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Comparing earnings management and creative accounting. A general review

Porównanie koncepcji zarządzania zyskami i kreatywnej rachunkowości. Przegląd ogólny

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Abstract

Purpose: The aim of this article is to compare the concepts of earnings management and creative accounting and to determine their similarities and differences.
Methodology/approach: In the study, it is assumed that earnings management and creative accounting are two different phenomena. A comparative study is carried out in three stages using theoretical study methods. In the first stage, by applying the genetic and historical approaches, the origin and development of earnings management and creative accounting are compared. The purpose of the comparison is to assess the origins, period, and causes of earnings management and creative accounting, and to determine the differences in origin and the points of contact. In the second stage, the definitions of phenomena are compared using comparative analysis methods. In the third stage, using comparative analysis and analogy methods, earnings management techniques and creative accounting methods are compared.
Findings: The results of the study show that earnings management and creative accounting are two terms that describe the same phenomenon. To avoid confusion and ambiguity of the terminology, it is recommended that the term "earnings management" be used.
Practical implications: By abandoning the term "creative accounting" and using only the term "earnings management", a contradiction between the academic community and practitioners, as well as terminological confusion, would be eliminated.

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Originality/value: The terms "earnings management" and "creative accounting" are used in both different and similar contexts in the literature, and it is difficult to identify which actions describe earnings management and which ones describe creative accounting. A comparative study of earnings management and creative accounting assists in solving the terminological problems in the literature.
Keywords: earnings management, creative accounting, accounting manipulations, accounting choices, earnings management techniques, creative accounting methods.

Streszczenie

Cel: Celem artykułu jest porównanie koncepcji *earnings management* i kreatywnej rachunkowości oraz określenie ich podobieństw i różnic.
Metodyka/podejście badawcze: W opracowaniu przyjęto założenie, że *earnings management* i kreatywna księgowość to dwa różne zjawiska. Badanie porównawcze prowadzono w trzech etapach, wykorzystując metody badań teoretycznych. W pierwszym etapie, dzięki zastosowaniu podejścia genetycznego i historycznego, porównuje się genezę i rozwój zarządzania zyskami i kreatywnej rachunkowości. Celem porównania jest ocena pochodzenia, okresu i przyczyn zarządzania zyskami i kreatywnej rachunkowości oraz określenie różnic w pochodzeniu, a także punktów stycznych. W drugim etapie zestawia się definicje zjawisk, stosując metody analizy porównawczej. W trzecim etapie, wykorzystując analizę porównawczą i metody analogii, dokonuje się porównania technik zarządzania zyskami i metod kreatywnej rachunkowości.
Wnioski: Wyniki badania pokazują, że zarządzanie zyskami i kreatywna księgowość to dwa terminy, które opisują to samo zjawisko. Aby uniknąć nieporozumień i niejednoznaczności terminologicznych, zaleca się stosowanie terminu „earnings management".
Implikacje praktyczne: Rezygnacja z terminu „kreatywna księgowość" i używanie wyłącznie terminu „zarządzanie zyskami" pozwoliłaby wyeliminować sprzeczność między środowiskiem akademickim a praktykami, a także zamieszanie terminologiczne.
Oryginalność/wartość: Terminy „*earnings management*" i „kreatywna księgowość" są używane w literaturze w różnych i podobnych kontekstach i trudno jest określić, które działania opisują *earnings management*, a które kreatywną księgowość. Studium porównawcze *earnings management* i kreatywnej rachunkowości pomaga w rozwiązaniu problemów terminologicznych występujących w literaturze przedmiotu.
Słowa kluczowe: zarządzanie zyskami, kreatywna księgowość, manipulacje księgowe, wybory księgowe, techniki zarządzania zyskami, metody kreatywnej księgowości.

Introduction

Due to the diverse nature of companies' activities and the impact of the socio-economic environment, accounting standards cannot regulate all aspects of accounting comprehensively. The standards' flexibility ensures that it is possible to select those accounting methods and techniques that assist not only in depicting a *true and fair* view in the financial statements but also in making the right management decisions. In the context of this article, the flexibility of the standards that allow certain accounting methods and techniques to be chosen to distort the information in financial statements for opportunistic reasons is referred to as accounting manipulations. However, empirical research conducted during the period of positive accounting theory has shown that the possibility of choosing accounting methods opened up opportunities to manipulate accounting results, and the enterprise's profit became the object of manipulation. The problematic issues of accounting manipulations have attracted a great deal of interest from scientists and have been the subject of debate for many decades (Griffiths, 1986; Schipper, 1989; Dechow, Skinner, 2000; Gherai, Balaciu, 2011; Bhasin, 2016; Gupta, Kumar, 2020 and others).

