
AN EMPIRICAL STUDY OF NORMATIVE AND POSITIVE CONSIDERATIONS OF CREATIVE ACCOUNTING

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Abstract

The paper reports on the empirical study of the normative and positive considerations of creative accounting. It is aimed at enlightening the public on the need to employ suitable terminologies for certain accounting practices that are unethical to the culture of professional accounting practice. To achieve this purpose, research questions were raised, hypotheses were formulated, and a review of related literature carried out. The population of the study comprised the 27 local government chairmen in Imo state and their treasurers. The survey

research design method was used to gather the data. The primary data was sourced through the use of questionnaire designed in five-response options of Likert-scale type. The data collected for the study were analysed using mean scores, while the stated hypotheses were statistically tested with Z-test. It was revealed, among other things, that the terminology, creative accounting, is not suitable for an unethical practice in the financial statements of companies. Based on the above, it was recommended, inter-alia, that creative accounting as a terminology should be an exclusive preserve of novel and authentic professional accounting practice, as is the case in other fields.

Financial accounting reports are produced by accountants and auditors to show the true and fair state of affair of business entities so that stakeholders and other users of such information can take informed decision. To aid this responsibility, accounting regulations allow a degree of choice policies and professional judgment in determining the methods of measurement, criteria for recognition, and even the definition of the accounting entity. The exercise of this choice has been bastardised by some less scrupulous accountants who now employ it as loopholes to manipulate figures in the financial statements and deceive users in favour of management. Consequently, many blue-chip companies world-wide have gone under. This unethical practice has been perpetuated to the extent that such terms, as fraud and forensic accounting are gaining currency and thus fast becoming new professions. Many accounting practitioners cum auditors in like manner are increasingly becoming visitors to courts and the anti-graft agencies. The practice is known in accountancy as creative accounting. The squeamishness about this is that the terminology may have been an indirect way of expressing what is unethical in the field; alas it may not really portray the actual meanings of the terms, 'creative' and 'creativity' on the one hand, and may still not have represented the position as seen, observed, and employed in other fields, on the other hand.

It is upon this background that this study seeks to empirically underscore the rationale behind the encapsulation of fraudulent practices in the financial statements of companies with such euphemism, and at the same time enlighten the public on the imperativeness of seeing the terminology from what it should be (normative) instead of how actually it is seen (positive). The opinions of the experienced 27 local government chairmen of Imo state and their treasurers will be employed in this regard for data gathering.

To achieve this aim, the paper is structured into the following sections: Introduction, conceptual Framework, Methodology, Results / Analysis, Conclusion and Recommendations.

Statement of the Problem

Previous studies on creative accounting focussed mainly on the positive view of the concept, its impact on investors' decision in the stock market, and the reasons for such practices by some accountants as seen in Alam (1988); Naser (1993); Amat, Blake and Dowds (1999); Domash (2002); Aremu and Bello (2004); Osisioma and Enahoro (2006); Akenbor and Ibanichuka (2012; Beshiru and Prince (2014)); Firas and Xinping (2015); among others.

However, these researchers failed to consider what creative accounting ought to be in line with the meaning of "creativity" and how it is seen or employed in other disciplines and fields, such as in science and engineering, architecture and industrial designs, arts, business and marketing, teaching and education, curriculum design, et cetera. Based on the above, our point of departure is to fill these existing gaps and provide an empirical investigation of the dichotomy between the normative (i.e. what it ought to be) and positive (what actually it is) views of creative accounting in the field of accountancy.

Objectives of the Study

Given the foregoing, the main objective of this study is to provide an empirical investigation of the opinions of the experienced 27 local government chairmen and treasurers of Imo state on what creative accounting ought to be, as against what it is. Specifically, the study aimed at achieving the following:

- To examine the reasons behind terming fraudulent manipulation of financial statements creative accounting other than its deserved terminology
- To find out whether the term, creative accounting, is suitable for the unethical practices by some over-zealous accountants

Research Questions

Sequel to the above, the following research questions guided the study:

- What are the reasons behind terming the fraudulent manipulation of financial statements creative accounting other than terminology the act deserves?
- To what extent is the term, creative accounting, suitable for the unethical practices perpetuated by some over-zealous accountants?

