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Creative Accounting Versus Accounting Fraud: A Review of the Literature

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Abstract

Financial information manipulation has been one of the most important issues since the failure of major corporations worldwide such as Enron, World.Com, Arthur Anderson and others. Although, these companies differ in their core and operations, they share the same causes for their failure, which is really the practice of financial information manipulation. These manipulation activities are commonly referred to as "creative accounting." However, the concept of creative accounting is sometimes used as a synonym for accounting fraud in literature. Thereby, this research aims to review the existing literature in order to shed more light on the main features of creative accounting and accounting fraud, as well as the distinctions between them. In doing so, the findings of other prior studies, using a range of alternative available resources to gather the related literature, were reviewed to present the results of this research. The main findings of this research suggest that professional accountants and companies' executives are still able to find loopholes in the existing accounting standards to manipulate financial reports. In addition, it is still difficult to establish a framework that incorporates all the considerations that are essential to distinguish between creative accounting and accounting fraud. To overcome on this phenomenon, the potential solution is by identifying executives' motivations to engage in manipulation behaviour, which can enable academics and regulators to establish a framework for distancing them, as well as may help to identify fraudulent actions by pursuing how executives behave to achieve their goals and intentions.

Keywords: creative accounting, accounting fraud, financial information, financial manipulation.

المحاسبة الإبداعية مقابل الإحتيال المحاسبي: دراسة نظرية

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مستخلص

يُعد التلاعب بالبيانات المالية أحد أهم القضايا الأساسية في الأدب الحاسبي، وذلك بسبب إنهيار العديد من الشركات الكبرى بمختلف دول العالم مثل (شركة إنرون، وولرد كوم، آرثر آندرسن وغيرها). وعلى الرغم من إن تلك الشركات تختلف من حيث طبيعتها

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الاقتصادية وعملياتها، إلا إنها تشترك في إن سبب انهيارها كان نتيجة إلى التلاعب بالبيانات المالية المتعلقة بتلك الشركات. وعادةً ما تشير العديد من الدراسات المحاسبية إلى السلوك المتعلق بالتلاعب بالبيانات المالية بمفهوم "المحاسبة الإبداعية". إلا إنه من الملاحظ إن مفهوم الاحتيال المحاسبي قد يستخدم بديل أو مرادف إلى مفهوم المحاسبة الإبداعية. وبالتالي تهدف هذه الدراسة النظرية إلى تسليط مزيداً من الضوء على ما ورد بالأدب والفكر المحاسبي فيما يتعلق بالخصائص الأساسية لكل من المحاسبية الإبداعية والاحتيال المحاسبي، إضافة إلى دراسة والتحليل الخصائص المميزة لكلً منهما. ولتحقيق ذلك، فقد إعتمدت هذه الدراسة على مراجعة وتحليل نتائج وتوصيات الدراسات السابقة والمرتبطة بموضوع البحث – بإستخدام العديد من المصادر المختلفة المتاحة والتي من شأنها المساعدة في جمع البيانات الدراسة –، وذلك يساهم في التوصل إلى النتائج المتعلقة بهذه الدراسة. وتشير النتائج الإساسية للدراسة إلى إن المحاسبين ذوي الخبرة في مجال المحاسبة، إضافة إلى مدراء الشركات لايزال بإمكانهم إيجاد نقاط الضعف والقصور فيما يتعلق بالمعايير المحاسبية، وذلك قد يساهم في زيادة إنتشار ظاهرة التلاعب بالتقارير المالية. بالإضافة إلى ذلك، يمكن القول إنه لايزال من الصعب العمل على تأسيس نموذج متكامل يجمع كل العناصر الأساسية والتي يمكن من خلالها المساهمة في تحديد الخصائص المميزة لكلً من المحاسبة الإبداعية والاحتيال المحاسبي.

