THE QUALITY OF FINANCIAL-ACCOUNTING INFORMATION IN THE CREATIVE ACCOUNTING EQUATION – FROM EXACT RELEVANCE AND REPRESENTATION TO UNCERTAINTY AND AMBIGUITY

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Abstract

At the national, European, and international levels, there is a need for quality financial information, and accounting standards have imposed several fundamental and enhancing features to make sure that users can profit from the data from annual financial statements. The current research, however, shows that as innovative accounting techniques are employed, the quality of financial accounting information is impacted, losing its utility, and shifting from being relevant and accurately represented to being uncertain and ambiguous. The management of the entity assumes a few risks as a result of the implications of creative accounting on the annual accounts. These risks can be minimized by putting strategies in place to identify and restrict the mechanisms used to manipulate financial accounting information. If we consider the fact that managers largely consent to the use of creative accounting, acting under the guise of its legality, this is challenging to accomplish.

Keywords: financial-accounting information, quality, creative accounting, relevance, financial position, financial performance, manipulation of financial-accounting information

JEL Classification: M41

1. Introduction

Financial accounting information serves as the foundation for decision-making within an economic entity. Its role is to provide competitive advantages to its users, both internal and external, for them to make and justify optimal decisions. Thus, in order to serve its purpose, accounting information must be of high quality, that is, it must possess certain characteristics that ensure its usefulness to all those interested in the entity's economic life.

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Although it has always been a stated goal of accounting to provide reliable financial accounting information, recent years have brought to light the urgency of this goal considering the rise in bankruptcies brought on by the falsification and embellishment of annual accounts. The need to regulate how accounting information is defined led standardization bodies to establish some qualitative requirements that accounting information presented in financial reports must adhere to. Depending on the laws passed at the national, European, or international levels, different standards are used to define the quality concept of financial accounting information.

Given that this new branch of accounting, creative accounting, involves the transformation of financial statements as a result of the existence of the choice of accounting treatments, estimates and forecasts, and other permitted practices by the accounting regulations in force, the emergence of creativity in accounting has put and will continue to put the quality of accounting information in doubt.

2. Literature review

After the 1929 financial crisis, there was discussion in the USA regarding the definition of the problem of the quality of financial accounting information and the voices that signaled the inadequateness of the information provided by businesses and the absence of standards for evaluating the quality of financial accounting information.

Over time, American standardization bodies were concerned with defining the qualitative criteria of financial-accounting information, which later became a critical component of any conceptual framework, whether American, British, or international. A brief list of the accounting staff members who emphasized the quality of financial-accounting information is provided below:

• FASB publishes in 1980 - the qualitative characteristics of accounting information

• IASC publishes in 1989 the requirements for obtaining high-quality information, along with the qualitative characteristics of financial statements;

• The British standardizer’s perceptions of the qualities of financial information are published by the ASB in 1991.

Regarding the definition (Stefan D., Sărămăt O., 2011) [1] of the qualitative characteristics of accounting information, the standardization bodies starting from: defining user groups, identifying information needs, determining the objectives of financial reporting, have shared points of view with regards to the highlighting of certain characteristics (relevance, reliability, intelligibility, and comparability), but at the same time they have divergent views regarding the other characteristics.

The qualitative characteristics of the financial-accounting information that have been recognized by the aforementioned standardization bodies are rendered (Minu, M., 2002) [2] and are the subject of a ranking scheme (Vilaia D., Pietraru A., Popa I., 2008) [3] that is developed in 2008.

The CNC did not take into account the definition of qualitative characteristics of accounting information in France, so only certain qualities of accounting information were listed in the French plan. Along with the debates and proposals about the need for a French conceptual framework, the professional organization of accounting experts developed its own conceptual framework, which included aspects about the concept of accounting information quality.

Celine Michailesco (Michailesco C., 2000) [4] considers that there are certain similarities between the characteristics of the accounting information retained by the CNC and those provided in the Anglo-Saxon conceptual frameworks:

- adequate or adjusted refers to relevance;
- clarity refers to intelligibility;
- loyalty can only be linked to reliability.

Several time periods were examined in order to define the quality of accounting information in national regulations. The findings of the research highlight the following elements:

- because the state as a user caused an asymmetry in the demand and supply of accounting information in comparison to other users, and because the faithful image can be obtained if the rules of patrimony evaluation and other accounting standards are followed, emphasis was not placed on these qualitative characteristics of accounting information in the framework of the first regulations from 1991 to 1999.
- the emergence of normative acts (OMFP 403/1999, OMFP 94/2001) through which the Romanian legislation is harmonized with the IV EC Directive and the International Accounting Standards marks the second stage of the accounting reform in that country, which began in 1999. The national framework that characterizes the development of the accounting system is fixed through these normative acts, and at the same time, the beneficial influences regarding the qualitative aspects of the accounting information are assumed.
- the primary qualitative characteristics of the annual financial statements are specified precisely and succinctly in the third stage of the national accounting system's development, which was started in 2006 by the normative acts OMFP 1752/2006, OMFP 3055/2009, and OMFP 1802/2014. They align with IFRS' characteristics, demonstrating once more how Romanian accounting has become

more accessible to those who need accounting information in order to make wise decisions or investments.

Against the backdrop of accounting rules' flexibility and the availability of alternative options and treatments, creative accounting adheres to the letter of the law but not to its spirit. Thus, specialized literature confirms the legality of creative accounting practices while emphasizing the negative consequences for entities and users of financial-accounting information.

Naser K., in the work Creative accounting: its nature and use, defines creative accounting from an academic perspective as "the process by which, due to the flexibility and existence of gaps in the rules, the figures in the annual accounts are manipulated, the result of the choice of measurement practices and information being the transformation of summary documents from what they should be to what managers want" (Naser K., 1993)[5] and draws attention that "the manipulation of accounts is an old accounting problem that has appeared since the 1920s".

