ACCOUNTING MANIPULATION AND ITS EFFECTS IN THE FINANCIAL STATEMENTS OF ALBANIAN ENTITIES

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Abstract
Financial information manipulation is a distorted presentation, a misstatement of the financial position/performance, creating a false impression of an organization's financial strength. It is known as: revenue management, income smoothing, creative accounting practices, aggressive accounting or accounting manipulation but the essence is the same. It creates a very large asymmetry of information for readers of financial statements that affect decision making.
The purpose of this paper is to present causes and consequences of accounting manipulations. We have also made an observation of techniques and methods of accounting manipulations and its application especially in Albanian entity's financial statements. Creative Accounting or "window dressing" techniques have been applied widely and are well known worldwide. During the period of the global financial crisis the effects of accounting manipulation were fundamental. A large number of companies (with an immense impact on the economy of their countries) that went bankrupt had applied creative accounting. On the other hand we consider the impact that accounting manipulation has given to other parties with which the firm is involved in relationships.
In the conclusions of the paper we will perceive differences/similarities in the reasons of manipulating between entities operating in developing countries (Albania case) and entities operating in developed countries.

Key words: Accounting manipulation, window dressing, risk.

Introduction
Accounting has a great importance for the entity. With the large number and variety of transactions that are recorded each day in the accounting, it is very important that their appearance as accurate, to reflect the real financial situation at any time of an entity. You can talk endlessly about the importance of an accounting kept in accordance with the rules, principles and standards by which it should be kept. The problem is, as management wants to do it and its ability to not do, so not reflect reality!
There are numerous studies that deal with the issue of motivation of management versus the propensity for accounting manipulation. As mentioned by Niskanen and Keloharju (2000), the tax is the most important motivator. The size of the tax to pay depends on the size of declared income, therefore the direction tends towards tax evasion. Motivation for accounting manipulation is the gap between the actual performance of the company and the performance presented by management.
The aim of this paper is to show not only the causes that lead to accounting manipulations but also the means used and the effects that these manipulations in the solvency of companies. The study aims to provide not only the actual techniques of accounting manipulations in our country but recommendations for readers of the financial statements to detect and mitigate the effect of these manipulations. Where are stopped more to banks as one of the main readers of the financial statements of entities.
But what is accounting manipulation? Who are the main techniques? What financial statements or accounts are easily manipulated? How much space for
manipulations allow accounting standards and why these manipulations are not caught by the external auditor? What is the risk that carry these manipulations and specifically what effect they have on financial statement readers who need to make decisions? All these questions we tried to answer through this paper.

2. Material and Methods

Accounting Manipulation

Used in the different countries, the accounting manipulations we find different terms such as creative accounting, reduction in income, earnings management, reduction in earnings, financial engineering and accounting cosmetics or window dressing. In the United States preferred to use the term "earnings management", while in European countries the term used is "creative accounting". In this paper will deal extensively with accounting manipulations in the statement of balance sheet and statement of income and expenses so, each of the above terms essentially presents the same.

Financial information manipulation is a distorted presentation, a misstatement of the financial position/performance, creating a false impression of an organization's financial strength.

Other definitions for Accounting Manipulation:
- “Creative accounting is the transformation of financial accounting figures from what they actually are to what preparers’ desire, by taking advantage of existing rules and/or ignoring some or all of them”. Naser (1993:2)
- "Creative accounting is a deliberate reduction of the flow of earnings in some levels considered normal for the firm”. Barnea(1976)
- "Creative accounting is similar to a "disclose management", in the sense of a deliberate intervention visible in the financial reporting process”. Schipper (1989)
- “Earnings management is recognized as attempts by management to influence or manipulate reported earnings by using specific accounting methods (or changing methods), recognizing one-time non-recurring items, deferring or accelerating expense or revenue transactions, or using other methods designed to influence short-term earnings”. Bruns and Merchant (1990)

Accounting Manipulation is older than we think!

We think that accounting manipulation is related with the last World Crisis (Enron, Lehman Brothers, etc).

In fact
- According to Balaciu and Vladu (2010), ambition of making figures more appealing or the opposite, if the case, is as old as 500 years and Luca Pacioli had shaped the practices of creative accounting in his book De Arithmetica.
- One of the early researchers who defined the account manipulation was Copeland (1968) that defined it as “some ability to increase or decrease reported net income at will”.
- Stolowy and Breton (2000), argues it is a wider concept also including balance sheet transactions.
- Amat and Gowthorpe (2004), has considered creative accounting as involving a transformation of financial accounts using accounting choices, estimates and other practices allowed by accounting regulation.

