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Creative Accounting: Some Ethical Issues of Macro- and Micro-Manipulation

Published: March 2005

Volume 57, pages 55–64 (2005) Cite this article



Journal of Business Ethics

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Abstract

Preparers of financial statements are in a position to manipulate the view of economic reality presented in those statements to interested parties. This paper examines two principal categories of manipulative behaviour. The term ‘macro-manipulation’ is used to describe the lobbying of regulators to persuade them to produce regulation that is more favourable to the interests of preparers. ‘‘Micro-manipulation’’ describes the management of accounting figures to produce a biased view at the entity level. Both categories of manipulation can be viewed as attempts at creativity by financial statement preparers. The paper analyses two cases of manipulation. First, it describes a recent case of significant and successful lobbying against the accounting regulator in the USA. The second case examines some recent Spanish earnings manipulation to demonstrate the effects of biased reporting at the entity level. Both types of creativity are considered in an ethical context. The paper concludes that the manipulations described in it can be regarded as morally reprehensible. They are not fair to users, they involve an unjust exercise of power, and they tend to weaken the authority of accounting regulators.

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Abbreviations

APB: The Accounting Principles Board

ASRB: Accounting Standards Review Board

FASB: Financial Accounting Standards Board

IASB: International Accounting Standards Board

IASC: International Accounting Standards Committee

ICAC: Instituto de Contabilidad y Auditoría de Cuentas (Spanish Institute of Accounting and Auditing

IFRS: International Financial Reporting Standards

IOSCO: International Organization of Securities Commissions

PGC: Plan General de Contabilidad (Spanish Accounting Plan)

SEC: Securities and Exchange Commission

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Cite this article

Gowthorpe, C., Amat, O. Creative Accounting: Some Ethical Issues of Macro- and Micro-Manipulation. *J Bus Ethics* **57**, 55–64 (2005). https://doi.org/10.1007/s10551-004-3822-5

Issue date

March 2005

DOI

https://doi.org/10.1007/s10551-004-3822-5

Keywords

Accounting ethics | accounting regulation | creative accounting | earnings management | financial reporting | macro-manipulation | micro-manipulation

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