Creative Accounting Effect through Discretionary Accruals on Likelihood of Economic Unit Being Exposed to Financial Distress Risks

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Abstract:

Many major international companies were subjected to financial faltering and then bankruptcy and collapse as a result of their managements misusing this flexibility in accounting principles and policies, which led to most economic units losing public confidence and increasing doubt about the efficiency and integrity of their management in the extent of adherence to accounting policies and standards. This type of practice is called creative accounting, which means taking advantage of the flexibility that exists in the use of accounting principles and policies, or the lack of consistency in their use from year to year, with the intention of influencing the numbers appearing in the financial statements and thus influencing the outcome of the activity and the financial position of the economic unit to achieve its goals and motives of maximizing profits, current and future financial situation or improve through manipulation to deceive shareholders and users of financial information. Hence the importance of the research through knowing the impact of creative accounting through optional entitlements on the possibility of economic units being exposed to financial default, as the concept of creative accounting will be exposed, the reasons for economic units resorting to it, its types and objectives, the concept of optional entitlements and the types of those entitlements, as well as the concept of financial default and its types. Its causes and stages. Then the applied aspect of the research will be presented by displaying the results of the questionnaire that were distributed to the research sample represented by a group of chartered accountants and containing a set of questions in three axes. The results of those answers were presented through the (SPSS) program and through the use of simple linear regression for the purpose of achieving the hypothesis. The research is based on (there is a statistically significant effect of creative accounting through optional entitlements on the exposure of the economic unit to financial distress), and then the most important results reached by the researcher and the most important recommendations were presented.

Keywords: Creative Accounting, Optional Entitlements, Economic Units, Financial Distress

INTRODUCTION

Many of the world's foremost companies have experienced financial distress and, consequently, bankruptcy and collapse because of their management's poor use of such flexibility in accounting principles and policies. The consequence is the loss of the majority of economic units to public confidence and increased suspicion of the efficiency and integrity of their management in compliance with accounting policies and standards.

One of the most renowned companies is Enron and WorldCom, which have collapsed. The instability of their financial positions calls for careful consideration by researchers and academics to identify causes and to learn from experiences. They used amoral ways in their financial transactions as well as the lack of transparency in their financial reports on one hand, and make continuous changes in accounting policies in order to beautify the financial situation to increase user satisfaction for their financial reports on the other hand.

This type of practice is called creative accounting meaning taking advantage of the flexibility in using accounting principles and policies or not being consistent in using them from year to year with a view to influencing the figures shown financial statements and thus affecting the outcome of the activity and the financial position of the economic Unit to achieve its objectives and motivations of maximizing current and future profits or improving the financial situation by manipulating the deception of shareholders and users of financial information.

1- Approach of Study

First- Concern of Study

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Because of the recent global crises that led to the collapse of many global companies such as Enron and WorldCom, where most of its financial lists indicated the strength of its financial position shortly before its collapse, and the reasons for this sudden collapse were due to the use of circumvention and misleading methods when preparing financial statements with a view to improving the profile of the economic Unit or eliminating the financial distress to which it may be exposed. All this can be achieved through the use of creative accounting practices by the units' accountants. Here is the problem of the study that can be formulated in the main question:

How much does creative accounting through discretionary accruals affect the likelihood of business organizations being financially distressed?

Second- Practical Significance

This study derives its practical importance as it examines the effects left by creative accounting on the continuity of the survival of economic units in the exercise of their activity without commitment to the ethical aspect, which exposed them to the risks of financial distress resulting from the use of these practices. It studies the impact of the behavior of some departments of economic units in the practice of creative accounting through discretionary accruals to show the results of their activity and financial statements in proportion to the goals set by their short and long-term executive departments at the expense of the real owners for those units and other beneficiaries.

Third- Objectives of Study

The study aims to achieve the following:

1. Highlighting the concept of creative accounting and identifying its motives, aspects of practices and benefits, and effects of its practices.
2. Highlighting the concept of discretionary accruals for economic units.
3. Demonstrating the likelihood of the economic Unit being exposed to the risks of financial distress when using creative accounting practices through discretionary accruals.

Fourth- Hypothesis of Study

The study is based on the following hypothesis:

"There is a statistically significant effect of creative accounting through elective entitlements on the economic unit's vulnerability to financial distress".

Fifth- Approach of Study

The research will adopt the deductive approach in collecting and presenting some of what was mentioned in official documents, theses and books related to this topic in the theoretical side, and the inductive approach will be followed in the practical side for the purpose of testing the research hypotheses by following the descriptive analysis of the questionnaire form that will be organized for this purpose.

Sixth- Community and Sample of Study

The study sample includes accountants working in business organizations in Najaf Governorate, who have information that serves this study, and the questionnaire lists will be distributed that include a set of questions related to the subject of the study, as they are qualified to answer the questions of the questionnaire.

2. Theoretical Framework of Study

First- Creative Accounting through Discretionary Accruals

A - Creative Accounting

(1) Concept of Creative Accounting
Because of the different views among researchers regarding it, it may seem like a modern term at first glance, but upon closer inspection, we find that the practice of creative accounting began since the first inception of accounting (Hadi, 2017: 40). Creative accounting has been defined as "the process of converting accounting information into the reality of what the company wants by using gaps and weaknesses in accounting rules and standards or by neglecting part of the rules" (Alrabab'a, 2019: 8). Creative accounting is based on changing objective accounting values to subjective values based on fraud and manipulation, so it is considered a form of fraud (Jabbar, 2015: 243).

(Abdulhalim, 2014: 27) defines creative accounting as "Employing the deliberate scope of all legitimate and illegitimate accounting methods in order to correct the results of the financial position and financial operations and work to create deliberate shading by concealing important information and facts in order to present an untrue picture of the company's economic performance to those who use financial reports".