Even though it first appeared more than a century ago, creative accounting practices are still relevant and of interest, particularly to managers who use accounting earnings to meet investors' growing expectations of economic returns (Beneish M. D., Nichols C., 2005) [6].

In his book Comptabilité générale, Colasse B. mentions the possibility of creative accounting techniques being illegal due to the deviation of accounting rules: "accounting information practices that are often at the limit of the legal are used by certain entities that take advantage of the limits of regulation and normalization in order to embellish the image of the financial position and the reported economic performances." (Colasse B.,1997) [7].

Creative accounting techniques are described by Stolowy H. in his book Comptabilité créative as "a set of procedures that aim either to modify the result, in the sense of maximizing or minimizing it, or to modify the presentation of the annual financial statements, but without the two objectives being mutually exclusive" (Stolowy H., 2000) [8]. These aspects are a significant part of the theme addressed in this scientific research.

McEnroe J.E. addressed the issue of financial scandals caused by the use of creative accounting techniques in the study Individual Investors' Perceptions Involving the Quality and Usefulness of Audited Financial Statements and highlights the negative effect they had on trust in the reported financial-accounting information. (McEnroe J.E, 2007) [9].

According to the subject of this scientific research, we also observe some interest in the national specialized literature, implying that the concerns of recent years have been concretized in new writings, perspectives, and visions regarding creative accounting.

The late professor Niculae Feleagă was the first author to dare to write about creative accounting in our nation. In his book Accounting Controversies, Conceptual Difficulties, and the Credibility of Accounting (Feleagă N., 1996) [10], published in 1996, he discusses the techniques used in this type of accounting as well as the dangers associated with using them in actual accounting practice.

Three years later, Liliana Malciu presents in detail her mentor's ideas from the above-mentioned work, addressing conceptual aspects such as the motivational complex of the development of creative accounting techniques, practices arising from the choice of accounting policies, or the accounting profession's reaction to the emergence of this phenomenon. (Malciu L., 1999) [11].

Diaconu P., in the work How do accountants make money? Tax evasion, tax havens, creative accounting analyzes the role of creative accounting in maximizing the performance of the economic entity (Diaconu P., 2004) [12].

Munteanu V. and Zuca M. consider creative accounting as a tool to support the manager, a tool used to present the desired image of the entity that leads in pursuit of one's own interests, in the article Considerations regarding the use of creative accounting in distorting information from financial statements and "maximizing" the company's performance. (Munteanu V., Zuca M., 2011) [13].

Groșanu A. examines the relationship between creative accounting and other concepts such as true image, accounting fraud, and corporate governance in the work Creative accounting. It also highlights a series of empirical studies aimed at assisting users of annual financial statements in understanding creative accounting techniques and their impact in the Romanian economic environment. (Groșanu A., 2013) [14].

Creative Accounting. From idea to money, written by A. S. Dumitrescu, proposes the search for positivism and negativism in the analysis of creative accounting. The author's point of view is unequivocal: "creative accounting, in a positive sense, is capable of emitting an objective truth and message." But let us not lose sight of the fact that the truth revealed by creative accounting is only a filter that cannot distinguish between the constructed and desired truths, between innovation and manipulation. (Dumitrescu A. S., 2014) [15].

3. Research methodology

The objective of the current scientific research was to develop and deepen our understanding of the quality of financial accounting information and how creative accounting affects it. To accomplish this, the research was conducted in a systematic manner from both theoretical and practical perspectives.

The basic research reflected in this paper was based on theorizing the specific concepts of the chosen theme, namely: the quality of financial-accounting information, the qualitative characteristics of financial-accounting information, and the impact of creative accounting on the information presented in annual financial statements. Furthermore, they are analyzed from a theoretical standpoint, aspects concerning:

- The quality of financial accounting information in relation to the regulatory frameworks of the United Kingdom, France, and Romania;
- The fundamental and enhancing qualitative characteristics of financial accounting information in the context of IFRS financial reporting requirements;
- Model for assessing the quality of financial accounting information at Romanian businesses;
- The impact of financial-accounting information quality on the entity's value dimension;
- Influences and effects of creative accounting on the accuracy of financial accounting data;
- Methods for identifying and preventing mechanisms that manipulate financial accounting data.

Additionally, this paper's content successfully combines elements of qualitative research with those that call for quantitative analysis. We continued our review of the specialized literature with the idea that the more bibliographic resources are based on them, the more reliable and convincing our scientific findings will be in terms of qualitative or interpretive research (Yin R.K., 1994) [16]. As a result, we used deductive reasoning to document the investigated phenomenon, and among the analyzed sources we discovered: specialized books, articles published in magazines and economic journals indexed in international databases, accounting standards and norms, and normative acts. We paid equal attention to writings in English, French, and Romanian because we took a more complex approach to the field under study. We conducted an in-depth, specialized investigation of the effects accounting engineering has on the quality of information provided by the annual financial statements of Romanian economic entities in the pharmaceutical industry. The sources cited throughout the paper revealed opinions and analyses of foreign and domestic authors regarding the quality of financial accounting information and the phenomenon of creative accounting that manifests both internationally and nationally.

The design and presentation of a model for evaluating the quality of financial-accounting information in the Romanian context, based on the examination of the entity's financial statements, constitutes the quantitative or positivist research presented in this article.

4. The demand for high-quality financial accounting data at the international, European, and national levels

4.1. Definition of the quality concept for accounting and financial data

Given the growing emphasis on providing quality accounting information through financial statements in academic and professional environments, the idea of the quality of financial-accounting information is regarded as a contemporary one.

