants, Chartered Accountants and Company Secretary’s accountants from India, college teachers who have immense understanding of the various accounting methods of the real world. The questionnaire covered a wider scope of the topic and ensured that the response got from those are the professional and experienced opinions from the knowledgeable accountants and academician.

3) Software Used: I have used SPSS 20.0 as a statistical package to analyze the questionnaire.

4) Significance Level Used: I have considered a significance level of 5% i.e. at 95% confidence level for the analysis. This is to be fixed for all the tools to be used.

5) Statistical Techniques Used
a) Factor Analysis: To reduce dataset, and as put forward by Affix and Clarke (1984): To identify underlying Constructs or factors that explain the correlations among a set of variables. 
   Relation to Research Questions: Factor Analysis is conducted at the first instance before running other tests with a view to shaping research questions and answers the purpose of the research, based on the factors formed.

b) Cronbach Alpha
i) Aim: To test reliability of factors formed with the help of factor analysis.
   Relation to Research Questions: Cronbach Alpha test has helped me to select only reliable factors that have been generated from Factor Analysis, contributing to the formation of the research questions.

6) Correlation and Pearson product-moment correlation
To measure how variables are related

D. Factor Analysis
Given that the questionnaire consists of 18 items, and all are interval (metric) variables, I have run a factor analysis test (Appendix -II) to categories these variables. Out of all the 18 questions only 17 are taken into consideration as the last item talks about the overall relationship with all the other factors and that is excluded from the list. Indeed, my objective is to reduce the many variables to a manageable number that belong together, and have overlapping measurement characteristics. It is worth noting that we have used Principal Component Analysis because the total variance of the data is to be considered. The other technique used is Varimax with Kaizer Normalisation. The latter measures the appropriateness of factor analysis. In this case, rotation is necessary since the factors are correlated with many variables. Thus, Varimax procedure makes interpretation easy although it does not affect the communalities and the percentage of total variance explained.

E. Reliability Analysis
However, I have to also check the internal consistency of the items. While factor analysis has shown that the items have lots in common, I have to find out whether the items measure the same construct. To do that, Cronbach Alpha coefficient is calculated for each factor, giving an indication about the degree of inter-correlation. Table 3 shows the Reliability analysis of the factors formed, and their respective Cronbach’s Alpha value.
The thumb rule of acceptance is 0.70 for cronbach alpha which shows first factor is internally consistence and rest are close to it because of small data they are around .5 or .6 which are also acceptable. We will name six factors which are shown graphically below.

We have found six factors that create an impact on creative accounting. All the above factors are related corporate governance. So, my research questions talks about that and also tries to find out the relation between this. In my questionnaire, the last question discusses the overall relation between creative accounting and corporate governance and thus makes my research questions. For my discussion, I try to formulate six research questions based on the factors.

H0= there is a relationship between creative accounting and Involvement of outside directors
H0= there is a relationship between creative accounting and internal control mechanism
H0=there is a relationship between creative accounting and product and market conditions
H0= there is a relationship between creative accounting and Audit Standards
H0= there is a relationship between creative accounting and Goodwill of the firm
H0= there is a relationship between creative accounting and capital market techniques

The above mentioned all the factors are the various categories of corporate governance and I try to find out the relation between them, whether it is positive or negative, or it is small, medium or large with the creative accounting.

<table>
<thead>
<tr>
<th>Factor Number</th>
<th>Number of items under Factor</th>
<th>Cronbach Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3</td>
<td>.707</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>.585</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
<td>.641</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>.625</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>.559</td>
</tr>
<tr>
<td>6</td>
<td>3</td>
<td>.449</td>
</tr>
</tbody>
</table>

Table no. 2- Reliability Analysis
F. Analysis And Findings

1) Research Question 1: Is there a relationship between creative accounting and involvement of outside directors?

To test this question, firstly a scatter diagram is generated. This is important to check for outliers (Pallant, 2007). Additionally, the scatter diagram tells us whether the relationship is positive or negative.