Accounting Manipulation in Albania and in the World

The financial statements are prepared and presented for external users by many entities around the world. Although these financial statements may appear similar from country to country, there are changes that are caused by a variety of, social, economic and legal circumstances, and the fact that different countries take into account different users of financial statements when setting national requirements. Accounting is not new in Albania and method of retention and reporting has changed considerably over the years. The history of accounting in our country begins with the first plan accounts compiled by Jani Vreto, for the purposes of its business, and after the establishment of the independent Albanian state, appeared the first accounting organizations for recording income and expenses of budget state and so to this day. The transition to new accounting standards constitutes a qualitative change for the preparation and reporting of financial statements. In our country from 1 January 2008 onwards, the financial statements compiled according to the requirements of the new Accounting law Nr. 9228 "On accounting and financial statements". This law has defined the types of accounting standards (national or international) to be applied by entities in Albania.

For Albania recent years have been the real challenge for bookkeeping and financial reporting purposes. One of the biggest problems in our country is the asymmetry of information that is communicated between all parties involved in economic relations. Albania is still a country in transition and consequently has many challenges constantly until it becomes a worthy place to accede to the European Union. Among the problematic issues that impede economic development, which continues to face our society are: corruption, tax evasion, lack of professionalism of employees of state administrations,
tax education in general, education of managers of economic units, etc.
By placing online cash registers, with a stronger organization and control of the customs system, with new guidelines for controlled payments through banks and especially through the operation of the online declaration system of businesses, we can say that we have a reduction of this asymmetry of information. But a reduction not enough! This is because the administrators economic units are always prone to corruption and tax evasion and seek to present financial situation totally different to tax authorities in comparison the real financial situation. Still today, every entity compiles at least three financial statements, totally different from each other. A financial statement to be submitted to the tax authorities, a statement to be submitted to the bank, and the third is a reflection of the real financial situation of the firm which is prepared for the owners.
But the problems of accounting manipulations have not emerged for the first time in Albania and we are not the only country with these problems. Accounting manipulations are the main reason of the global financial crisis of recent years. Many big names like Enron, Lehman Brothers, WorldCom, etc., that were supposed to "Too Big to Fail!" Today have gone bankrupt and taken as key examples of failures due to accounting manipulations. Banks with major problems of valuation declared by the agencies as stable, and sealed their financial products as "healthy". Lehman Brothers was considered stable until the bankrupt bank. Also unexpected was the bankruptcy of Enron company in December 2001. Perhaps the severity of the loss by the collapse of Albanian companies is not as great as that of American companies, but the risk spread in our financial system is a threat to the fragile Albanian economy.
In this precarious condition of asymmetry of information it is necessary a) a deepened analysis of the factors that lead to this condition, b) the techniques used and c) the effects of risks that brings this asymmetry of information through accounting manipulations of financial information.

Motivations for creative accounting in Albania
a) To represent smaller profits in financial statements build for tax authorities, in order to pay as less taxes as possible. The amount of the liability for income tax that is paid depends on the taxable base. Taxable base is the difference of total main revenues and total expenses. The smaller the turnover tax base less taxes to be paid. The rate of income tax was 10% until 2013. In 2014 under the new fiscal legislation it rose to 15% of taxable profit. The increase of the tax rate is another motivating factor for managers to hide the real actual revenues, directed towards tax evasion and leading to the trend of accounting manipulation.

b) To submit a position / financial performance as good as possible to financial institutions, to obtain the LOAN. One of the most important documents that requires a bank to estimate economic unit before they will issue a credit are financial statements. Bank approves loan only if indicators of position and financial performance prove economic health of the unit. But not always entities applying for loans are financially healthy. Most of them require a loan for financial struggles or lack liquidity. Therefore, managers of economic units are directed to the accountants to ask them to modify the data and to manipulate accounting entity's financial situation.

c) To draw firms from continuing losses in order to not being processed for bankruptcy by the tax authorities and not to be subject of control. According to the fiscal legislation, a firm may be at a loss but the loss may be covered with retained earnings up to three consecutive years. By then, the tax authorities have the right to proceed to bankrupt entity. As a result, entities use different manipulation techniques to present a positive financial result as in this way survives bankruptcy. On the other hand, they use these techniques to come up with a small profit but continuing to avoid being subject to audit by tax authorities if they are unprofitable.

d) To compensate the fact that a part of the real costs/expenses recognized under IAS, are not recognized by the Albanian tax legislation. According to the fiscal legislation in our country a large part of the costs are unrecognized for tax purposes. For example, depreciation when passing rate fixed by law is unrecognized expense. Consequently, management has other depreciation expense and other financial statements submitted more depreciation expenses. But this difference in recognition of expenses is one more reason that pushes the direction towards the manipulation of financial results.

