

## Creative Accounting versus Fraud: A Comparative Case Study of Motives and Indicators in the Algerian Context

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### **Abstract:**

This study seeks to distinguish between creative accounting and accounting fraud by identifying their motives and indicators in the Algerian context, using case studies of an industrial and a commercial company based on auditor interviews.

Results indicate that external pressures to enhance corporate image drive creative accounting through exploiting flexibility in standards, while internal tax pressures lead to fraud involving clear violations. The main distinction lies in management's strategic intent. The study proposes a framework for differentiation and underscores the need for stronger internal controls, ethical practices, and tighter regulations to reduce manipulation.

**Keywords:** Creative Accounting; Accounting Fraud; Financial Misrepresentation; Algeria.

**Jel Classification Codes:** M40, M41, K42.

## 1. INTRODUCTION

The phenomenon of accounting manipulation has become an increasingly serious global issue (Sharma & Panigrahi, 2012). This manipulation is not monolithic; rather, it can be distinguished into two main forms: creative accounting, which operates within a relatively legal gray area, and accounting fraud, which represents a clear violation of the law. The concept of creative accounting, in particular, gained significant momentum after the financial collapses of major companies like Enron and WorldCom (Omurgonulsen and Omurgonulsen, 2009). Its danger lies in its reliance on misleading methods that operate on the edge of legality, leading to an academic and professional consensus that it is an unethical practice aimed at distorting a company's true performance (Sawabe, 2005; Näsi, 2016). Conversely, accounting fraud involves the intentional distortion of financial information for deceptive purposes. It is considered a serious offense that harms both companies and capital markets, particularly thriving in environments characterized by a lack of transparency and weak oversight (Blanco et al., 2023), making its detection a complex and difficult task for auditors worldwide (Sharma & Panigrahi, 2012). The existence of these practices poses a significant practical challenge for auditors and stakeholders, as the line between exploiting gaps in standards and explicitly violating them becomes unclear.

In the Algerian context, which has witnessed significant economic transformations with the adoption of the Financial Accounting System (SCF), inspired by international standards, this issue becomes even more pronounced. The flexibility of this system allows professionals room to apply creative practices that operate on the edge of the legal framework, while auditors face additional challenges in detecting these obscure practices that extend beyond the clear boundaries of accounting fraud.

Hence, this study aims to address the knowledge gap by posing the main question: *What are the practical motives and indicators that distinguish between creative accounting and accounting fraud in the context of Algerian companies?*

## Research Hypotheses

This study operates from a primary hypothesis, which posits that the contextual pressures on a company determine the nature and trajectory of accounting manipulation it employs. Specifically, the more external the pressures are and aimed at image enhancement (e.g., pressures from investors or creditors), the more the practice tends towards creative accounting. Conversely, the more internal the pressures are and aimed at achieving direct gains (e.g., tax pressures), the more the practice tends towards outright accounting fraud.

## Research Objectives

This study aims to achieve the following:

- Define the conceptual framework for both creative accounting and accounting fraud.
- Analyze the distinguishing boundaries between the two concepts.
- Diagnose the practical motives and indicators for each practice through case studies of two Algerian companies.

## Study Methodology

To answer the research question and test the hypothesis, this study adopts a case study methodology. This approach allows for an in-depth analysis of the accounting practices in two Algerian companies, aiming to diagnose the practical motives and indicators that distinguish practices within the gray area from explicit legal violations.

## 2. Theoretical Framework

### 2.1 Concept of Creative Accounting

The concept of creative accounting is used to describe the process of manipulating annual accounts by exploiting the gaps, advantages, and the degree of freedom allowed by accounting rules to change accounting information from what it truly is to what the company wants (Remenarić et al., 2018; Hussein et al., 2015; Diana & Mădălina, 2007). It is thus synonymous with *misleading accounting*, where facts are intentionally altered using systematic methods without explicitly violating laws and

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accounting requirements (Omurgonulsen & Omurgonulsen, 2009; Uşurelu et al., 2010).

Although the core concept is similar, the usage of the term varies across contexts. For instance, while creative accounting is the common term in Europe, the preferred terminology in the United States is *earnings management* (Amat and Gowthorpe, 2004). Several other terms are also used to refer to the same concept, such as: *aggressive accounting*, *impression management*, and *income smoothing*.

Based on these designations, a set of inherent characteristics of creative accounting can be identified, which at the same time represent the elements forming its essence, as follows:

- It is legal and does not exceed the boundaries of accounting principles and the application of permitted policies.
- It exploits the flexibility of choice between accounting alternatives and estimations, adapting them to serve the interests of the practitioners.
- The nature of these practices does not conform to professional ethics rules and principles.
- It requires a high degree of accounting knowledge, reaching the level of professionalism among its practitioners.
- Its aims are characterized by: misleading, concealing, covering up, manipulating, and window dressing.