There are various terms to describe the problem of accounting manipulations in the literature. Different terms are frequently mentioned in the same context, so sometimes, it can be difficult to understand what specific manipulation is described by each term. The terms “earnings management” and “creative accounting” are the most misleading, and the abundance of literature in which these terms are mentioned does not help solve this problem but makes everything even more confusing. Various authors, such as Schipper (1989), Healy and Wahlen (1999), Dechow and Skinner (2000), Philips at al. (2003), Leuz et al. (2003), Giroux (2004), Mulford and Comiskey (2005), and Walker et al. (2013) use the term “earnings management” to address the problems of accounting manipulations. Meanwhile, Naser (1993), Merchant and Rockness (1994), Archer (1996), Amat et al. (1999), Belkaoui (2004), Gherai and Balaciu (2011), Micah and Chinwe (2014), Bhasin (2016), and Gupta and Kumar (2020) use “creative accounting”.

However, a deeper understanding of the different concepts that define accounting manipulations makes it difficult to draw a clear line between them; sometimes, they are intertwined, and it is unclear what each term in accounting manipulation means. When studying the issue of accounting manipulations, one faces a problem that brings much confusion and ambiguity to the science of accounting. Literature reviews often raise the question of how earnings management differs from creative accounting. However, based on the literature, it is not possible to state whether earnings management and creative accounting are two different types of accounting manipulations or different terms describing the same phenomenon.

For Baralexis (2004), Drever et al. (2007), and Rudžionienė (2012), these terms are related, and they note that earnings management and creative accounting, as types of accounting manipulation, are mentioned in the same context. When classifying accounting manipulations within the limits of laws and standards, Stolowy and Breton (2000, 2003) single out two measures: earnings management aimed at influencing earnings per share changes, and creative accounting that changes the debt/equity ratio. They note that creative accounting is mentioned in different contexts, but it is most widely used in the practical literature by practitioners and commentators (journalists) of the market activity. On the other hand, Akpanuko and Umoren (2018) see the differences and point out that earnings management is directed to profit (loss) statement items, and that manipulations performed with the help of creative accounting affect the balance sheet.

Other researchers add even more confusion and ambiguity to the problem of earnings management and creative accounting terminology. For example, Gherai and Balaciu (2011), who describe the scandals of corporations such as Enron, WorldCom, and Xerox, state that creative accounting methods were used in the accounting of these corporations. By contrast, Benston and Hartgraves (2002) and Agrawal and Cooper (2017) state that earnings management was applied. Ewa and Eseneyen (2021), describing the possible methods for applying creative accounting, noted the "big bath" and "cookie jar" methods. It is also important to note that manipulations based on the choices of accounting methods are referred to in different names, depending on the country where the term is used. For example, one may find the following terms in Great Britain: window-dressing, accounting for profits, bubbles, Enronitis, creative book-keeping; in Australia: fudging, manipulative accounting, feral accounting; in the USA: cooking the books, fabricated numbers, fiddle the numbers, more debits than credits, earnings management; in Japan: furyo kessan (improper accounting), funshoku (window-dressing), kara-uri (dummy or "empty sales"), mae-daoshi (bringing sales forward); in France: bricolage (DIY), fabricated accounts, unlimited creativity; in Germany: Tricksereien (tricks), Bilanzartistik (balance sheet artistry), geschönte Jahresrechnung (embellished annual accounts), Seifenblasen (soap bubbles); in Italy: politiche di bilancio (budgetary policies); in Lithuania: positive creative accounting, manipulative creative accounting, earnings management (Berry, Otley, 1975; Rudžionienė, 2012; Mackevičius, Savickas, 2015; Akpanuko, Umoren, 2018; Remenarič et al., 2018).

Therefore, to resolve the terminological confusion, it is appropriate to conduct a theoretical study and compare earnings management and creative accounting from different perspectives. Applying the historical genetic method, the origins, period, and causes of these phenomena are determined, as are the differences in origin and the points of contact. The context of earnings management and creative accounting definitions can be analyzed to determine which phenomenon is being defined, and one can compare the methods of applying the phenomena to determine which actions are used to achieve a certain outcome.

1. The genetic and historical approaches to earnings management and creative accounting

Phenomena are only results of sensual perceptions. One can describe results and even the process, but not its origin without the process. Genetic approach has phenomenological elements, but its guiding principle is evolution, and especially the evolution of understanding based on empirical concept formation (Siemens, 2010). The genetic approach is based on the principles of historicity and logicality, and it describes the development peculiarities of a process, the relationship between the thought development and the object, as well as the history of the process itself (Tidikis, 2003). By comparing phenomena using the genetic and historical approaches, one can reveal their similarities and differences, as well as the relationship in terms of their origin, describing not only the development peculiarities of the phenomena but also the development of the logical reasoning behind them.

To evaluate the similarities or differences between the phenomena of earnings management and creative accounting, it is important to determine the process of their emergence and formation.