Regulatory organizations that operate at the national, European, and international levels establish various criteria for evaluating the quality of financial accounting information. These qualitative requirements must be met for the information provided by the economic entity's financial statements to be credible and useful.

Defining the quality characteristics of financial-accounting information has become a fundamental component of any Anglo-Saxon or international conceptual framework that proposes their identification and ranking. In contrast to this approach, French accounting places little emphasis on the concept of financial-accounting information quality but insists that it must provide a useful representation of the economic entity's reality. In terms of the Romanian accounting standard, OMFP no. 1802/2014 fully adopts the provisions of the IASB's General Conceptual Framework on the qualitative characteristics of financial-accounting information.

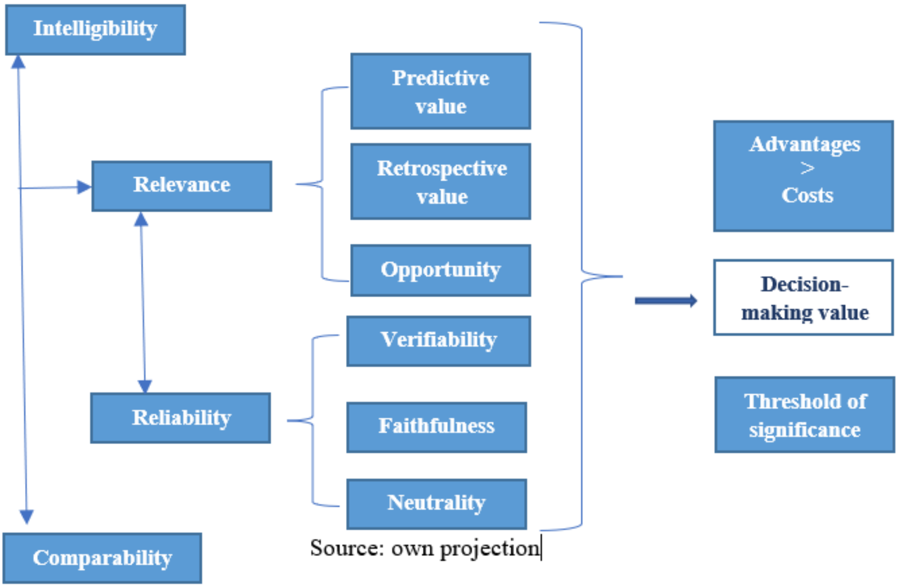
Analytical reasoning is used to test and classify the financial accounting data under the conditions of compliance with specific limitations, and then validate the quality criteria that the data must meet. Making such an analysis is challenging, and in this regard, we observe the varying viewpoints that have existed over time regarding the ranking of the qualities required to generate reliable financial accounting information. However, in order to highlight the similarities and differences that currently exist at the level of the accounting system, we believe it is appropriate to present a comparative presentation of these characteristics as defined and ranked in national and international legal texts.

4.2. The quality of financial accounting information in relation to the regulatory frameworks of the United Kingdom and France

The quantity and, most importantly, the quality of accounting information ensure the usefulness of financial reports. Accounting standardization and regulatory bodies in the United States, the United Kingdom, and France all had different concerns about defining the quality characteristics of financial-accounting information.

The Financial Accounting Standards Board (FASB), an American standardization body, published a series of qualitative characteristics of accounting information in 1980, organised in decreasing importance, as follows: intelligibility, reliability, relevance, and comparability. If the costs of producing the information are less than the benefits of using it, and the information presented in the financial statements is significant, these characteristics achieve qualitative competence.

Figure 1 shows, schematically, the qualitative characteristics of financial accounting information according to the FASB.



Source: own projection

Figure no. 1: Qualitative characteristics of accounting information according to FASB

The primary quality of financial information must be relative importance, followed by the main qualities of relevance (relevance) and reliability, and the secondary qualities of comparability and intelligibility. This is according to the UK's accounting standard-setter, the Accounting Standards Board (ASB), which published its own opinion on the quality of accounting information in 1991. (Figure no. 2). Opportunity, the cost-benefit analysis, and the imbalance between the quality characteristics may all act as barriers to achieving the quality of accounting information.

The ASB's perspective on the main qualities of information reveals the following relationship: more of one quality means less of the other, in other words, information that focuses more on relevance is less reliable, which is why achieving a balance between the two qualities is necessary. Another feature unique to British accounting is that information reliability refers to the absence of errors or elements that could lead to erroneous interpretations; meeting this quality criterion requires the following requirements: credible representation (substance before form), neutrality, exhaustiveness, and prudence.

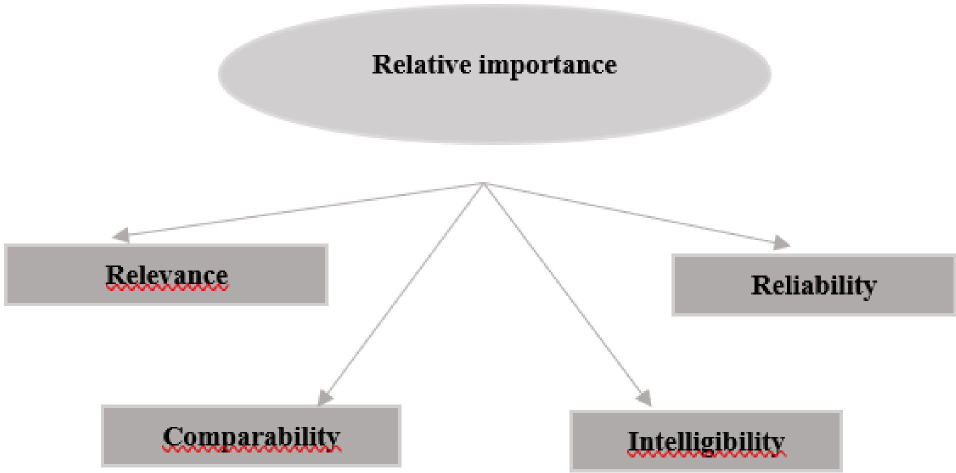


Figure no. 2: The ASB's guidelines for the quality of accounting information

Source: own projection

In France, the national accounting regulatory body has not taken the definition of the quality characteristics of financial-accounting information into account. Rather, the French General Chart of Accounts (PCG) requires that accounting information provide users with an adequate, fair, clear, precise, and complete presentation of economic transactions and operations. In addition, in order to obtain an accurate picture of the accounts, the French normalizers imposed three principles: regularity, honesty, and prudence.