ويمكن التغلب على كل تلك المشاكل والمتعلقة بظاهرة التلاعب بالبيانات والمعلومات المالية من خلال تحديد الدوافع الإساسية التي من شإنها إن تحفيز وتشجع مدراء الشركات على ممارسة هذا السلوك الإحتيالي، وذلك قد يساهم على مساعدة الباحثين والمنظمات المهنية للمحاسبة على توفير نموذج للتميز بين كلً من المحاسبة الإبداعية والإحتيال المحاسبي، بالإضافة إلى إن هذا المقترح قد يساعد في تحديد دوافع الإحتيال المحاسبي، مما يساعد على مراقبة وتتبع سلوك المدراء للوصول إلى أهدافهم وغاياتهم.

1. Introduction

1.1 Background

Company's annual report provides information of the financial position of the company. It is an image of the company situation, as well as a history of changes. Most often, its information is about the company future position and showing a going-concern status. Stakeholders and other users will base their decisions on the results to date and the expectations for the future. The financial information presented in the company's annual report is expected to provide a true information in order to induce investors to invest in a company with a view to maximizing wealth and profit. Accounting information is required to be relevant, reliable and transparent to represent the true financial status of the business enterprise (Richardson, Sloan, Soliman, & Tuna, 2005 :438). In this respect, The Financial Accounting Standards Board (FASB) indicates that the primary aim of accounting measurement and information is to provide high quality financial reports for decision making (FASB, 1978:con1-2). However, the executives of the company tend to use the accounting reports to portray the information they want stakeholders to see, and at times, this requires to manipulate financial statements to obscure the underlying economic status of the company.

In the recent decades, there have been several cases of financial scandals around the world which have attracted criticism regarding the quality of information provided by the company's financial reports. Over the years, the societies worldwide are still facing problems due to manipulated financial reports. Even if, there are existing strong accounting standards to guide

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financial accounting practices, accountants, sometimes, manipulate information to influence stakeholders' decisions in favour of their companies. In fact, financial reports are created in order to show the real and fair of the company's financial condition in order to enable stakeholders to make rational decisions, but existing accounting practices, which allow for different policies and professional judgments, are being manipulated to boost the companies' current image at the expense of information provided to users and the future of the business enterprises. This opportunistic behaviour of the companies' executives is widely known as "Creative accounting."

1.2 Addressing the Problem

Creative accounting has been one of the most critical topics since the collapse of large companies such as Enron, World. Com and Arthur Anderson. Even if, these companies differ in their cores and operations, they share the same reasons for their collapse which is creative accounting practices (Gupta & Kumar, 2020 :398). In the last view decades, governments and accounting bodies have launched several laws and regulations in order to prevent creative accounting practices. One of these laws was the -Oxley Act in the United States and similar laws have been enacted in other countries (Zimmerman, 2015 :23).

The term creative accounting refers to new ways to present accounts, which is the deviation from accounting standards and taking advantage of loopholes in accounting standards, to manipulate accounting figures and report a positive picture of the financial health of a firm (Yadav, Kumar, & Bhatia, 2014 :66). Many terms have been used in the literature to describe creative accounting behaviour, including income smoothing, earnings management, earnings smoothing, financial engineering, aggressive accounting and cosmetic accounting (Fizza & Qaisar, 2015 :544). While the terms of creative accounting and earnings management are used synonymously, Breton and Stolowy (2000:4) developed a framework that classified the two concepts into two categories which are earnings management and creative accounting. The justification of this framework is that some accounting manipulation involves primarily balance sheet rather than earnings management (Breton & Stolowy, 2000 :3). Moreover, despite the fact that the term of creative accounting is used frequently, some researchers have approached it as a synonym of accounting fraud (Popescu & Nișulescu, 2014 :60). Creative accounting, for example, is seen as not an illegal practice in the UK, whereas, although it is considered an illegal and fraudulent act in the US (Popescu & Nișulescu, 2014 :60). Similarly, some scholars suggested that creative accounting is not a wrong act as it lies within accounting standards (Abdul Rashidah & Ali, 2006 :485; Jacob & Jorgensen, 2007 :371; Peasnell, Pope, & Young, 2000b :315; Rangan, 1998 :103; Subramanyam, 1996 :251; Watts & Zimmerman, 1986), while others believed that it is not only an unethical act, but also another form of accounting fraud (Beaudoin, 2008; Beneish, 2001 :5; Sun & Rath, 2010 :124). The problem is that the debate on this issue will continue until there is a proper way to help us differentiate between creative accounting and fraud. The issues of financial scandals, creative accounting and fraud have taken place all over the world, whether in less developed countries or as pioneers of global economics. The topicality and generalisation of this problem represent the main reason for approaching this research topic.

