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What Is So Creative About Creative Accounting? A Discussion of Its Techniques, Motivations and Mitigations.

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Creative accounting refers to the use of flexibility within accounting standards to manipulate financial statements in a way that presents a desired image of a company's performance or position (Peta, 2025; ALShanti et al., 2024). While such practices may align with the boundaries of accounting rules, they often violate the underlying principles of transparency, neutrality, and faithful representation. Rather than reflecting the economic reality of transactions, creative accounting reshapes financial information to meet managerial objectives such as achieving profit targets, maintaining investor confidence, or avoiding regulatory scrutiny (Sartika et al., 2026).

As highlighted in the literature of Blue et al. (2025), there are ten (10) creative accounting techniques and practices, which are:

1. Increasing/reducing expenses through depreciation methods and adjustments,
2. Selecting fixed assets to be included in the revaluation process,
3. Considering R&D costs after commissioning assets or costs as expenses for the period or capitalising them,
4. Off-balance sheet financing,
5. Changes in stock valuation methods,
6. Accounting transactions based on optimistic or pessimistic estimates,
7. Accelerating the recognition of revenues or delaying the recognition of expenses and vice versa,
8. Offsetting assets with liabilities and/or expenses with revenues,
9. Changes in the holdings classification policy; and
10. Issuing convertible bonds or bonds with share subscription warrants.

Over time, creative accounting has become increasingly normalised in many organisations due to a combination of structural and behavioural factors. Many organisations begin to perceive manipulation as acceptable when it appears beneficial and supports the achievement of organisational objectives. What initially starts as a discretionary accounting choice gradually evolves into an accepted organisational routine, becoming embedded within standard practices. Several reasons motivate organisations and management to practice creative accounting, such as the following:



1. Pressure to meet short-term financial expectations, including stable and predictable growth of earnings, which are imposed by shareholders, analysts, and top management. Companies prefer reporting stable profitability and a promising financial position rather than showing a rise and fall drift, which is a natural phenomenon in business (Kayaa, 2022).
2. Performance-based incentives, such as bonuses tied to profit figures, further motivate managers to adjust accounting numbers in their favour (Onyema et al., 2025).
3. The inherent flexibility in accounting standards, particularly in areas requiring estimates and judgments (e.g., provisions, depreciation, and revenue recognition), provides opportunities for manipulation (Kayaa, 2022). When such practices are widely observed within an industry, organisations may imitate them to remain competitive, thereby normalising their behaviour.
4. Aim to maintain the status quo and hide disgraceful performance and growth resulting from a poorly performing economy or the effect of an economic crisis (Kayaa, 2022).

To mitigate the risks associated with creative accounting, organisations must adopt a multifaceted approach. The following are a few institutional approaches that are commonly implemented by organisations to reduce the risks caused by the unethical decision of creative accounting. These approaches were discussed in the study of Abubakr et al. (2025) as stated below:

1. First, strengthening corporate governance is essential. Effective oversight by independent boards and audit committees can limit managerial discretion and ensure greater accountability – external auditor;
2. Second, internal control systems should be robust, particularly in areas involving estimates and judgements. Regular internal audits and risk assessments can help identify unusual patterns or inconsistencies in financial reporting – internal auditor;
3. Third, organisations should promote a strong ethical culture through integrity training and clear codes of conduct, emphasising that compliance is not merely about following rules but also about upholding ethical principles. Additionally, aligning performance incentives with long-term value creation rather than short-term financial targets can reduce the pressure to manipulate earnings – corporate stakeholders; and
4. Finally, external enforcement by regulators, coupled with stringent penalties for misconduct, can serve as a deterrent against both creative accounting and fraud – government.

In conclusion, creative accounting may seem harmless because it uses flexibility in accounting rules, but it can lead to serious problems. If not controlled, it can give a misleading picture of a company's performance, reduce trust among stakeholders, and eventually lead to fraud. To prevent this, organisations need not only strong controls but also a clear commitment to honesty and ethical behaviour at all levels. This raises an important question: how creative is creative accounting?



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