DOGMATIC ANALYSIS OF THE TENSION BETWEEN CREATIVE ACCOUNTING AND INTERNATIONAL ACCOUNTING LAW

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Abstract *- In this study, a comprehensive analysis of creative accounting and its relationship with international accounting law was carried out. Creative accounting involves the manipulation of financial results to reflect a positive image of the company, influenced by various incentives and practices that can generate significant impacts on stakeholders and market perception. Definitions, principles, cases and regulatory frameworks were reviewed, highlighting how creative accounting can affect financial reporting and economic decisions. Gaps and tensions in the international regulatory framework were identified that could favor creative accounting practices, despite efforts to promote transparency and reliability in financial reporting. It was concluded that it is crucial to strengthen regulation and oversight, promote education and awareness, encourage ongoing research, and foster international cooperation to address the challenges associated with creative accounting. In this way, risks can be mitigated and confidence in financial markets can be strengthened, contributing to sustainable economic development and global financial stability.*

Keywords*: Creative accounting; International accounting law; Financial transparency.*

INTRODUCTION

Creative accounting is a complex phenomenon that challenges the fundamental principles of financial accounting and raises questions about its relationship with international accounting law. This concept, addressed by various authors in national and international studies, is defined as an accounting practice that seeks to influence the perception of financial statements through the manipulation of figures and the application of ambiguous and subjective strategies (Ruiz-Vallejo, 2008). Creative accounting, often motivated by management incentives and external pressures, has as its main objective to present a favorable image of a company's financial situation, even at the cost of distorting the economic reality (Ruiz, 2015).

The study of creative accounting has spread both nationally and internationally, evidencing its relevance in business and academia. Research such as those of Altamirano (2018) and Vega et al., (2021), have explored the implications of creative accounting in corporate governance and accounting representation, highlighting how this practice compromises the transparency and reliability of financial information. On the other hand, international accounting law establishes the principles and standards that regulate the preparation and presentation of financial statements in a global context. Authors such as García & Lopera, (2015) in Colombia, point out how creative

accounting practices conflict with traditional accounting principles, eroding the confidence of users of financial information and challenging the integrity of the accounting system.
Against this backdrop, the need arises to analyze in depth the relationship between creative accounting and international accounting law, identifying possible tensions, contradictions and regulatory gaps that may affect the quality and reliability of financial information at the global level. In this context, the present study explores this complex dynamic and its implications, providing critical perspectives and reflections based on the dogmatic analysis of creative accounting and its interaction with the international accounting legal framework (Moreno, 2015; Matarranz, 2017).
In sum the purpose of the analysis is to examine the tension between creative accounting and international accounting law, to understand how these two dimensions interact and how they affect the quality and integrity of financial information globally. To achieve this objective, a systematizing dogmatic analysis of the selected texts was carried out, considering the different approaches, definitions and perspectives presented by the authors.

FRAMEWORK THEORETICAL

1. Creative Accounting

Creative accounting involves a form of manipulation of financial data for the purpose of presenting a favorable image of a company's economic situation, distorting the reality behind the numbers. Bermudez (2009) describes it as an intentional or even natural action that seeks to show a positive appearance to external users, such as investors and lenders. This practice takes advantage of legal loopholes and the subjectivity of current accounting regulations to transform financial information and reflect a desired reality instead of the true economic situation of the entity. Pirela (2009), on the other hand, characterizes it as the strategic use of regulatory gaps to alter the accounting information presented in the financial statements of companies. The main purpose of this manipulation is to influence the economic decisions of external stakeholders, such as investors and lenders, creating a favorable perception of the company that does not correspond to the economic reality.
From this perspective, creative accounting manifests itself in practices ranging from the omission or distortion of certain financial data to the selective application of accounting policies that maximize the appearance of profitability or financial stability of the company. This involves, for example, the excessive revaluation of assets, the understatement of liabilities, or the recognition of revenues prematurely or not in accordance with established accounting principles. In essence, creative accounting takes advantage of regulatory gaps and subjectivity in the interpretation of accounting standards to shape financial information according to the company's interests.
Creative accounting also involves the excessive revaluation of assets to inflate the value of equity, the understatement of liabilities to hide debt, or the manipulation of revenues and expenses to artificially improve profitability indicators. Practices, which while not always illegal, raise serious ethical and legal concerns because of their ability to distort a company's financial truth and mislead stakeholders such as investors, lenders and regulators. It also undermines confidence in financial markets and has negative consequences for overall economic stability.