(Idris et. al) also regards creative accounting as "An exploitation of accounting knowledge and skills in order to influence the financial position and the result of the activity of the accounting unit through shading on the accounting figures contained in its financial statements, taking into account compliance with accounting rules and standards. In other words the management to show the data in a summary and stylized manner and hide the facts from investors and users of those financial statements, and has considered this practice contrary to the behavior and ethics of the accounting profession" (Idris et. al, 2012: 26-31).

Larusi and Alqasemi defines it as "Transforming real accounting values into undesirable values to achieve the interests of the company by exploiting the gaps and alternatives available in the applicable accounting standards without compromising any of the accounting rules and principles" (Larusi and Alqasemi, 2016: 12).

Ja'ara describes them as "All kinds of hidden behavior and procedures aimed at showing the financial statements of its users in a shady and illegal manner" (Ja'ara, 2015: 18). From the above, the researcher sees that there are many common points between the definitions mentioned above, as shown below:

1- Creative accounting can be considered a form of fraud, fraud and deception when practicing the accounting profession.

2- Creative accounting is based on making distortions in the figures shown in the financial statements to make them far from the actual reality and the reality of the financial situation of economic units.

3- The practice of accounting under accounting standards and accepted principles is generally accepted.

4- Accounting can only be practiced by people who have professional experience and skills in the field of accounting.

The researcher believes that the term creative accounting refers to the management hiding what it wants to hide from owners and investors for the financial statements and showing them better in order to improve the image of the financial statements, and this contradicts the behavior and ethics of the accounting profession.

(2) Historical Development of Creative Accounting

The desire of many companies to merge for the purpose of establishing large companies, especially at the beginning of the eighteenth century, which required the establishment of a sober accounting system that prevents errors and accounting manipulations, and at this stage accountants began to face problems in estimating the value of fixed assets and in calculating replacement or maintenance costs (Bin Mohamed, 2017: 38). In light of this period, creative accounting appeared in the accounting science literature in order to face the economic recession on the one hand and with the aim of achieving the highest number of profits on the other hand, while companies face great difficulty in reaching the required profits (Alnemrin, 2019: 14).

In addition, the flexibility in accounting standards helped many departments to choose alternatives to accounting measurement in a way that serves the interests of the company (Thomas et. al, 2001: 255). Others believe that the period of the emergence of creative accounting dates back to the beginnings of the Great Industrial Revolution, where manipulation and distortion are carried out when calculating the costs of
manufacturing the product and at that time the economic units had complete freedom in determining the
accounting methods and policies to be used (Alhalabi, 2009: 20).

Griffiths believes that the continuation and survival of creative accounting is due to the fact that accounting
standards and principles are designed in a way that makes them more flexible. Accounting standards, methods
and policies came to address accounting problems in general and not to address specific accounting problems.
The purpose of this flexibility is to provide multiple measurement methods for different and different financial
events that must be at hand (Alkailani, 2008: 67-68).

(3) Reasons For Turning to Creative Accounting:

Companies are working hard to improve their financial position as it reflects the extent of their economic
stability, which helps to increase investment in them and thus achieve an increase in the prices of their shares
in the financial markets as well as increase the reassurance of lenders and users of financial statements. For
this reason, companies rely on the choice of accounting methods and policies that suit their interests in the
process of measurement and disclosure due to the multiplicity of alternatives to accounting measurement.
This will produce distorted financial statements that affect the process of making sound decisions for users

The Most Important Motives for Creative Accounting Practices Are:

1- Improving the company's reputation in the business environment:

Corporate management often practices creative accounting in order to increase the value of the company by
improving its poor performance, by making distortions that affect its appearance positively and thus improve
its image in front of competing companies.

2- Improving the company's share prices:

The decline in the company's performance in the business environment causes a decrease in stock prices in the
stock market, and many companies may resort to the practice of creative accounting to maximize their share
prices and thus increase their investors.

3- Increasing the opportunity for external borrowing:

Many lenders, whether individuals or banks, resort to studying the financial situation of borrowing companies
as a preventive measure to ensure the repayment of loans and their interest without delay, which pushes
borrowing companies to practice accounting with the aim of influencing lending decisions from external parties

4- Increase the chance of tax evasion:

Some companies reduce their profits by practicing creative accounting and work to increase their expenses and
reduce their revenues, thus reducing the taxes imposed on them by the tax departments.

5- Improving the financial performance of the establishment:

Many departments of economic units are working to improve the image of their financial performance in front
of the boards of directors using creative accounting.

6- Obtaining advanced professional classifications:

Some specialized international organizations conduct an evaluation of companies with similar specializations
according to financial indicators and standards extracted from the financial statements of these companies, and
some companies may resort to the use of creative accounting in order to obtain an advanced professional
classification (Milford & Comikey, 2002: 2-8).

(4) Factors that Helped the Emergence of Creative Accounting:

The factors that led to the emergence of creative accounting are:
1- Freedom to choose generally accepted accounting policies and principles:

Designing accounting principles and policies in a way that allows economic units to choose between accounting methods and policies freely when carrying out the process of accounting measurement and disclosure, which leads accounting units to exploit this aspect in the process of choosing accounting methods and policies in line with their objectives and achieving their desires, which were often aimed at showing the performance of economic units in their best form, such as the freedom to choose methods of extinction to calculate the extinction of fixed assets (Taleb, 2013, 21-22).

2- Freedom of accounting estimates:

The accounting estimate is the estimated value of the element in the absence of specific accounting measurement, or is to determine an approximate amount for a specific item when measuring some financial transactions subject to a large degree of personal estimation and future expectations based on estimates. This gives the administration a great opportunity to manipulate those estimates in order to reach its goals, and an example of this is the estimation of the useful life of fixed assets that are carried out by the management of the economic Unit and thus the impact on calculating the extinction, so the chances of Manipulation by the accountant that is difficult to detect (Abdurrahman et al., 2016: 26).

3- Timing in Stabilizing the Real Accounting Operations:

Management may sometimes control the timing of stabilizing financial operations to achieve predetermined objectives to serve their personal interests, such as postponing the process of recognizing gains and revenues or delaying or postponing the recognition of losses that cause the value of profits to be inflated or reduced (Alagha, 2011: 27).

