

Identifying and Ranking Creative Accounting Indexes Using Analytic Network Process¹

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Received: 2021/09/21

Accepted: 2022/02/09

Research Paper

INTRODUCTION

The financial statements are the mediums by which both the internal and external stakeholders gain an understanding of the financial condition and operating performance of the corporations. Their accuracy and reliability of them are very crucial for all the stakeholders of a corporation to make appropriate decisions. Market participants also have to decide on investing in a company based on information contained in the financial reports. If the information is biased, the markets cannot determine the exact price of securities. Moreover, it appeared that sometimes managers intentionally manipulate the financial statement towards a predetermined target. Thus, the fact that managers frequently use creative accounting techniques affects the

1. DOI: 10.22051/JAASCI.2022.39571.1677

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investor's ability to properly assess the true value of the company, which in the long term affects the company's performance in the securities market. Transparency in the financial reporting system is of utmost importance because individuals, potential investors, creditors, and regulators have to make investment decisions based on corporate financial reports (Bhasin, 2016).

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 (Yadav, 2014). Thus, Creative accounting in financial reporting is a threat to the quality of financial statements. The presence of creative accounting as a financial crisis factor poses a serious threat to public confidence in financial information and financial reporting and costly consequences for various groups. This survey aims to identify effective indicators of using creative accounting for companies listed on the Tehran Stock Exchange and also rank those indicators. For this purpose, the questions of this research are presented as follows:

- 1) What are the dimensions, components, and indicators of creative accounting?
- 2) What is the rank and weight of each of these dimensions, components, and indicators?

MATERIALS AND METHODS

To achieve the study purpose, dimensions, components, and indicators influencing creative accounting were firstly extracted by studying the theoretical background and literature review as well as conducting semi-structured interviews with experts that Fuzzy Delphi technique was employed for their consensus and screening. In the following, by performing the network

analysis process, the weight of each of the indicators and their priority over each other were calculated.

RESULTS AND DISCUSSION

Results indicate that there is a consensus among experts on accepting 15 indicators of the Delphi approach. Results of Fuzzy Delphi show that "ratio of total liabilities to equity", "interest coverage ratio", "return on assets", " net income to sale ", "accounts receivable to total assets", "inventory to sell ", " Working capital to total assets ", " Cash from operations to pre-tax profit ", " Sales to total assets "and" Sales to accounts receivable " as indicators related to the dimension of performance and "Auditor size", " auditor tenure " and "Ratio of non-executive members of the board" as indicators related to the dimension of corporate governance and "Natural Logarithm of Total Sales" and "Natural Logarithm of Total Assets" as indicators related to the dimension of political cost are significant effective creative accounting indicators. Based on the analytic network process, "return on assets", "auditor tenure", "net income to sale", "working capital to total assets", and "ratio of total liabilities to equity" With weights of 0.2137, 0.1195, 0.1191, 0.0956 and 0.0702, respectively have the greatest effect on the using of creative accounting and other indicators are in the next priorities.

CONCLUSION

Study results demonstrate that performance dimension indicators got high priority from experts' perspectives in using creative accounting. Also, due to the effectiveness of corporate governance in the use of creative accounting, increasing the effectiveness of corporate governance, mechanisms can increase the transparency and reliability of financial statements. Increasing the transparency and quality of financial reporting leads to a reduction of information asymmetry between the producers and users of financial reports and optimal allocation of resources. This study provides a basis for the

evaluation of the quality of financial statements and their usefulness to improve the decision-making of users of financial reports for regulatory bodies by identifying and ranking the effective indicators in the use of creative accounting.

Keywords: Analytic Network Process, Creative Accounting, Creative Accounting Indicators, Financial Scandals, Fuzzy Delphi.

JEL classification: M41, G4.

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