Regardless of the provisions of various conceptual frameworks or accounting regulatory texts, it is crucial to make clear that financial-accounting information does not completely meet the proposed sets of quality characteristics, but that they must at least partially possess all of them in order to be useful in the decision-making process (Feleagă N., 1996) [17]. In order for the accounting information to best meet the qualitative requirements specified by the adopted reference, compromises are frequently made in the processing and presentation of the accounting information.

4.3. The fundamental and enhancing qualitative characteristics of financial accounting information in the context of IFRS financial reporting requirements

In the public interest, the International Accounting Standards Board (IASB) has developed a set of globally agreed financial reporting standards known as International Financial Reporting Standards (IFRS). The goal of implementing these standards is to provide users with quality, transparent, and comparable financial-accounting information that they can use to make economic decisions.

The conceptual accounting framework is a document that contains the concepts, objectives, and fundamental principles required to create a reference system for the preparation and presentation of the financial statements of an economic entity.

The development of such a reference material took place after several attempts. Thus in 1989, the IASC developed the first conceptual framework that contained rules regarding the preparation and presentation of financial statements. In 2010, the IASB issued a new conceptual framework that clarifies the objectives of financial reporting: the information provided by annual accounts must meet the common needs of the majority of users. Following an extensive revision and addition process, the most recent conceptual framework was published in 2018. This resulted in a new IASB international reference, structured in eight chapters, with the role of guiding the accounting professional in formulating the reasoning required for financial statement preparation and presentation (***Figure no. 3***).

1. The general purpose objective of financial reporting.
2. **Qualitative charactheritics of financial statements.**
3. Financial statements and the reporting entity.
4. Elements of financial statements.
5. Recognizing and removing items in/from financial statements.
6. Evaluating items in financial statements.
7. Presenting and delivering the information.
8. Capital and capital maintenance concepts.

Figure no. 3: The conceptual accountanting framework (IASB, 2018)

Source: own projection

The relevance of the events and transactions recorded and accurately represented in the accounting, according to the current international accounting regulations, determines the usefulness of the information provided by financial statements.

One of the most crucial qualitative traits of financial accounting information is ***relevance.*** Information is generally considered relevant if it has an impact on the beneficiaries' financial decisions. ***Relevance*** gives meaning to the data in financial reports, enables users to assess past, present, and future operations and transactions, and supports or contradicts earlier projections and estimates (Ristea M., Dumitru C.G., 2012) [18].

Relevance assumes that the information presented prior to the current fiscal year about the entity's financial position and performance has a predictive or forecasting role for the subsequent periods. At the same time, relevant information serves as an evaluating or confirmatory function by highlighting the truth about the entity's financial situation. As can be seen from ***Figure no. 4***, there is a close relationship between the two roles played by relevant information***:***

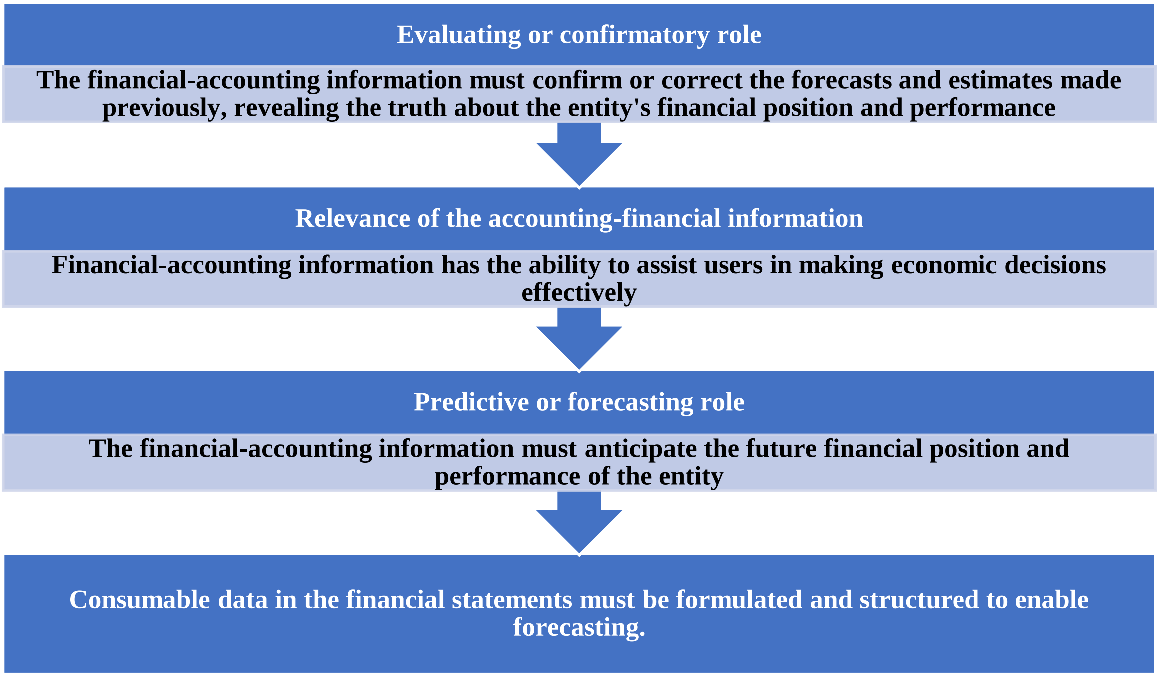


Figure no.4: The relevance of financial-accounting information

Source: own projection

Accounting should entail more than just providing historical information in financial statements. Accounting must periodically offer, through forecast accounts, predicative data on assets, equity and liabilities, income, and expenses in order to demonstrate its value as a tool for financial management and analysis. The financial accounting information included in the preliminary financial statements must therefore be relevant.

