

**FACTORS AFFECTING CREATIVE ACCOUNTING PRACTICES AND ITS
IMPACT ON COMPANY PERFORMANCE-AN APPLIED STUDY IN IRAQI STOCK
COMPANIES**

Ahmed Rahi Abed

ahmed.alomrani@qu.edu.iq

Shaymaa Abdulhusein Abdulkadhim Alisawi

Shaymaa alisawi@qu.edu.iq

Alaa Miran Hussein1

alla.miran@qu.edu.iq

Department of Accounting College of Administration and Economics

University of Al-Qadisiyah, Iraq

Abstract

The purpose of the study is to provide creative accounting and the variables affecting or supporting its use in Iraqi businesses. There were theories proposed. It claims that a lot of factors have a big influence on how departments in Iraqi businesses choose to use creative accounting. The researchers selected nine criteria that they feel have the greatest influence, and the second is that there are several strategies that have moral implications for either preventing or opposing creative accounting. A questionnaire was created with the intention of assessing the two hypotheses, and it was given to a sample of (48) accounting individuals from accounting practitioners in Iraqi companies and the auditors who audit the accounts of those companies. After analyzing the responses, the most important results reached were the factors that were chosen as influences on the application of creative accounting in Iraqi companies have a significant impact, and they vary in the degree of their impact. The methods or methods that were tested have moral importance in preventing or combating creative accounting and can be activated in this field. There are many risks that cannot be avoided if creative accounting methods are not discovered and combated.

Introduction

Accounting has evolved from being only the practice of documenting financial transactions in books to an integrated system of accounting data that benefits multiple stakeholders. This is accomplished by adhering to cutting-edge scientific methodologies and procedures. If anything, the diversification of accounting branches to serve a range of industries suggests that accounting has been creatively developed over time. This creativity in the accounting field is concentrated on the creation of financial statements through particular approaches that are marked by intellectual creativity and the use of technical skills as outputs represented by financial reports, all with the aim of empowering beneficiaries to reach their objectives through the communication of financial information. Just as accounting falls within the social sciences and has a behavioral and ethical aspect, this means the existence of immoral creativity that aims to decorate the façade,

serve parties, and mislead other parties. This creativity may become a policy followed by the company's management to manipulate financial numbers for specific purposes through some accounting practices, due to the presence of factors that influence.

The first section: research methodology

1-1 Research problem:

The practice of creative accounting has serious implications for the credibility and reliability of companies' financial reports and thus for the users of accounting information, as well as for the future of companies and their ability to continue. There are factors that influence and encourage corporate management to practice measurement of the extent of their influence on the management of Iraqi companies or an assessment of the relative importance of those factors. In order to confront or prevent these methods, there must be measures, methods, or means used for this purpose, but there is no practical evidence available to measure the importance of these methods in confronting creative accounting methods.

1-2 Research importance:

The research is significant because it tackles a problem that poses a serious threat to the survival of numerous businesses and financial institutions: the use of creative accounting techniques, or the manipulation of accounting numbers by taking advantage of latitude in the application of accounting rules and principles and substitutes for accounting measurement to change financial statements from what they should be to what business management desires. They create financial reports with the intention of benefiting personally from the company's management at the expense of misleading other groups, including lenders, investors, and other users of accounting data. As a result, the study identifies the key variables affecting the application of creative accounting in Iraqi businesses and quantifies the degree to which these variables affect.

1-3 Research aims:

The research aims to introducing creative accounting and the factors influencing the tendencies of company management to practice creative accounting methods and measuring the impact of those factors, and investigate and investigate, through the viewpoints of practitioners and professionals in accounting and auditing, the most important factors that lead to creative accounting practices in Iraqi companies, while evaluating the methods or means necessary to combat or prevent them. This creativity may become a policy followed by the company's management to manipulate financial numbers for specific purposes through some accounting practices.

1-4 Research assume:

There is a significant impact of a number of factors on the tendencies of Iraqi companies' management to practice creative accounting methods.