Regarding the motives for these practices, Agency Theory explains how the separation of ownership and management creates conflicts of interest and information asymmetry, leading to opportunistic behavior (Vladu and Mătiş, 2010). This behavior is often facilitated by the inherent flexibility within accounting standards, which, while ensuring their broad applicability, can be misused as a legitimate cover for manipulation (Carmona and Trombetta, 2008).

The company's environment heavily influences the direction of these motives, as accounting is a product of its environment (Shareia, 2016). For example, motives in credit-oriented economies may lean towards tax reduction or enhancing creditworthiness, while market-oriented economies often focus on influencing investor perceptions. More direct motives

include achieving personal performance targets, enhancing the company's image, or concealing poor results. Opportunities for manipulation are also amplified by factors like complex valuations and industry-specific uncertainties (Guinea, 2016; Cugova & Cug, 2020).

The literature indicates a wide array of creative accounting techniques aimed at manipulating external financial reports (Ijeoma and Aronu, 2013). These methods generally exploit the flexibility and subjective judgments within accounting standards. They can be categorized into two main types based on complexity: simpler techniques known as “*window dressing*”, which manipulate revenue timing or expense classification, and more sophisticated methods like “*off-balance sheet financing*” to hide debt and distort financial risk (Cugova and Cug, 2020). Table 1 lists common creative accounting techniques and their financial statement impact.

**Table 1.**Methods of Creative Accounting and Targeted Financial Statements

<b>Targeted Primary Statements</b>	<b>Key Strategies</b>	<b>Some Techniques</b>
<b>Income Statement</b>	Increase Income	<ul style="list-style-type: none"> <li>- Early recognition of sales.</li> <li>- Maximizing other revenues such as accrued interest and non-operating profits.</li> <li>- Creating fictitious sales.</li> </ul>
	Reduce Expenses	<ul style="list-style-type: none"> <li>- Creating excessive provisions.</li> <li>- In bad years, reversing these provisions to the profit and loss account.</li> <li>- Capitalizing expenses and recording them as assets rather than expenses.</li> <li>- Extending the useful life of assets.</li> <li>- Reducing bad debts.</li> </ul>
<b>Statement of Financial Position</b>	Increase Assets	<ul style="list-style-type: none"> <li>- Increasing the asset's useful life and capitalizing some expenses will increase assets.</li> <li>- Underestimating provisions for bad debts.</li> <li>- Enhancing the value of goodwill and trademarks.</li> <li>- Revaluation of tangible fixed assets.</li> </ul>
	Reduce Liabilities	<ul style="list-style-type: none"> <li>- Off-balance-sheet financing leads to the isolation of debts in unconsolidated subsidiaries.</li> </ul>

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		- Reclassifying external party debts as equity, such as internal capital.
<b>Cash Flow Statement</b>	Increase Cash Flow	- Boosting operating cash inflows or by cutting down on operating cash outflows.

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**Source:** Prepared by the researchers based on (Jones, 2011)

While some argue for a potential positive short-term role for these practices in overcoming crises (Lucian et al., 2016; Remenarić et al., 2018; Bankole et al., 2018), the professional and academic consensus is that they are unethical and undermine the fairness of financial statements (Hussein, Kasim and Arumugam, 2015).

### **2.2 Concept of Accounting Fraud**

Fraud can be defined as the deliberate distortion of financial information, a practice that constitutes a violation of both legal statutes and Generally Accepted Accounting Principles (GAAP) (Bodnar and Hopwood, 2013). Therefore, such deception is understood as a means to either attain personal advantages or to cause financial detriment to others (CIMA, 2019). International Standard on Auditing (ISA) 240 defines fraud through four key points: (IAASB, 2024)

- **Intentional Act:** It is always carried out with intent.
- **Actors:** those responsible for governance, management, or third parties.
- **Deceptive Method:** It relies on the use of fraudulent methods.
- **Objective:** to obtain illegal advantages and achieve financial gains.

Therefore, accounting fraud is the intentional misrepresentation of financial information to obtain illicit gains, violating accounting principles and ethics, and threatening the auditing profession.

Regarding the factors that drive this intentional behavior, the most widely recognized framework is the Fraud Triangle, which posits that fraud occurs when three conditions are present: *Pressure* (a motive), *Opportunity* (weak controls), and *Rationalization* (self-justification) (Romney and Steinbart, 2018). Recognizing that opportunity alone is not sufficient, subsequent research expanded this model. The Fraud Diamond, for instance, added the crucial element of “*Capability*” -the personal skills and authority to commit the act- while the Fraud Pentagon model incorporated

“*Arrogance*” as a key attitudinal trait of perpetrators (Ajekwe & Ibiame, 2017; Inayah & Chariri, 2024).

These models show that fraud motives are a complex interplay of individual and situational factors. Consequently, these drivers can be synthesized into three interactive dimensions: personal/psychological characteristics (like dark triad traits), the organizational context (providing opportunity and internal pressures), and external factors (creating external pressures and regulatory gaps)(Orth, Marrone and Macagnan, 2023).