Following the establishment of the European Community (EC) in 1957, the need arose for a level playing field among countries and enterprises that were founded in them, leading to the harmonization of the accounting systems of the different countries that joined. The unification of accounting rules in accounting science has enabled a deductive approach, which has brought many new concepts to accounting. In the mid-20th century, with the onset of market globalization and the decision to create a common customs union at the political level, the problem of different national accounting regulations was encountered. Therefore, a need arose not only to offer common accounting rules, concepts, and accounting principles but also to create a unified accounting system and regulate it (Bachtijeva, 2020).

Profit became a key measure of a company's efficiency and is considered a key indicator in determining a company's success. Management effectiveness was assessed in terms of a manager's ability to control the company's assets and working capital in such a way that earns the largest possible profit. Therefore, the information in the company's balance sheet seems to have moved to the second place. The company's accountants had to decide for themselves which costs should be recognized as expenses, reducing profit, and which should remain on the balance sheet as assets. Applying the traditional accounting concept of historical cost in a volatile price market and under inflation, a company's fixed assets value varies, and the changes in the value of the current assets affect expenses. Therefore, following the matching principle and matching income with expenses, it has been observed that profit artificially decreases or illusory profit appears. Therefore accounting becomes an object of manipulation (Rudžionienė, 2012).

The desire to meet the expectations of information users through the results of the company's activity presented in the financial statements, as well as being able to recognize expenditure as expenses, form the basis for manipulating the company's profits. However, according to the traditional accounting concept of historical cost, both profits and assets can be affected. Therefore, the information is distorted not only in the profit (loss) statement but also in the balance sheet. Thus, accounting practitioners already saw the possibility of manipulating accounting information during the normative period. Due to insufficient research on accounting practices during the normative period, there is almost no data on profit manipulations and their prevalence in accounting science. Nevertheless, as far back as 1976, Argenti wrote that creative accounting is a deliberate policy pursued by managers to deceive shareholders, creditors, and themselves, about a company's assets and progress.

At the end of the 20th century, when the economic environment changed and the need to research and forecast the market arose, normative accounting theory was abandoned. Positivism aroused great admiration on the basis of which extensive empirical research and interpretation of existing practices began. The flexibility of accounting standards allowed accountants to decide for themselves which accounting methods to apply and thus influence the company's profit without violating the accounting rules. The reasons for choosing accounting methods in science have been explained based on three hypotheses of the opportunistic approach: bonus plan, debt/equity, and political cost. Empirical research based on these hypotheses has shown that the interest of information users in a company's profitability encourages managers to manipulate information users' decisions through the company's performance results (Bachtijeva, 2020).

Since all accounting choices were explained by the opportunistic behavior of managers, discussions about accounting manipulations arose in the accounting science; the main object of the manipulations was the company's profit. In 1989, Professor Katherine Schipper, an accounting researcher, was the first to provide a definition of earnings management as a "purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain" (Schipper, 1989). Her wording is based on opportunistic positive accounting hypotheses, which state that accounting choices are determined by the pursuit of selfish goals.

A little earlier, in 1986, in his book Creative Accounting, Griffiths, one of the first to acknowledge a common problem of creative accounting, compared it to a Trojan horse. He stated that "every company in the country is fiddling its profits. Every set of published accounts is based on books which have been gently cooked or completely roasted" (Griffiths, 1986). This eloquent quote makes it easier to understand what it means to "cook the books". Since Griffiths was one of the first to write about creative accounting, in subsequent works by other authors, the terms "creative accounting," "cooking the books," and "book roasting/cooking" were used synonymously for accounting manipulations aimed at affecting profit.

In 1988, Jameson, an accounting practitioner, stated in the Practical Guide to Creative Accounting that creative accounting is the flexibility of the accounting process that provides opportunities to manipulate, deceive, and misrepresent information (Jameson, 1988). In 1992 investment analyst Smith wrote in his book Accounting for Growth that profit growth in the 1980s was most affected by the use of accounting techniques rather than by economic growth. Thus, the first practitioners to write on the subject of creative accounting also emphasized certain accounting choices that affect the profit margin.

As early as 2000, Dechow and Skinner noted the different perceptions of profit manipulation in accounting science and practice. The main reason for this is the gap between the practice and the science. The science of accounting had focused on studying hypotheses of an opportunistic approach that explain the behavior of managers and profit management incentives. Accounting practitioners were not at all interested in the aforementioned hypotheses and studies; they focused on the incentives provided by capital markets (e.g., whether a company is in line with analysts' forecasts). According to Dechow and Skinner, accounting practitioners, who have the ability to monitor specific cases of earnings management, see a problem in earnings management because its application is widespread and can have a significant impact on financial statements. However, empirical research based on a statistical analysis of large samples is limited and does not reflect all the issues of earnings management; therefore, researchers do not see the negative impact of all earnings management on the results of accounting.

