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# Research in Role of Creative Accounting Practices to Reduce Financial Risks in Jordanian Commercial Companies

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## Abstract

This research aimed to identify the role of creative accounting practices to reduce financial risks in Jordanian Commercial companies from credit and market risks and operating risks.

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***Index terms—***

# 1 Introduction

ccounting has evolved through the time frame to the stage of creativity by processing financial statements with intellectual, creative procedures and methods to produce financial reports aimed at communicating economic information to beneficiaries to achieve their objectives. The sensitization side is behavioral and ethical based on the fact that specific interests of business owners do not prevail over those of other groups, the so-called neutrality of accounting policy But the existence of immoral creativity aims to mislead certain parties and show an unrealistic picture of the financial situation to achieve goals.

Specific to both board members, owners, and stakeholders through the creation of accurate accounting methods and methods using specific accounting policies or gaps called creative accounting methods and practices, namely, the use of the variety of accounting alternatives that can be relied upon in the preparation of financial lists (d.Salami Aldenouri, 2018).

Companies are considered to be in a volatile environment, which threatens their stability and makes them vulnerable to various financial risks that threaten the achievement of their goals. And may negatively affect the principle of accounting continuity over time and increased competition. The fluctuations and surprises have increased, allowing for the increase, multiplicity, diversity, persistence, and renewal of these threats; It is classified as credit risk arising from the lender's loss of funds due to the default of the counterparty and market risks related to volatility in asset price and liquidity, and operating risks resulting from financial losses from failures of internal operations, regulations or procedures.

The many areas of creative accounting represented by the Accounting Information System, an accounting measurement, ways of distributing or charging various expenses, different methods of presenting financial and accounting lists and reports, techniques of financial analysis, and the development of accounting automated programs have contributed significantly to the reduction of the financial risk ratio in economic enterprises.

Therefore, this study examined the role of using creative accounting to reduce companies.

# 2 a) The problem of study and its elements

Large enterprises and institutions seek to improve their financial position to reflect their financial and economic stability, which has an impact on their equity prices in the market. Therefore, these companies may use creative accounting in light of ways and methods to reduce multiple financial risks, and this is done in technical accounting ways. However, its harmful use leads to the manipulation of financial information and the exploitation of accounting bases, rules, and alternatives for decorating and improving contrary to reality and reality. This study, therefore, answered the following fundemental question: Is there a role for creative accounting practices in reducing the financial risks of Jordanian businesses?

Based on the study's problem, the elements of the problem can be formulated as follows:

2. Is there a role for creative accounting practices in reducing market risk in Jordanian trading companies? 3. Is there a role for creative accounting practices in reducing operating risks in Jordanian businesses?

# 3 b) Objectives of the study

This study aims to demonstrate the role of creative accounting in reducing corporate risk to identify the importance of creative accounting practices in reducing the financial risks to Jordanian businesses. The main objective of this study is to:

1. Recognize the role of creative accounting practices in reducing credit risks in Jordanian businesses. 2. Recognize the role of creative accounting practices in reducing market risk in Jordanian commercial companies. 3. Recognize the role of creative accounting practices in reducing operating risks in Jordanian businesses.

# 4 c) Importance of the study

The importance of the study stems from the importance of using creative accounting to reduce corporate risk because it is considered a modern way of dealing with this type of risk and preventing it from occurring, and minimizing its impact. The importance of this study is at the following points:

1. The use of creative accounting methods helps the management of enterprises to demonstrate the outcome of the activity and financial position to achieve their short-and long-term objectives, including the financing conditions imposed by financial institutions. Financial corporate risk: Financial risks are considered to be the source of potential losses in financial markets due to economic fluctuations and are usually accompanied by the leverage system since the financial institution is in a position to meet its current asset obligations. (Tariq Allah Khan Habib, 2018) They can be defined as a higher risk of exploitation due to recourse to indebtedness, that is, to bringing in financial resources in the form of debts that would adversely affect an enterprise's productivity. **??**Sami, 2018) Credit risk: Risks arising from the potential inability or knowledge of the borrower's or third party's willingness to fulfill its obligations at times specified by the bank resulting in economic losses, failure to fulfill its obligations to the bank on time, The bank's revenues and capital are affected Loans are the most important sources of credit expenses ", resulting in losses to the bank extending to lost opportunity costs, fees and costs related to the follow-up of non-performing loans. (Krasen, 2019)

Market risk: The risk of global and domestic market volatility arising from adverse movements in the value of financial instruments and changes in the level or volatility of interest rates, foreign exchange rates, commodities, stocks, and other securities in all their forms and liquidity risks (Khamisi, Abdulkader, 2017). Operational risk: They are risks that cause losses that adversely affect economic units' revenues and capital as a result of inefficiency or failure in internal operations or personnel, or weak information systems resulting from inadequate surveying of monetary units' working environment or technical risks due to non-conformity with modern technology, or fraud resulting from a defect in internal control systems or intangible risks that are highly likely to occur s productivity ", such as the risks of knowledge and relationships resulting from ineffective cooperation, which reduce the productivity of knowledge among workers, It affects the quality of service or commodity and the reputation of economic units and may arise as a result of making erroneous decisions that do not keep pace with recent changes (Soldier, 2017).