In short, creative accounting is a strategy that, although not always illegal, tends to distort the real financial image of a company, generating misleading information that influences the economic decisions of different stakeholders. Its practice poses ethical and legal challenges, highlighting the need for effective regulation and the application of clear and transparent accounting standards to ensure the integrity and reliability of financial information. It is therefore essential to approach creative accounting from a regulatory and ethical perspective, promoting transparency, integrity and accountability in financial reporting. This involves establishing clear and rigorous accounting standards, strengthening oversight and compliance mechanisms, and fostering a corporate culture based on honesty and accountability. In this way, the risk of misleading accounting practices is mitigated and the credibility and trust in the financial system is preserved.

2. International Accounting Law

International accounting law refers to the set of rules, principles and regulations governing accounting at the international level. The main objective of this regulatory framework is to establish uniform and consistent standards for the preparation and presentation of financial information in international contexts, facilitating comparability and transparency between companies and countries (Molina, 2015). At the international level, there are various organizations and entities that play a crucial role in the development and promulgation of accounting law, the most prominent bodies being the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB).

The IASB is responsible for issuing International Financial Reporting Standards (IFRS), which are used by companies around the world to prepare their financial statements. These standards are designed to ensure transparency, relevance, and reliability of financial information, as well as to improve comparability between different jurisdictions (Taminiau et al., 2019; Laughlin, & Broadbent, 1993). On the other hand, the IPSASB focuses on establishing accounting standards for the public sector at the international level, with the objective of improving the quality and transparency of financial information in government entities and not-for-profit organizations.

International accounting law then refers to the set of rules, regulations and legal principles that govern accounting at the global level. Unlike national accounting regulations, international accounting law seeks to establish uniform and consistent standards that are applicable in various countries and jurisdictions. These international standards are fundamental to promote transparency, comparability and reliability of financial information in a globalized environment. They also help facilitate the exchange of information between companies, investors, regulators and other interested parties in different countries (Vives, 2003). It should be added that by adopting international accounting standards, companies can increase their access to global financial markets, improve their credibility and transparency, and reduce the costs associated with preparing multiple financial reports for different jurisdictions.

In sum, international accounting law covers a wide range of topics, including financial reporting, valuation of assets and liabilities, disclosure, consolidation of financial statements and other aspects related to accounting and financial reporting, thus playing a crucial role in promoting the stability and efficiency of financial markets worldwide by establishing common and consistent standards that ensure the quality and integrity of financial information.

3. On the principles and standards governing accounting at the international level

At the international level, accounting is governed by a set of principles and standards designed to ensure consistency, transparency, and comparability of financial information worldwide (Morelo et al., 2023). On the one hand, the International Financial Reporting Standards (IFRS) are a set of international accounting standards issued by the International Accounting Standards Board (IASB). These standards provide guidelines for the preparation and presentation of financial statements, addressing areas such as valuation of assets and liabilities, disclosure of financial information and consolidation of financial statements. International Public Sector Accounting Standards (IPSAS), on the other hand, are a set of international accounting standards issued by the International Public Sector Accounting Standards Board (IPSASB). These standards are intended to guide the preparation and presentation of financial statements in the public sector, ensuring transparency and accountability in the management of public resources. These principles and standards are established with the objective of facilitating economic and financial decision making (Morelo & Torres, 2021) both at the corporate level and for investors, regulators and other interested parties. The main aspects of the principles and standards governing international accounting are detailed below:

a. Principle of uniformity

The principle of uniformity, within the international accounting environment, refers to consistency and comparability in the application of accounting principles. In International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS), this principle states that companies and public entities should consistently apply the same accounting methods for similar transactions and events over time and between different entities (Ghosh et al., 2020). This ensures that financial statements are comparable with each other and over time, which facilitates decision making by users of financial information. Uniformity avoids inconsistencies and distortions that could arise if accounting methods are constantly changed, which ensures the integrity and reliability of accounting information.

b. Principle of transparency

The principle of transparency, in the international accounting context, refers to the obligation of entities to disclose relevant and understandable information in their financial statements and other financial reports. This principle, present in both International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS), seeks to ensure that users of financial information have access to clear and complete data that enable them to properly understand an entity's financial position, performance, and cash flows.