Researchers and practitioners also started to approach profit manipulation differently due to the developments in accounting science. During the normative period, the science intensively developed accounting "recipes" and offered practitioners new concepts and accounting principles. Meanwhile, the practitioners applying them to specific situations saw the possibility of manipulating profits. Due to the limitations of the normative theory, the science did not study accounting practices sufficiently and, therefore, could not discern the issue of manipulations. Only in the positive period, through extensive empirical research and explorations of how and why certain accounting methods are chosen, did the science realize that profit manipulation is widespread. At a time when profit manipulation was already widely applied in practice, the science only started to begin to investigate this phenomenon.

Thus, the emergence of new concepts and accounting principles opened up the possibility of manipulating accounting information in practice, and the development of scientific theories led to debate among scientists. During the positive period, when researchers started to study accounting practices and the reasons for choosing accounting methods, it became clear that company profit is the main object of manipulation. At the same time, while the term "creative accounting" had already been used among practitioners, the term "earnings management" appeared in accounting science. Even if we consider these to be different phenomena, they have the same origin; they evolved under the same historical conditions and were exposed to the same factors. In essence, both earnings management and creative accounting are a type of accounting process within the framework of accounting standards, which aims to influence, increase, or decrease a company's profit. However, the origins and development of manipulations show that the terms "earnings management" and "creative accounting" likely describe the same phenomenon – profit manipulation.

Since the same phenomenon was evaluated by different subjects (researchers and practitioners), it acquired different names and is analyzed from different angles. In accounting science, the term "earnings management" has not been chosen at random. Such a choice could be explained by the opportunistic approach hypotheses of the positive accounting theory, which explains why managers tend to manipulate company profits. Therefore, the term contains the word "earnings". As the empirical studies could not reveal all earnings management issues due to research requirements, a "softer" term was chosen to describe the manipulations: "management". The term "creative accounting" became more popular among practitioners and is associated with the creativity of the accountant without violating accounting standards and manipulating accounting figures to reflect the desired results in the financial statements.

2. Analysis of the definitions of earnings management and creative accounting

Comparing the origins and development of earnings management and creative accounting has shown that it is possible that the same phenomenon (profit manipulation) is being discussed, although it has different names due to different approaches. However, drawing such conclusions based on genetic studies alone would not be entirely correct. Therefore, it is appropriate to analyze the definitions provided in the literature regarding earnings management and creative accounting.

There are many definitions of earnings management and creative accounting in the scientific literature. In summary, it can be stated that earnings management is any activity related to accounting methods, techniques, recognition, estimation, appraisal, costing, depreciation, grouping and other accounting and management solutions aimed at changing not only the company's actual profit, but also all accounting results and through them, manipulating the decisions of information users and thus obtaining personal benefits. Creative accounting is an accounting process based on accounting standards during which certain accounting rules are chosen to help distort financial statements and obtain the desired results (Bachtijeva, 2021a).

Based on a literature review, Bachtijeva (2021a) grouped the definitions by authors who had examined the issues of earnings management (Schipper, 1989; Healy, Wahlen, 1999; Phillips et al., 2003; Leuz et al., 2003; Giroux, 2004; Mulford, Comiskey, 2005; Walker, 2013) and those who had examined the issues of creative accounting (Naser, 1993; Merchant, Rockness, 1994; Archer, 1996; Amat et al., 1999; Belkaoui, 2004; Micah, Chinwe, 2014; Bhasin, 2016; Gupta, Kumar, 2020) in different periods. Using the theoretical method of analysis, the definitions of earnings management and creative accounting provided by each author were broken down into individual statements. Applying the comparative method, each statement in the definition of earnings management is compared to creative accounting statements according to its context. The statements of the definitions of earnings management and creative accounting are presented in the cross-tabulation (see Table 1). In the table, the statements describing the definition are marked with a "+", and the contextual comparison with the statements of another phenomenon is marked in grey.

Table 1 shows that the statements that describe earning management: "choice of methods" and "the aim is to achieve the desired result" are identical to the statements that define creative accounting: "choice of accounting methods," "the aim is to achieve the desired results". Other statements, although worded differently, have the same meaning: earnings management statements – "choice of solutions," "choice of accounting policy," "the aim is to mislead the users of information," "the aim is to change the company's profit," correspond to creative accounting statements such as "choice of certain actions," "choice of accounting rules and methods," "the aim is to mislead the readers of financial statements," "the aim is to present a biased financial result," etc.