(5) Types of Creative Accounting:

Creative accounting takes multiple types and forms, as researchers differed in dividing creative accounting, some of them divided it into two directions: creative accounting with interest and opportunistic creative accounting (Abdulhalim, 2014: 22).

1- Creative Accounting with Interest

It is characterized by adding important value to information, as it communicates all important and useful information about the current and expected performance of the accounting unit to potential users. It also contributes to enhancing the media aspect of gains and profits in the Unit. The supporters of this view have justified that the practice of useful creative accounting works to enhance the confidence of shareholders in the economic Unit and encourage them to acquire the largest share in the Unit. This will contribute to the stability of stock prices in the financial market, reduce foreign interventions and help facilitate the borrowing process as well.

The researcher believes that useful creative accounting, although it has positive aspects for shareholders, but it is considered undesirable practice, because it will contribute to misleading many other external parties from users of financial statements such as the departments of tax, investors, and lenders.

2- Opportunistic Creative Accounting:

It is the abuse of flexibility in accounting standards, policies and generally accepted principles by choosing measurement alternatives and accounting disclosure that may affect the number of dividends to be announced, and thus influence the decisions of shareholders and lenders.

Creative accounting can also take two other directions (Alnemrin 2019: 19):

- Legal Form:

It is the process of exploiting the gaps and weaknesses in the accounting principles and standards, laws, and policies that govern the work of the economic Unit by alternatives to the options available in them and thus affect the extent of honesty and fairness of the financial statements.
Illegal Form:
It means that accounting units practice creative accounting to manipulate and define the items appearing in financial statements to improve their image and not show them what they should be.

B- Discretionary Accruals

(1) Concept of Discretionary Accruals

Financial accounting is based on accruals by considering each accounting period as independent, with its financial transactions represented by revenues and expenses from one period to another, so the accrual basis is the essential pillar in the procedures of accounting operations due to its direct attachment to many accounting principles and concepts associated with measuring assets and estimating provisions.

Accruals were defined as "the process of recognizing transactions and activities that result in realized revenues or consuming resources regardless of the timing of the collection or repayment of associated cash" (Alrashidi, 2013: 11), and defined by Al-Hassan as "the settlement of cash flows to more accurately reflect the causal relationship between achievements and efforts to achieve those achievements" (Alhasan, 2012: 151).

It should be noted that accounting accruals are based on the form and content of the financial data and statements that will be disclosed as follows (Khalil, 2001: 16):

1- Its Impact on Statement of Financial Position of the Unit:

For example, the duration of the stable asset is estimated, and the value of the asset is distributed over its duration. Then, the extinction is subtracted in the form of payments for each accounting period to disclose the asset's net value for each accounting period separately, assuming that the economic Unit continues to perform its activity. The use of the accounting policy is stable.

2- Its Impact on the Statement of Income of Unit:

After dividing the life of the accounting unit into periodic periods, the interview principle is adopted through the distribution of revenues and expenses for each period by loading what must be charged to the accounting period and excluding activities related to the previous and subsequent periods.

As for discretionary accruals, they have been defined by many literary researchers as "Management's reliance on personal judgment in preparing accounting estimates, such as the useful life of stable assets or choosing the timing of recognition of revenues and expenses" (Alsharawi, 2010: 17). In addition, it is "The difference between total accruals and non-optional accruals with the total accruals being linked to the total assets at the end of the previous financial period as a monitoring variable to measure profit management (Aljabri, 2013: 1317). Some also believe that the concept of accounting accruals is linked to the concept of creative accounting, so (Saqeed) defines it as the means through which creative accounting can be practiced" (Saqeed, 2010: 40).

(2) Objectives of Accounting Accruals

Researchers differed in determining the management's goal of using accounting accruals. Some of them went to the positive side by taking advantage of the flexibility and freedom to choose the use of the appropriate accounting accrual to maximize the value of the economic Unit's profits. This is what is called the informational role of the accounting accrual. Its goal is to increase support for users of the financial statements, including investors and shareholders, for the purpose of evaluating the performance of the economic Unit and forecasting its profits in the future (Alrashidi, 2013: 12-15). While others went to the negative side represented by defrauding the users of the financial statements in exchange for achieving management objectives in a way that serves its interests, and this is called the opportunistic role of accounting accruals (Abdullah (2016: 54).

(3) Content of Accounting Accruals

Accounting accruals can be divided from two main points of view: according to the flexibility of administrative choice, they are divided into discretionary accruals and mandatory accruals, and according to the financial period, they are divided into short-term accounting accruals and long-term accounting accruals, as shown below:
1- According to Administrative Choice Flexibility:

A- Discretionary Accruals:

This type of receivables often arises from management's freedom to choose between alternative accounting policies and diligence in setting accounting estimates. It is calculated by extracting the difference between total receivables and mandatory receivables, according to the Jones model. They are known as "discretionary receivables that arise as a result of management's choice between the accounting treatments and options available with the aim of inflating or reducing an organization's profits and making them appear as they are not, include customer accounts receivable, doubtful debts, inventory accounts, payables, and deferred revenues (Zaiton, 2013: 38).

B- Compulsory Accruals:

It is represented in the calculations of the accruals that are formed due to the practice of the economic Unit of its regular business, which results in changes in some of the assets, liabilities, revenues and expenses from an accounting period (Babakr and Assiddiq, 2015: 96).

2- According to the Financial Period:

A- Short-Term Entitlements:

It is often related to the current assets and liabilities, as it is linked to the operational activity of economic unity, and it should be noted that this type of entitlements is to choose between accounting policies that result On the other hand.

B- Long Term Accruals:

In contrast to short-term accruals, their effect extends over more than one accounting period because they are linked to long-term assets and liabilities, so they relate to all investment and financing activities of the accounting unit, such as depreciations and deferred tax (Alrashidi, 2013: 12-15).