1-5 Research sample:

The research sample represents accountants who practice accounting work and prepare financial statements in Iraqi companies and external auditors who audit the accounts of those companies.

The second section: The theoretical framework for the research

2-1 Definition of creative accounting:

Companies that take advantage of the gaps in the available accounting methods and alternatives to enhance their reputation among beneficiaries—even if it means distorting the truth—are referred to as engaging in "Creative Accounting." (Asiri, 2002: 313).

It is described as using existing laws to one's advantage or ignoring some or all of them in order to manipulate financial accounting numbers from what they truly are to what the preparers desire. (Naser, 1993: 2).

The method via which accountants handle the numbers included in a company's accounts using their understanding of accounting principles is known as "creative accounting." It can also mean following a methodical approach that stays within certain bounds while adhering to general accounting standards in order to record a particular and targeted level of earnings in the financial statements. (Davidson, et, al, 2005: 259).

The process of falsifying financial reporting or presentation for one's own benefit is referred to as "creative accounting," and it is broad and inclusive. explains that creative accounting is defined as any method or process used to influence financial figures, including decisions made on the application of accounting rules, financial report manipulation, and profit management or income smoothing. (Mulford et al, 2002: 13).

2-2 Reasons for the emergence of creative accounting:

Creative accounting appeared in accounting literature during the 1980s, and it likely began when companies faced difficulties during the recession in the early 1980s. There was pressure to produce better profits while it was difficult to achieve any profits, and when companies discovered that the laws required them to It cannot do it and it is not what it can do, for it created profits. The primary cause of the creation of creative accounting is thought to be the conflict of interests between the numerous stakeholders involved in the firm. The goal of shareholders is to maximize their return on investment; employees want to increase their various forms of administrative remuneration; managers want to minimize taxes and distribute profits; and officials want to collect more taxes. The proliferation of creative accounting can be attributed to the multitude of interests, even in the face of conflict. (Revsine, 2002: 137).

Additionally, the phenomenon of creative accounting has spread due to the accounting system's optionality, which is exemplified by the alternatives to accounting measurement, estimation, and disclosure that are provided by accounting standards. These factors, along with the gaps in external auditing methods, have an impact on the form and content of the accounting system's outputs. Future expectations are also necessary. Differentiations in the timing of certain financial transactions, the need for discretion and personal judgment, and the way financial statements are classified are all elements that present managers with chances to develop novel accounting

techniques that can maximize institutional or individual benefits, or both. (Davidson, et, al, 2005: 259).

2-3 Factors influencing (aiding) the practice of creative accounting:

1. Adaptability in the application of accounting standards, guidelines, and procedures: This is done through some practices, such as transferring some elements of revenues and expenses in light of compatibility with generally accepted accounting principles, and it occurs through two directions: (Merchant, 1994: 94)
 - i. The real trend: An example of this is that the elements of revenues and expenses that occur during a financial period are transferred in whole or in part to the next financial period, which helps to show profits or losses in accordance with the pre-determined goal. Or the accountant is not committed to impartiality in choosing some estimates related to many activity items, but rather is subject to management's choices in accordance with its objectives.
 - ii. Book trend: such as the accountant resorting to reconsidering the methods of depreciation of assets with the aim of influencing the book values that appear in the financial statements (Al-Jahmani, 2000: 116-117).
2. The many alternatives in accounting measurement and estimation: Accrual-based accounting is characterized by reliance on many accounting estimates, which must be calculated and recorded based on events or transactions in the current financial year and entail obligations that will be paid in the future and require an estimate from management, but it does not The future can be known with precision and certainty, and there are several possible estimates, and management will choose the estimate that achieves its goals, for example the formation of reserves and allocations, estimating completion rates in long-term contracts, and estimating the useful life of assets (Kieso: et.al, 2001: 168).
3. The weakness of the auditor's role in revealing creative accounting practices and the gaps in external auditing methods: The auditor's interest is in discovering errors and fraud that occur in financial books and reports, whether through a test or comprehensive audit, and that any negligence or weakness in performance will lead to the necessity of placing responsibility on him (Hammad, 2002:42)
4. Aspects of creative accounting applications are not given adequate consideration by financial analysts.
5. The lack of clear penalties for accountants and auditors who collude with company managements in practicing creative accounting.
6. Not to impose strict penalties on companies proven to practice creative accounting.
7. 7. Failure to implement corporate governance mechanisms: These are tools that investors, creditors, employees, shareholders, and other stakeholders use to exert control over the business and the managers in a way that ensures their interests are protected within it.. It is also a means of reducing fraud, deception, and low management ethics from affecting the financial system within the company, as well as reducing the dominance of the company's management over decision-making processes, thus contributing to reducing financial manipulation. It also achieves a reduction in personal judgments and estimates