Table 1. A comparison of statements that define earnings management and creative accounting

Statements		Authors who describe															
		earnings management							creative accounting								
		Schipper (1989)	Healy and Wahlen (1999)	Phillips et al. (2003)	Leuz et al. (2003)	Giroux (2004)	Walker (2013)	Mulford and Comiskey (2005)	Rudžionienė (2012)	Naser (1993)	Merchant and Rockness (1994)	Archer (1996)	Amat et al. (1999)	Belkaoui (2004)	Micah and Chinwe (2014)	Bhasin (2016)	Gupta and Kumar (2020)
Statements describing earning management	Intervention in the accounting process	+			+												
	Choice and totality of solutions						+										
	Structuring operations		+														
	Manipulation of choices and income			+				+									
	Choice of accounting policy								+								
	Choice of methods					+											
	The aim is to change the company's profits		+			+											
	The aim is to achieve the desired result					+		+									
	The aim is to affect the measures of earnings						+										
	The aim is to obtain private gain	+							+								

cont. tab. 1

Statements		Authors who describe															
		earnings management							creative accounting								
		Schipper (1989)	Healy and Wahlen (1999)	Phillips et al. (2003)	Leuz et al. (2003)	Giroux (2004)	Walker (2013)	Mulford and Comiskey (2005)	Rudžionienė (2012)	Naser (1993)	Merchant and Rockness (1994)	Archer (1996)	Amat et al. (1999)	Belkaoui (2004)	Micah and Chinwe (2014)	Bhasin (2016)	Gupta and Kumar (2020)
	The aim is to mislead the users of information		+		+				+								
	The aim is to distort the financial statements	+															
Statements describing creative accounting	Accounting practice														+	+	+
	Choice of certain actions										+						
	Manipulation process									+			+		+		
	Deviation from standards															+	
	Choice of accounting rules and methods									+						+	+
	Choice of evaluation and disclosure methods									+							
	The aim is to present a biased financial result										+						
	The aim is to achieve the desired accounting results									+		+	+	+	+		+

Statements		Authors who describe															
		earnings management							creative accounting								
		Schipper (1989)	Healy and Wahlen (1999)	Phillips et al. (2003)	Leuz et al. (2003)	Giroux (2004)	Walker (2013)	Mulford and Comiskey (2005)	Rudžionienė (2012)	Naser (1993)	Merchant and Rockness (1994)	Archer (1996)	Amat et al. (1999)	Belkaoui (2004)	Micah and Chinwe (2014)	Bhasin (2016)	Gupta and Kumar (2020)
	The aim is to mislead the readers of financial statements											+					
	The aim is to show higher profits															+	

Source: authors' own elaboration.

Also, when examining the definitions of earnings management and creative accounting, in both cases, the description of the phenomenon consists of two parts. The first part defines active actions such as the choice of accounting methods and rules, structuring, evaluating, and disclosing operations, and choosing certain actions or manipulations. The second part lists the consequences of the active actions, i.e., achieving the desired result, presenting a biased financial result, obtaining personal gain, misleading users of information, and so on.

Both earnings management and creative accounting define certain possible choices, from choosing the accounting methods, evaluations, and rules to choosing other decisions and actions that affect a company's accounting results. Depending on what result is expected in accounting (i.e., an increase or decrease in profits, influencing the decisions of users of information), certain choices are made, the totality of which helps to reflect the desired results in accounting. Based on the statements that define earnings management and creative accounting in the literature, and taking into account the structure of definitions, which consist of two parts (active actions and desired consequences), we can conclude that essentially the same phenomenon – accounting manipulation – is defined.

3. A comparison of earnings management techniques and creative accounting methods

To make an even deeper comparison of the earnings management and creative accounting concepts, it is necessary to assess what specific actions are applied in practice in performing earnings management or creative accounting. In order to find out whether earnings management and creative accounting are the same phenomena by their nature, earnings management techniques and creative accounting methods as well as specific actions characteristic to earnings management and creative accounting and the consequences of these phenomena were compared. When comparing, common features will be sought. For this, analogy and generalization methods were used.

First, a brief overview of the techniques of applying earnings management in practice was performed, describing the objectives of their application and the expected result. In the literature, different authors distinguish various earnings management techniques. The following earnings management techniques are usually found:

The *Big Bet on the Future* technique. Another name for this method found in the literature (Lambert, Spolem, 2005) is Merger Magic. The *Big Bet on the Future* technique involves acquiring or spinning off a new company. Depending on the objective, company executives may make different decisions during a consolidation. For example, showing a higher profit in a reporting period, including the profit of the acquired company in the consolidated financial statements, would show a higher profit in the parent's accounting results (Omar et al., 2014; Strakova, 2021). To show lower profits during the reporting period, all research and development costs can be written off through acquisitions. In this case, the profit will be higher in the next reporting period, as the amortization of research and development costs will not reduce the profit (Lambert, Spolem, 2005; Rahman et al., 2013; Omar et al., 2014; Strakova, 2021)