(4) Determination of Discretional Accounting Accruals:

No economic unit can determine and choose its optional accounting accruals unless its management has the ability to exercise those accruals when determining the Unit's profit and to measure the availability of that ability to manage the Unit using accounting accruals, there are two approaches to this (Muhammad, 2011: 31):

1- Cumulative Accruals Model Approach

This is done by proving the availability of discretionary accounting accruals by establishing a linear relationship, where the relationship between the total accruals and the assumed factors explaining the management's ability to create discreional accruals is studied. This is done by using the total accruals and the level of change in them as an indicator to interpret the extent to which the Unit's management practices the accruals. Discretionary accounting when determining accounting profit (Abulkhair, 1997: 64).

2- Special Accruals Approach:

This approach is based on creating a model dedicated to each accruals item and sheds light on making comparisons for a specific accounting accrual item or for a group of items according to the industrial standard adopted by the economic Unit. After making these comparisons, we arrive at the extent of the Unit's ability to exercise optional accounting accruals, and the study reveals That country or items, whether they include optional accounting accruals or not (Muhammad, 2011: 32).

Two- Financial Distress

(1) Definition of Financial Distress
Financial distress can be expressed as one of the cases of cash deficit that an economic unit may face, causing it to lose the ability to fulfill its obligations, such as repaying loans and interest expenses on their specified due dates, as a result of its insufficient cash flows from operational operations to fulfill those obligations.

Financial distress is defined as "A state of imbalance that afflicts the company and financial distress results from many internal and external reasons that affect the company's ability to pay its required obligations, and therefore it is a situation in which the company is unable to generate sufficient funds to meet its financial obligations." At the time of maturity" (Fredrick and Osazemen 2018: 84), and we note from this definition that it focused on the internal and external factors that may affect the companies.

The concept of financial default is one of the important concepts that attracts the attention of writers, researchers, owners, and shareholders. Any type of financial default, no matter how slight, may have a significant impact on the economic Unit in particular and on the national economy in general.

Financial distress is defined as "A situation in which an enterprise is exposed to a state of lack of liquidity and the accumulation of losses as a result of wrong administrative and financial decisions accumulated over the years, or due to the enterprise's inability to adapt to the laws and decisions that regulate its activity" (Fadhala, 1996: 326). In addition, it is "A decrease in the company's ability to generate profits, which leads to an increased possibility of being unable to pay interest and principal" (182: Sharifabadi et al, 2014). It is defined as referring to "the company's inability to achieve an appropriate cost of return that is less than the cost of capital" (Alani and Almomeni, 2013: 7).

(2) Types of Financial Distress

Writers and researchers have different viewpoints on the phenomenon of financial distress and the study of its types. There are many types of financial distress, as follows:

1- Economic Distress:

It means the failure of departments to achieve returns from investments or to achieve them in a way that is less than the prevailing interest rate in the financial markets. In other words, the investment returns are not proportional to the risks expected from them. Economic distress is "the condition of the bank whose achieved returns are unable to cover all costs, including the cost of financing." (Alnajjar, 1997: 43), and economic stumbling can be calculated as follows:

\[
\text{Gross operating surplus} = \text{value added} + \text{subsidies} - \text{taxes and fees} - \text{personnel costs},
\]

Economic faltering is nothing but a negative value added number, as the economic Unit depletes economic resources instead of production.

2- Financial Distress:

Financial distress results from the establishment's inability to meet its expenses because the value of its liabilities in the short term is greater than the value of its assets, and successful solutions are not available in a timely manner to pay these obligations. In the absence of liquidity, it is impossible to comply with creditors. Some believe that financial distress is a state of bankruptcy that may befall an institution when it raises its liabilities against its assets.

3- Legal Distress:

This type of faltering results from the application of legal sanctions by economic units, as well as the legal recognition of the faltering of the unit subject to judicial oversight. This type of faltering may lead to the collapse of the economic Unit in the short term. There are two legal indicators that indicate the faltering of the Unit, and according to the degree of risk to which the Unit has been exposed (Carole, 1994: 8), which are As follows:

A- Stop Paying:
Here, the Unit actually stops paying expenses, and its situation cannot be completely repaired. This indicator is called stopping payment, and it occurs when treasury services stop. There is a clearer economic definition for this situation, which is "inevitable financial deterioration".

**B- Difficult Financial Situation:**

This case concerns economic units whose financial position is very tight and results from problems in financial liquidity as well as lack of commitment to the general balance of the general budget.

**(3) Stages of Financial Distress**

All administrative levels, including supervisors and executive directors of the economic Unit, must participate in assessing the cause and degree of risk so that it can decide to consider the debt in default. The branch manager may delay in notifying management of a default in repaying the loan, believing that the matter will be resolved in a short time, or for fear of embarrassment from management, or because of arrogance, and the Unit passes through six stages before it reaches the stage of collapse, which are as follows (Alshammari, 2009: 25):

**1- Stage of Acquiring Certain Defects:**

This stage is the real beginning of stumbles resulting from defects that did not lead to corruption or obvious errors in organized management. It is also considered a kind of challenge and test for the organization's management. If management is certain and pays attention to the extent of the risks, it has exceeded the possibility of it being exposed to default, but if it ignores that, it will enter this path. There are many examples of these defects, including those related to the management of the organization, especially at its upper levels, the most important of which is that the financial manager has the characteristics of absolute authority, which causes the role of executive directors to be eliminated, or that the administration combines executive authority with oversight over it, such as a person who combines the position of director General and Chairman of the Board of Directors, the inability of the administration to adapt to the changing circumstances surrounding it.

**2- Stage of Ignoring Current Situation:**

The organization's management may sometimes commit some fundamental errors, and these errors are the result of the defects that the organization suffered from. At this stage, some experts in the organization are ringing the alarm bell to warn those responsible for its management of the seriousness of the reasons that may lead to financial failure. If the administration ignores this warning, this may lead to stopping sounding the alarm.