Transparency implies that accounting information should be presented in an objective, truthful and unbiased manner, allowing users to assess the true financial position of a company or public entity (Phillips et al., 2010). This includes the disclosure of significant accounting policies, estimates and assumptions, as well as any event or transaction that may affect users' decision making. Thus, the principle of transparency seeks to promote confidence in financial markets by providing clear and complete information, with the purpose of facilitating the processes of evaluating the financial situation and performance of an entity.

c. Principle of relevance and reliability

The principle of relevance and reliability is fundamental in international accounting, both in the International Financial Reporting Standards (IFRS) and in the International Public Sector Accounting Standards (IPSAS). This principle establishes that the financial information presented by an entity must be relevant and reliable to be useful in making economic decisions by users (Bakke & Hellberg, 1991), as detailed below:

- Information is relevant if it influences users' economic decisions by helping them to evaluate past, present, or future events, or if it confirms or corroborates previous evaluations. In other words, information is relevant if it has the potential to make a difference in users' decisions. Therefore, relevance implies that the information must be timely and related to users' needs.

Reliability refers to the quality of financial information presented in a manner that is credible and verifiable. Information is reliable when it is neutral, i.e., not biased towards any particular interest, free from material error and complete in all material respects. In addition, the information must be supported by sufficient evidence and presented in a consistent manner over time.

d. Principle of materiality

The principle of materiality is another fundamental pillar of international accounting, applicable in both International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS). This principle establishes that financial information should be presented in such a way that errors, omissions, or discrepancies that could influence the economic decisions of users are considered significant and, therefore, relevant.

In the context of IFRS, a fact or information is material if its omission or inadequate presentation could affect the economic decisions that users make based on the financial statements (Baldissera, 2020). This implies that accountants must assess the materiality of the information when deciding what to include in the financial statements and how to present it. Materiality is determined by considering both the magnitude of the error or omission and its nature and context. On the other hand, in the IPSAS environment, the principle of materiality is applied in a similar way, recognizing that certain aspects may not be materially important to economic decision making and therefore may be omitted or presented in less detail in public sector financial reporting. However, materiality should not be used as a pretext for concealing significant information or misleading users.

In short, the materiality principle recognizes that not all omissions or errors are equally important and that accounting resources should focus on those aspects that are significant to economic decision-making (Avallone et al., 2020). In applying this principle, accountants must exercise their professional judgment to determine what information is material and ensure that financial statements provide a true and fair view of an entity's financial position and performance. In this way, they contribute to ensuring transparency and confidence in financial information, thus facilitating informed decision making by users.

e. Principle of prudence

The principle of prudence is a fundamental guideline in international accounting, both in International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS). This principle states that financial statements should reflect a true and fair view of an entity's financial position and performance, avoiding excessive overstatements of assets or revenues and undue understatements of liabilities or expenses.

In the context of IFRS, the principle of prudence is manifested in the need to exercise caution in the estimation of assets and liabilities, as well as in the recognition of revenues and expenses. This implies that accountants should be conservative in assessing the probability of future economic benefits and risks, recognizing anticipated losses in advance, but only recording revenues and assets when they are reasonably certain. Similarly, in IPSASs, the principle of prudence is also relevant in the context of public sector accounting, where prudent management of financial resources is critical to ensure fiscal stability and sustainability (Adam et al., 2022). This implies that public sector entities should avoid adopting overly optimistic approaches when assessing financial results and should be cautious when recognizing contingent assets and liabilities.

Accordingly, the principle of prudence is intended to mitigate the risk of overstatement of an entity's financial position and results, which could lead to an inadequate representation of its true financial position (van Hulle, 1996; Evans & Nobes, 1996). In applying this principle, accountants must take into account the uncertainty inherent in many transactions and events, adopting conservative approaches to ensure the integrity and credibility of financial statements.