1.3 Objectives

The aim of the research is to provide a literature review on the main features of creative accounting and accounting fraud and the distinctions between them. In particular, the primary objective of this review is to identify the factor, over the years, facilitating the prevalence of fraud and, once they are identified, this could help to identify what should be done in future to prevent these activities. Furthermore, this research is a stepping stone for a more in-depth research through empirical analysis that can also be conducted on the same topic.

1.4 Contributions

This current research dealt with the issues of both creative accounting and accounting fraud, and contributes to the limited body of literature on this filed, by shedding more light on the primary features of creative accounting and accounting fraud that could help to distinguish between them. Particularly, this research uses a literature review approach to explore the certain characteristics of creative accounting and fraud that should be taken into account when distinguishing between the two types of financial manipulation. By identifying these characteristics, the research has the potential to alleviate some of the ambiguity associated with determining where creative accounting ends and fraud begin. The findings of presents research may contribute to academic literature, auditing standards bodies, the auditing profession and its professional practices.

1.5 Motivations

This research is motivated by the fact that the opportunistic behaviour of creative accounting and fraud is more likely to generate financial information that does not represent the firm's true financial picture. Therefore, it is likely to decrease the quality of the financial information and its usefulness to the decisions of the stakeholders, which in turn, decreases the confidence of the stakeholders in the accounts in general and in the financial reporting in particular. Therefore, creative accounting and fraud have gained much more attention from investors, practitioners, regulators and academics, especially after the collapse of many large companies in recent decades, and these interested groups have responded to these phenomena by enhancing the monitoring mechanisms such as corporate governance and accounting disclosures. Consequently, without an appropriate monitoring scheme, the separation between owners and company’s executives may create serious economic problems. Secondly, a review of the literature reveals a scarcity of research regarding to the phenomenon of creative accounting and fraud. This review also shows that most of the prior studies relating to this filed of research have been conducted in the developed countries such as the U.S and the U.K. This offers different institutional settings from developing countries, thus more research should be conducted in underdeveloped nations such as Libya. These considerations provide the motivation for the current research to shed more light on the main features of the phenomenon of creative accounting and fraud, and the most distinguishable factors between them.

The paper consists of six sections. First section presented the introduction of the paper. Second section provides a review of the literature. Third section describes the research methodology. Fourth section discusses the findings. The conclusion, recommendation and future research are presented in Fifth section. limitations. Lastly, the sixth section provides the limitations of this paper.

2. Literature Review

2.1 The Concept of Creative Accounting

The concept of creative accounting is usually referred to the use of accounting knowledge to alter the figures included in the financial reports, while remaining within accounting standards and regulations, so that, instead of revealing the real status of the company, it shows what the management wishes to tell the stakeholders (Yadav, 2013 :19). A number of concepts have been suggested in the literature to be associated with the practice of manipulating the facts of accounting, such as book cooking, aggressive accounting, massaging numbers, window dressing, earnings management, etc (Yadav et al., 2014 :67). Therefore, it is not easy to describe the concept of creative accounting precisely because there are so many different reasons and motivations to understand it, as well as a number of desired results to be achieved (Cugova & Cug, 2020 :2).