**3- Continuing Financial Distress and Underestimating its Imminent Danger:**

The situation may become more dissatisfying at this stage due to the management committing repeated mistakes and its insistence on ignoring the danger of the situation facing it, due to the imposition of control by decision makers on the management of the organization, and here the organization has descended towards collapse.

**4- Adapting to Financial Distress:**

This stage is considered one of the most dangerous stages, as the organization may become accustomed to stumbling on a daily basis, and in this case, the organization may have reached its last breath.

**5- Devastating Crisis:**

Negative and bad information is spread regarding the organization's status, which prompts those dealing with it, including investors and creditors, to immediately demand their rights from the organization, which causes a devastating crisis for the organization.

**6- Treating the Crisis and Liquidating the Organization:**

At this stage, the administration searches and investigates possible solutions that may help it solve the crisis, and the current situation is addressed through several possible solution alternatives, such as merging the organization. However, if the organization does not reach possible solutions, the organization is liquidated.
(4) Manifestations of Financial Distress

Writers have differed in defining indicators of financial distress, due to the diversity of the nature of organizations and the nature of the business sectors to which they belong. The manifestations of financial distress are represented in the following (Kazemian et al., 2017:92).

1- Liquidity:

It is considered a tool for measuring the duration of availability of liquidity or the speed of converting assets into cash for the purpose of paying short-term liabilities. The liquidity ratio is also one of the tools for measuring the organization's financial performance, and high liquidity ratios indicate the company's ability to fulfill its short-term obligations. In other words, financial liquidity has a negative impact on the organization's financial distress, so the deterioration of current assets, the tendency toward short-term borrowing, the low liquidity ratio, and the lack of working capital control are considered important signs that indicate the organization's potential exposure to financial distress.

2- Leverage:

It is a tool used to measure the organization's ability and ability to fulfill its obligations. In other words, it is the percentage of the organization's assets that are financed by obtaining debt. A high financial leverage ratio indicates that the organization will face higher risks, and if it does not pay its debts to its creditors, it makes it more vulnerable to bankruptcy. And financial faltering, and more restrictions will be imposed by creditors in the event that they wish to obtain other loans. There are many indicators of the organization's financial faltering, such as an imbalance in the capital structure that causes an increase in reliance on loans, non-compliance with the terms of loan agreements, and difficulty in obtaining credit facilities.

3- Profitability:

It aims to measure the organization's ability to achieve profits from every sale that is made and is a measure of the extent of the organization's success or failure during a specific period of time. Organizations that achieve high profits will have a very small chance of being exposed to financial faltering. There are many indicators of an organization's financial faltering, including a decline in the organization's profits and deterioration. Its financial position for long periods, the failure to identify or lose control over the organization's loss-making activities, the failure to adopt accurate and sound policies and methods that require holding a large reserve in anticipation of major losses, and the failure to prepare final accounts in a timely manner and the low level of financial disclosure cause the deterioration of the organization's financial position. Neglecting problems and delaying their resolution may increase the chance of financial failure for the organization.

4- Activity:

It is the level of effectiveness of organizations in benefiting from funding sources. If the organization's activity rates increase, the chance of exposure to financial failure becomes low, as the organization can use funding sources to earn returns on investments that enable the organization to cover its expenses, so the inability to compete with imported or locally manufactured products. They are considered indicators that indicate the presence of financial distress in the organization.

3- Applied Aspect of Study

The applied aspect of the study represents the presentation and analysis of the results of the questionnaire on the extent of the impact of creative accounting through optional entitlements and the exposure of the economic Unit to the risks of financial failure. We will discuss the most important steps used in collecting and analyzing the results of the questionnaire.

One- Content of Questionnaire:

The questionnaire form aims to obtain answers from the responses of the study sample represented by accountants. The questionnaire form has been organized and includes a set of demographic questions related
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to the specifications of the study sample and (20) questions related to the subject of the study, divided into three main axes, as shown below:

-First Axis: Demographic Questions.

-Second Axis: Creative Accounting through Discretionary Accruals.


Questionnaire forms were distributed to a random sample of accountants working in business organizations, and (138) forms were retrieved and (6) were neglected because they did not complete the required information, so that the number of forms representing the study sample was (132) forms, which constitute (88%) of the total. Preparing the distributed questionnaire forms as shown in the following table.

Distributed and Returned Questionnaires and Sample Size

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Number/Form</th>
<th>Questionnaire Forms</th>
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<tbody>
<tr>
<td>100%</td>
<td>150</td>
<td>Distributed</td>
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<tr>
<td>92%</td>
<td>138</td>
<td>Returned</td>
</tr>
<tr>
<td>4%</td>
<td>6</td>
<td>Neglected</td>
</tr>
<tr>
<td>88%</td>
<td>132</td>
<td>Sample Size</td>
</tr>
</tbody>
</table>

Table 1.

Two- Demographic Description of the Study Sample

The frequencies and percentages of the study sample were classified according to the following main axes:

(1) Gender.

The number of male accountants in the study sample was (98), accounting for (74%), while the number of female accountants was (34), accounting for (26%), as in the table below:

Study Questionnaires Numbers Classified by Gender

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Recurrence</th>
<th>Gender</th>
</tr>
</thead>
<tbody>
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<td>98</td>
<td>Male</td>
</tr>
<tr>
<td>26</td>
<td>34</td>
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</tr>
</tbody>
</table>

Table 2.