of the administrative and financial system. The principle of disclosure and transparency achieves a great deal of publicity about the existence of any unethical practices or behavior issued by any of the parties related to financial work.

8. Weak accounting culture among some users of accounting information, including investors.

2-4 Management's motivations for using creative accounting methods:

Among the reasons and motives that made company managements and accountants seek to manipulate accounts are:

1. **Income Smoothing:** Businesses typically would rather demonstrate a consistent increase in profits in their reports than variable profits resulting from a string of notable increases and decreases in this category. When the company's sales rise steadily and predictably year over year and the ensuing earnings stay within expectations, investors are relieved. (Cunningham, 2007:38).
2. **Obtaining loans:** When a company suffers from problems with the liquidity necessary to conduct its operational or investment operations and sometimes even to pay its obligations, it resorts to creative accounting methods to improve the result of its activity and its financial position in terms of accounting and not in reality, because accounting data is used as a basis for relying on to obtain the loan (Sweeney, 1994:281).
3. **Tax evasion:** by reducing profits and revenues and increasing expenses in order to reduce the number of net taxable income.
4. **Showing the company's financial position better than it actually is:** There is no doubt that the accounting information for the financial statements published in the financial market is an important and useful source for investors and financial analysts to rely on in making their decisions. Some managers believe that investors focus only on the financial results. In the short term, it led them to seek to adjust profits through legitimate techniques of creative accounting (Thomsett, 2005: 185).
5. **Good effect on the company's standing in the marketplace:** with the intention of raising the monetary values associated with the operation of commercial buildings, as well as obtaining an advanced classification over its competitors in professional classification processes (rating) conducted by specialized international institutions based on financial indicators and standards extracted from financial statements.
6. **There is an incentive that pushes managers to creative accounting by manipulating profits,** when their rewards or improving their job conditions are linked to the profits achieved, in addition to achieving other benefits related to job security and gaining additional advantages when negotiating with unions and others (Healy & Wahlen, 1999: 365).

2-5 Creative accounting methods:

All businesses aim to present the most accurate picture of their financial situation in order to demonstrate the degree of their economic stability, as this directly affects the company's value, which is evident in the market prices of its shares, as well as the level of risk that lenders and investors determine based on the data provided by the business's financial statements. In specific

operational scenarios, the business may have to select the accounting rule that results in the disclosure of the company's earnings, losses, and financial situation that it thinks is suitable. This creativity may become a policy followed by the company's management to manipulate financial numbers for specific purposes through some accounting practices.

The following are the most important methods used in creative accounting within the income statement and financial position statement:

First: Methods used in the income statement:

1. Quickly recording revenues while the sale process is still uncertain: As per established protocols, income is recorded following the conclusion of the benefit exchange process. Nonetheless, in certain businesses, the proceeds from the selling process are recorded in accounting and bookkeeping before the actual procedure is finished and the mutual benefit process is finished. (Schilit, 2002: 24).
2. Recording phony revenues within the period's revenues: Some businesses record fictitious sales operations in their accounts to artificially raise revenues, even though they never make any money at all. Typically, these reported revenues have nothing to do with the actual procedure, such reassessing certain budget balances to generate those imaginary income.
3. Recording the return on investment as operating income or amplifying revenues with non-recurring capital gains that do not result from the company's real activity, such as revenues from the sale of fixed assets. These practices give a positive image of the company's management by increasing its revenues and profits, at a time when its performance is poor. (Howard, 2002: 97).
4. Transferring current expenses to previous accounting periods when some of the accounting policies used to transfer expenses to previous years are changed by reducing reserves and allocations, or to later periods when the company capitalizes some of the operating expenses that pertain to the current year and does not charge them to the income statement and distributes them among a number of The following years (Al-Baroudi, 2002: 73).
5. Creating a false rental cost in order to hide the cost of a new building from being included in the budget items. This is done by signing a long-term rental contract that requires fixed rental costs to be paid on an annual basis, which eliminates the large amount associated with the building and uses rental expenses as a substitute. (Gaa & Dunmore, 2007).
6. Deferring present income to a subsequent accounting period. The goal of this strategy is to lower present profits and shift them to a more critical financial era in the future. Typically, this approach is employed when the business's circumstances in the current year are excellent, so it carries over these profits to future periods that the company's management believes may be difficult. (Howard, 2002:148)

Second: Methods used in the statement of financial position:

The budget's significance stems from the details it offers regarding the kind and extent of the business's available resources as well as its commitments to owners and lenders. It also aids in forecasting future cash flow amounts and timing. The value contained in the budget is not determined by following the historical cost concept. Similarly, by lowering them from the rates

utilized in the market, the known extinction rates are also modified. manipulating market prices that are utilized to assess the securities portfolio and reducing allowances for price drops without cause. A number of factors need to be taken into consideration while assessing the benefits obtained by the statement of financial status. The first of these is that the majority of assets and many elements that have an influential financial value such as knowledge and skills of employees (Kieso et al, 2008: 172).

The following are the most important creative accounting methods used to manipulate accounting values in the statement of financial position:

1. Overvaluing intangible assets, such as trademarks, and accounting for intangible assets in accordance with guidelines and standards set forth by international accounting standards, such as acknowledging unpurchased goodwill and altering amortization schedules in an arbitrary way to lower these assets (Matar, 2003: 103).
2. The value contained in the budget is not determined by following the historical cost concept. Similarly, by lowering them from the rates utilized in the market, the known extinction rates are also modified (Joel, 1985: 76).
3. Manipulating market prices that are used to evaluate the securities portfolio, in addition to making unjustified reductions in allowances for price declines (Matar, 2003: 103).
4. Choosing to intentionally misclassify long-term receivables as current assets in order to increase the facility's liquidity, as well as failing to disclose bad debts in order to lower the value of the allowance for dubious debts (Joel, 1985:78).
5. Including long-term assets with present investments in order to boost working capital and switch from the cost method to the equity way of accounting for them (Oliver, et al, 1989: 70).
6. Presenting prospective assets prior to verifying their actualization, as demonstrating the expected and due revenue from a lawsuit against a client before rendering a decision on it (Joel, 1985: 84).

The third section: the applied framework for the research

3-1 View and analyze survey results:

You can explain the distribution of the research sample according to academic qualification, job, and years of experience, as follows:

Table (1): Research sample distribution according on years of experience, job title, and education background

	Data	Duplicates	Ratio
Qualification	Bachelor's	34	71%
	Master's or higher diploma	11	23%
	Ph.D	3	6 %
Function	Accountant or accounts manager	22	46%
	Auditor	26	54%
Years of Experience	More than 5-10 years	10	21%
	From 11 – 15 years	21	44%
	More than 15 years	17	35%

From the table above, it is noted that the research sample has good academic qualifications, as the percentage of bachelor's degree holders reached 71%, in addition to 29% of graduate degree

holders. It also has experience in practical reality and practical practice, as the percentage of those with more than 10 years of experience reached 79%. This implies that the majority of the sample possesses the necessary experience to provide actual answers to the questionnaire, giving researchers hope that they can get unbiased responses from them.