Creative accounting may occur under at least three different financial market conditions. The first is that a company floats its shares to attract investors, based on the capital market evaluation, to subscribe to such shares by either a par or a premium. The second is when the company which its shares are already on a stock market, wanted to show a very attractive image of its financial circumstances in order to quote the shares at a premium. Finally, a company which has its shares on the market can announce and pay high dividends by over-evaluating the assets, undervaluing the liabilities and changing inventory evaluating systems, which may boost the company's image at least in the short term (Sen & Inanga, 2005 :76).

The term “Creative Accounting” was first originated with the movie “The Producers” by Mel Brooks in 1968 (Khaneja & Bhargava, 2016 :46). Since then, numerous definitions have emerged from different researchers to express their views about what creative accounting means to them. According to Griffiths (1986:1), “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. The figures which are fed twice a year to the investing public have all

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been changed in order to protect the guilty. It is the biggest con trick since the Trojan horse. . . In fact, this deception is all in perfectly good taste. It is totally legitimate. It is creative accounting". In academic context, Naser (1993:2) defined it as "the transformation of financial accounting figures from what they actually are to what preparer desires by taking advantage of the existing rules and/or ignoring some or all of them". According to Ali Shah, Butt, and Bin Tariq (2011:351), creative accounting can be explained as the use of accounting knowledge to influence the reported figures, while remaining within the jurisdiction of accounting rules and laws, so that instead of showing the actual performance or position of the company, they reflect what the management wants to tell the stakeholders. Zhou and Kapoor (2011:570) defined it as "a purposeful intervention in the financial reporting process with the intent of obtaining some private gains". Creative accounting outlined by Mellahi, Morrell, and Wood (2010:164) as "the use of permitted cosmetic window dressing accounting techniques to present a flattering picture of a company's financial state". Khaneja and Bhargava (2016:46) defined it as "the techniques are used to create a false impression while providing information that is not, in itself, untruthful. It's simply an example of hiding the truth while sticking assiduously to the rules. It reflects pressure from executives who wish to create the impression of enhancing profitability and strengthening the balance sheet to ensure a healthy demand for shares". According to Osisioma and Enahoro (2006:6), creative accounting is an "accounting processes and choice of policy resulting from many judgments at the same time is capable of manipulations, which have resulted in creative accounting". Ghosh (2010:4) states that creative accounting is "the transformation of accounting figures from what they actually are to what perpetrators desire by taking advantage of the existing rules or ignoring some or all of such rules".

All the above definitions provide a base and give idea regarding the common elements of creative accounting. The first is that creative accounting is seen as deliberately use of accounting tools within accounting standards to manipulate accounting reports, given the more favourable image of the company, though legitimate, but misleading users, by not showing the true and fair view of the firm. The second is that while attempting to play with accounting numbers begins at a basic level, but gradually it crosses the line of truth as its extent increases, this is where the hairline of creativity crosses the allowed limits and falls into the fraud.

2.2 The Concept of Accounting Fraud

Accounting fraud has gained substantial and increasing attention from researchers, regulators and the public after the accounting scandals of large companies such as Enron, Lucent, WorldCom and Satyam. These frauds have a negative effect on the capital markets and reduces investors' trust. Fraudulent financial statements can also have a devastating effect on a company's reputation, which also puts its life at risk (Florentin & Horomnea, 2012 :506). According to the Association of Certified Fraud Examiners (ACFE), accounting fraud has created considerable difficulties for societies around the world. It has been shown that fraud in most countries of the world is not a serious problem but is also a growing problem (ACFE, 2010).

