

Creativity in Managerial Accounting: the Syndrome of Clone-type Production Costs

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Abstract

This study presents the complex and delicate subject of managerial accounting systems, aiming to highlight the motivational complex of developing creative accounting techniques and to identify certain creative accounting techniques at the border between legal and fraud. The field research undertaken was also aimed at identifying and possibly solving the problems related to identifying and presenting a set of creative accounting techniques in the practical context of implemented systems, focusing also on the consequences on the quality of the accounting information. The contributions of the study are highlighted particularly in the practical level, this aspect being obviously due to the types of research conducted. One of the fundamental objectives of the study was to spark the interest in the practical possibilities of protecting against the dangers occurring from a creative managerial accounting system.

Key words: managerial accounting system, creative accounting, clone-type production costs, managerial objectives

J.E.L. classification: M41

1. Introduction

The main mission of managerial accounting was of “searching the absolute truth”, in this context “the absolute truth” being defined by obtaining the most precise cost. But managerial accounting has started to evolve. This state of fact has fixed multiple deficiencies, including the concern for determining the unique cost. The most important contribution has been focusing the attention on the potential benefits of adopting decisions based on accounting information. The idea of different costs for different purposes has stimulated the concerns to define the conditioned truth or decision models.

The success of the operation of managerial accounting tools depends, as well as the success of all decisions made in the area of enterprise control, not only on the reliability of the decision itself, but on how it is implemented. Implementing the decisions taken in this context gains a particular importance, in terms of studying the impact on the organization made by those leaders who attempt to impose their vision. The notion of creative accounting is very complex and nuanced. Most researchers consider that it is characterized by two aspects (Malciu, 1999, pp. 16-17):

- use of professional judgement in order to solve problems for which, at the moment, there are no accounting norms;
- financial engineering techniques are applied according to the incidence on the financial situation and performance of the enterprise.

The dual nature is probably emphasized by the most substantial definition, supported by Naser (cited by Feleagă *et al*, 2002, p. 390). Thus, creative accounting is:

- the process by which, given the existence of loopholes in the rules, the accounting figures are manipulated and, taking advantage of the flexibility, there are chosen those practices of measurement and information that enable the transformation of the financial statements from what they should be in what managers want;
- the process by which transactions are structured in such a manner as to allow the production of

the desired accounting result.

The privileged position in this study is the experiment-type research, which involved direct access to research subjects and the case study, involving the analysis and interpretation of certain existing particularities. These are field research, the main advantage being the better perception of the relationships and processes within one organization. The collection and analysis of the information was conducted on a total of 20 Romanian companies in the field of civil and industrial construction. The experiment-type research and the study case were effectively conducted during five financial years, in the period of 2010 and 2015, the subject of the knowledge process actively participating in this process.

The national and international literature does not abound in papers that explicitly address various creative accounting techniques in managerial accounting, but it does warn on the fact that there will always exist motivational factors for such techniques (Macintosh, 1994; Malciu, 1999; Corfmat *et al*, 2000; Feleagă *et al*, 2002; Albu *et al*, 2003; Ionașcu, 2003; Bhimani *et al*, 2010; Atkinson *et al*, 2011; Drury, 2012; Bhimani *et al*, 2015).

2. Motivational factors in creative accounting

In the current Romanian economic context, one may notice a direct link between creative accounting practices, managers' incompetence, the decline of the activity and the imminent crisis period. National emphasis is placed on the use of creative accounting in order to mislead the users of financial statements. Malo and Giot (cited by Malciu, 1999, p. 17) stated that, originally, creative accounting is virtuous, providing the means through which accounting manages can keep pace with the growing development of the markets and the proliferation of financial products. The major problem is caused by the rapid manifestation of the instinctive perversity of businessmen.

Malciu (1999, pp. 18-28) identified the factors of the motivational complex that determined the development of creative accounting tools: the costs arising from the conflict of interest; incompetence of managers; uncertainty and risk; the variety of economic activities; the hot spots of accounting concepts; the attitude of the financial and accounting information users; dematerialization of enterprises; the absence or lack of national accounting norms.