The *Big Bath* technique. Corporate restructuring often results in high taxes and losses, which negatively affect the share price in the market. However, to quickly raise the share price in the market, it is better to reflect higher losses during the restructuring period by writing off costs, useless assets, deferred charges, and so on. In this case, artificially inflated expenses in the reporting period will not reduce the company's profit in the next period (Lambert, Sponem, 2005; Toumeh, Yahya, 2019). The losses incurred by the company could be related not to the company's activity results but to the restructuring. Therefore, the increase in profits in the coming years would also affect the growth of share prices in the market. The Big Bath technique can also be applied when there are changes in the company's management or when there is a need to report poor company activity results. In this case, it is useful to show even higher losses after "clearing" the balance sheet in the reporting period so that in the future, profit growth would show the manager's ability to ensure the efficiency of the company to shareholders (Rudžionienė, 2012; Jiang, 2020; Strakova, 2021).

The *Cookie Jar* technique. This technique is similar to the Big Bath technique but is applied when the company has exceeded its profitability indicators and does not want to show excessive profits. Therefore, it tends to reduce deferred charges by shifting them to the reporting period, thus reducing the profit of the reporting period. This makes it possible to carry the profits to future periods or to possible difficult times, i.e., preserving the profits in a jar. In this way, the expenditures of the current period can be overestimated, and the resulting difference between the overstated and actual expenditure is placed in a "cookie jar" (Rahman et al., 2013). After overestimating the sales revenue returns, the difference can be used in future periods (Sevin, Schroeder, 2005). Other authors give the following examples of the Cookie jar technique: overestimating and writing off provisions and liabilities, writing off inventories, and recognizing and writing off bad debts (Levitt, 1998; Caylor, Chambers, 2015; Jiang, 2020; Strakova, 2021)

"Throwing out" a problem child. This technique involves the manager's judgment to dispose of a subsidiary when the group's earnings are dragged down by a non- or less-performing subsidiary to save or improve the group's financial results. "Throwing out" a loss-making company would show higher profitability in the consolidated financial statements, not only because the result of the subsidiary would not have an adverse effect on the result of the parent company but also for other reasons. For example, after the sale of a subsidiary (to the shareholders of the parent company), the sales revenue would increase the profit. Omar et al. (2014) and Strakova (2021) noted that "throwing out" can be executed in three ways: outright disposal of the subsidiary, spinning off the subsidiary, creating a special-purpose entity (SPE) for financial asset and equity exchange. Since the owners of the spin-off company are the same shareholders, the fixed assets or inventories of the companies may be swapped at the time of the spin-off (Rahman et al., 2013).

The *manipulation of operating and non-operating earnings* is manifested as operating income being regular and non-operating income being unstable (one-time). Analysts tend to use the operating income in the company's performance forecasts, as they show the company's real operating profitability. To improve forecasts and show higher profitability of the company's activity, non-operating income can be recorded as operating income (Omar et al., 2014; Malikov et al., 2018; Strakova, 2021)

In addition to these management techniques, other common techniques can be found in the literature. The *accounting change* is directly related to the changes in profit. To achieve a certain accounting result, the accounting methods and techniques are simply changed (Toumeh, Yahya, 2019; Ayu et al., 2020; Strakova, 2021). The purpose of the *Shrink the ship* technique is to increase the profitability of a single share while repurchasing own shares and without reflecting the profit in the financial statements (Omar et al., 2014; Ozili, 2017; Strakova, 2021). In the case of *Flushing the investment portfolio*, the profit or losses from sales or any changes in the market value of trading securities are reported as operating income (Rahman et al., 2013; Ayu et al., 2020; Jiang, 2020; Strakova, 2021). *Operations* *with long-term assets* are as follows: the sale of unrevalued, long-term assets at a higher market value to increase profits, assets write-offs, choices of depreciation and amortization methods, useful life, salvage value to increase expenses (Herrmann et al., 2003; Rahman et al., 2013; Omar et al., 2014; Jiang, 2020). *Channel stuffing* means selling goods to customers who are not yet ready to buy. To make the deal attractive to the buyer, the seller may finance the purchase interest fee, offer flexible credit terms, or pick up the cost of storing the goods until the customer is ready to take delivery, among others (Jackson, Wilcox, 2000; Lambert, Sponem, 2005). *Premature recognition of revenue*, or recording sales in accounting before they are "realizable", is one of the most common earnings management techniques (Mulford, Comiskey, 2002; Lambert, Sponem, 2005; Toumeh, Yahya, 2019). *Excess production activity* before the end of the financial year allows a company to spread the overhead costs over a larger number of units, lowering costs per unit (Roychowdhury, 2006).

The area of creative accounting depends on what data is to be manipulated and what results are to be reflected in the financial statements. Creative accounting can impact equity, working capital, long-term assets, inventories, liabilities, and recognition of income and expenses. After conducting a literature review, Bachtijeva (2021a) provided a comprehensive list of how to apply creative accounting, structured according to the field of accounting affected.