Fraud generally manifests in two main types: employee fraud, which involves the misappropriation of assets for personal benefit, and the more serious management fraud, which involves the deliberate distortion of financial statements for the company's benefit (Hall, 2011). According to frameworks like ISA 240 and the forthcoming Algerian standard NAA 240 which aligns with it, such misrepresentation arises from manipulating records, omitting information, or misapplying accounting principles (Décision n°249, 2024; IAASB, 2024), with Table 2 providing examples.

**Table 2.** Examples of Fraud Methods

Type of Fraud	Method
<b>Asset Misappropriation (Employee Fraud)</b>	<ul style="list-style-type: none"> <li>- Unrecorded diversion of funds for personal use.</li> <li>- Using company assets for personal purposes and theft.</li> <li>- Bribery with the company's customers and suppliers.</li> <li>- Exaggerating health and travel expenses.</li> <li>- Manipulating records to achieve financial gains.</li> <li>- Creating and paying fictitious debts.</li> </ul>
<b>Financial Statement Misrepresentation (Management Fraud)</b>	<ul style="list-style-type: none"> <li>- Recording fictitious revenue to show false profits.</li> <li>- Improper current period expense deferral.</li> <li>- Distorting balance sheet values to alter financial ratios.</li> <li>- Intentionally violating accounting to falsify reports.</li> <li>- Falsifying the nature of transactions and events.</li> <li>- Committing deliberate errors to mislead users.</li> <li>- Abuse of accounting principles (e.g., materiality).</li> </ul>

**Source:** Prepared by the researcher based on (Ciocan, 2018; Kızıllı et al., 2021)

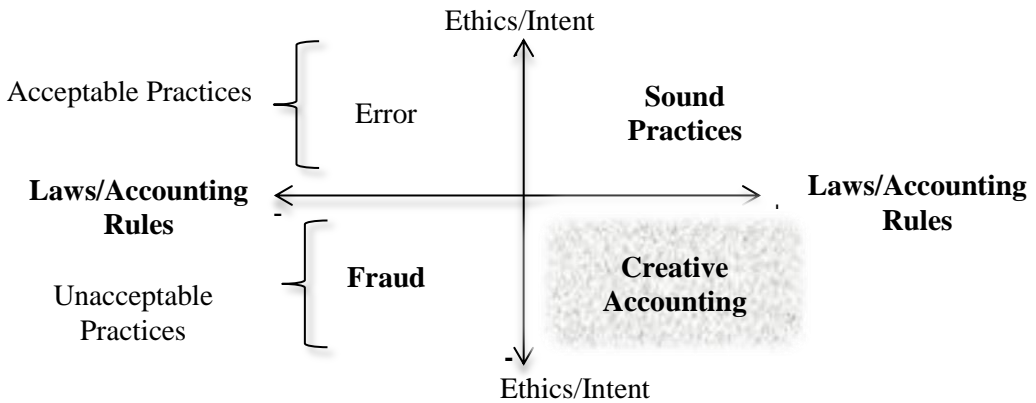
As illustrated in Table 2, Fraud ranges from asset theft to financial statement misrepresentation, but all involve intentional violations of laws

and accounting principles, distinguishing them from creative accounting.

### **2.3 Distinguishing Creative Accounting from Accounting Fraud**

Creative accounting, though manipulative, remains legal by exploiting rule flexibility, while fraud involves unlawful acts like forgery and embezzlement. To properly classify these actions, it's helpful to view them on a spectrum of accounting practices that also includes *sound practices* and *unintentional errors*, with Figure 1 illustrating these boundaries.

**Fig.1.** Creative Accounting and Accounting Practices



**Source:** Prepared by the researcher

As illustrated in Figure 01, sound accounting practices are realized through adherence to two key pillars: the technical principles and assumptions established by accounting standards, and the ethical standards that regulate professional conduct. These represent a set of rules that accountants must primarily adhere to, as they reflect their level of responsibility and commitment to enforcing laws and operating by accounting rules. The International Ethics Standards Board for Accountants (IESBA) defined these professional ethics through five fundamental principles: integrity in all relationships, objectivity in judgments, professional competence including knowledge and skills, confidentiality, and professional conduct compliance with laws (IESBA, 2018).

Creative accounting falls within the legal boundaries of sound accounting practices. However, an ethical conflict arises from pressures that

can impede workflow and from contradictions that may emerge between professional standards and legal rules (AICPA, 2014). Managers, as executives, and accountants, as practitioners, tend to exploit flexibility and deviate from objectivity. Judgments and decisions then become based on a form of subjectivity to achieve specific objectives, and the accounting representation of the company's operations and the presentation of its performance results become deceptive compared to reality. Creative accounting thus resides in the area referred to as the gray area (Odia & Ogiedu, 2013; Vladu & Mătiș, 2010), considering it a domain where legal loopholes for manipulation and fraud are sought.