In fact, business firms and their management are always under pressure to provide the users of the financial statements with a bright image and the pressure often makes the best or worst of the prepares come out. There are several factors that affect the manipulation of financial reporting, such as economic pressure, reputation, and increased competition, which can cause individuals or companies to engage in accounting fraud (Gupta & Kumar, 2020 :398). In the same vein, Agostini and Favero (2017:474) indicate that accounting fraud primarily tends to be the result of the pressure put on top and middle managers by financial investors, market analysts and internal budgeting professionals. Albrecht, Albrecht, and Albrecht (2002) point out that fraud in financial reporting occurs because of pressures to meet internal and external financial targets, opportunities and rationalization. This indicates that when managers are under pressure from shareholders and other stakeholders, so that might motivate them to commit fraud more than any other given time frame (Hakami & Rahmat, 2019 :71). Moreover, Ajekwe and Ibiamke (2017:39) illustrate that the perpetrator of fraud may not be motivated through pressure from shareholders and other stakeholders but by dishonesty and personal gain (for example, to protect bonus). One could say that, the external and/or internal pressure besides the individual (manager) private gains may be the main factors that induce managers to engage in accounting fraud.

Numerous definitions of the term ‘fraud’ have been suggested within the academic and professional literature. In the general and criminological sense, fraud refers to “. . . any crime for gain which uses deception as its principal modus operandi” (Powell, Jubb, Lange, & Smith, 2005 :6). Economically, accounting fraud is defined as a “deliberate attempt by corporations to deceive or mislead users of published financial statements, especially investors and creditors, by preparing and disseminating materially misstated financial statements” (Rezaee, 2002 :279). The definition by Phua, Lee, Smith, and Gayler (2010:2) states that fraud is “leading to the abuse of a profit organization's system without necessarily leading to direct legal consequences”. Wang, Liao, Tsai, Hung, and Cybernetics (2006:1122) in their definition formulated it as “a deliberate act that is contrary to law, rule, or policy with intent to obtain unauthorized financial benefit”. Zhou and Kapoor (2011:571) defined fraud as “the intentional use of illegal methods or practices for the purpose of obtaining financial gain”. According to Yue, Wu, Wang, Li, and Chu (2007:23), accounting fraud is conducted through making falsified financial statements where the numbers are manipulated by, overstating assets, spurious entries related to sales and profit, misappropriation in taxes, or understating liabilities, debts, expenses or losses. Nickolas (2020) defined it as “….intentional manipulation of financial statements to create a false appearance of corporate financial health. Furthermore, it involves an employee, accountant, or the organization itself misleading investors and shareholders. A ccording to Perols and Lougee (2011:40) accounting fraud occurs when managers use accounting practices that do not conform to Generally Accepted Accounting Principles (GAAP) to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that rely on reported accounting numbers. Furthermore, Kassem (2012:30) indicates that in each case of fraud, there are four elements would be existed: A material false statement, intent to deceive, reliance on the false statement by the victim, and damages as a result. In the same line, Lord and Gestiune (2011:5) illustrate that the different countries define fraud by using a common set of three elements: Material false statement with the intent to deceive, a proof that the victim depended on the false statement, and damages occurred as a result of victim's reliance on those false statements.

Thus, in short, fraud is an abstract concept that may be associated with a set of elements, events, processes, facts and actions that are impacted in bad faith, once or repeatedly, in such a manner that a consequence or both of the results fails one or all of the evaluation criteria, regardless of whether damages or benefits of any sort are discovered. (Ciocan, 2018 :158). In addition, accounting fraud is a systematic action by management which is outside the regulatory and accounting principles and can take on different types, such as tax fraud, misappropriation of assets and financial statement fraud. It can also be carried out by individuals inside the company, such as administrators or staff, or outside them, such as vendors or consumers.

2.3 Creative Accounting and Accounting Fraud Distinction

Various terms, such as manipulation, aggressive accounting, creative accounting, earnings management, accounting fraud and so on, are usually used quite anonymously in the literature. Although, Stolowy and Breton (2004:5) utilise the term of accounts manipulations for all adjustments and discretionary entries made to the financial reports, Dechow and Skinner (2000:239) argue that there is a clear conceptual distinction between fraudulent accounting acts that explicitly show intent to deceive, and those judgments and estimates that fall within the framework of GAAP and that may include creative accounting based on managerial intent. However, they state that it is difficult without some objective evidence of intent. In line with this view, Popescu and Nișulescu (2014:62) point out that while creative accounting and fraud are often occurring when a companies are experiencing financial difficulties, they are not considered synonymous, creative accounting includes, doctoral accounting information, a process that is not considered illegal but certainly does not comply with ethical standers.