By analyzing the creative accounting techniques or pseudo-techniques in the context of the field research undertaken, there were found the following motivational factors:

- a. costs arising from the conflict of interests; Romanian managers are tempted to impose the use of those techniques that reduce the results, in order to avoid the fiscal pressure on profit tax;
- b. incompetence of managers; when companies do not attain a real performance, a series of creative accounting techniques will be used in order to maintain customers, trade credits offered by suppliers, financial indicators requested by donors; in this situations, this type of behavior suggests psychological implications of not accepting failure and postponement of financial apocalypse;
- c. uncertainty and risk; the conditions of the current economic crisis represent an indisputable factor of widespread use of creative accounting policies, even to the level of fraud; Salustro and Lebrun (cited by Feleagă *et al*, 2002, p. 396) consider that periods of crisis represent tests for enterprises; they affect their treasury and generate risks that accounting tends to translate in an imperfect manner; consequently, managers are tempted to use more or less ingenious processes in order to improve the presentation of the financial position and performance;
- d. the variety of economic activities; the activity domain of the companies that were analyzed is mainly in the area of civil and industrial construction; the construction activity represents a particularly complex and difficult domain, difficult to control, which allows a permanent adjustment of results; the use of creative accounting techniques in this activity domain is sometimes hardly detectable;
- e. the hot spots of the concept of production cost; using the production cost as a basis for evaluating stocks of products and works under execution is always suspicious; most instruments used for determining costs are open to criticism; there is no production cost accurately calculated, as each cost represents an opinion (Ionașcu, 1997, p. 174);
- f. insufficient national accounting rules; the deficiencies in the Romanian accounting normalization and managerial accounting have already been mentioned.

Ionașcu (2003, p. 164) insists on the distinction between creative accounting and accounting fraud. Adapting the accounting policies to the economic evolution should not be confused with those techniques that more or less bypass accounting rules. The border between creativity and illegality is sometimes difficult to establish. This confusing division is often nurtured by those who promote and use the perverse side of creative accounting.

The creative accounting techniques that were identified are more or less sophisticated, more or less questionable, some of them being placed at the dark border between creativity and illegality. These were found in the managerial accounting systems implemented in the companies analyzed in this research. The identified techniques were given names that suggest their content: the alteration of costs linked to production sold, the simultaneous misleading of users of accounting information; gift costs, manipulation of transfer prices, optimizing the value of the distribution coefficient of indirect production costs, regularization accounts, double records, tick-type costs, the costs of identical projects, invisible costs.

3. Case study regarding clone-type production costs

Ideally speaking, the implementation of identical projects by the same organization should mainly employ the same production efforts and should roughly generate the same revenue. Offer requests, the project of the work, the budget, the execution timeline are identical. In reality, there were found more or less justifiable differences in terms of production costs related to identical cost objects. Among the explanatory factors of the variation of production costs might be mentioned: the various geographical locations where the projects were implemented; different time and environment conditions; use of different materials, equipment and services; logistical conditions; fluctuating acquisition costs, depending on the provider; more or less skilled work force; various professional skills of project managers; the quality of services provided by different subcontractors; different remuneration of the direct productive staff; different consumptions for materials and workmanship; different execution timeframes.

Below it is presented the case of a company belonging to the set of the enterprises that were analyzed, that closed a contract regarding the execution of six identical projects (the improvement of the facilities for several branches belonging to the same commercial bank) in the same period of time, but in different national geographic locations. The execution schedule provided an implementation period from June N to February N+1. The general manager appointed six project managers to control this contract. The estimated total gross profit was of lei 200.000. The source of information regarding the project profitability analysis is the report "achievements in management" (aggregated version) generated by the informatics system for the financial years N and N+1 (tables no. 1 and no. 2).

Table no. 1. Accomplishments for projects in year N, P-type project

| Account | Expenditure | Income | Accomplishments |
|-------------------------|-------------------|-------------------|-----------------|
| P1 project | | | |
| 6021 | 40.081,15 | 0,00 | -40.081,15 |
| 628 | 62.979,33 | 0,00 | -62.979,33 |
| 635 | 128,70 | 0,00 | -128,70 |
| 711 | 0,00 | 103.189,18 | 103.189,18 |
| Total P1 project | 103.189,18 | 103.189,18 | 0,00 |
| P2 project | | | |
| 6021 | 32.201,87 | 0,00 | -32.201,87 |
| 604 | 333,83 | 0,00 | -333,83 |
| 628 | 106.000,62 | 0,00 | -106.000,62 |
| 635 | 3,60 | 0,00 | -3,60 |
| 711 | 0,00 | 138.539,92 | 138.539,92 |
| Total P2 project | 138.539,92 | 138.539,92 | 0,00 |
| P3 project | | | |
| 6021 | 63.223,64 | 0,00 | -63.223,64 |
| 628 | 81.998,57 | 0,00 | -81.998,57 |