Research Hypotheses

In order to advance the study further, the following null hypotheses were formulated at 0.05 level of significance:

- Ho₁: There are no significant reasons behind terming of the fraudulent manipulation of financial statements creative accounting other than a terminology the act deserves
- Ho₂: There is no significant extent to which the term creative accounting is suitable for unethical practices by over-zealous accountants

Conceptual Framework

The lexeme in the English word, creativity, came from the Latin term, *creo*, meaning, to create or make, (Albert & Runco, 1999). The word, *create*, appeared in English as early as the 14th century to indicate divine creation. Creativity as a concept and notion arguably originated in western culture through Christianity, as recorded in genesis, (Albert and Runco, 1999). In like manner, a thingummy similar to that of Christianity existed in the Greek culture but was never called creativity; for example, there were situations where muses were seen as mediating inspiration from the gods, (Dacey, 1999). Romans and Greeks used to invoke the concept of an external creative “daemon” (Greek) or “genius” (Latin) which they associated to be sacred or divine, (Dacey, 1999). The implication of these is that the individual was not seen as the cause or agent of creation; creativity was divine, sacred, and beyond humans.

However, attribution of human element to creation and creativity started during the renaissance and period of enlightenment, (Albert and Runco, 1999). They posited further that it was during this period that creativity was first interpreted not as a conduit for the divine, but from the abilities of ‘great men’. Tatarkiewicz (1980) leaned support to this, while Meyer (2005) opined that Alfred White Head (1927) was the person accredited with having coined the term, creativity; hence the study of creativity as an intelligent topic began in the late 19th century, with the increased interest in individual differences inspired by the arrival of Darwinism; and that thereafter, several theories of the concept sprang up.

Today, creativity forms the core activity of a growing section of the global economy, capitalistically generating wealth through the creation and exploitation of intellectual property or through the provision of creative services, (Wikipedia, 2014; Niu and Robert, 2006). Scholarly interest in creativity now involves many definitions and concepts. For instance, Sternberg (2011), suggested that creativity is the production of something original and worthwhile. This means that creativity has to do with ethical practices.

Mumford, (2003) gave similar definition, that creativity involves the production of novel, useful products. This is expatiated by one given by Wikipedia (2014), that it has to do with the formation or production of something new and somewhat valuable, such as an idea, a scientific theory, an invention, a literary work, a painting, a musical composition, a joke, etc. These last two definitions connote that

creativity could yield ethical or unethical results, though has to do with something new and useful. Amabile (2010) also expressed this view.

However, for purposes of this work, the one given by Sternberg above is adopted, i.e. creativity is the production of something original and worthwhile. This is because it emphasizes originality, which stems from the etymological definition of the concept that connotes divine source; and Genesis 1:31 pointed out that everything divinely created was good.

Importance of Creativity

On this note, lillstreet.com (2015), Ebersole and Hess (1998), and Hank (2010), concluded the following as among the importance of creativity:

- It helps in problem solving and conflict resolution;
- It distinguishes one from the pack, thereby popularizing one;
- It promotes self esteem and connects one to the larger community;
- It has aesthetic and therapeutic values;
- It increases earning power and saves money
- It helps build better relationships;
- It maintains sense of integrity;
- It creates balance and order;
- It gives sense of control over external world;
- It speeds up one's career advancement;
- It engenders greater job satisfaction;
- It fills occupational voids;
- It is a route to authenticity.

In any case, J.P Guildford popularized the topic and addressed the American Psychological Association (APA) in 1950; also the London School of Psychology instigated psychometric studies of creativity in 1927. All these were carried out due largely to the importance attached to creativity, (Hargreaves, 1927).

Creativity as seen in order Fields

The efficient commercialization of creative ideas is now the source of value creation in business; human beings and their creative and accumulative acumen are the new raw materials for business in the 21st century; companies that embrace this evolutionary need will raise a bar in competitive markets, (wikipedia, 2012). Siltala, (2010) corroborated this view, and asserted that in manufacturing and distribution concerns, creativity is required at all stages of the product development process, from the generalization of new product ideas to their communication.