Source: SPSS statistical program

Numbers of Study Questionnaires Classified by Gender

![Figure 1]
(2) Workplace

The study sample included (90) accountants who work in government institutions, at a rate of (68%), while the number of accountants who work in private sector institutions reached (42) accountants, at a rate of (32%), as in the table below:

Numbers of Study Questionnaires Classified According to Workplace

<table>
<thead>
<tr>
<th>Workplace</th>
<th>Recurrence</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governmental Institutions</td>
<td>90</td>
<td>68</td>
</tr>
<tr>
<td>Private sector Institutions</td>
<td>42</td>
<td>32</td>
</tr>
<tr>
<td>Total</td>
<td>132</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Based on SPSS Statistical Program

Numbers of Study Questionnaires Classified According to Workplace

(3) Age

The percentage of accountants whose ages ranged from (30-40) years constituted (43%) and represents the largest age group in the study sample, as it reached (57) accountants, as this group is characterized by good experience, awareness, and sufficient awareness to answer the questionnaire questions, as in the table below:

Numbers of Study questionnaires Classified According to Age

<table>
<thead>
<tr>
<th>Age</th>
<th>Recurrence</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 30 years</td>
<td>46</td>
<td>35</td>
</tr>
<tr>
<td>From 30-40 years</td>
<td>57</td>
<td>43</td>
</tr>
<tr>
<td>More than 40 years</td>
<td>29</td>
<td>22</td>
</tr>
<tr>
<td>Total</td>
<td>132</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Based on the SPSS statistical program

Numbers of Study Questionnaires Classified According to Age
(4) Years of Experience

The percentage of accountants who have (5-10) years of experience constituted (51%), which represents the largest percentage within the study sample, which reinforces the answers of the study sample with regard to the research topic, followed by the percentage of accountants who have less than (5) years of experience, while their percentage was of those with more than (10) years of experience (23%), as in the table below:

Numbers of Study Questionnaires Classified According to Years of Experience

<table>
<thead>
<tr>
<th>Years of Experience</th>
<th>Percentage</th>
<th>Recurrence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 years</td>
<td>26</td>
<td>35</td>
</tr>
<tr>
<td>5-10 years</td>
<td>51</td>
<td>67</td>
</tr>
<tr>
<td>More than 10 years</td>
<td>23</td>
<td>30</td>
</tr>
<tr>
<td>total</td>
<td>100</td>
<td>132</td>
</tr>
</tbody>
</table>

(5) Academic Qualification

The percentage of accountants holding a bachelor's degree was (52%) and represents the largest percentage among other academic qualifications within the study sample, as the number of accountants holding a bachelor's
degree reached (68), followed by a master's degree, as its percentage reached (32%) of the total academic qualifications for the sample. The study indicates the quality of the selected sample due to their scientific and academic ability, as in the table below:

Numbers of Study Questionnaires Classified According to Academic Qualification

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Recurrence</th>
<th>Academic Qualification</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>11</td>
<td>Diploma</td>
</tr>
<tr>
<td>52</td>
<td>68</td>
<td>Bachelor</td>
</tr>
<tr>
<td>32</td>
<td>42</td>
<td>Master</td>
</tr>
<tr>
<td>6</td>
<td>8</td>
<td>PhD</td>
</tr>
<tr>
<td>2</td>
<td>3</td>
<td>Others</td>
</tr>
<tr>
<td>100</td>
<td>132</td>
<td>Total</td>
</tr>
</tbody>
</table>

Source: Based on the SPSS statistical program.

Preparing study questionnaires classified according to academic qualification

![Academic Qualification Chart]

Source: Prepared by the researcher based on the SPSS statistical program

Third- Analyzing Data of Study Variables

Data for the study variables represented by (creative accounting, financial distress, drafting the auditor's report) were collected and calculated according to the answer scores, and then the arithmetic mean and standard deviation for each paragraph of the questionnaire were calculated within the study variables and agencies:

(1) Creative Accounting through Discretionary Accrual

Table 6.
Creative accounting is resorted to for the purpose of improving the financial position of the economic Unit and obtaining financing by inflating the values of asset items, reducing the values of liabilities, or both together. Creative accounting practices by the management of accounting units cause a liquidity deficit and the Unit's inability to fulfill its obligations, thus causing financial distress. Achieving personal benefits for managing the economic Unit and increasing its benefits, such as rewards and wages, is a type of creative accounting practice. Improving the liquidity ratio by not including receivables from long-term loan installments is a type of creative accounting motivation. One of the motivations for creative accounting is the manipulation of revenues and expenses for the purpose of tax evasion. The lack of consistency in the use of accounting methods and policies affects the truthfulness and fairness of the accounting unit's financial statement numbers. Creative accounting procedures and methods affect the reliability of financial statements issued by accounting units. The flexibility found in accounting standards and rules may be misused by management to beautify the financial position of the economic Unit. Failure to disclose properly in order to hide information or mislead users is considered a type of creative accounting practice. Postponing the recording of exchange transactions that relate to the current fiscal year to the next fiscal year, or accelerating the recording of revenue transactions that relate to the subsequent fiscal year to the current fiscal year, is a type of creative accounting practice.

<table>
<thead>
<tr>
<th>Order</th>
<th>Standa&lt;br&gt;rd deviati&lt;br&gt;on</th>
<th>Arithmeti&lt;br&gt;ic average</th>
<th>Comple&lt;br&gt;te agree</th>
<th>Agre&lt;br&gt;e</th>
<th>Neut&lt;br&gt;er</th>
<th>Disag&lt;br&gt;ree</th>
<th>Comple&lt;br&gt;te disagree</th>
<th>Paragnths</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>1.081</td>
<td>3.85</td>
<td>34</td>
<td>69</td>
<td>13</td>
<td>7</td>
<td>9</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>1.105</td>
<td>3.98</td>
<td>48</td>
<td>56</td>
<td>15</td>
<td>4</td>
<td>9</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>1.306</td>
<td>3.61</td>
<td>31</td>
<td>63</td>
<td>13</td>
<td>5</td>
<td>20</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>1.139</td>
<td>4.02</td>
<td>49</td>
<td>62</td>
<td>6</td>
<td>4</td>
<td>11</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>1.274</td>
<td>3.89</td>
<td>46</td>
<td>63</td>
<td>3</td>
<td>3</td>
<td>17</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>1.271</td>
<td>3.82</td>
<td>41</td>
<td>64</td>
<td>6</td>
<td>4</td>
<td>17</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>0.996</td>
<td>4.02</td>
<td>42</td>
<td>70</td>
<td>4</td>
<td>12</td>
<td>4</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>1.016</td>
<td>4.11</td>
<td>52</td>
<td>62</td>
<td>4</td>
<td>9</td>
<td>5</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>1.154</td>
<td>3.89</td>
<td>41</td>
<td>66</td>
<td>5</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>1.176</td>
<td>3.89</td>
<td>43</td>
<td>62</td>
<td>6</td>
<td>11</td>
<td>10</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