Here I see there is a positive relationship between creative accounting and involvement of outside directors. Which is one of the factors of corporate governance as illustrated by the line of best fit. The below mentioned diagram shows that when the organization has more of internal directors as well as external directors and when their shareholdings are more in the company, then the managers always try to reduce creative accounting.

Now, I will try to find out relation between creative accounting and involvement of outside directors with the help of correlation.
Table No.3-Correlations

<table>
<thead>
<tr>
<th>Creative accounting with corporate governance</th>
<th>Involvement of Outside Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative accounting with Sig. (2-tailed)</td>
<td>Pearson Correlation: 1.019</td>
</tr>
<tr>
<td>Involvement of outside Directors Sig. (2-tailed)</td>
<td>Pearson Correlation: .019</td>
</tr>
<tr>
<td>N</td>
<td>60</td>
</tr>
</tbody>
</table>

Correlation is significant at the 0.05 level (2-tailed).

Indeed, from the above figure, correlation coefficient of 0.302 indicates a positive correlation between creative accounting and involvement of outside directors. To get an idea of how much variance the two variables share, the coefficient of determination (R²) is calculated. R² is 0.302 x 0.302 = 0.091204. It implies that Involvement of director’s help to explain 9.12% of the variance in creative accounting.

Is there a relationship between creative accounting and internal control mechanism? In the same as above, to test this question firstly, a scatter diagram is generated. Here, I see that there is a positive relationship between creative accounting and internal control mechanism, which is one of the factors of corporate governance as illustrated by the line of best fit. The below mentioned diagram shows the various internal control mechanism are designed in the way that motivate the ethical behavior and always try to avert creative accounting. The line of best fit shows the positive relation but it is very small.

Figure No. 4

As it does not give the definite picture, I run a correlation between the creative accounting and internal control mechanism

Table No.4-Correlations
Certainly, from the above figure, correlation coefficient 0.129 indicates a positive correlation between creative accounting and internal control mechanism but it is very small.

To get an idea of how much variance the two variables share, the coefficient of Determination ($R^2$) is calculated. $R^2$ is $0.129 \times 0.129 = 0.016641$. It implies that internal control mechanism help to explain 1.66% of the variance in creative accounting. From the above result, I see that that the confidence level between creative accounting and Internal Control Mechanism is very low. It means that correlation coefficient is not significant at 0.05 levels.

Research Question 3: Is there a relationship between creative accounting and product and market conditions?

In the same way as above, we plot a scatter diagram. Here, I see that there is no relation between creative accounting and product market competition, which is one of the factors of corporate governance as illustrated by the line of best fit. The below mention diagram shows that when the organization possess intense competitive environment, then it has no or very small impact with creative accounting. The line of best fit shows the positive relation but it is extremely small.

Now, I will run correlation for further analysis.
Table No.5 -Correlation

<table>
<thead>
<tr>
<th>Pearson Correlation</th>
<th>Creative accounting with corporate governance</th>
<th>Product And Market Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sig. (2-tailed)</td>
<td>.080</td>
<td>.542</td>
</tr>
<tr>
<td>N</td>
<td>60</td>
<td>60</td>
</tr>
</tbody>
</table>

Undoubtedly, from the above figure, correlation coefficient of 0.080 indicates positive but very small correlation between creative accounting and product market competition. As a result, the strength between the two is very weak. This is also proved with the help of coefficient of determination as it is just the square of the correlation i.e. $R^2$ value. $0.080 \times 0.080 = 0.0064$, almost zero variance. Thus, capital market technique explains almost negligible percentage of variance in creative accounting. From the above result, I see that the confidence level between creative accounting and Product and Market Condition is extremely high. It means that correlation coefficient is significant at the 0.05 level.

Research Question 4: Is there a relationship between creative accounting and Audit Standards?

I see that there is a positive relationship between creative accounting and audit standard, which is one of the factors of corporate governance as illustrated by the line of best fit. The below mentioned diagram shows that firms who possess good brand name will have less creative accounting practiced. Thus, standard of audit firm really have an impact on creative accounting. The line of best fit shows the positive relation but it is very small.