Supporting this, Hanson (2009) opined that a work environment that stimulates employees' creativity is generally believed to be beneficial for a firm's new product performance. Ferriani and Colucci (2013) added that when people at any level of an organization have creative capabilities, they can contribute to innovations despite claims that people at lower levels introduce fewer and less radical innovation. All organizational members can directly (e.g. as part of new product development (NPD) or indirectly contribute to product innovation, especially in less structured organizations, (Dul and Ceylan, 2014). Apart from these, in a recent global survey of approximately 1600 CEOs, the leadership trait that was considered most crucial for success was creativity, (IBM, 2010)

In support of the foregoing, Carson, Perterson & Higgins (2005), reeled out the following to include creative profession: writing, art, design, theatre, television, radio, motion pictures, related crafts, marketing, strategy, some aspects of scientific research and development, education and some type of teaching, curriculum design, and many more. Dost and Cross, (2001) added architecture and industrial design and engineering. This latter view was corroborated by Simon, (1999); and NAE (2005), that included medicine, computing, and retailing as among the areas that have evolved with creativity and new, better methods of service delivery.

Discredits to Creativity

About this, Sternberg & Lubart (1999); and Gabora (1997) noted respectively that creativity involves mental process which requires the employment of skill and imagination. Thus, only rational human beings can employ creative abilities. Apart from that, Renolds (2011) asserted that other shortcomings of creativity are lack of time and focus by the creative or rational person. Arguing further, he claimed that at times, the creative person is chocked up with other activities that may lead to the abandonment of a laudable idea. Also, distractions could delay or mare the completion of a creative process.

In a related development, Amabile, (2010); Akenbor & Ibanichuka (2015), pointed out that there exist two opinions (or myths) about creativity, negative and positive, and that this poses huge problem. Given this situation, Amabile asserted that creativity is morally neutral. Because when one considers an idea, behaviour, or product to be creative, especially if the idea or so is both novel and appropriate to some goal, as suggested by wikipedia, (2014), one discovers that the second part of the definition of creativity by wikipedia "appropriate to some goal" does not mean that the goal is necessarily ethical. According to Amabile, this is as a result of the fact that immense evil has been done with human ingenuity, and applied to despicable ends. For instance, Hitler's Human extermination empire was quite new in its scope, organization, and technology. And it quite effectively served its murderous goal,

Amabile argued. 'The ideas were creative even if they did not embody the worst kind of creativity'.

Also, the systematic manipulation of financial statements of a company in an undesirable, misleading way to attract investors is an act of ingenuity. This is because the act is systematic, intended to deceive and did deceive the target audience, investors. To lean support to this, Whelan (1999) noted that because of this dichotomy, there is much distractions about the terminology, 'creativity' particularly in accountancy. The practice of the terminology as it is seen by observers has the power to distort the underlying financial performance of a firm, making more difficult for an investor or financial analyst to assess the performance of the firm and to compare between different companies.

Based on this, Amabile (2010) canvassed that societies must constantly strive to ensure that novel ideas in government, business, education, and every other realm are wedded to strong ethical values.

Creativity in Accountancy: Positive / Normative Views

Accounting has also been associated with creativity, with the popular euphemism, creative accounting, (Sullivan and Harper, 2009). This term often implied unethical practice. Reed (1993) pointed out that most innovations in accounting have been directed either at dressing up published accounts or at avoiding and evading taxes. Griffiths (1992) in Akenbor and Ibanichuka (2015) shared this view. They concluded that creative accounting refers to the accounting techniques in which financial information is distorted by window-dressing and various manipulations in order to present theoretically, a better financial picture by either increasing or reducing profits as the case may be, by giving a misleading appearance of capital size or structure and by concealing relevant information from existing or potential investors. The consequences include lack of confidence, low patronage of company's shares in the stock market, revenue loss, and business collapse, (Domash, 2002).

Against this backdrop, Amabile (2010) rhetorically queried, does it mean that the accountancy profession does not benefit from the ethical application of creative thinking? Kafkan (2015) reacted with the assertion that an accountant is quite creative within the legal and ethical boundaries of his profession; and that tax planning and financial acumen are creativity themselves. He further mentioned that the problem is that accountants refrain from using the concept of creativity in their speech, probably because of avallenge cases of failed companies traceable to activities of less scrupulous accountants which resulted to negative impression on creative accounting. Accacareers.com (2015) bought this view and further revealed that ever since the Eron and world.com financial reporting disaster, the term creative accounting has given rise to images of financial defalcations, greedy company officials, and complicit accountants. They however noted that this impression was wrong. The group argued further that creativity belongs in the financial and control department as much as it