| Account | Expenditure | Income | Accomplishments |
|-------------------------|-------------------|-------------------|------------------|
| 635 | 105,30 | 0,00 | -105,30 |
| 6588 | 155,69 | 0,00 | -155,69 |
| 711 | 0,00 | 145.483,20 | 145.483,20 |
| 711 | 0,00 | -145.483,20 | -145.483,20 |
| 704 | 0,00 | 192.509,23 | 192.509,23 |
| 758 | 0,00 | 185,27 | 185,27 |
| Total P3 project | 145.483,20 | 192.694,50 | 47.211,30 |
| P4 project | | | |
| 6021 | 56.145,28 | 0,00 | -56.145,28 |
| 628 | 77.066,33 | 0,00 | -77.066,33 |
| 635 | 54,89 | 0,00 | -54,89 |
| 711 | 0,00 | 133.266,50 | 133.266,50 |
| Total P4 project | 133.266,50 | 133.266,50 | 0,00 |
| P5 project | | | |
| 6021 | 55.012,70 | 0,00 | -55.012,70 |
| 604 | 1.002,30 | 0,00 | -1.002,30 |
| 624 | 58,83 | 0,00 | -58,83 |
| 625 | 1.885,12 | 0,00 | -1.885,12 |
| 628 | 48.878,59 | 0,00 | -48.878,59 |
| 635 | 100,39 | 0,00 | -100,39 |
| 711 | 0,00 | 106.937,93 | 106.937,93 |
| 711 | 0,00 | -106.937,93 | -106.937,93 |
| 704 | 0,00 | 149.159,16 | 149.159,16 |
| Total P5 project | 106.937,93 | 149.159,16 | 42.221,23 |
| P6 project | | | |
| 6021 | 59.158,14 | 0,00 | -59.158,14 |
| 624 | 1.142,00 | 0,00 | -1.142,00 |
| 628 | 61.206,50 | 0,00 | -61.206,50 |
| 635 | 67,50 | 0,00 | -67,50 |
| 711 | 0,00 | 121.574,14 | 121.574,14 |
| Total P6 project | 121.574,14 | 121.574,14 | 0,00 |
| GRAND TOTAL | 748.990,87 | 838.423,40 | 89.432,53 |

Source: Author's processing, 2016

All the information presented is real. The reports "achievements of projects" have a strictly accounting utility, with a low level of intelligibility for management.

Table no. 2. Accomplishments for projects in year N+1, P-type project

| Account | Expenditure | Income | Accomplishments |
|-------------------------|---------------|------------------|------------------|
| P1 project | | | |
| 6021 | 791,13 | 0,00 | -791,13 |
| 704 | 0,00 | 156.626,26 | 156.626,26 |
| 711 | 0,00 | 791,13 | 791,13 |
| 711 | 0,00 | -103.980,31 | -103.980,31 |
| Total P1 project | 791,13 | 53.437,08 | 52.645,95 |
| P2 project | | | |
| 704 | 0,00 | 153.583,38 | 153.583,38 |
| 711 | 0,00 | -138.539,92 | -138.539,92 |
| Total P2 project | 0,00 | 15.043,46 | 15.043,46 |
| P3 project | | | |
| 6021 | 1.895,66 | 0,00 | -1.895,66 |
| 711 | 0,00 | 1.895,66 | 1.895,66 |
| 711 | 0,00 | -1.895,66 | -1.895,66 |

| Account | Expenditure | Income | Accomplishments |
|-------------------------|-----------------|-------------------|-------------------|
| Total P3 project | 1.895,66 | 0,00 | -1.895,66 |
| Project P4 | | | |
| 6021 | 406,00 | 0,00 | -406,00 |
| 704 | 0,00 | 152.817,97 | 152.817,97 |
| 711 | 0,00 | 406,00 | 406,00 |
| 711 | 0,00 | -133.672,50 | -133.672,50 |
| Total P4 project | 406,00 | 19.551,47 | 19.145,47 |
| P6 project | | | |
| 704 | 0,00 | 153.148,93 | 153.148,93 |
| 711 | 0,00 | -121.574,14 | -121.574,14 |
| Total P6 project | 0,00 | 31.574,79 | 31.574,79 |
| GRAND TOTAL | 3.092,79 | 119.606,80 | 116.514,01 |

Source: Author's processing, 2016

Considering these, these reports are processed in the situation of return on the projects in question (table no. 3). These types of reports should be solicited at shorter intervals of time and not at the end of the contract, because at that point the information is no longer relevant.