3-2 outcomes of the data analysis:

The following statistical techniques were used to examine the questionnaire responses provided by the research sample members:

1. Characteristic statistics In order to assess the degree of consistency in the features and answers of the study sample, it employs weighted arithmetic means, standard deviations, and percentage weights. Additionally, it arranges the variables in order of least dispersion and best homogeneity.
2. Analytical statistics: One sample's T-test is included.

1- Descriptive analysis of research variables:

Weighted arithmetic means, standard deviations, and percentage weights are among the descriptive analytic tools used to assess the degree of consistency in the features and responses of the research sample., This creativity may become a policy followed by the company's management to manipulate financial numbers, and to arrange the variables according to least dispersion and best homogeneity with regard to evaluating the factors influencing the tendencies of Iraqi companies' managements to practice creative accounting methods and determining their levels of influence:

Table (2): Descriptive analysis of research variables

No.	Paragraph	Weighted arithmetic mean	Standard deviation	Weight Percentage	Ranking of paragraph importance
1	Application of accounting standards, guidelines, and principles with flexibility	4.58	0.691	92%	1
2	Many alternatives in accounting measurement and estimation	4.48	0.667	90%	3
3	Failure to implement corporate governance mechanisms	3.50	0.489	70%	5
4	Some consumers of accounting information, especially investors, have a weak accounting culture	3.25	0.468	65%	7
5	The auditor's inadequate performance in exposing innovative accounting methods	4.56	0.686	91%	2
6	Aspects of innovative accounting applications are not given enough consideration by financial analysts.	3.13	0.463	62%	9
7	There are no clear penalties for accountants and auditors who collude with company management in practicing creative accounting	3.48	0.487	69%	6
8	Not to tighten penalties on companies proven to practice creative accounting	4.16	0.596	83%	4
9	Inaction on the part of the accounting and auditing profession to establish a professional ethics committee and create a charter of conduct, two essential tasks of which are to establish the standards of behavior that auditors and accountants must follow.	3.16	0.464	63%	8
	Average	3.81	0.557	76%	-

The findings displayed in Table (2) above show that the research variables' (factors') arithmetic means varied from (3.13 - 4.58) and the hypothetical mean (3) on the five-point Likert scale. This suggests that the factors had a significant impact on the practice of creative accounting in Iraqi businesses, as indicated by the factors' high ranking. First, paragraph (1), which is related to the first component (flexibility in the first place), obtained the highest weighted arithmetic mean of (4.58) and a standard deviation of (0.691) with a percentage weight of 92%. which is connected to the first factor (using accounting standards, rules, and principles with flexibility). This indicates that this factor is the most important one in influencing the use of creative accounting by company management, with paragraphs (5) and (2) coming in second and third, respectively, as they obtained weighted arithmetic means of (4.56) and (4.48), standard deviations of (0.686) and (0.667), and percentage weights of (91%) and (90%), respectively, and represent the two factors (the weak role of the auditor in detecting creative accounting practices) and (the many alternatives in accounting measurement and estimation), which indicates that these two factors have a significant impact on companies adopting creative accounting practices. As for the least influential factor, it is mentioned in paragraph (6), which is related to (the financial analysts' lack of sufficient attention to aspects of creative accounting). This element is the least significant, reflected by its arithmetic mean of (3.13), standard deviation of (0.463), and percentage weight of 62%. Regarding inventive accounting practices. The percentage weight was 76%, the standard deviations were 0.557, and the overall index for arithmetic means was 3.81.

The table additionally illustrates the low dispersion in the research sample's responses concerning the impact of variables (research variables) on creative accounting practice. This indicates the uniformity and convergence of the research sample members' opinions concerning the degree of influence of those variables. Since there were no variations in the opinions of the research sample, the table also shows convergence in the arithmetic mean values.

2- Hypothesis testing:

Testing the research hypothesis

Null hypothesis (H0): The tendency of Iraqi company managers to use creative accounting techniques is not significantly influenced by a variety of factors.