belongs in the research and development; that accountants need to fight back and call creative accounting what it really is, fraudulent accounting, not the other way round, because until this is done, accountant will never be seen as truly equal to the rest of the business in moving companies forward. Supporting this position, Whelan, (1999) advised researchers to always approach and describe creative accounting based on its novelty, because, practically every novice would first understand that creative accounting is something in all cases desirable, since creativity itself is desirable and equivalent with progress. Whelan asserted further that employing the terminology to describe an unethical conduct is misleading, rather than appreciating correctly what the area describes. She further emphasized that from a novelty point of view, creative accounting connotes invention of accounting principles and techniques to recognise changes in economic, social, political, and business environments, and that it recognizes genuine changes in accounting practices. Akenbor and Ibanichuka (2012); and Aziz and Xinping (2008), all shared this view.

Kafka (2015) reeled out the following as qualities of a creative accountant:

- He does not compromise on IFRS standards;
- He develops creative ways to test control and audit financial statements;
- He knows how to create good management accounting information that will help make better decisions;
- He thinks outside the box and look beyond traditional source documents to establish hidden facts
- He takes challenges and handles a puzzle. Quinn (2012); Amabile (2010); Accacareers.com (2015); and Reed (1993) shared this view.

Accountants are creative, innovative and eventful. They act them out in their professional duties. The group of Accacareer.com (2015) asserted that accountants even go beyond their area in their act of creativity. For instance, Walter Diemer, an accountant, invented the bubble gum in 1928, during his spare time, at the Fleeer corporations where he worked in the 1920s; Kenny .G., a famous musician is an accountant who made creative discovery beyond the accountancy profession; John Grisham, added creative writings to his accountancy practice; the list is endless.

Quite obviously, unethical practices fraut every profession, be it medicine, engineering, education, and all what have you. These practices are perpetuated by less scrupulous members of the given profession; their nefarious acts are conspicuously evident and are negatively felt from time-to-time by the society at large. But this has not resulted in twisting the creative terminology associated with ethical part of the practices in such field or profession, nor relegated the novel part of the profession to the background. Then, one would want to ask, why should it be so in the field of accountancy, and why would the good creative ideas and actions of the accountant be credited with such euphemism?, cases are bound in medicine and medical practice where some practitioners connive with certain patients and short-change sensitive human organs or even traffic newly born babies. In engineering, mostly civil, scenarios are endless

where constructed edifices and bridges suddenly collapse and end an era of human beings and property, due largely to poor deployment of resources. Also, some teachers in institutions of learning compromise and cook grades to favour students upon receipt of some form of gratification. The list is inexhaustible.

Though, unethical practices in any professional field of endeavour, including accountancy is wicked and highly condemnable. However, it is the opinion of this researcher that the right terminology, e.g. cosmetic accounting, or fraudulent accounting, etc. be used for those accounting practices that are alien and anti-thetical to the ethos and culture of professional accounting practice; and that creative accounting as a terminology, be an exclusive preserve of novel and authentic professional accounting practices, as is the case in other professions. In other words, let the normative view of creative accountancy suffice for ethical and innovative accounting conducts. What is good for the goose is also good for the gander.

Theoretical Framework

This paper is guided by the normative accounting theory developed by Tinker & Neimark (1982). The theory prescribes in form of policies, strategies and mission statements, the way and manner accounting process should be conducted, Steve(2015).

Research Methodology

The survey method of research design was adopted in this study and the population consisted of the 54 local government chairmen and treasurers (27 each) of Imo State, the entire number was employed for the analysis. The questionnaire was used to collect primary data, and was designed in five response options of Likert-scale type of Strongly Agree (SA), Agree (A), Disagree (D), Strongly Disagree (SD), and Undecided (U), and administered on the respondents. The content validity of the questionnaire was determined by three chartered accountants operating firms in Owerri metropolis, and the reliability of the instrument was established with the use of test-retest procedure. The data gathered were presented in a table and analyzed using mean scores. The stated hypotheses were statistically tested with Z-test.