Errors appear on the opposite side of sound accounting practices. This is an area where individuals uphold accounting professional ethics, yet engage in practices that unintentionally violate laws and accounting rules. These errors occur during recognition, measurement, presentation, and disclosure processes, and result from the omission or misrepresentation of important information in financial statements due to shortcomings or misuse (European Commission, 2009). Thus, accounting errors are considered acceptable practices that are corrected as long as they are not accompanied by malicious intent.

The primary distinction between fraud and error lies in the intent; fraud is deliberate, while errors are unintentional (IAASB, 2024). In contrast, the key differentiator between fraud and creative accounting is legality. Fraud involves a departure from regulatory controls and a lack of professional ethics, whereas creative accounting remains within the framework of formal legality, despite contradicting ethical rules.

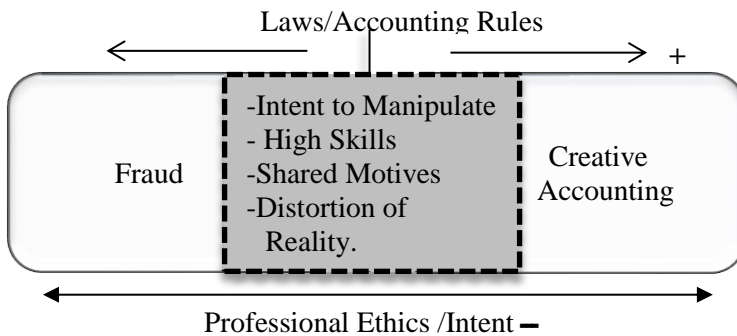
Nevertheless, there is a divergence of views, with some asserting that creative accounting is fraud as long as it involves malicious intent and fails to fairly reflect the company's true state. This perspective is based on the idea that any deviation from accounting ethics constitutes deception (Popescu and Ulescu, 2014). It is often difficult to distinguish between creativity and illegitimacy, and even between legal and illegal practices (Zuraidah & Yusarina, 2012; Guinea, 2016). Consequently, creative accounting lies at a crossroads between fraud, illegitimacy, and correct

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practices, making its boundaries difficult to discern (Jesus et al., 2020). In practice, creative accounting has fueled major scandals like Enron, WorldCom, and Barings Bank, where loopholes and techniques distorted economic reality (Ajekwe and Ibiamke, 2017). Thus, even if seemingly legal, it becomes fraud once crossing ethical and legal limits (Khatri, 2015).

While fraud is illegal and might seem easily detectable, it is often difficult to uncover. Perpetrators frequently have accounting skills to conceal actions, and detection becomes harder when auditors lack investigative training. Time and budget constraints further push auditors to rely on management’s information. Bias also arises from conflicts of interest, affecting both external auditors, who are paid, and internal auditors, who belong to the organization(Mui, 2018). Fraud is particularly hard to distinguish in areas like accounting estimates, where deviations may be errors or deliberate fraud (Sarisooy & Demir Pali, 2023). Figure 2 illustrates the overlap between creative accounting and fraud.

**Fig.2.** The Gray Area Between Creative Accounting and Accounting Fraud



**Source:** Prepared by the researcher

It can be argued that creative accounting and fraud are nearly the same concept, as they share two core aspects: the intent to deceive by falsifying the company’s true position, and the creative manipulation of financial results (Ciocan, 2018; Zuraidah & Yusarina, 2012). Both practices demand high technical skill to exploit regulatory loopholes and bypass internal controls. Ultimately, both methods distort the company's true economic reality and stem from the same underlying motives.

**3. Research Methodology**

The case study methodology is a widely adopted approach in research due to its significant methodological flexibility, allowing researchers to tailor their investigative tools to the specific nature of the phenomenon being examined (Carter, 2009). The strength of this approach lies in its ability to clarify and interpret the main characteristics of a phenomenon within a specific context (Takahashi and Araujo, 2019). This methodological choice is appropriate for the nature of the research problem, as case studies are most suitable when the research seeks to answer “how” and “why” questions about phenomena, and when contextual conditions are an integral part of the phenomenon itself (Yin, 2003). Understanding decisions related to accounting practices requires a deep analysis of each company's context and circumstances.

### **3.1 Data Collection**

This study adopted a dual and integrated approach to data collection, combining qualitative interviews and document analysis to ensure the richness and depth of the analysis. The starting point was conducting interviews with chartered accountants. During these interviews, two relevant real-world cases pertinent to the research topic were identified. Subsequently, a set of official documents related to these two cases was obtained. These sources included annual financial statements (balance sheet and income statement), depreciation and impairment schedules, and inventory counts. These documents provided the quantitative data and accounting facts that formed the basis of the analysis.