# 5 Theoretical Framework and Previous Studies a) Boot

Enterprises consider the use of creative accounting as a means to find unfamiliar accounting solutions and procedures that help make decisions and can provide helpful and valuable high-quality accounting information to its users, however, the companies' business is based on expectation, that is, their are many financial risks that companies could be exposed to in the foreseeable future. This chapter explains the concept of creative accounting, the motives for using creative accounting, creative accounting methods, creative accounting forms, corporate risk, corporate risk types, corporate risk management functions, corporate risk management phases, corporate risk management objectives, studies in Arabic and foreign language studies, and what distinguishes the current research from previous studies.

# 6 b) Concept of creative accounting

1. Many researchers, writers, and specialists have tried to define the concept of creative accounting. Given the different orientations of these researchers and writers, many definitions of this concept have emerged. These definitions have been shown according to each point of view: 2. They are defined as creative tools designed and done by accountants in the company's financial system, specifically when starting company activity, and in a manner that ensures the interaction of accounting cycles to ensure speed and accuracy in performing measurement and disclosure processes (Eric, 2011);. One of the concepts that reflect the academic point of view (Letter, 2016); a concept that considers creative accounting to be a conversion and change in the financial accounting figures from their actual to a desirable form, achieves advantages from choosing between alternatives to accounting rules or by ignoring some of them.

# 7 c) Motivations for using creative accounting

Creative accounting practices may involve an opportunistic or an efficiency motive, or if creative accounting is motivated by self-serving benefits of management, then the motivation is opportunistic. And if the reason is to control the users of accounting information to influence the market by showing the enterprise's income in the competitive market, then the basis is the efficiency of the enterprise. Any attempt to show the image contrary to the truth in many and varied ways although there is an excellent advanced system, problems may occur and even fall, It has global severe financial implications. The problem here is not one of a lack of compliance with accounting rules. instead, principles-based rules are followed, leading to nontransparent reporting, and taking advantage of specific accounting policies and legal gaps.

# 8 Global

The motivation for creative accounting practices varies. To maintain gains, positions, and advantages or beautify the financial position image, or to demonstrate efficiency or conceal a failure. Many studies have shown that fraudulent operations occur whenever the company wants or faces essential decisions. The motivations for creative accounting are limited to the following points (Khamqani, Siddiqui, 2019); 1. Tax evasion. It is one of the Department's main drivers for creative accounting, with the assistance of key owners and in collaboration with external auditors. 2. Achieving personal gains at the expense of all interest groups in the company and sometimes at the expense of the economy and society as a whole, as evidenced by the current financial crisis. 3. Meet the requirements: companies and their departments implement many legal requirements.

# 9 d) Creative Accounting Practices

Below is a presentation of the most criticalCreative accounting practices in the financial lists (Jabbar, 2017);

Innovative accounting practices in the income list: the most important methods and methods used to manipulate the income list under creative accounting are: (Schilit, 2002:24); 1. Revenue registration in the form of speed when the sales operation is still in doubt: by the assets followed, the registration of income is completed after the completion of the exchange of utility and in this way, is recognized. 2. Fake Income Registration: This method is to record fictitious or fake revenue. 3. Increased revenue through a one-time return: This method consists of the management of a company increasing its revenue during a specified financial period through a one-time increase. These practices give a positive picture of the control of the establishment by increasing its revenues and profits at a time when it is performing poorly and is usually dealt with by indicating that it is the result of nonessential and unoccupied transactions. 4. Transfer of current banking to previous accounting periods, as this manipulation is related to the calculation of inventories. It is known that the banknotes arranged for the execution of works may lead to the realization of short-term benefits such as rentals, and salaries. And may lead to long-term benefits such as buildings and machinery whose long-term consumption is determined, At a time when the gift is realized. In some cases, some items of these assets become useless and are therefore registered as cash directly deducted from income.