The study carried out by Dechow and Skinner (2000:239) indicates that there is only a fine line between fraud and creative accounting. Furthermore, the former SEC Chairman Levitt (1998:81) referred to this line as "a Gray area between legitimacy and outright fraud". However, in some cases, it is not always easy to determine whether or when creative accounting activates cross the line of legitimacy to fraud due to several different reasons. One justification for this is that creative accounting and fraud involve the manipulation of financial reports to achieve the desired objectives (Powell et al., 2005 :8). In fact, the same accounting techniques can be used by both creative accounting and fraud to achieve that objectives. In line with this view, Perols and Lougee (2011:41) suggest that fraud has the same objective as creative accounting; however, fraud is outside the GAAP, while creative accounting is within the GAAP. Both fraud and creative accounting are meant to be misleading and, as the term of intent is not easy for anyone to ascertain than for the perpetrators, it is not possible to identify

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the difference between fraud and creative accounting exclusively through management intent. Another justification is that previous findings have shown that creative accounting and fraud are significantly related. For example, Dechow, Sloan, and Sweeney (1996:4) found that firms engage in creative accounting prior to the fraud occurrence. Likewise, Perols and Lougee (2011:40) found that fraud is significantly higher for firms that have previously manipulate their reported earnings. They further state that when a company is faced with a reversal of earnings and a reduced flexibility in manipulate figures, managers can turn to fraudulent behaviour to achieve objectives that have previously been achieved by manipulate reported earnings. In the same vein, Lee, Ingram, and Howard (1999:758) find a positive association between the likelihood of fraud and total accruals. In addition, they documented that fraudulent companies had significantly lower levels of accounting conservatism in the period before fraud occurrence, while they are consistent with changes in potential legal liability. In brief, the results of previous studies are consistent with the assumption that creative accounting is just another form of fraud.

In contrast, some other researchers suggest that creative accounting is not a fraudulent act, but an ethical and legal practice that aims to enhance the value of information provided to financial statements users. For example, Davis- Friday and Frecka (2002:60) states that creative accounting is viewed as a legal and ethical activity. Diana and Madalina (2007:937) suggest that manipulation of reported earnings is not a form of fraud. Likewise, Jiraporn, Miller, Yoon, and Kim (2008:624) find that creative accounting does not seem to provide private benefits to management and does not detrimental to firm value. Watts and Zimmerman (1986) suggest that creative accounting is beneficial behaviour as it may enhance the information value of earnings. In addition, Peasnell, Pope, and Young (2000a:416) argue that creative accounting has been seen as beneficial to users of financial reporting, especially where financial discretion is used to improve the information efficiency of reported earnings.

It has been argued that compliance with GAAP is the only way to differentiate between creative accounting and fraud, however Shah (1996:24) points out that compliance with GAAP is not a guarantee that the financial position of the firm is fairly present in its financial statements. In addition, the Public Oversight Board (2000) indicates that "the determination of whether or not the behaviour in the creative accounting continuum crosses the line of legitimacy to fraud in a specific situation is not always easy and that, at some point in the continuum, the motivation behind creative accounting may become strong enough to result in fraud" (2000, p.79). In this regard, Higson (2003) suggests that the only way to distinguish between fraudulent and creative accounting actions is by identifying the purpose behind them, which would help to establish whether the act was intentional or accidental. In line with this view, Kassem (2012:32) believes that while a distinction is not clearly differentiated between creative accounting and fraud, this issue will continue to be debated.