Arithmetic means and standard deviations of the study sample's responses to the creative accounting variable N = 10
Source: Based on the SPSS statistical program

From the table above, which shows the results of the study sample's responses to the creative accounting variable, the following is clear:

(1) The item "The flexibility found in accounting standards and rules may be misused by management to beautify the financial position of the economic unit" came in first place with an arithmetic mean of (4.11) and a standard deviation of (1.016), with total of (114) respondents out of (114) completely agreeing and agreeing. 132 respondents, and with reference to Table No. (9), they fall within the category (3.40 - 4.20) and correspond to a high level of response.

(2) The item "Creative accounting procedures and methods affect the reliability of the financial statements issued by accounting units" came in second place with an arithmetic mean of (4.02) and a standard deviation of (0.996), and in total, (112) respondents out of (132) respondents agreed and agreed completely, and with reference Referring to Table No. (9), it falls within the category (3.40 - 4.20) and corresponds to a high response level.

(3) The item "Achieving personal benefits for managing the economic unit and increasing its benefits, such as rewards and wages, is a type of creative accounting practice" came in last place with an arithmetic mean of (3.61) and a standard deviation of (1.306), with a total of (94) respondents out of (132) respondents completely agreeing and agreeing. Referring to Table No. (9), it falls within the category (3.40 - 4.20) and corresponds to a high response level.

(4) The overall arithmetic mean for the creative accounting variable was (3.90) with a standard deviation of (1.151), which is higher than the hypothesized mean of the scale of (3) which is adopted in determining the response level for the study sample's answers, which indicates that the study sample is heading toward agreement on all items of this variable. Which indicates that the practice of creative accounting affects the reliability and credibility of financial statements, thus reducing their quality and the impact on users.

(2) Likelihood of Financial Distress

Arithmetic means and standard deviations of the study sample's responses to financial distress variable N=10

<table>
<thead>
<tr>
<th>Item</th>
<th>Completely disagree</th>
<th>Disagree</th>
<th>Neuter</th>
<th>Agree</th>
<th>Completely agree</th>
<th>Arithmetic average</th>
<th>Standard deviation</th>
<th>order</th>
</tr>
</thead>
<tbody>
<tr>
<td>The accountant possesses sufficient science and knowledge in the</td>
<td>4</td>
<td>7</td>
<td>8</td>
<td>63</td>
<td>50</td>
<td>4.12</td>
<td>0.957</td>
<td>5</td>
</tr>
<tr>
<td>concepts of income preparation and creative accounting.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The accountant uses financial analysis tools to determine the Unit's</td>
<td>8</td>
<td>6</td>
<td>8</td>
<td>69</td>
<td>41</td>
<td>3.98</td>
<td>1.052</td>
<td>10</td>
</tr>
<tr>
<td>liquidity and profitability ratios.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The accountant follows up on the economic Unit's obligations and</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>65</td>
<td>49</td>
<td>4.11</td>
<td>0.970</td>
<td>6</td>
</tr>
<tr>
<td>payment dates.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The accountant monitors long and short term loan accounts and</td>
<td>5</td>
<td>4</td>
<td>1</td>
<td>71</td>
<td>51</td>
<td>4.20</td>
<td>0.906</td>
<td>2</td>
</tr>
<tr>
<td>borrowing reasons.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The accountant monitors long and short term loan accounts and</td>
<td>7</td>
<td>1</td>
<td>7</td>
<td>68</td>
<td>49</td>
<td>4.14</td>
<td>0.958</td>
<td>4</td>
</tr>
<tr>
<td>borrowing reasons.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The accountant verifies that the restricted cash is excluded and</td>
<td>5</td>
<td>7</td>
<td>7</td>
<td>66</td>
<td>47</td>
<td>4.08</td>
<td>0.981</td>
<td>7</td>
</tr>
<tr>
<td>not counted in the cash account by the economic unit management.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The accountant focuses on disclosing the nature of risks to the</td>
<td>5</td>
<td>4</td>
<td>7</td>
<td>62</td>
<td>.54</td>
<td>4.18</td>
<td>0.948</td>
<td>3</td>
</tr>
<tr>
<td>economic Unit.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adherence to IAS when preparing financial statements contributes to</td>
<td>5</td>
<td>2</td>
<td>4</td>
<td>69</td>
<td>52</td>
<td>4.22</td>
<td>0.885</td>
<td>1</td>
</tr>
<tr>
<td>reducing the economic Unit's vulnerability to financial distress.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The department's report contains indicators of the likelihood that the economic unit will be exposed to financial faltering.

The Organization is developing a clear liquidity management strategy based on statistical bases and measures.

<table>
<thead>
<tr>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.12</td>
</tr>
<tr>
<td>0.968</td>
</tr>
</tbody>
</table>

**Source:** Based on statistical program spss

The above table shows the results of the study sample's responses to the financial distress variable, as follows:

(1) The item "Adherence to International Accounting Standards when preparing financial statements contributes to reducing the economic unit's vulnerability to financial distress" ranks first with average arithmetic (4.22), standard deviation (0.885) and total agreed and fully agreed number (121) Respondent of origin (132) Respondent, and by reference to Table No. (9), it falls under category (4.20-5.00) which corresponds to a high response level.

(2) The item "The accountant follows up on the calculations of long and short-term loans and reasons for borrowing" ranks second with average arithmetic (4.20), standard deviation (0.906), total agreed and fully agreed on the number (122) of respondents of origin (132) respondents, and by reference to Table 9, it falls under category (4.20-5.00) which corresponds to a high response level.