The analysis intentionally focused on the "Fixed Assets" and "Inventory" accounts. This was due to their significance and their reliance on professional estimates, which makes them prone to manipulation. This focus was reinforced by interviews that confirmed these two accounts are the most susceptible to such practices.

### **3.2 Study Sample**

The sample includes two cases of Algerian companies, which were anonymized to ensure confidentiality. The cases were selected from different time periods based on the availability of complete documentation. A detailed description and rationale for each case are provided below.

- **Case A (The Industrial Company):** This case involves a medium-sized Limited Liability Company (SARL) from Mascara, active in the manufacturing and processing of plastic and polymeric materials, with a turnover of DZD 2 326 874 085,26 for the fiscal year 2023. The analysis for this case focuses on the fiscal years 2022 and 2023. The industrial nature and high capital intensity of this company, where fixed assets and inventories are significant, make its financial statements highly sensitive to accounting policies. This context makes it a fertile ground for studying practices driven by a desire to present a strong financial image to external parties like investors or creditors.

- **Case B (The Commercial Company):** This case involves a smaller Single-Member Limited Liability Company (EURL) from Sétif, operating in foreign trade, with a turnover of DZD 37 153 991,00 for the fiscal year 2024. The analysis for this company covers the fiscal years 2023 and 2024. The commercial nature, smaller scale, and sole ownership structure of this company mean its priorities differ. Instead of attracting external financing, the primary motive is likely to be improving the net result for the sole owner, which is directly linked to reducing the tax burden. This makes it an ideal case for examining practices that may fall into outright fraud.

## **4. Results**

### **4.1 Case A: The Industrial Company**

The analysis of Case A, the industrial company, revealed two key practices of interest. The first relates to the accounting treatment of intangible assets, while the second concerns the company's inventory management policy. Each is presented below:

#### **Practice Related to Fixed Assets**

Regarding tangible assets, which represent the largest component in the company's asset structure and primarily include land, buildings, transport equipment, furniture, office equipment, and various industrial installations and equipment in line with its industrial nature, these assets were valued at DZD 5 028 040 014,75 in 2023, compared to DZD 4 841 393 080,62 in 2022 (Appendix 8.1). The recorded increase of DZD 186 646 934,13 was genuine, resulting from the acquisition of new fixed

assets and the disposal of others, supported by complete documentary evidence (purchase orders, invoices, delivery notes). Their physical existence was also confirmed by comparing them with the physical inventory records of fixed assets. The depreciation policy applied was consistent and systematic, as the company uses the straight-line method, and there were no differences in the depreciation calculation method compared to the previous year.

Similarly, financial assets, primarily comprising other participations and related debts, loans, non-current financial assets, and deferred taxes as an asset, were valued at DZD 1 879 849 753,67 in 2023, while in 2022 they were valued at DZD 1 930 887 676,99 (Appendix 8.1). The difference was justified and consistent with the normal business activity of the company.

However, a material discrepancy was observed in intangible assets, which exclusively include various management software programs: *INTELEX*, *BML*, and *PRO FINANCE*. The value of these assets was estimated at DZD 8 654 000,00 in 2022, and this figure decreased to DZD 1 202 015,38 in 2023 (Appendix 8.2). It was found that the difference was due to an amount of DZD 7 452 000,00 within the 2022 balances, related to an invoice for the purchase of a software program (BSC). However, this amount was entirely canceled during 2023. The company took this action due to its inability to provide any evidence proving the actual receipt or control of the program, whether through reception reports or actual operation.

### **Practice Related to Inventory**

Inventory is a vital item in the company, consisting of raw materials, finished products, spare parts, and various supplies. The total inventory accounts for 2023 were valued at DZD 746 352 472,96 down from DZD 1 083 694 732,20 in 2022 (Appendix 8.1), a difference of DZD 337 342 259,24. The physical inventory count confirmed the reconciliation between the actual inventory and the accounting records at the end of the period. However, it was observed that the company relies on the periodic inventory system instead of the perpetual inventory system. This impacts the accuracy and speed of monitoring inventory movement during the

accounting period, creating an organizational environment that could encourage errors or manipulations.

#### **4.2 Case B: The Commercial Company**

Similarly, the analysis of Case B, the commercial company, focused on two significant practices related to fixed assets and inventory that indicated a different pattern of manipulation.

##### **Practice Related to Fixed Assets**

The material observation in the company's financial statements was the complete absence of any non-current assets (fixed assets) in the closing balance sheets for the years 2023 and 2024 (Appendix 8.3). This situation is illogical and contradicts the operational nature of the company, whose import and export activities are presumed to require the acquisition and use of essential equipment and machinery. Despite purchase records indicating that the company actually acquired durable equipment and machinery during both financial periods, correct accounting recognition did not occur. Instead of capitalizing these as assets, they were directly recorded as expenses for the fiscal year in which they were incurred. As a result, the depreciation schedule showed zero balance, confirming the non-recognition of any depreciable assets within the company.