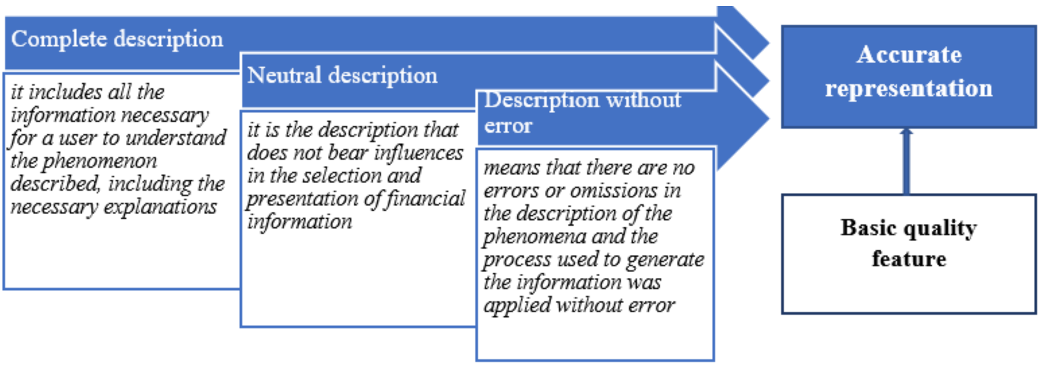
The controversies surrounding financial accounting information arise from the controversies surrounding its nature and materiality or significance. The nature of the information is usually sufficient to determine its relevance. However, there are times when the relevance of the information must be determined after considering its materiality.

The materiality of accounting information refers to the threshold of significance, or the point beyond which decisions made based on incomplete or incorrect information in financial statements are influenced. As a result, information is only relevant if it is significant.

Another aspect of relevance is the selection and processing of information based on the needs of users, as well as the provision of a sufficient volume of data to avoid over- or under-informing the beneficiaries. In addition, when it comes to the perishability of information, relevance includes promptness and punctuality.

Financial accounting data is relevant if it meets all the criteria listed above. Furthermore, the General Conceptual Framework emphasizes that for information to be useful, it must be both relevant and accurately represent the events it claims to represent.

Financial-accounting ***information must be accurate***, free from influence, distortion, or manipulation in any way, and without errors or omissions to be understood. Accurate representation is one of the fundamental qualitative requirements that financial-accounting information must meet, along with relevance. In other words, a complete, unbiased, and error-free description of the events, transactions, and accounting phenomena specific to the entity's economic activity is necessary for the accurate representation of financial-accounting information. (***Figure no. 5***).



Source: own projection

Figure no. 5: Accurate representation of financial and accounting information

4.4. The quality of financial accounting information in Romania, according to the reference accountant

The problem of defining and evaluating the quality of the information presented in the financial statements was hesitantly addressed by the accounting reform that was initiated in Romania immediately following the 1989 revolution. Because the Romanian normalizers saw accounting as a control tool, they imposed reliability and truthfulness as the primary qualities of accounting information. Under these circumstances, the state, acting as the legislator, also acquired the privilege of using accounting data, which gave the appearance of informational asymmetry when compared to the other user categories.

Accounting was transformed into an information tool and decision support after 1999, when legislative texts became more coherent than they were during the first stage of reform (1991-1994). Accounting was oriented towards its external users through an economic approach to the acquisition and processing of accounting information at the expense of the legal approach. As a result, the degree of capitalization of accounting information increased proportionally to their number, requiring the introduction of quality criteria required in financial statement preparation and communication.

Romanian accounting must address the issue of the quality of accounting information, considering the specific transformations that have generated a developing economy. (Minu M., 2002) [2]:

- redefining and remodeling the business as a producer of accounting information;
- redefining and remodeling the message sent through financial statements;
- defining and recognizing the categories of users of financial information, as receivers of accounting message.

However, we note the influences that international accounting benchmarks have on the accounting system in our country. Defining the quality of accounting information was a concept taken over, translated, and transposed in Romanian accounting. The lack of a personal point of view of the Romanian standardizers regarding the quality of accounting information also emerges from the literal adoption of the quality criteria used in the international accounting standards.

Currently, accounting regulations for individual annual financial statements and consolidated annual financial statements are in effect in Romania, as approved by Order of the Minister of Public Finance No. 1802 of December 29, 2014.

The qualitative attributes of the data provided by the economic entity's financial statements are enumerated and described in section 2.3 of OMFP no. 1802/2014. We emphasize that the IASB General Conceptual Framework's requirements for these qualities in financial accounting information have been adopted by local accounting legislation, resulting in the following provisions in the Romanian accounting regulations currently in effect:

For financial information to be useful, it must be relevant and represent exactly what it is intended to represent. The usefulness of accounting information is enhanced if it is comparable, verifiable, timely and comprehensible.