Besides these motives there other reasons that management uses to manipulate financial statements accounts. One of which is the lack of enforcement of relevant laws strictly by administrators economic units and secondly the lack of effective control by the tax administration officials. This situation is assisted by legal forms of firms and economic development of the country. In Albania most economic units, are small business and limited liability company, which implement national standard 15. And do not comply with all standards, national or international ones.

Techniques of creative accounting in Albania
Based on observations, most of the entities that manipulate financial statements interfered by
modifying some specific accounts that are known as general manipulation techniques:
- Manipulating Inventory: one of the techniques to manipulate earnings at the end of the accounting period was by manipulating inventory not only in quantity but also in its value. This was especially for units that used the periodic inventories. On the other hand a technique to manipulate the typical costs related to cost of goods sold is including or not within the cost of inventory part of expanses. By not making them part of the cost of inventory but registered them all as period expenses.
- Getting Creative with the Income Statement: another technique is related to the space that exists in relation to the statement of income and expenses. Specifically for entities which are at a lower financial result, to increase their profits a little bit a part of the interest expenses or other expenses which are not declared through invoices but with bank transactions, are collated through special accounts or capitalized to be recognized as future expenses.
- Aggressive Amortization: another technique used for manipulation of financial results is depreciation, with which management "plays" with amortization expenses account for as much space allowed. So, if a company has a high financiar profit, and as a result have to pay more tax on profits in the end of the period then, management recognize amortization expense in the maximum allowed by law to reduce as much as possible taxable profits. In contrast, when the unit is at loss, the direction do not recognize amortization expense at all or a little bit to increase as more as possible taxable profit.
- False Transactions: this technique is related to fictitious transactions, made to manipulate the balance sheet accounts between accounting periods. For example, a fictitious transaction, the collection of a clien who will never pay, or a fictitious payment transaction to a supplier that in reality we have already paid in cash. These transactions are carried out to clear the accounts and to reflect financial indicator and better financial reports for the entity.
- Reclassification: Accounting standards allow the management to select accounting policies. The company can choose a certain policy for the evaluation of assets. Through IAS can choose to keep current assets revalued amount or amortized historical cost. Long Life Assets Remain short life: in the other hand economic unit, for better financial reports of liquidity and leverage manipulates posing assets (Receiveable) and liabilities (Suppliers) over a year, in short-term assets and liabilities.

Results and Discussion

The financial statements are compiled for two reasons:
- a) because they are required by law, required by the tax authorities to determine the liability on income tax and for controlling purposes, b) compiled for decision-making effects for all readers of the financial statements. All the internal and external readers can not make decisions without the financial statements. Among the readers of the financial statements are: shareholder, managers, Investors, Clients, suppliers, Consumers, employees, Tax Authorities and BANKS!

In this paper we focus on banks as financial statements users and their impacts of manipulation in the financial statements of entities, which banks give or loan funding sources.

Asymmetry of information

In our country there is a pronounced asymmetry of information and is still the phenomenon of "three different financial statements". An entity usually compiled three different financial statements. One financial statement that presents the firm in a deplorable financial condition, submitted to the tax authorities every March for the year ended. The second statement that presents the entity in its floweringsituation, submitted to the bank when applying for loans or reapplied to extend the term of the loan, to increase the amount of the loan or even to take overdraft. And the third financial statements, presents the true financialsituation of the economic unit, the accounts of which are unlikely to comply with the accounts of any of the above statements, and which remains secret only in the hands of the administrator and owners.

The problem is that every reader who wants to take decisions, except management, do not know which of the statements is true, what is presented in the bank or what is declared to the tax authorities or any of them!

This paper serves above all to banks, to understand and detect possible manipulation of financial statements by management of economic units. At this moment, all financial statements that firms submitted to the bank for loans, are specially arranged for this reason. This can be verified easily, enough to get the balance sheet submitted to the bank and comparing it with the balance sheet submitted to the tax authorities of the same entity. There are many cases where bank employees commit themselves moral hazard, teaching to the executives entites how to regulate or which indicators of financial statement should show special care.