##### **Practice Related to Inventory**

Inventory is a crucial component of the company's activity. This account witnessed a sharp and unusual change, with its balance significantly decreasing to DZD 7 918 956,00 at the end of 2024, compared to a balance of DZD 34 676 019,00 at the end of 2023 (Appendix 8.3). This represents a very substantial decrease of 77.16% and an absolute value of DZD 26 757 063,00. Regarding the accounting and physical justifications for this material decrease, no supporting documentary evidence was found. It was revealed that there were no physical inventory count reports at the end of the period, or any other documents that could justify this deterioration in value. Furthermore, this sharp decrease was not accounted for by any justifying action; no provisions were created to address potential impairment or obsolescence.

## 5. Discussion

### 5.1 Discussion of Manipulation Practices in Fixed Assets

The manipulation of accounting recognition, as observed in the first company, is a classic creative accounting practice undertaken with the motive of “*window dressing*” financial statements. By increasing the value of assets, a stronger position for the company is presented, demonstrating financial solvency and the value of available collateral, which can positively influence the assessment of external parties, especially creditors like banks and investors (Nichita, 2019). With the aim of achieving a better economic result, companies record amounts that are expenses as intangible assets, thus inflating assets while reducing expenses (Hasprová, 2013).

Therefore, these practices can be considered in the gray area, because they represent a creative act that exploits a real transaction (a purchase) and an intentionally incorrect application of accounting recognition criteria. The auditor's decision to merely record a note in their report without issuing a formal reservation further reinforces its classification as a creative practice on the edge of acceptability, rather than outright fraud.

The intent to manipulate was not exercised randomly but selectively and targeted by choosing an intangible asset, as their accounting provides ample opportunities to affect the company's financial position and its current and future performance (Kimouche, 2022).

In contrast, the accounting void in the second company's fixed assets represents a clear violation of fundamental accounting principles, such as the matching principle and the allocation of asset cost over its useful life. The deliberate misclassification of capital assets as expenses artificially inflates costs to reduce taxable profit, a common motive for tax evasion (Hasprová, 2013). Referring to the fiscal year 2024 results, the company recorded a profit of DZD 251 743,00 despite the inflated expenses, leading to the conclusion that the true profit before manipulation was very high.

These transgressions clearly and directly affect the financial statements, as they do not provide a true and fair view of the company

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because they conceal the real value of its assets and reduce its profits. They also impact users' expectations by hiding important information (Khallaf and Kannan, 2024). Consequently, this practice exceeds the gray area of creative accounting and clearly falls within the scope of accounting fraud. This is further confirmed by the auditor's recommendation for a complete restatement of the accounts.

To summarize these contrasting approaches, Table 3 presents a direct comparative analysis. The table clearly shows how the same asset category was used to achieve different objectives: the first case remained in the 'gray area' for image enhancement, while the second crossed into outright fraud for tax evasion.

**Table 3.** Comparative Analysis of Fixed Asset Manipulation Practices

<b>Dimension</b>	<b>First Company</b>	<b>Second Company</b>
<b>Targeted Item</b>	Intangible Assets (Software program).	Tangible Assets (Equipment and machinery).
<b>Primary Motive</b>	Window dressing for solvency and collateral.	Reducing the tax base.
<b>Technique</b>	Manipulation of recognition and timing: Capitalizing an asset before actual control.	Manipulation of classification: Recording capital assets as current expenses.
<b>Location of Manipulation</b>	Exploiting a recognition loophole.	Violation of core principles (capitalization, matching).
<b>Impact on Statements</b>	Temporary inflation of assets on the balance sheet.	Understates assets and overstates expenses.
<b>Audit Indicator</b>	Note in the report.	Auditor skepticism & correction required.

**Source:** Prepared by the researcher.

## **5.2 Discussion of Manipulation Practices in Inventory**

The choice of accounting policies played a central role in the creative accounting practices of the first company. While the use of the periodic inventory system is legally acceptable, its selection is analytically significant. Compared to the perpetual system which provides continuous and precise control (Mbanugo and Uzoka, 2022), the periodic system is less

rigorous as it lacks daily tracking, making it a prime example of exploiting accounting flexibility to create an environment with less transparency (Khalid Khan, Mohammad Faisal and Abdullah Al Aboud Assistant Professor, 2018). This strategic choice effectively creates an opportunity for manipulation, as defined by the fraud triangle, by weakening the internal control environment. Therefore, while not an act of fraud itself, this decision can be interpreted as an intentional move that resides firmly in the gray area of creative accounting.

