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The Similarities and Differences of Earnings Management and Creative Accounting: a Theoretical Comparative Study

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Introduction

Earnings management and creative accounting are widely debated in the scientific literature and create confusion when analysing the issues of manipulations. The terms "earnings management" and "creative accounting" are used both in different and in similar contexts in literature. The issues of their analysis are sometimes intertwined and it is difficult to identify which actions describe earnings management and which - creative accounting. The aim of this study is to evaluate the concepts of earnings management and creative accounting and to determine their similarities and differences. In the study, it is assumed that earnings management and creative accounting are two different phenomena which are used to characterize the manipulations of the accounting information. A comparative study of earnings management and creative accounting is carried out in three stages using theoretical research methods: genetic and historical comparison, data analysis, comparative methods, contextual analysis, analogy methods.

1. Genetic comparison of the development

In order to solve the terminological confusion, earnings management and creative accounting were brought to their original states and their origins and development were determined. As early as during the normative period of accounting science, with the emergence of new accounting concepts, profit became not only the main indicator of the company's efficiency but also the object of manipulation. Accounting practitioners quickly realized that different choices of accounting solutions could affect a company's profit without violating accounting rules. Accountant's ability to manipulate accounting figures was named "creative accounting" (Griffiths, 1986; Jameson, 1988). The science of profit manipulations prevailing in practice was noticed a little later, in the positive period of accounting science, when the opportunity arose to study accounting practice. As empirical research has shown, companies seek to change the amount of profit, this phenomenon has come to be called "earnings management" in science (Schipper, 1989). Due to different attitudes of practitioners and researchers, the accounting manipulations aimed at changing the amount of profits became known by different terms.

2. Contextual analysis of the definitions

Bachtijeva (2021), after the literature review, grouped the definitions by authors who had examined the issues of earnings management and authors who had examined the issues of creative accounting in different periods. Using the theoretical method of data analysis, the definitions of earnings management and creative accounting provided by each author were broken down into individual statements. Applying the comparative method and analysis contextual methods, each statement in the definition of earnings management is compared to creative accounting statements according to its context. An analysis of the definitions of earnings management and creative accounting showed that identical statements or statements with the same meaning are used to define these terms. In addition, the definitions of both consist of two parts: first, it defines active actions (choice of accounting methods, rules; structuring, valuation and disclosure of transactions; choice of certain actions, manipulations, etc.), and second, implies consequences which were pursued by these actions (aimed at obtaining the desired result, providing a biased result of financial activities, obtaining personal benefits, misleading users of information, etc.). Taking the definitions of earnings management and creative accounting as well as their structure into account, it can be argued that these terms define the same phenomenon–accounting manipulations aimed at changing the amount of a company's profits.

3. Comparison of earnings management techniques and creative accounting methods

Further analysis of the concepts of earnings management and creative accounting will compare the earnings management techniques described in the literature (Lambert, Spolem, 2005; Rahman, Moniruzzaman, Sharif, 2013; Omar et al., 2014; Jiang, 2020; Strakova, 2021 and other) with the list of ways of applying creative accounting presented by Bachtijeva (2021). For this purpose, each earnings management technique is taken, its description is analysed (what is the goal, what specific manipulations need to be performed) and compared with the list of creative accounting methods applications. A comparison of earnings management techniques and creative accounting methods showed that the earnings management techniques described in the literature define a certain system of actions, an accounting choice strategy aimed at achieving a particular accounting result, meanwhile, application of the creative accounting methods seems to detail this strategy and indicates the specific actions to be taken to put it into practice.

Conclusions

1. There is a strict analogy between earnings management and creative accounting, so we can say that these are terms that describe the same phenomenon. The claim that there is a difference between earnings management and creative accounting because earnings management is directed at profit manipulation whereas creative accounting is about the balance sheet manipulation would be incorrect. Due to the use of the accrual principle in accounting and the specifics of the double entry, changes in the profit amount also result in changes in the balance sheet structure. It can therefore be stated that earnings management and creative accounting describe the same phenomenon that is called by different names in the science and practice.
2. In order to solve the terminological problem of accounting manipulations and to re- duce the confusion and limitation of further consideration of this issue, it is proposed to abandon not only the term "creative accounting" but other terms as well and instead to use the term "earnings management" in which the word "management" ought to be understood as a negative interference with the presentation of the company's performance in the financial statements.

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