The technical literature also suggests additional quality requirements—transparency, responsibility, confidentiality, and correctness—that the information presented in financial reports must meet in addition to those specified in the rules (Ristea M., Dumitru C.G., 2012) [18]. Credibility, however, is a mega-characteristic that gives utility to accounting information, thus the other qualities, except relevance, are incorporated by it:

- The user must possess specialized knowledge in order to understand accounting information; otherwise, the message conveyed by financial reports will be distorted;
- Although it is necessary to apply qualitative criteria to accounting information, doing so does not ensure its quality (Minu M., 2002) [2];
- To assess the quality of accounting data, tools are required.

4.5. Measuring instrument for the quality of financial-accounting information at Romanian economic entities

According to the IASB conceptual framework, which maintains the following qualitative characteristics, the quality of financial accounting information is evaluated in Romanian accounting in accordance with relevance and exact representation, comparability, verifiability, timeliness, and intelligibility. The quality of the accounting information is determined by whether the aforementioned criteria are met; the definition of the concept is achieved by ranking these six characteristics according to their significance to users. However, measuring the quality of accounting information is just as crucial as defining it. This is challenging to do because there is subjectivity involved in how the qualitative characteristics of the information are interpreted.

In this regard, we offer a model for evaluating the accuracy of accounting information that is based on creating a set of inquiries whose goal is to confirm or, on the other hand, refute the existence of the quality standards specified in the rules in the company's financial statements (***Table no.1***).

Users who are familiar with the particular language must honestly respond to the pertinent questions in the proposed model for evaluating the quality of accounting information after reviewing the reporting entity's financial statements. The questions are set up so that a "YES" response indicates that the standards of excellence were adhered to in the creation and presentation of the annual financial statements. The realization of this model was based on the Romanian standardizers' belief that accounting information is of high quality if it satisfies the qualitative standards outlined in the applicable legal texts. To measure and determine the quality of accounting information in the Romanian environment, we used the quality characteristics listed and defined in OMFP no. 1802/2014. We also developed questions whose answers led to this measurement and determination.

RELEVANCE (basic quality characteristic)			
Questions	**Answers**		**Observations**
	Yes	**No**	
1. Do accounting information have predictive value? (can they be used to predict future results of the entity?)			
2. The annual reports also contain non-financial information necessary to identify risks or opportunities for business development?			
3. Historical cost is used as the main basis for evaluating the items presented in the financial statements?			
4. What accounting information is detailed in the financial statement notes?			
5. Accounting information informs users about significant events or transactions affecting the company?			
ACCURATE REPRESENTATION (basic quality characteristic)			
Questions	**Answers**		**Observations**
	Yes	**No**	
1. Are the informations regarding accounting options and estimates detailed in the financial statements?			
2. Have there been detected in previous periods significant errors and were they corrected?			
3.Do financial statements present positive events as well as negative ones that affect the activity of the entity?			

4. The entity's financial statements have been audited in the past?			
5. Do the financial statements of the entity include information on corporate governance?			
COMPARABILITY (amplifier quality characteristic)			
Questions	**Answers**		**Observations**
	Yes	**No**	
1. Are the accounting policies used and their changes explained in detail?			
2. Are statutory adjustments made when an accounting policy is changed, or an accounting estimate is revised?			
3. Are the results obtained in the current period comparable to those obtained in previous years?			
4. Is the information in the financial statements comparable to that presented by other entities?			
RELIABILITY (amplifying quality characteristic)			
Questions	**Answers**		**Observations**
	Yes	**No**	
1. Is the accounting information presented in the financial statements based on data that can be verified from other sources?			
2. Are the accounting methods and treatments used by the entity listed and/or explained?			
3. Are specific indicators calculated and presented in the financial statements?			
4. Are the annual reports published in full?			

OPPORTUNITY (amplifying quality characteristic)			
Questions	**Answers**		**Observations**
	Yes	**No**	
1. Are the deadlines for drawing up and presenting the financial statements respected?			
2. Are quarterly financial reports with temporary results published?			
3. Are all users able to access financial reports that were created and published in previous years?			
4. Does the organisation publish temporary financial reports on a frequently updated website?			
INTELLIGILIBITY (amplifying quality characteristic)			
Questions	**Answers**		**Observations**
	Yes	**No**	
1. Are the financial statements well organized?			
2. Is the information in the financial statements also explained with the help of tables and graphs?			
3. Do the explanatory notes include specific information about the position and performance of the company?			
4. Does the accounting information presented in the financial statements include the explanations required by any user with even a basic understanding of accounting to decode and comprehend the accounting language?			

Table no. 1: Measuring instrument of accounting information in Romanian environment.

Source: by authors

The proposed model's limitations are related to the professional knowledge of the accounting information user, as well as the subjectivity of accounting professionals who analyze the entity's financial reports.

4.6. The effect of financial-accounting information quality on the entity's value dimension

Accounting is described in the specialized literature as an information system that allows for the creation and distribution of data in order to make decisions (Ionașcu I., 2003)[19]. Through accounting, the quantitative and qualitative expression of the management of its patrimony is realized. The accounting reports contain supporting information for the analysis of the financial position and performance of the entity (Cristea H., 2021) [20]. Accounting is the primary source of information for parties interested in the economic entity's activity. The accounting records' role in representing the entity's economic reality is assumed as a result of the performance of specific accounting functions, which are highlighted in ***figure no. 6***.