Further analysis of the concepts of earnings management and creative accounting will compare the earnings management techniques discussed above with Bachtijeva's (2021a) list of ways to apply creative accounting. Each earnings management technique is taken, its description is analyzed (i.e., what the goal is, what specific manipulations need to be performed) and compared with the list of creative accounting methods applications. The table next to each earnings management technique lists the creative accounting methods that would help to achieve the objectives of the earnings management technique (see Table 2).

Table 2. A comparison of earning management and creative accounting methods

Earning management techniques	Creative accounting methods
Big Bet on the Future	• Manipulation of research and development costs • Manipulation of amortization and depreciation rates • Technical maintenance and repair costs are shown as investments • The criteria for recognizing an asset as intangible are not met; for example, the principle of significance is not followed • The annual amortization rate for intangible assets is incorrectly calculated • Manipulation of changing/evaluating goodwill [...]
"Big Bath"	• Manipulation of depreciation rates • Expenses of the reporting period are recorded in the next period or vice versa

Earning management techniques	Creative accounting methods
	• Depreciation of assets is recorded either earlier or later than required • Costs are not measured at fair value • Manipulation of inventories appraisal methods • Production costs of work in progress are increased • The cost of producing inventories for own use is increased [...]
"Cookie Jar"	• Current liabilities are recorded as deferred liabilities • The criteria for subsuming liabilities as short-term or long–term are not met • Long-term liabilities are incorrectly classified into groups • Short-term liabilities are incorrectly classified into groups • Manipulation using liability valuation techniques: acquisition cost, fair value, present value, amortized cost, etc. • Manipulation of provisions and contingent liabilities • The asset-liability ratio is shown incorrectly • The goods sent to the buyer are of worse quality than stipulated in the contract • Manipulation of revaluation of assets [...]
"Throw out" a problem child	• Technical maintenance and repair costs are shown as investments • Manipulation of revaluation of assets • The acquisition cost of long-term assets is increased or decreased. • The criteria for which tangible assets must be classified as long-term assets and their certain groups are not met. [...]
Manipulations of operating and non-operating earnings	• Higher or lower amounts of gross profit, operating profit, profit before tax and net profit are calculated • Cash flows are incorrectly classified by operating activities, investing activities, financing activities • Manipulation of cash inflows and outflows from operating, investing and financing activities • Income is incorrectly grouped into types: operating income, non-operating income, deferred tax income [...]
Accounting change	• Depreciation methods are changed regularly to reduce the value of the assets and reduce the tax burden • Different inventory appraisal methods are used during different periods of inflation [...]
Shrink the ship	• Manipulation in the formation of equity, its increase or decrease • Manipulation by changing the composition of equity [...]
Operations with long-term assets	• Depreciation methods are changed regularly to reduce the value of the assets and reduce the tax burden • Acquisition cost of long-term tangible assets is increased by the value of repairs that neither upgrade useful features nor extend the useful life of such assets • The annual amortization rate for intangible assets is incorrectly calculated

cont. tab. 2

Earning management techniques	Creative accounting methods
	• The acquisition cost of long-term assets is increased or decreased. • The criteria according to which tangible assets must be classified as long-term assets and their certain groups are not met [...]
Channel stuffing	• Incorrect calculation of the cost of sales and its components: cost of rendering services, cost of finished goods, and cost of resold goods • Manipulation of cost allocation • Incorrectly determined cost of production, such as increasing or decreasing indirect costs [...]
Premature recognition	• Income is recognized, although it is doubtful whether it has actually been earned • Fictitious income is recognized or recorded in advance • Income is incorrectly measured (it should be measured at the fair value of the consideration received or receivable) • Received prepayments are recognized as income [...]
Excess production activity	• Incorrect calculation of the cost of sales and its components: cost of rendering services, cost of finished goods and cost of resold goods • Manipulation of cost allocation • Incorrectly determined cost of production, such as increasing or decreasing indirect costs [...]

Note: […] denotes that the list is not exhaustive.

Source: authors' own elaboration.

To put into practice any earnings management technique, specific accounting steps must be taken to help achieve the set goal. For example, to apply the Big Bet on the Future technique, i.e., to show a lower profit in a reporting period and higher profit in the future, one might: 1. write off all research and development costs, 2. overestimate research and development costs, 3. take other steps to record future expenses during the reporting period. After analyzing the list of creative accounting methods, we find similar actions: "manipulation of research and development costs," "manipulation of amortization and depreciation rates," and "technical maintenance and repair costs are shown as investments." Thus, Table 2 shows which creative accounting application methods are analogous to profit management actions, implementing a certain technique.