4. Context of creative accounting in the international legal and regulatory framework

Creative accounting, although not explicitly defined or regulated in international accounting standards such as International Financial Reporting Standards (IFRS) or International Public Sector Accounting Standards (IPSAS), has significant implications in the international legal and regulatory framework.

First, creative accounting conflicts with the accounting principles and standards set out in IFRS and IPSASs, which seek to promote the transparency, reliability and relevance of financial information. Creative accounting, by manipulating financial results to present a distorted picture of an entity's financial position, tends to violate these principles and standards by undermining the integrity and credibility of financial statements. In addition, creative accounting has legal and regulatory implications, especially in terms of compliance with financial laws and regulations. For example, in many countries, listed companies are subject to strict financial disclosure regulations and are required to comply with specific accounting standards, such as IFRS. The practice of creative accounting is seen as an attempt to circumvent these regulations or to provide misleading information to investors and other stakeholders, which, if detected, results in legal action and sanctions by regulatory authorities.

Creative accounting has often been associated with cases of corporate fraud that have rocked companies and financial markets. Here are some prominent examples:

Case	Creative Accounting Practice
Enron	One of the most notorious cases of creative accounting in corporate history is that of Enron. This U.S. energy company used a series of fraudulent accounting tactics to hide debts and financial losses by artificially inflating its revenues and assets in financial statements. The company collapsed in 2001, resulting in one of the largest bankruptcies in history and causing the loss of thousands of jobs and investments.
WorldCom	WorldCom, a telecommunications company that carried out one of the largest accounting frauds in U.S. corporate history. They used fraudulent accounting practices to inflate reported revenues and hide expenses, leading to a massive overstatement of the company. When the fraud was discovered in 2002, WorldCom filed for bankruptcy, causing significant losses for shareholders and investors.
Tyco International	In 2002, Tyco International, a security and electronics company, became embroiled in a creative accounting scandal. Company executives used fraudulent practices to divert millions of dollars in company funds for personal gain, while inflating revenues and hiding debts. This case resulted in convictions for several top executives.
Satyam Computer Services	In 2009, this India-based IT services company was rocked by a massive accounting scandal. The company's president admitted to falsifying accounts and financial data over several years, inflating the company's revenues and assets. The fraud caused a collapse in the stock price and led to its acquisition by another company.
Interbolsa	In 2012, in Colombia, Interbolsa was one of the leading brokerage firms and its collapse was the result of a series of financial irregularities, including creative accounting. The company was found to have engaged in fraudulent operations to artificially inflate its revenues and hide losses, using deceptive accounting practices. This led to intervention by the Colombian financial authorities and the liquidation of the company. The Interbolsa scandal had a significant impact on the Colombian financial sector and raised concerns about regulatory oversight and the integrity of the securities market in the country.
Toshiba	In 2015, the Japanese technology company was rocked by allegations of accounting irregularities involving the manipulation of its financial statements over several years. Toshiba was found to have inflated its profits by billions of dollars, which generated a crisis of confidence among investors and led to the resignation of several senior executives, including the CEO. This scandal had a significant impact on Toshiba's reputation and prompted a thorough review of its accounting practices.
Luckin Coffee	In 2020. this Chinese coffee company, once considered a promising competitor to Starbucks, was accused of running an elaborate accounting scam. Luckin Coffee admitted to inflating its revenues by hundreds of millions of dollars through fake transactions and fraudulent accounting records. This scandal led to a drastic drop in stock price, investigations and legal action against its executives.

These examples highlight how creative accounting has devastating consequences not only for the companies involved, but also for investors, employees, and other stakeholders. They also highlight the importance of transparency and integrity in financial reporting to maintain confidence in the financial markets.

METHODOLOGY

The methodology used for this dogmatic analysis of the tension between creative accounting and international accounting law was based on a systematizing approach, which consisted of the compilation and detailed review of relevant texts on creative accounting and the international regulations governing accounting. The following steps were carried out:

(1) Compilation of texts: Relevant texts on creative accounting, international accounting law and international accounting standards were compiled, including academic articles, books and official documents of international accounting organizations.