Studies show that in developed countries, more manipulated account statements, with 55% of the cases is the income account of the statement of income. Also firms in developed countries show a very good performance, before manipulating the
accounts of the financial statements. But according to surveys conducted in Albania, more of the manipulated accounts are those of costs, because the income declared during the year are more difficult to manipulate. However the effect of these manipulations on these financial institutions are very negative. If the financial statements which have been declared to the tax authorities represent a close to reality then in the Situation, the bank is exposed at high risk for information and a false financial condition giving credit to a very high risk. By hiding and manipulating information to obtain credit, the entity is going deeper and deeper into crisis and bankruptcy. Endangering not only themselves but also the bank. As a result of the global financial crisis, the fall of turnover and liquidity and increasing liabilities, the majority of firms applying for loans are not financially healthy. Consider now that the banks' loan portfolio is filled with such loans. The consequences are scary because it could lead to a total collapse of the financial system in the country. Because financial system is dominated by banks, which account for 94% of financial system activity, or about 88% of GDP and bank lending financed largely by deposits in the country. It would be fatal for a fragile economy as the economy of a developing country like Albania. In developing countries the banking crisis look like a projection of the same chain reaction as in developed countries, the fact that information asymmetry is higher, and the problem of occurrence but not at the time of occurrence reporting, has strong correlation with political cycle.¹

Recommendations
Banks should valuate earnings/profits with the quality of assets in the balance sheet. Risk is the possibility or probability to suffer LOSS! Therefore this risk brings the need to provisioning. Provisions are predictions for potential losses as a result of unexpected events. We recommend banks to takes this steps, to revaluate the indicators of position / performance and assess the real RISK of the LOAN!
Provision of accounts receivables – the bank must calculate a provision for bad debt expense because no firm identifies the provision, because it is not an expense for tax purposes.
Reassessment (depreciation) of inventories – at the end of the accounting period the entity must calculate inventory impairment loss recognized stock and inventory impairment. But even such expenses are not recognized for tax purposes and therefore most firms do not regulate their quality of inventories in the balance sheet under real conditions posing a state inventory much greater in comparison with reality. Then belongs to the bank, to make an assessment of the real situation of inventory by making checks on the ground for physical inventory.
Provision of other rights receivables - Impairment expenses, are costs that companies do not report to avoid overloading the unknown costs also to submit an asset many times greater from that reality. The bank must make the necessary checks to see if in fact the firm is entitled to these rights stated in the financial statements.
Reassessment of long life assets – Verification of long-term assets is not difficult for loan officers, but the size of depreciation expense recognition and quality of these assets remains a challenge that banks should not only consider but also to provide a solutions.

Conclusions
Some practitioners and academicians see creative accounting as an illegal act, however there is a group of people who think that it includes taking advantage of the flexibility in accounting standards and accepts it as a legal act. It would be unrealistic to think that it is possible to eliminate creative accounting or earnings management practices at all. However it would be possible to minimize at least the negative effects of them by adopting the accounting standards, giving more importance to ethical considerations and decreasing the flexibility of the managers in deciding among different accounting methods.
There are various studies that examined the issue of management motivation towards creative accounting behavior. Tax is a significant motivator. Imposition of tax levies are based on the income. Tax authorities should find ways to control fiscal evasion and corruption. The motivation for creative accounting is the gap between the actual performance and the firm expectation when there is a significant capital market transaction anticipated. The variance will lead to manipulation of profit to tie in to forecasts.
Firms in the developed countries: (USA) manipulate their FS to present a better look of their position and performance to be attractive for the investors. (Stock Exchange) And to pay less tax. The enforcement of regulations and laws does not allow much space for manipulation. Instead, Standards DOES allow any space for manipulation.
Firms in the developing countries: (Albania) manipulate their FS to derive the firm from loss. (Considering the economic downturn many companies are at a loss, becoming subject to control by the tax authorities) Meanwhile, companies with good performance try to reduce profits to pay less tax. All companies present a FALSE very good position /performance to the banks to get a LOAN!
Based on observations, one of the techniques to manipulate earnings at the end of the accounting
period was by manipulating inventory not only in quantity but also in its value. This was especially for units that used the periodic inventories. On the other hand a technique to manipulate the typical costs related to cost of goods sold is including or not within the cost of inventory part of expanses. By not making them part of the cost of inventory but registered them all as period expenses.

Studies show that in developed countries, more manipulated voice of statements, with 55% of the cases is the voice of income in income statement. Also firms in developed countries show a very good performance manipulation of figures before the financial statements. But according to surveys conducted in Albania, most manipulated accounts are expenses accounts, because the income declared during the year is very difficult to manipulate.

During the period of the global financial crisis the effects of accounting manipulation were fundamental. A large number of companies (with an immense impact on the economy of their countries) that went bankrupt had applied creative accounting. Now the question is does the accounting manipulation a way to prevent the crisis, or the reason we are at crisis? This question will lead to other studies.

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