In contrast, the manipulation in the second company is a direct violation constituting accounting fraud. The sharp, undocumented decrease in inventory, a known area for manipulation (Voinea & Hromei, 2014), was a deliberate act of misrepresentation. This behavior exceeds the scope of creative accounting and falls into the realm of accounting fraud. By reducing the value of ending inventory, the cost of goods sold is automatically inflated according to the basic accounting equation. This technique is often used to directly reduce the net taxable profit (Jones, 2011), and this motive is not an isolated incident but rather part of a consistent strategy observed in this company, as it perfectly matches the previously analyzed practice of expensing fixed assets. This violation of the true and fair view and prudence principles creates distortions that carry over into subsequent years (Isoso & Okee, 2022; Yadav et al., 2014).

Table 4 presents a comparison of these differing inventory manipulation practices. The table demonstrates that while the first case focused on weakening the control environment through the choice of a flexible policy, the second company resorted to direct misrepresentation of amounts, which constitutes unambiguous accounting fraud.

**Table 4.** Comparative Analysis of Inventory Manipulation Practices

<b>Comparison Area</b>	<b>First Company</b>	<b>Second Company</b>
<b>Technique</b>	Exploiting flexibility: adopting the weaker periodic system.	Inventory manipulation: undocumented reduction of ending value.
<b>Manipulation Stage</b>	Manipulation opportunity: weak	Actual execution of manipulation: Direct distortion of the final

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	internal controls.	figure at the end of the period.
<b>Impact on Income Statement</b>	Indirect and potential impact (difficult to measure).	Direct and immediate impact: Inflating cost of goods sold and reducing profits.
<b>Impact on Balance Sheet</b>	No impact on final inventory value.	Significant reduction in the book value of inventory.
<b>Temporal Impact</b>	Continuous risk.	Distortion whose effect carries over to subsequent years.
<b>Audit Indicator</b>	Note in the report.	Auditor skepticism & correction required.

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**Source:** Prepared by the researcher.

In summary, the second case illustrates the Fraud Triangle in action. The Pressure is evident from the motive of tax evasion to maximize the owner's gain. The Opportunity arose from weaknesses in internal controls, such as the failure to conduct physical inventory counts and the ability to misclassify assets as expenses. While Rationalization is a justification, the systematic nature of the manipulation suggests a mindset that deemed these actions acceptable to achieve the company's financial goals.

**6. CONCLUSION**

This study aimed to address the practical difficulty of distinguishing between creative accounting and accounting fraud by identifying the motives and indicators for each in the Algerian context. The study's findings provide a clear answer to its central research question and offer direct support for its hypothesis. The comparative analysis demonstrated conclusively that the dominant contextual pressures on a company are the primary determinant of its manipulative path. As hypothesized, external pressures for image enhancement led the industrial company to adopt creative accounting practices, while internal tax pressures drove the commercial company toward outright accounting fraud.

Based on this, the study arrived at a set of key conclusions:

- Creative accounting is practiced by exploiting legal flexibility, such as manipulating recognition timing or choosing lenient policies (e.g., the periodic inventory system).

- Accounting fraud involves explicit violations, like deliberately misclassifying assets as expenses or making fictitious, undocumented inventory reductions.

- The distinction hinges not just on legality, but primarily on management's intent. The objective of Image Enhancement (in the first case) versus Value Hiding (in the second) is what places the practice on the manipulation spectrum.

Therefore, the study recommends the following, especially given the upcoming implementation of the Algerian Auditing Standard NAA 240 on fraud detection, effective from 2026:

• **For Professionals and Auditors:** Adopt a risk-based audit approach focused on company pressures (financial, operational, tax-related). Understanding “why” management might manipulate is key to anticipating “how” and “where” they will do so.

• **For companies:** Strengthen internal controls and audit committees to instill a culture of ethics and transparency, not just for supervision, as legal compliance alone doesn't guarantee quality financial data.

• **For Regulators and Professional Bodies:** Review and clarify accounting standards that offer broad flexibility (e.g., in asset valuation) and issue more detailed guidance to limit their misuse.

Finally, it must be noted that this study, by its nature as a qualitative case study, was limited to only two cases. Therefore, its findings offer deep understanding but are not generalizable. These results open the door for important future research, such as conducting quantitative (survey) studies to measure the prevalence of these motives and practices, or directly linking the characteristics of the company (size, ownership, sector) and the nature of its activity to the type of accounting manipulation it tends to practice.

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## 8. Appendices

### 8.1. Balance Sheet (Assets) for Case A - The Industrial Company

For the Year Ended December 31, 2023. (*Amounts in DZD*)