(2) Analysis of texts: A dogmatic analysis of the collected texts was carried out to identify definitions, principles, rules, and cases related to creative accounting and international accounting law.

(3) Evaluation of principles and standards: The principles and standards of international accounting law were evaluated in relation to creative accounting, identifying possible tensions, contradictions or gaps that could favor creative accounting practices.

(4) Discussion of impacts: The possible impacts of creative accounting on the integrity and transparency of financial reporting internationally were discussed, considering cases of accounting fraud and relevant investigative background.

(5) Conclusions and recommendations: Conclusions were drawn based on the analysis performed and recommendations were made for future research or regulatory actions in the field of creative accounting and international accounting law.

This methodology allowed for a rigorous and systematic analysis of the tension between creative accounting and international accounting law, providing a deeper understanding of the challenges and opportunities in this field.

RESULTS AND DISCUSSION

1. Evaluation of accounting law principles and standards vs. creative accounting

Principle	In international accounting law	Creative accounting practice
Principle of uniformity	Consistency in the application of accounting principles is essential to ensure the comparability of financial statements.	Creative accounting compromises uniformity by allowing subjective interpretations of accounting standards, making it difficult to compare companies.
Principle of transparency	Transparency is fundamental in accounting law to ensure that financial information is understandable and accessible to users.	Creative accounting undermines transparency by hiding the true financial situation of the company through accounting manipulations.
Principle of relevance and reliability	International accounting principles require that financial information be relevant and reliable for users.	Creative accounting compromise's reliability by distorting financial results to reflect a more favorable image of the company.
Principle of materiality	This principle states that only details that could influence users' decisions should be disclosed.	Creative accounting challenges this principle by exaggerating or minimizing certain aspects of financial statements to influence stakeholder perception.
Principle of prudence	Prudence requires that the financial statements reflect a conservative assessment of assets and liabilities.	Creative accounting violates this principle by inflating revenues or understating expenses to artificially enhance the appearance of profitability.

In general, while the principles and standards of international accounting law are designed to promote transparency, integrity and relevance of financial information, creative accounting poses significant challenges by attempting to circumvent these principles to influence the perception of external users. This assessment highlights the need for stronger oversight and regulation to address creative accounting practices and ensure the reliability of financial reporting at the international level.

2. Accounting law gaps that favor creative accounting practices

Accounting stress	Effect on creative accounting practices
Flexibility in the interpretation of rules	International accounting standards provide some flexibility in the interpretation of accounting principles. This is exploited by companies to apply creative accounting practices to suit their objectives, without necessarily reflecting economic reality.
Gaps in implementation and enforcement	Despite having sound accounting standards, the implementation and enforcement of these standards can vary significantly between countries and companies. This results in implementation gaps where creative accounting practices go undetected or are not adequately sanctioned.
Complexity and ambiguity in standards	Some international accounting standards are complex or ambiguous, leaving room for different interpretations. This is exploited by some companies to apply creative accounting practices tailored to their interests, even with interpretations that do not fully reflect the economic substance of transactions.
Pressure to meet financial targets	In a competitive business environment, there is pressure on companies to meet certain financial objectives, such as meeting investor expectations or reaching certain profitability thresholds. This pressure in some cases leads to the use of creative accounting practices to artificially improve financial results.
Lack of adequate supervision and regulation	In some cases, adequate oversight and regulation is needed to detect and prevent creative accounting practices. This may be especially true in jurisdictions where regulators lack the resources or authority to rigorously enforce accounting standards.

Taken together, these tensions, contradictions and gaps in international accounting standards create an environment conducive to creative accounting practices that distort the true and fair view of a company's financial position. In this regard, addressing these issues requires a comprehensive approach that includes greater clarity in accounting standards, more effective regulatory oversight, and a culture of transparency and accountability at the corporate level.

3. DISCUSSION OF THE RESULTS

Creative accounting significantly impacts the integrity and transparency of financial information at the international level. Accordingly, some of these impacts are discussed here:

- Creative accounting leads to a distortion of a company's financial picture by misrepresenting its financial statements to reflect a more favorable situation than is the case. The purpose of this is to mislead users of financial information by undermining confidence in accounting reports.
- When companies use creative accounting practices to present financial results in a biased manner, comparability between companies is compromised. This makes it difficult for investors and other stakeholders to accurately assess and compare the financial performance of different companies.
- Lack of integrity in financial reporting due to creative accounting increases risk for investors and lenders. If companies present inflated or manipulated financial results, investors may make decisions based on incorrect information, potentially leading to financial losses.