Now I run a correlation between the creative accounting and audit standard.
Table no. 6- Correlations

<table>
<thead>
<tr>
<th>Creative accounting with Corporate governance</th>
<th>Audit Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative accounting with corporate governance</td>
<td>Pearson Correlation 1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>N</td>
</tr>
<tr>
<td>Audit Standards</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>N</td>
</tr>
</tbody>
</table>

*. Correlation is significant at the 0.05 level (2-tailed)

Indeed, from the above figure, correlation coefficient 0.273 indicates a positive correlation between creative accounting and audit standard. As Cohen (1988) suggests that when r i.e. correlation is between 0.10 to 0.29, the strength of correlation is small. As a result, in this case, there is a positive correlation between the two variables but the correlation is very small.

To get an idea of how much variance the two variables share, the coefficient determination ($R^2$) is calculated. $R^2$ is 0.273 x 0.273 = 0.07452. It implies that audit standard help to explain 7.45% of the variance in creative accounting.

From the above result, I see that that the confidence level between creative accounting and Audit Standard is high. It means that correlation coefficient is significant at the 0.05 level.

Research Question 5: Is there a relationship between creative accounting and Goodwill of the firm?

In the same way as above, we plot a scatter diagram. Here, I see that there is no relation between creative accounting and Goodwill of the firm, which is one of the factors of corporate governance as illustrated by the line of best fit. The below mention diagram shows that firm has a brand image or not, then it has no or negative impact with creative accounting. The line of best fit shows the negative relation but it is extremely small.

Now, I will run correlation for further analysis.
Undoubtedly, from the above figure, correlation coefficient of -0.044 indicates negative or no correlation between creative accounting and Goodwill of the Firm. As a result, the strength between the two is very weak. This is also proved with the help of coefficient of determination as it is just the square of the correlation i.e. \( r^2 \) value. Thus, Goodwill of the Firm explains almost negligible percentage of variance in creative accounting. From the above result, I see that the confidence level between creative accounting and audit standard is very high. It means that correlation coefficient is not significant at the 0.05 level.

Research Question 6: Is there a relationship between creative accounting and capital market techniques?

To test this question, firstly a scatter diagram is generated. Here, I see that there is no relationship between creative accounting and capital market techniques, which is one of the factors of corporate governance as illustrated by the line of best fit. The below mentioned diagram shows the various capital market techniques that are furnished to achieve change when managers operate incompetently. The line of best fit shows no relation between them.

Now, I run the correlation to find out the amount of relation between creative accounting and capital market technique.
Certainly, from the above figure, correlation coefficient of 0.000 indicates no correlation between creative accounting and capital market technique. As a result, the strength between the two is weak. This is also proved with the help of coefficient of determination as it is just the square of the correlation i.e. $r$ value. Thus, capital market technique explains almost negligible percentage of variance in creative accounting. From the above result, I see that the confidence level between creative accounting and capital market technique is very high. It means that correlation coefficient is not significant at the 0.05 level.

G. Interpretation Of The Above

According to the analysis of the various corporate governance factors in relation to the creative accounting, I saw that out of 6 factors in total, 3 factors are positively correlated with each other, 3 factors shows no correlation between each other. The facts below summarize the reason for their relation between each other.

In research question 1, I observe a positive relation between creative accounting and involvement of outside directors. The relations shows if the outside directors of the company own large block of stocks in it, then the manager’s practices less of creative accounting. Or if the company involves more of directors in their decision making, less of creative accounting is practiced.

In research question 2, I see the positive relation between creative accounting and internal control mechanism. Some of the aspects of the internal control mechanism as an important factor of corporate governance to be noted here are given here: (i) creative accounting always increase the profits of the company, so the managers always give more importance to the creative (ii) for more of creative accounting in the company, managers always create a good relation between the shareholders as they are the one, whom the managers are accountable to.