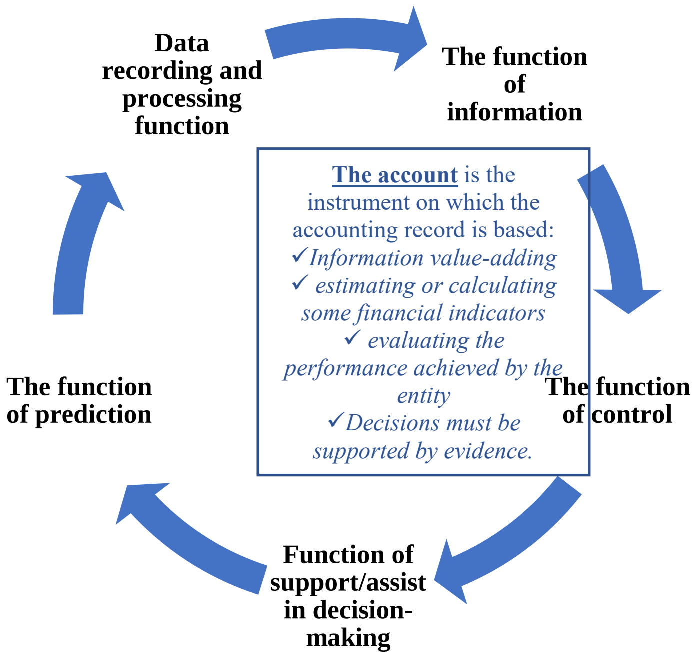


Figure no. 6: The functions of accounting, premises of the representation of the economic reality of the entity

Source: adaptation after Cristea H, (2021), *Quality and quantity in accounting,* CECCAR Business Review, Nr. 4, pp. 3-8.

For their users to have the option of supporting the choices made, the financial-accounting information must be current and accurately reflect the economic reality of the entity. Because this information serves as the foundation for the mathematical model that accounting uses to measure and assess the financial position, financial performance, and cash flows, the quality and quantity of financial-accounting information has a significant impact on the analysis of the value dimension of the entity. Any type of financial report manipulation involves the dissemination of cosmeticized, unreliable information, which encourages incorrect economic judgements with potentially catastrophic results.

5. Creative accounting – influences and effects on the quality of financial and accounting information

To achieve the desired results, ***creative accounting*** employs accounting techniques or assumptions that are permitted by the legal framework. In this instance, financial accounting data is modelled to affect financial decisions. If the information provided by accounting is of poor quality, the interests of users of financial reports cannot be met. The quality of summary documents is negatively impacted by creative accounting, particularly the information provided by the balance sheet and the profit and loss account.

The parties interested in the activity of the entity must identify the mechanisms for manipulating the annual accounts in order to lessen the impact of inventive accounting techniques on financial information and, implicitly, on economic decisions. Once these mechanisms have been identified, it is critical to use clearly defined limiting strategies to avoid the pitfalls of creative accounting.

5.1. Creative accounting and the quality of financial-accounting information

The science of accounting has developed the tools required to ensure, on the one hand, the recording and processing of data pertaining to the activity of the economic entity and, on the other hand, the communication of information to interested parties.

New paradigms are added to the definition of accounting as a science of organization and communication through symbols (Cristea H., 2021) [20] to highlight the creative, artistic nature of the accounting technique.

The professional accountant is the one who puts these clearly defined rules, standards, and principles into practice. In these circumstances, it's critical that the accountant's professional reasoning considers not only the applicable laws but also the ethical norms that demand adherence to the values of morality, equality, and justice.

Creative accounting is based on the technical prowess of dishonest accountants who take advantage of legal loopholes or the potential to manipulate financial accounting data using alternative accounting treatments. As a result of the faulty accounting data processing, the annual accounts are impacted, and the information provided on the market to those interested in the entity's activity is no longer accurate or relevant. Given that financial accounting information serves as the foundation for economic decision-making, it is clear that financial report manipulation or embellishment can have serious negative consequences.

Accounting as both a science and an art allows the accountant to be creative in the preparation and presentation of annual financial statements. The quality of financial-accounting information is being questioned, and its users are suffering as a result of the use of creative accounting techniques. As a result, we believe it is necessary to examine the quality of accounting information from the standpoint of the professional accountant's morality (***Figure no.*** *7*).

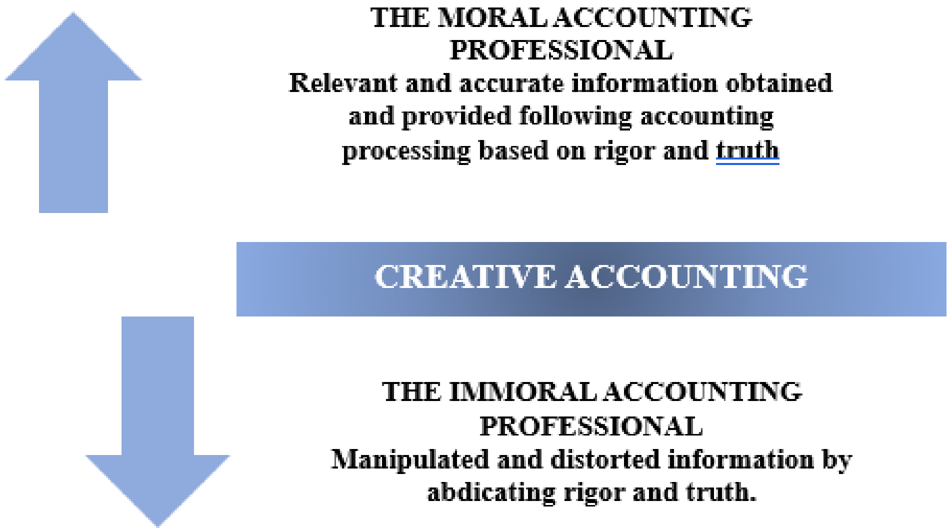


Figure no. 7: Creative accounting and the quality of financial-accounting information

Source: own projection

Because accounting rules are flexible, creative accounting techniques can be used in the legal sphere, but their application frequently results in a distorted representation of the entity's economic reality. It has been discovered that the fundamental quality characteristics that accounting information must possess to be useful in decision-making are relevance and accuracy. In this context, we can conclude that the use of creative accounting techniques results in the preparation and presentation of embellished financial statements that mislead accounting information users.