- Creative accounting impacts financial market stability as the effects of misleading accounting practices spread. This also undermines confidence in the financial system as a whole and increases market volatility.
- Creative accounting practices have legal and regulatory repercussions for companies that employ them. If a company is found to have fraudulently manipulated its financial statements, it faces legal action, fines and regulatory sanctions, damaging its reputation and affecting its long-term viability.

In short, creative accounting represents a threat to the integrity and transparency of financial information at the international level. Its practice brings detrimental consequences for investors, lenders, financial markets and the economy as a whole. It is therefore critical to address these concerns through effective regulatory oversight, the implementation of sound accounting standards, and a business culture based on ethics and transparency.

CONCLUSIONS AND RECOMMENDATIONS

The dogmatic analysis of creative accounting and its relationship with international accounting law reveals the complexity and implications of these practices in the global financial arena. From this analysis, some important conclusions and recommendations are drawn as follows:

Conclusions:

A comprehensive analysis of creative accounting and its relationship with international accounting law reveals the complexity and importance of these practices in the global financial context. Through the review of definitions, principles, cases and regulatory frameworks, it has become evident how creative accounting can influence financial reporting and, ultimately, economic decision making.

- It has been established that creative accounting involves the intentional or natural manipulation of financial results to reflect a favorable image of the company, which can generate significant impacts on stakeholders and market perception. In addition, the existence of incentives for its practice, such as profit maximization or tax reduction, has been highlighted, as well as the negative consequences it may entail, such as loss of confidence and financial instability.
- Regarding the international regulatory framework, it has been observed that there are principles and standards, such as those established by IFRS and IPSAS, that seek to promote transparency, reliability, and relevance in the presentation of financial information. However, gaps and tensions have also been identified that could favor creative accounting practices, such as discretion in the application of certain accounting principles or the lack of effective oversight.
- It also highlights the importance of strengthening regulation and oversight, promoting transparency and accountability, fostering education and awareness of these issues, encouraging ongoing research and promoting international cooperation as key strategies to address the challenges associated with creative accounting.

It is concluded that creative accounting represents a significant challenge to the integrity and transparency of financial information at the international level. However, through a comprehensive and collaborative approach, it is possible to mitigate its risks and strengthen confidence in financial markets, thus contributing to sustainable economic development and global financial stability.

RECOMMENDATIONS:

- *Need to strengthen regulation and oversight:* It is crucial to strengthen regulatory frameworks and oversight mechanisms to prevent and detect creative accounting practices. This implies closer international cooperation between regulatory bodies and the implementation of effective sanctions to deter fraudulent behavior.

- *Promoting transparency and accountability:* Companies should prioritize transparency and accountability in financial reporting. This can be achieved through the adoption of increasingly robust international accounting standards and the full and accurate disclosure of relevant information to stakeholders.
- *Education and awareness:* It is important to educate accounting professionals, investors and other stakeholders about the risks associated with creative accounting and how to identify potential indicators of financial manipulation. Awareness of these issues helps prevent fraud and improve confidence in financial reporting.
- *Ongoing research*: More research is needed to better understand the motivations behind creative accounting, its effects on financial markets and best practices to prevent and address this phenomenon. Empirical studies should be conducted to assess the effectiveness of regulatory measures and the implementation of international accounting standards.
- International cooperation: Given the global nature of financial markets, greater international cooperation is required to address the challenges related to creative accounting. This involves increasingly deepening the harmonization of accounting standards, the exchange of information between jurisdictions and collaboration in the application of regulatory measures between jurisdictions.

In short, the fight against creative accounting and the promotion of integrity in financial reporting are ongoing efforts that require the participation of regulators, companies, accounting professionals and other relevant stakeholders. In this sense, through the implementation of proactive measures and international collaboration, it is possible to mitigate the risks associated with these practices and strengthen confidence in financial markets globally.

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