Table no. 3. Situation of return on the P-type projects

| SPECIFICATION | P1 | P2 | P3 | P4 | P5 | P6 | TOTAL |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| INCOME | | | | | | | |
| Invoiced revenue | 156.626,26 | 153.583,38 | 192.509,23 | 152.817,97 | 149.159,16 | 153.148,93 | 957.844,93 |
| Other revenue | 0,00 | 0,00 | 185,27 | 0,00 | 0,00 | 0,00 | 185,27 |
| Total revenue | 156.626,26 | 153.583,38 | 192.694,50 | 152.817,97 | 149.159,16 | 153.148,93 | 958.030,20 |
| EXPENDITURE | | | | | | | |
| Consumables | 40.872,28 | 32.201,87 | 65.119,30 | 56.551,28 | 55.012,70 | 59.158,14 | 308.915,57 |
| Unstored materials | 0,00 | 333,83 | 0,00 | 0,00 | 1.002,30 | 0,00 | 1.336,13 |
| Transport | 0,00 | 0,00 | 0,00 | 0,00 | 58,83 | 1.142,00 | 1.200,83 |
| Movements | 0,00 | 0,00 | 0,00 | 0,00 | 1.885,12 | 0,00 | 1.885,12 |
| Third-party services | 62.979,33 | 106.000,62 | 81.998,57 | 77.066,33 | 48.878,59 | 61.206,50 | 438.129,94 |
| Other taxes | 128,70 | 3,60 | 105,30 | 54,89 | 100,39 | 67,50 | 460,38 |
| Other expenditure | 0,00 | 0,00 | 155,69 | 0,00 | 0,00 | 0,00 | 155,69 |
| Total expenditure | 103.980,31 | 138.539,92 | 147.378,86 | 133.672,50 | 106.937,93 | 121.574,14 | 752.083,66 |
| Gross margin | 52.645,95 | 15.043,46 | 45.315,64 | 19.145,47 | 42.221,23 | 31.574,79 | 205.946,54 |
| Average gross margin | | | | | | | 34.324,42 |
| Average deviation | 18.321,53 | -19.280,96 | 11.991,22 | -15.178,95 | 7.896,81 | -2.749,63 | 0,00 |

Source: Author's processing, 2016

The gross margins related to the six clone-projects recorded significant deviations from the average margin. The revenues generated are substantially the same, except for P3 project that required some additional work, supported by the beneficiary. Significant fluctuations were recorded in terms of the value of production costs. First of all, the production cost structure is different from project to project, particularly because of the extent to which project managers have turned to their own resources or to subcontractors' services. On average, it can be concluded that it is cheaper to build with personal resources than to outsource certain parts of the project. However, one should not forget that the geographical locations were different, and in some areas the supply process is deficient.

At the risk of being accused of subjectivity, the author considers that an important factor of the margins' variation is represented by the quality of the management of each project. This quality is suggested by the extent to which third parties were solicited to services. Maybe sometimes is more convenient to outsource your needs, no matter how expensive it would be. In addition, the execution times were different. Furthermore, the variation could also be caused by the differences

in terms of supply speed, greater labor time in the situations where there was employed a (more) unqualified work force, logistical difficulties and obviously, the quality of management.

4. Conclusions

Under the influence of a typical Romanian mentality, the conclusion could be that it is impossible for two identical projects to generate the same margin, even if they would be implemented in the same location. The problem is that the estimations and the budgeting process consider the margins to be identical. The pressure imposed by the tax environment creates the temptation of negative creativity by manipulating financial information. From previous data it can be observed that four of the six projects were billed to the beneficiary in the year N+1. In fact, under the guise of artificially prolonged execution terms and late acceptance by the beneficiary of the status of works under various pretexts, there is determined a serious undermining of the principle of independent exercises. Most of the profit is actually transferred to the next financial year. The explanation lies in a mutation of certain managerial objectives, such as short-term fiscal optimization. Clearly, the relevance of financial statements for the two years in question will suffer.

Another aspect that erodes the effectiveness of managerial decisions is given by the almost exclusive focus on the overall objective (total gross margin), in the expense of the budget-accomplished analysis related to every project. This type of analysis could have materialized in the identification of causes and, in consequence, the adoption of the appropriate corrective actions.

The accounting information necessary in the decision making process is not always found in the final decision. Considering the negative side of creativity, after a decision has been made, the managerial accounting system is requested to offer the exculpatory support for the decision already taken. In these circumstances, the initial focus is metamorphosed into a numerical burial of the decision making process. The reasoning is reversed and sometimes occurs even in the case of modern managerial accounting systems, either because of the need for goals that have to bypass reality, or because of a rejection reaction of the new system.

The managerial behavior affects the managerial accounting tools. Managerial decisions can determine the form to be given to the accounting information according to specific objectives. The managerial strategy which, wrongly, is reorienting to short-term, involves mutations in producing the accounting information and misrepresents the financial situations. The manager's perception on the accounting system is generally resumed to the idea that absolutely everything is possible and the consequences can be easily minimized.

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