# 10 Creative accounting practices in the financial position list:

The importance of the budget is linked to the information available about the nature and volume of resources available to the company and its obligations to lenders and owners. It also helps to predict the amounts and timing of future cash flows, as the benefits of the Financial Centre's list must be assessed in the light of a range of determinants. Creative accounting practices in the financial position list:

1. Substantial assets: When the valuation of tangible items of assets such as trademarks is overestimated, in addition to the accounting recognition of tangible assets, in contravention of the originals and the rules stipulated therein. 2. Fixed Assets: Where the principle of historical cost is not adhered to in the determination of the value included therein in the budget, such manipulation shall be carried out in the customary modernization ratios of the originals in such ways as to reduce them from 3. Traded investments: Market prices used to evaluate the portfolio of securities are manipulated in addition to unjustified reductions in the low price allocations. 4. Cash: This item is done without disclosure of restrictive cash items and manipulation of exchange rates used to translate available cash items from foreign currencies (Matar, 2019);. 5. Debts: This is manipulated through the nondisclosure of distressed debts, to reduce the amount of the questionable debt allocation and deliberately making errors in the classification of obligations from long-term classification. 6. Long-term investments: Change the accounting methods used to account for.

Creative accounting methods in the list of cash flows: the list of cash flows presents all cash flows inward and out of exports and uses during a given period and aims to prepare this list. A presentation of creative accounting practices in the list of cash flows:

1. The accountant classifies operating expenses as investment expenses or funding and reversal expenses. These procedures and practices do not affect or alter the final values. 2. The establishment can also pay for capital development and record it as an outflow of cash, and therefore these practices increase.

# 11 e) Creative Accounting Methods

Creative accounting is also shown to have several definitions, including "methods or means used to convert financial data numbers from what they are to the desires of the author by exploiting or neglecting some or all of the existing rules of international accounting standards." Amat and Blake, 2013: 1. The accounting rules allow the company to choose between several different accounting methods: in several countries, the company is allowed to choose between the policy of deleting the development alimony as it occurs and consuming it at the expense of the life of the project. Therefore, the company can choose the accounting policy that gives the preferred picture of it.

# 12 Use of specific inputs in calculations associated

with valuation or prediction: In some cases, when assessing an asset's life to calculate depreciation, these assessments are usually done in-house. The innovative accountant has the opportunity to err in caution or optimism in this valuation, and in some other cases an outside expert can usually be employed to make evaluations. 3. Artificial arrangements can be entered either to manipulate budget amounts or to move profits between accounting periods: this is achieved by entering into two or more deals connected with a third-party tendency to help. 4. Manipulation of the timing of transactions: to determine a given year to charge profits or losses for any objective of the accountant, especially in the event of apparent differences between the book value and the market value or actual value

# 13 f) Creative Accounting Form

The forms of creative accounting are varied by multiple methods of manipulating accounts (Hassan, Al-Hili, 2018):

1. Utility accounting: Insist on choosing and applying specific accounting methods to achieve high-profit targets, whether or not accounting practices are based on accepted accounting principles. 2. Income mitigation: A form of income manipulation that involves the transfer of income between periods of varying levels by reducing income in years with good payments and transferring it to years with poor payments, it is a form of manipulation that depends on the reduction and retention of increased income profits in the form of allocations for periods with inadequate payments. 3. Internal management: Income manipulation with the aim of to reach a predetermined goal by the Department, or predicted by a financial analyst, or to be compatible with specific courses of action. 4. Fraudulent financial reports: the report on the financial position of the enterprise under incorrect financial statements through deletion and nondisclosure of values to mislead users of the financial information, which can be described as fraudulent financial reports, including misstatement of amounts or disclosures in the financial statements to deceive users of the financial statements. 5. Practice creative accounting methods: Methods practices differ from natural accounting methods to obtain unreal profits through innovative and modern techniques that may be complex in values for expenses and revenues.

g) What are corporate risks Financial risks arise from economic activities. Financial troubles have continued to increase with the diversity of economic activities. They have even become inherent in contemporary economies, making it impossible to dispose of them once and for all, but this does not necessarily mean that they cannot be dealt with according to a set of policies and strategies whose effects and results are primarily controlled.

# 14 h) Concept of corporate risk

Financial risk (Borg, 2018); is the risk of accepting the risk of a future economic loss of an asset, and the risk lies for an investor by risking exposing shares and bonds in which they invest in exchange price fluctuations, which threatens the likelihood that their future value will fall below their current value.

Financial risks (Abdul Kader, 2019); are defined as the instability of the financial system, which may be due to the worsening of special events or circumstances, and also indicates the risks posed by interdependence and interdependence between the financial market.