The analogy between the earnings management techniques and the creative accounting methods is evident. Earnings management is a scientific concept. Those who analyze it tried to structure the earnings management methods to describe various techniques applied in practice. Meanwhile, practitioners do not consider which technique to apply when manipulating the accounting information and results. As they are aware of the impact of each operation and each action, they choose the operation – or combination of operations – that would help them achieve a specific accounting result (e.g., increased profits, decreased profits). Therefore, on the left side of Table 2, we can see the earnings management techniques that were systematized by scientists, and on the right side, the actions applied by practitioners who specify what needs to be done. Other combinations of actions are possible when applying certain techniques in practice.

In summary, it can be concluded that analogous actions (accounting manipulations) are frequent both in earnings management and in creative accounting. There is a strict analogy between earnings management and creative accounting, so we can say that these are *terms that describe the same phenomenon*. It would be incorrect to claim that there is a difference between earnings management and creative accounting because earnings management is directed at profit manipulation whereas creative accounting is about balance sheet manipulation. Due to the use of the accrual principle in accounting and the specifics of the double entry, changes in the profit amount also result in changes in the balance sheet structure, because the decision to increase expenses in accounting would inevitably reduce the company's assets. It can therefore be stated that earnings management and creative accounting describe the same phenomenon that has different names in the science and practice.

It is proposed that the term "creative accounting" be abandoned and the term "earnings management" be used instead. The term "creative accounting" should not be used since it may have different linguistic interpretations and may be related to creativity in the accounting process, thus causing confusion or arousing positive connotations (Bachtijeva, 2021b). Thus, *earnings management* is any activity that involves the choice of accounting methods, techniques, recognition, appraisal, cost, depreciation, grouping, and other accounting and management actions and solutions that are used to selfishly change the profit amount and to manipulate the accounting results and the decisions of the information users. In addition, it is proposed to abandon the term "creative accounting" in further works as it introduces much confusion when analyzing the issues of accounting manipulations. Instead, the term "earnings management" should be used for manipulations related to the choice of solutions. It should also be pointed out that the word "management" has a negative connotation in this term, as accounting profit cannot be "managed". It is a reflection of the company's activity results for the financial year. Earnings management is a crooked mirror that reflects a company's activity results deceptively.

It might be useful to discuss whether it is worth continuing to try to systematize earnings management techniques and determine its specific impact on, as well as its share of, the accounting results in science. It is already clear that the manipulation of accounting information is aimed at changing the size of profits. All the aforementioned techniques are designed to reduce, increase, or smooth profits and provide steps to achieve that goal. There are many actions to influence the accounting results, the list of which is not finite. Each action affects the accounting results, and combinations of these actions can have a synergistic effect. The abundance of different combinations of methods may have different accounting results, from insignificant to extremely harmful. However, it would be appropriate to leave this to law enforcement institutions and auditors conducting companies' individually.

It is important to emphasize that, taking into account the nature of companies and their internal and external factors, accounting standards allow companies to select which accounting methods to apply. Such flexibility of standards ensures that it is possible to implement the main objective of accounting and reflect the *true and fair* view in the financial reports. The ability to reflect the activity results in the accounting reports in a fair and objective manner is related to an accountant's professionalism and creativeness. However, the main purpose of earnings management is the opposite: to reflect favorable results by taking advantage of the flexibility of accounting standards, regardless of whether the earnings are being reduced, increased or smoothed. The possibility to select accounting methods is only a tool that, depending on the objectives of the person using the tool, may be used in different ways: to benefit society or to infringe the law.

Conclusions

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

An analysis of the definitions of earnings management and creative accounting shows that identical statements, or statements with the same meaning, are used to define these terms. In addition, the definitions of both earnings management and creative accounting consist of two parts. First, it defines active actions (the choice of accounting methods, rules; structuring, valuation and disclosure of transactions; the choice of certain actions, manipulations). Second, it implies consequences that were followed by these actions (aimed at obtaining the desired result, providing a biased result of financial activities, obtaining personal benefits, misleading users of information). Taking into account the definitions of earnings management and creative accounting, as well as their structure, it can be argued that these terms define the same phenomenon – accounting manipulations aimed at changing the amount of a company's profits.

A comparison of earnings management techniques and creative accounting methods showed that the earnings management techniques described in the literature define a certain system of actions, an accounting choice strategy aimed at achieving a particular accounting result. Meanwhile, applying the creative accounting methods seems to detail this strategy and indicates the actions to be taken to put it into practice. Earnings management and creative accounting are the same phenomenon: accounting manipulations aimed at influencing the amount of profits.

To solve the terminological problem of accounting manipulations and to reduce the confusion and limitation of further consideration of this issue, it is proposed that not only the term "creative accounting" be abandoned, but other terms as well. Instead, the term "earnings management" should be used, in which the word "management" ought to be understood as a negative interference in the presentation of the company's performance in the financial statements.

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