ACTIF	2023			2022
	Montants Bruts	Amort., provi., pert de valeur	Net	Net
<b>ACTIFS NON COURANTS</b>				
Immobilisations incorporelles	1 202 015,38	1 202 015,38	0.00	7 452 000,00
Immobilisations corporelles	5 028 040 014,75	3 829 916 575,98	1 198 123 438,77	1 274 881 155,90
<i>Terrains</i>	<i>208 000 000,00</i>	-	<i>208 000 000,00</i>	<i>208 000 000,00</i>
<i>Bâtiments</i>	<i>564 467 313,09</i>	<i>378 919 142,94</i>	<i>185 548 170,15</i>	<i>229 692 702,04</i>
<i>Autres imm- corp</i>	<i>4 254 237 017,66</i>	<i>3 450 997 433,04</i>	<i>803 239 584,62</i>	<i>837 188 453,86</i>
Immob- en cours	1 335 684,00	-	1 335 684,00	-
Immob- financières	1 879 849 753,67	-	1 879 849 753,67	1 930 887 876,99
<i>Autres participations et créances rattachées</i>	<i>9 633 947,08</i>	-	<i>9 633 947,08</i>	<i>9 633 947,08</i>
<i>Prêts et autres actifs financiers non courants</i>	<i>1 810 667 809,51</i>	-	<i>1 810 667 809,51</i>	<i>1 856 667 809,51</i>
Impôts différés actif	59 547 997,08	-	59 547 997,08	64 585 920,40
<b>TOTAL ACTIF</b>	<b>6 909 091 783,80</b>	<b>3 831 118 591,36</b>	<b>3 077 973 192,44</b>	<b>3 213 220 832,89</b>

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<b>NON COURANT</b>				
<b>ACTIFS COURANTS</b>				
Stocks et en-cours	815 708 271,83	69 355 798,87	746 352 472,96	1 083 694 732,20
Créances et emplois assimilés	1 561 403 423,66	252 520 839,91	1 308 882 583,75	1 064 901 300,23
<i>Clients</i>	<i>1 425 033 878,58</i>	<i>252 520 839,91</i>	<i>1 172 513 038,67</i>	<i>906 539 477,90</i>
<i>Autres débiteurs</i>	<i>80 128 029,46</i>	-	<i>80 128 029,46</i>	<i>40 601 075,70</i>
<i>Impôts et assimilés</i>	<i>56 241 515,62</i>	-	<i>56 241 515,62</i>	<i>117 760 746,63</i>
Disponibilités et assimilés (Trésor)	200 126 934,34	-	200 126 934,34	82 123 593,29
<b>TOTAL ACTIF COURANT</b>	<b>2 577 238 629,83</b>	<b>321 876 638,78</b>	<b>2 255 361 991,05</b>	<b>2 230 719 625,72</b>
<b>TOTAL ACTIF</b>	<b>9 486 330 413,63</b>	<b>4 152 995 230,14</b>	<b>5 333 335 183,49</b>	<b>5 443 940 458,6</b>

Source: Financial Statements of the company.

### 8.2. Breakdown and Movement of Intangible Assets for Case A

(Amounts in DZD)

Post	31/12/2023	31/12/2022	Variation
Logiciel INTELEX	384 615,38	384 615,38	-
Logiciel BML	718 400,00	718 400,00	-
Logiciel PRO FINANCE	99 000,00	99 000,00	-
Logiciel BSC	-	7 452 000,00	-7 452 000,00
<b>Total Brut</b>	<b>1 202 015,38</b>	<b>8 654 015,38</b>	<b>-7 452 000,00</b>
<b>Amortissements cumulés</b>	<b>1 202 015,38</b>	<b>1 202 015,38</b>	-
<b>Total Net</b>	-	<b>7 452 000,00</b>	<b>-7 452 000,00</b>

Source: Extracted from the financial statements of the company.

### 8.3. Balance Sheet (Assets) for Case B - The Commercial Company

For the Year Ended December 31, 2024. (Amounts in DZD)

ACTIF	2024			2023
	Montants Bruts	Amort, provi, pert de valeur	2024 - Net	2023 - Net
<b>ACTIFS NON COURANTS</b>				
Ecart d'acquisition-goodwill	-	-	-	-
Immobilisations incorporelles	-	-	-	-
Immobilisations corporelles	-	-	-	-
Immobilisations financières	-	-	-	-
Impôts différés actif	-	-	-	-
<b>TOTAL ACTIF NON COURANT</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>ACTIFS COURANTS</b>				
Stocks et encours	7 918 956,00	-	7 918 956,00	34 676 019,00
Créances et emplois assimilés				
<i>Clients</i>	<i>5 500 00,00</i>	-	<i>5 500 005,00</i>	<i>2 400 005,00</i>
<i>Autres débiteurs</i>	-	-	-	<i>6 042 689,00</i>
<i>Impôts et assimilés</i>	<i>2 091 677,00</i>	-	<i>2 091 677,00</i>	<i>1 150 341,00</i>

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Disponibilités et assimilés				
<i>Trésorerie</i>	58 046 969,00	-	58 046 969,00	40 266 997,00
<b>TOTAL ACTIF COURANT</b>	<b>73 557 608,00</b>	<b>0</b>	<b>73 557 608,00</b>	<b>84 536 051,00</b>
<b>TOTAL ACTIF</b>	<b>73 557 608,00</b>	<b>0</b>	<b>73 557 608,00</b>	<b>84 536 051,00</b>

**Source:** Financial Statements of the company.