Financial risks (Kunduz, 2018); can also be defined as the possibility of a future deviation so that the desired outputs differ from what is expected, or the uncertainty of financial future production output is the decision of the current economic individual based on the results of the study of the behavior of the natural phenomenon in the past.

The financial risk (Tamimi, 2010); was defined as foreseeable direct damage to activity associated with an economic unit, Due to the occurrence of economic events of a human political nature, and in the event of their occurrence resulting in impactful losses which may result in the lack of continuity of economic unity in the activity practiced and its exit from the market, And that's what we're going to try to see in economic institutions in this study. financial confusion and renders it temporarily or permanently unable to fulfill its obligations towards others ".

# 15 i) Types of corporate risk

Many classifications confront us in classifying financial risks to companies. They can be divided into internal risk and external risk, they can be divided into regular risk and irregular risk, and public risk and personal risk, and we will rely on classifying financial risk into company-related risk.

# 16 Risks related to the company include:

Credit Risk (Pagach and war, 2010 ): Risks arising as a result of the borrower's failure to comply with one of the terms of the contract credit risk is one of the most critical risks currently facing enterprises. While there are other risks, many previous studies and research have confirmed that most of the crises experienced by enterprises in different countries worldwide have been the most significant causes of credit deficits and their inability to pay benefits on time.

Operating Risks (Abu Salah, 2018): The combination of fixed cost formation and variable costs results in the company's financial structure, affecting cash flows. The more significant the fixed cost than variable costs, the weaker the company's ability to control operational costs when sales changes occur and the combination of fixed and variable costs depends heavily on the type of project.

Market Risk (Bessis , 2015): These are losses resulting from adverse market movements that weaken the value of positions held by market actors. The fluctuating market factors are randomly called "risk factors," which include all interest rates, stock indices, and foreign exchange rates.

# 17 Market risk is divided into:

1. Interest rate risk. 2. Risk of exchange rate fluctuations.

Liquidity Risk (CPA, 2010) 3. Liquidity risk is the bulk of market risk faced by businesses when they do not have sufficient funds to meet financial liabilities on time. Liquidity risk includes short-term and long-term risks. All companies need to manage liquidity risk that remains safe from bankruptcy.

This section presents the most important Arab and foreign studies that have been subjected to the role of using creative accounting to reduce the risks of financial companies. The studies have been compiled according to their language. They have been classified into Arabic studies and foreign studies. The chronology from the oldest to the latest has been followed to present the temporal development of this area.

"Empirical Evidence of Romanian, Auditor's Behavior Regarding Creative Accounting Practices"

This study aimed to identify the financial auditors' perception of the existence and forms of creative accounting in companies.

To achieve the study objective, descriptive statistics were used, and research proposals that indicate auditors' perception of users' interests and the existence and repetition of creative accounting practices were tested.

The most important findings of the study focus on identifying auditors' perception of users' concerns and the existence and repetition of creative accounting practices, as well as the primary innovative accounting practices identified by auditors in their professional experience. It was also noted that the most innovative accounting practices encountered are the assessment and approval of risk allocations, the consumption, and consumption of assets, the re-evaluation of tangible assets, and the inventory valuation.

The study recommended that the additional empirical evidence of Romanian auditors' behavior regarding creative accounting practices should be investigated and explored. Entitled; (Ismael, 2017) Study:

"The Impact of Creative Accounting Techniques on the Reliability of Financial Reporting with Particular Reference to Saudi Auditors and Academic"

This study aims to highlight the impact of creative accounting ethics techniques on the reliability of financial reports from the viewpoint of auditors and academics.