(3) The item "The accountant uses financial analysis tools to determine the liquidity and profitability ratios of the accounting unit" was last ranked with average arithmetic (3.98) and standard deviation (1.052) and in total agreed and fully agreed (110) respondents of origin (132) respondents, and by reference to Table No. (9) it falls into category (3.40-4.20) which corresponds to a high response level.

The aggregate arithmetic average of the FFMV (4.12) and a standard deviation (0.968) is higher than the 3 metric hypothetical medium adopted in determining the level of response to the sample's responses, indicating that the sample study is geared towards agreeing on all paragraphs of the FFMCT, indicating that increased audit procedures avoid economic unity from the risk of financial distress.

**Fourth- Testing Hypotheses of Study**

For the purpose of testing this hypothesis that "There is a statistically significant effect of creative accounting through discretionary accruals in the exposure of the economic unit to financial distress", a simple linear regression analysis has been used and the results as in the table below:

Simple linear regression analysis to demonstrate the impact of creative accounting on the economic Unit's financial vulnerability

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Model</th>
<th>Beta</th>
<th>Std. error</th>
<th>t</th>
<th>t Sig.</th>
<th>R²</th>
<th>f</th>
<th>f Sig.</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Likelihood of financial distress</td>
<td>(Constant)</td>
<td>1.013</td>
<td>0.230</td>
<td>4.412</td>
<td>0.000</td>
<td>0.556</td>
<td>162.997</td>
<td>0.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Creative accounting</td>
<td>0.746</td>
<td>0.055</td>
<td>12.767</td>
<td>0.000</td>
<td>0.556</td>
<td>162.997</td>
<td>0.000</td>
<td>1.000</td>
<td></td>
</tr>
</tbody>
</table>

Simple linear regression analysis to demonstrate the impact of creative accounting on the economic Unit's financial vulnerability

In order to determine the relationship between the likelihood of financial distress and the interpreted variable (creative accounting), the simple linear regression model, in which the creative accounting variable was considered as an interpretative variable and the financial faltering variable as an approved variable, has been used. The results of the regression model have shown that the regression model is moral through the F value (162.997) of (0.000), which is lower than the level of morale, The results showed that the interpreted variable (independent) explains the proportion (55.6%) of the discrepancy in the likelihood of financial distress. This
was evident through the value of the determination coefficient (R²). The value (Beta) of 0.746 also explained the relationship between financial faltering and creative accounting, which is statistical and can be inferred by the value (T) and the associated significance. This means that the more creative the accounting practice increases by one Unit, the more likely the accounting unit is to be exposed by 0.746 units. The relationship between financial faltering and creative accounting is statistically significant and can be inferred from T value and associated connotation. This means that the greater the practice of creative accounting by one Unit, the more likely the accounting unit is to be exposed by 0.746. The table also shows the result of the linear multiplicity test, which revealed that the variability inflation coefficient (VIF) of the model was (1.000) less than (3). This indicates that there is no linear multiplicity problem among the model variables, indicating a statistically significant impact of creative accounting through optional entitlements on the economic Unit's exposure to financial faltering and thus acceptance of the hypothesis. Thus, the equation of the regression line is as follows:

\[
\text{Creative Accounting} \times 0.746 + 1.013 = \text{Likelihood of Financial Distress}
\]

The figure below shows the simple regression line of the variables:

Simple regression line for variants (creative accounting and the likelihood of financial distress):

![Simple regression line for variants](image)

**CONCLUSIONS AND RECOMMENDATIONS**

**First- Conclusions**

Flexibility in accounting standards and rules in selecting methods, policies and accounting principles is an important reason why accounting units are encouraged to practice creative accounting.

Procedures and methods of creative accounting practice affect the credibility and fairness of the financial statements prepared by the units' accounting departments.

Failure to disclose properly by concealing or manipulating certain financial information in order to mislead its current or prospective users is a kind of creative accounting practice.

Keeping abreast of developments and changes in IPSAS by accounting units and taking them into account when preparing financial statements avoids the Unit's creative accounting practice.

Disclosure of potential risks to the Accounting Unit in its financial statements is a preventive measure to protect the Accounting Unit from economic failures.
Consistency and consistency in the use of accounting policies and principles from year to year contribute to reducing uncertainty and manipulation in the financial statements and thus reduce the practice of creative accounting through optional benefits.

The results of the hypothesis test showed that the simple linear regression model between the variables the likelihood of exposure to financial faltering and creative accounting are moral through the value (F) of 162.997 (0.000) below the level of morale (0.01). The value of the determination factor (R2) showed that the variable (creative accounting) explains the ratio (55.6%) of exposure to financial interference. Beta's value of 0.746 also illustrated the relationship between financial faltering and creative accounting, which is statistically significant, indicating a statistically significant impact of creative accounting through optional entitlements on the vulnerability of the economic Unit to financial faltering.

Second Recommendations

The Departments of accounting units should review and act upon accounting ethics standards to achieve honesty and fairness of financial reports.

Restrict the management of accounting units in the selection and implementation of accounting methods and policies consistently from year to year by activating the role of internal audit committees.

Disseminate accounting awareness among users of financial reports and demonstrate the damages of creative accounting and its impact on financial statements and thus on their investment decisions through the holding of educational conferences and advertising campaigns in that area.

The need to issue deterrent laws that include penalties for accounting units or companies to reduce cases of fraud, manipulation of financial statements and creative accounting practices by declaring the names of such units or manipulative companies in a blacklist to alert their clients and users to their financial reports.

The accounting units' departments should be obliged to prepare and present the financial statements in accordance with the International Accounting Standards (IPSAS) in a manner that reflects the actual reality and financial position of the accounting units.

The Unit's accounting departments should activate risk management to avoid and address potential risks and avoid financial distress and therefore financial failure.

Postgraduate students were urged by the Ministry of Higher Education and Scientific Research to conduct studies and research on the introduction of creative accounting and indicate the damages of its practice by economic units and its effects on users of financial statements.

REFERENCES

Arabic References