In research question 3, there is no relation between creative accounting and product and market competition or the relation is negative as the line of best fit is inclined little downward. From the above relation, we cannot say whether firm’s competitiveness plays any role in deciding on the application of creative accounting in it.

In research question 4, I try to find out the relation between creative accounting and audit standard and figure (2) shows that there is a positive relation between each other but it is very low. It means if the firms possess a good standard, they will try (but not always) to reduce creative accounting because more of creative accounting in the firm will reduce the standard of it and intern people’s trust.

In research question 5, there is no relation between creative accounting and goodwill of the firm which shows we can’t say that a...
good firm will use or not use creative accounting to attract shareholders.

In research question 6, I notice that there is no correlation between creative accounting and capital market technique but the line of best fit is inclined little upward, almost negligible. It means debt structure i.e. financial leverage has no impact on creative accounting or the impact is so low that it creates no difference in using creative accounting in the firm.

V. CONCLUSIONS

In the end from the above analysis we can say that creative accounting and corporate governance has relationship between other factors also. Managers always try to boost profit of the firm if his incentives are linked to performance of the company. Audit standard also play role in creative accounting, if there is audit standard in the firm it reduces creative accounting practices. If there is an involvement of outside directors in the firm it also reduces creative accounting practices by the managers. If large block of stocks held by the outsider shareholders then it also decreases creative accounting practices because firms want to increase trustworthiness of the firm in the eye of the outside shareholders. If there are more meeting held by the outside directors it also reverse impact on creative accounting which means creative accounting minimizes. There is no effect of market and product completion on the creative accounting and market techniques also does not play any role in creative accounting practices.

So we can say that creative accounting can be minimised by corporate governance practices. It increases when manager want to boost the profit in case of unsuitable situation. But it can be minimized by keeping independent accountant and outside directors

REFERENCES
### Table No. 9- Factor Analysis

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Factor 1</th>
<th>Factor 2</th>
<th>Factor 3</th>
<th>Factor 4</th>
<th>Factor 5</th>
<th>Factor 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>More board meeting results in limited creative accounting</td>
<td>.788</td>
<td>.168</td>
<td>.060</td>
<td>.184</td>
<td>-.084</td>
<td>.114</td>
</tr>
<tr>
<td>2</td>
<td>When CEO and chairman is the same Person, then company is more into creative accounting</td>
<td>.764</td>
<td>-.015</td>
<td>.021</td>
<td>.071</td>
<td>.180</td>
<td>-.116</td>
</tr>
<tr>
<td>3</td>
<td>Managers reduce creative Accounting If outside Shareholders Owns Large Stocks</td>
<td>.713</td>
<td>.191</td>
<td>-.256</td>
<td>-.177</td>
<td>.044</td>
<td>.054</td>
</tr>
<tr>
<td>4</td>
<td>Product And market competition increases agency Problems</td>
<td>.503</td>
<td>-.068</td>
<td>.270</td>
<td>.356</td>
<td>-.027</td>
<td>.086</td>
</tr>
<tr>
<td>5</td>
<td>Financial leverage, debt Contracts and creative Accounting are directly Correlated</td>
<td>.460</td>
<td>.067</td>
<td>.271</td>
<td>.244</td>
<td>.061</td>
<td>-.287</td>
</tr>
<tr>
<td>6</td>
<td>Managers Incentives are based on the performance of the company</td>
<td>.088</td>
<td>.784</td>
<td>-.049</td>
<td>.195</td>
<td>-.171</td>
<td>.031</td>
</tr>
<tr>
<td>7</td>
<td>Strong shareholders and owners relationship</td>
<td>.053</td>
<td>.755</td>
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<td>No Direct relation between firm’s competitive Environment and creative Accounting</td>
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<td>Influenced by standard of audit firm</td>
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<td>Creative accounting boost the profit figures of the company</td>
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<td>A Good Brand Firm will choose those auditors that are less in creative accounting</td>
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<td>Managers that violate debt contracts, Make accounting Choices That generates maximum profit</td>
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<td>Managers issue debt to pay their future cash outflow</td>
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<td>More Involvement of directors</td>
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