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While several attempts have been made in academic and professional literature to distinguish between creative accounting and fraud, it is still difficult to establish a framework for the distinction between them that includes all of the relevant factors. Furthermore, since both creative accounting and fraud involve the intention of deceiving, and the concept of intent is difficult to identify for others than perpetrators, the distinction between creative accounting and fraud cannot be based solely on managerial intentions. However, identifying managers motivations behind fraud and creative accounting can help academics and regulations to clarify the differences between them by identifying managers, which can, in turn, help to recognize fraudulent actions by pursuing how managers act in order to achieve their objectives and intentions.

3. Methodology

This research is a literature review research and has reviewed the available literature on the phenomenon of creative accounting and accounting fraud. Several resources have been used to capture a relevant literature, such as Google scholars and open access accounting and finance journal sites and other available resources, and to do so, relevant key words have been used for creative accounting, practices, techniques, motivations, accounting fraud, fraudulent financial, and a combination of these words.

4. Findings

In order to present the results of this study, the findings of other researchers were reviewed. It can be shown that, considering the existence of strict laws and regulations in order to prevent creative accounting and accounting fraud behaviours, the phenomenon of these activities is still existing. This obviously demonstrates that professional accountants and executives in companies are still able to find loopholes in the existing accounting standards to violate and manipulate these standards. Many aspects of the phenomenon of creative accounting and accounting fraud are addressed in the study, including the primary characteristics of creative accounting and accounting fraud and the massive argument about the distinction between the two concepts. Nevertheless, it is still difficult to establish a framework that incorporates all the considerations that are essential to distinguish between creative accounting and accounting fraud. Besides that, as both of the two concepts intent to deceive users of financial statements, and the expression of “intent” is difficult for others to fully understand than perpetrators, the distinction between creative accounting and fraud cannot be entirely based on managerial intentions. Therefore, one potential solution may be that identifying executives who have been motivated to engage in fraud and creative accounting can enable academics and regulators to establish a framework for distancing them, which in turn, might help to identify fraudulent actions by pursuing how executives behave to achieve their goals and intentions.

5. Conclusion, Recommendations and Future Research

Creative accounting and fraud share some elements, such that the motivations of both actions being deliberate to manipulate financial statements in order to deceive interested users about the underlying economic circumstances of the company. Determining whether the managerial behaviour is acceptable or crossing the line to being outright accounting fraud, in some cases, does not really make it easy. While previous research in this field has attempted to differentiate between creative accounting and fraud, it is still difficult to develop a framework for differentiating between them. In order to distinguish between creative accounting and fraud, the previous attempts focused on two factors, namely managerial intent and complaints with accounting standards. Nevertheless, management intention is an observable factor that cannot be measured unless managers admit that they intentionally deceive financial information users, as well as the compliance with accounting standards is not a guarantee that the company's economic status is fairly presented in the financial statements.

The debate on whether or not creative accounting and accounting fraud are related will continue unless provide an appropriate framework to support scholars, accounting bodies and auditors to understand the distinctions between creative accounting and accounting fraud. Therefore, defining motivations behind manipulating financial information may help to distinguish between fraudulent and legitimate actions, which, in turn, may help determine whether the activity is intentional or accidental. Understanding the motivations for fraud and creative accounting has been suggested to provide proper techniques for detecting fraudulent actions by tracking how managers achieve their objectives. Furthermore, demonstrate the relationships between creative accounting and fraud can help in establishing effective models for detecting fraud, and these modules can be helpful for academics, regulators and auditors to estimate managers activities.

For future research, empirical studies related to creative accounting and fraud activities have been found to be limited, especially in the developing countries (i.e. Libya). It is, therefore, recommended to conduct a research using a survey to ask professional accountants and external auditors about their perspectives on creative accounting and fraud activities and the degree to which creative accounting and accounting fraud behaviours could be influenced by ethical commitment. In addition, an empirical research to compare the effects of ethical commitment and enforcement of stringent measures and the implementation of accounting standards for the prevention of creative accounting and fraud activities should also be conducted in future research.

6. Limitations

Since the aim of the research is to review the existing literature, it is crucial to sample the literature. Further, this research used only secondary resources from different sites and publications that were written in English, which could result in the research being limited.

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