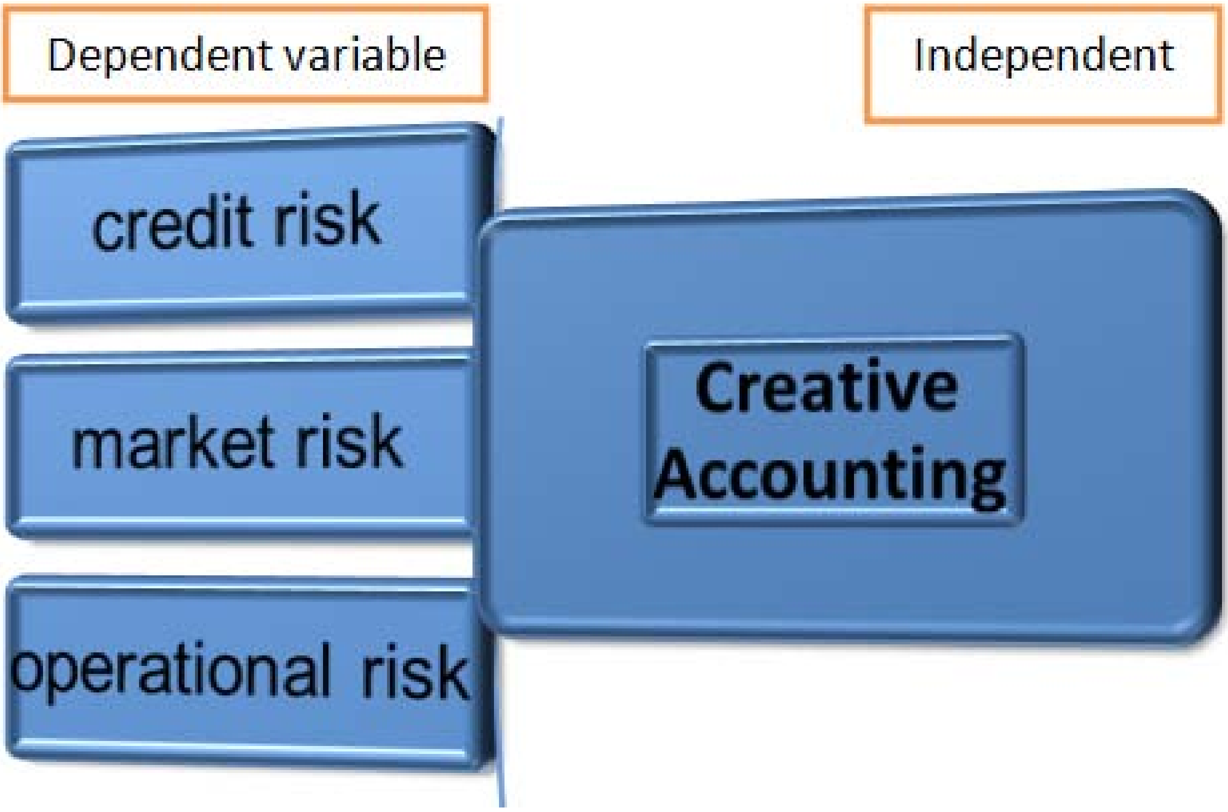
To achieve the study's objective the data was collected through a well-structured questionnaire and will be distributed to a randomly selected sample of certified auditors and accounting teachers at some universities, Descriptive and evidentiary statistics were used to disseminate the results and update the results.

The most important findings of the study are that the creative accounting techniques used by management negatively affect the reliability of financial reports, and the legal auditor plays a vital role in promoting the practice of creative accounting in a way that positively impacts the reliability of financial statementes.

The study recommended that active corporate governance principles should be used to control creative accounting practices using independent nonexecutive managers.

# 18 Entitled; (2017? Ndebugri, Haroon & others) Study:

"Analyzing the critical effects of creative accounting practices in the corporate sector of Ghana."


Dependent variable
Independent
credit risk
market risk
operational risk
Creative Accounting

**3**

Figure 1: 3 .

This study aims to examine and adopt creative accounting methods in financial reporting structures in Ghana's corporate sector and their implications for the financial system.

Ghana's corporate sector and their implications for the financial system.

To achieve the objective of the study the research design was adopted as a tool of semiorganizational and structured questionnaires at the same time, the approved field data collection tool was carefully designed questionnaires, and the research team adopted non-probable sampling and used a targeted sampling tool using the lead informant's technique.

The study's most important finding is that creative accounting is an attempt to gain an advantage in the form of managers and companies and shows that currently accepted accounting principles create a gap that can encourage and encourage the practice of creative accounting.

The study recommended the need to establish effective rules and regulations for the exercise of accounting in places within the organization to prevent creative accounting and to focus on the application of the Code of Corporate Governance and Ethics.

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[Osazev ()] 'Creative Accounting and Firm's Market Value in Nigeria'. Henry Osazev . *Arabian Journal of Business and Management Review* 2012. 2 (3) p. .

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[Akizwr ()] 'Liquidity Risk Management'. Sadaqat Akizwr . *Interdisciplinary Journal of Research in Business* 2011. 1 (1) p. .

[Omurgonulsen ()] Omurgonulsen Omurgonulsen . *Critical thinking about Creative Accounting in the Face of a Scandal in the Turkish Banking Sector*, 2009. 20 p. .

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[Mohammed ()] 'The Effect of Auditors' Ethics on their Detection of Creative Accounting Practices'. Mohammed Mohammed . *International Journal of Business and Management* 2013. 8 (13) p. .