5.2. Effects of creative accounting on financial accounting information

The goal of ***creative accounting*** is to alter the accounts to better reflect the economic entity's financial situation. These modifications lead to the distorting of financial-accounting data from reports, which has an immediate effect on the decision-making process.

The information provided through the annual financial statements is subject to a variety of effects from creative accounting, including changes in the value and structure of revenues, expenses, and equity as well as changes in the value of assets and liabilities.

Creative accounting methods are employed to "beautify" the financial position and performance in accordance with the strategic and financial interests of the entity. For instance, the entity may use alternative accounting treatments permitted by the applicable rules if it wants to improve the result or, on the contrary, decrease it.

Another factor to consider when analyzing the effects of creative accounting is the manipulation of the information presented in the financial statements' appendices. This explanatory information, which is primarily narrative in nature, has become increasingly important in recent decades as parties interested in the entity's activity, particularly investors, use it more and more frequently in the decision-making process.

5.3. The impact of creative accounting on the information presented in annual financial statements

The laxness of accounting rules is used in ***creative accounting*** to present the entity's financial situation in a way that differs from the actual one. The preparation and presentation of reports that embellish economic reality are creative accounting tools available to the entity's management to achieve their own interests at the expense of those of the stakeholders.

The negative impact of creative accounting on annual financial statements is a decrease in user confidence in financial-accounting information. The application of creative accounting techniques affects the true picture of the annual accounts, and therefore indicators calculated to reflect profitability, liquidity, or solvency are irrelevant because they do not accurately represent the reality faced by the economic entity.

According to specialized literature, more than 90% of embellished financial reports are the result of the use of creative accounting techniques. Managers use these techniques because of their legal character, which stems from the flexibility of accounting regulations. The shaping of the entity's results and financial position is the result of management incompetence or, on the contrary, greed.

The elements of the financial statements are manipulated as a result of the option of selecting a more convenient accounting treatment for achieving the entity's objectives. The impact on the annual accounts may differ depending on the creative accounting practices used:

- Increasing or decreasing expenses and/or revenue;
- decreasing or increasing the value of assets, liabilities and/or equity.

Regardless of the predominance of creative accounting techniques on the balance sheet and profit and loss account, we note that the cosmeticized financial-accounting information fails to fulfil the functions for which it is produced, and the numerous financial scandals that have hit the international financial markets support this assertion.

5.4. Strategies for detecting and limiting financial-accounting information manipulation mechanisms

Creativity in accounting provided knowledge in solving problems that the standards did not have an answer to, but also opened the way to manipulations of the information provided by the annual financial statements and this has a direct impact on the economic decision-making process.

The irrational and immoral use of creative accounting techniques has resulted in the emergence of massive international bankruptcies, prompting specialists to seek strategies to limit or diminish the mechanisms of financial accounting information manipulation. A summary of these measures to limit accounting creativity is provided in ***figure no. 8.***

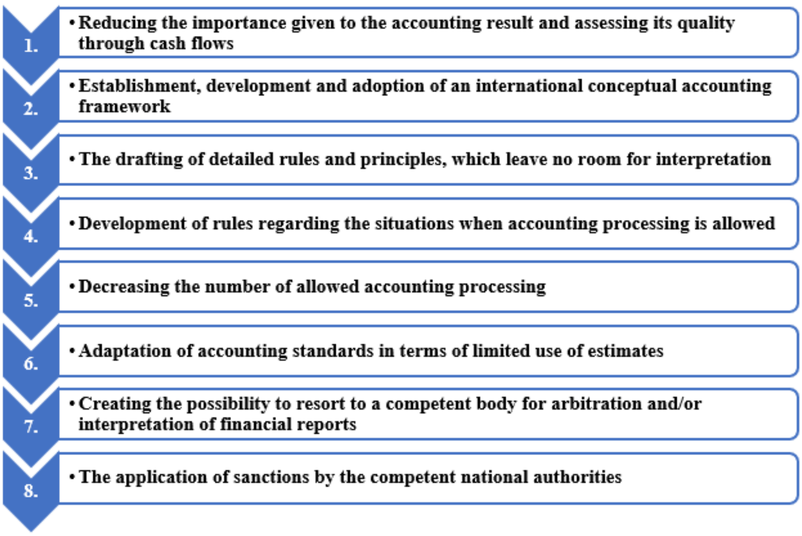


Figure no. 8: Strategies for Limiting Creative Accounting Techniques

Source: own projection

6. Conclusions

Specific informational needs exist depending on how an economic entity interacts with both its internal and external environments. The provision of pertinent, correct, and unbiased financial accounting information is necessary to meet their needs.

In recent decades, international regulations, including those in our country, have adopted the idea of the quality of financial-accounting information as a central component of the global conceptual framework.

By using clearly defined criteria that enable the creation of a measurement tool with the aim of enhancing the accounting communication process, the quality of the financial accounting information is evaluated.

The foundation of accounting is a set of rules and principles that are secondary to the requirement to deliver high-quality information. The observance of some fundamental and amplifying characteristics required by international standards and national referential, characteristics that give it utility and credibility, is a precondition for the quality of the financial accounting information.

However, the use of innovative accounting techniques has an impact on the usefulness of financial reporting and the accuracy of accounting information, and information asymmetry is one of the disadvantages that users of embellished financial statements must deal with. In this sense, strategies for detecting and limiting financial accounting information manipulation must be put into practice at the same time as disclosing the influences and effects that creative accounting has on the financial position and performance reported by the economic entity.

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