Hypothesis of existence (H1): The propensity of Iraqi company managers to employ creative accounting techniques is greatly influenced by several factors.

The following can be used to explain the first hypothesis' test results:

Table (3): Testing the research hypothesis

No.	aragraph	Calculated t value	Sig.
1	Application of accounting standards, guidelines, and principles with flexibility	15.842	0.00
2	Many alternatives in accounting measurement and estimation	14.840	0.00
3	Failure to implement corporate governance mechanisms	7.084	0.00
4	Some consumers of accounting information, especially investors, have a weak accounting culture	3.333	0.00

5	The auditor's inadequate performance in exposing innovative accounting methods	15.757	0.00
6	Aspects of innovative accounting applications are not given enough consideration by financial analysts.	1.946	0.00
7	There are no clear penalties for accountants and auditors who collude with company management in practicing creative accounting	6.828	0.00
8	Not to tighten penalties on companies proven to practice creative accounting	13.488	0.00
9	Inaction on the part of the accounting and auditing profession to establish a professional ethics committee and create a charter of conduct, two essential tasks of which are to establish the standards of behavior that auditors and accountants must follow.	2.478	0.00
	Average		0.00
The tabular t value is 1.678 at a significance level of 0.05			

The results of the one-sample t-test for the first hypothesis, which are displayed in Table 3, indicate that the computed t-values exceed their tabular values, and the significance values (sig) that go along with each of them are less than the test's significance level of (0.05). This is what causes the existence hypothesis (H1)—that is, that there is a significant impact of several factors on the orientations of the managements of Iraqi companies to practice creative accounting methods—to be accepted and the null hypothesis (H0) to be rejected at the level of the research sample, according to the Decision Rule for the t-test.

The forth section: conclusions and recommendations

4-1 conclusions:

1. Corporate departments use creative accounting, a collection of practices and procedures, to benefit certain stakeholders in the business. It carries a number of hazards, including the possibility of the business losing its credibility and becoming less viable and competitive.
2. The research sample concluded that the parameters under investigation have a significant influence on Iraqi enterprises' use of creative accounting techniques, and that the influence of these aspects varies.
3. The ability to apply accounting principles, rules, and standards with flexibility; the auditor's limited ability to expose innovative accounting methods; and the abundance of options available for accounting measurement and estimation. The most important reasons influencing the use of innovative accounting in Iraqi businesses are these three.
4. In order to counteract creative accounting practices in Iraqi companies, the research sample found that various means and methods of prevention or combating the practice were crucial. The significance of these methods varied depending on the situation.
5. The role of the stock exchange adopting deterrent penalties for companies proven to be involved in the practice of creative accounting; the role of tightening penalties for accountants and auditors who conspire with company managements to practice creative accounting; and the role of reducing the scope for choosing alternatives and accounting

treatments. These three techniques were the most significant. Describe the strategies for preventing or opposing the practice of creative accounting from the perspective of the research sample.

4-2 Recommendations:

1. To codify management's ability to manipulate financial statements and establish sufficient controls for the use of accounting alternatives available in the field of accounting measurement, professional organizations and the Accounting Standards Committee issue or amend certain accounting standards. They also enact rules that reduce the use of some accounting policies that are incorrectly exploited.
2. Professional competence, with an emphasis on improving and elevating their ethical behavior in order to comply with globally applicable accounting laws, regulations, and standards, hence mitigating or eliminating the risks associated with innovative accounting techniques..
3. The significance of the role that accountants' and auditors' unions play in providing their members with educational opportunities, such as describing the detrimental effects of creative accounting on the accounting and auditing professions and the businesses that engage in them.
4. Professional associations should take the lead in advocating for laws that impose fines on auditors and accountants who are shown to have collaborated with business management to use innovative accounting techniques.
5. The Stock Exchange should have an active role in legislation that includes deterrent penalties for companies that practice creative accounting.
6. Working to strengthen the principles of corporate governance, applying its mechanisms, and disclosing in the auditor's report the extent of their application.

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