Test of Hypotheses

H₀₁: There are no significant reasons behind terming of the fraudulent manipulation of financial statements of companies creative accounting other than a terminology the act deserves

To test this hypothesis, the data obtained is presented in the table 1 below:

Table 1: Z-Test Computations for Test of Hypothesis I

Chairmen							Treasurers					
Responses	Scores (X)	Frequencies (F)	Fx	\bar{X}	$(X-\bar{X})^2$	$F(X-\bar{X})^2$	Scores (X)	Frequencies (F)	Fx	\bar{X}	$(X-\bar{X})^2$	$F(X-\bar{X})^2$
SA	5	9	45	1.15	1.3225	11.9025	5	8	40	1.7	2.89	23.12
A	4	10	40	0.15	0.0225	0.225	4	5	20	0.7	0.49	2.45
D	3	4	12	-0.85	0.7225	2.89	3	3	09	-0.3	0.09	0.27
SD	2	3	06	-1.85	3.4225	10.2675	2	9	15	-1.3	1.69	15.21
U	1	1	01	-2.85	8.1225	8.1225	1	2	02	-2.3	5.29	10.58
Total	-	27	104			33.4075		27	89			51.63

Source: Field Survey, 2015

$$\begin{aligned} \bar{X}_1 &= 3 & \bar{X}_2 &= 3.3 \\ S_1 &= 5.78 & S_2 &= 7.19 \\ n_1 &= 27 & n_2 &= 27 \end{aligned}$$

$$Z = 3.85 - 3.3$$

$$\sqrt{\frac{(27-1)(5.78) + (27-1)(7.19)}{27 + 27 - 2} \left[\frac{1}{27} + \frac{1}{27} \right]}$$

$$Z = 0.79$$

Decision: H_0 not rejected since Z – computed (0.79), is less than Z – critical (1.96). This implies that there are no reasons behind terming of the fraudulent manipulation of financial statements creative accounting other than a terminology the act deserves.

H₀₂: There is no significant extent to which the term creative accounting is suitable for unethical practices by over-zealous accountants.

In testing this hypothesis, the data gathered were employed and the result obtained is presented in the table 2 below:

Table 2: Z-Test Computations for Test of Hypothesis II

Chairmen							Treasurers					
Responses	Scores (X)	Frequencies (F)	Fx	\bar{X}	$(X - \bar{X})^2$	$F(X - \bar{X})^2$	Scores (X)	Frequencies (F)	Fx	\bar{X}	$(X - \bar{X})^2$	$F(X - \bar{X})^2$
SA	5	5	25	1.89	3.57	17.85	5	15	75	0.7	0.49	7.35
A	4	3	12	0.89	0.79	2.37	4	8	32	-0.3	0.09	0.72
D	3	10	30	-0.11	0.0121	0.121	3	2	6	-1.3	1.69	3.38
SD	2	8	16	-1.11	1.230	9.84	2	1	2	-2.3	5.29	5.29
U	1	1	1	-2.11	4.451	4.45	1	1	1	-3.3	10.89	10.89
Total	-	27		-	-	34.63	-	27	116	-		27.63

Source: Field Survey, 2015

$$\begin{aligned} \bar{X}_1 &= 3.11 & \bar{X}_2 &= 4.30 \\ S_1 &= 5.88 & S_2 &= 5.26 \\ n_1 &= 27 & n_2 &= 27 \\ Z &= 3.11 - 4.3 \end{aligned}$$

$$\sqrt{\frac{(27-1)(5.88) + (27-1)(5.26)}{27 + 27 - 2} \left[\frac{1}{27} + \frac{1}{27} \right]}$$

$$Z = -1.85$$

Decision: Ho2 not rejected since Z computed (-1.85) is less than Z – critical (1.96). This implies that creative accounting is not suitable as a term for unethical practices by over-zealous accountants

Discussion of Findings and Recommendation

The results of our analysis clearly showed that creative accounting as a term was related to unethical practices in financial statements of companies as a result of collapse of many business corporations the world over. Our analysis on this issue revealed a mean score of 3.15 which is equally greater than 3.00, the expected mean score. This result does not differ from the works of Kafkan (2015), accacareers.com (2015), and Whelan (1999) who claimed that the negative impression on creative

accounting was as a result of the avallenge of failed companies traceable to the activities of less scrupulous accountants.

Furthermore, the result indicated that creative accounting as a terminology is not suitable for the unethical practices by some over-zealous accountants. Our analysis of this showed a mean score of 3.71, which is greater than the expected mean score of 3.00. This finding leans support to accacareers.com (2015) who revealed that... accountants need to fight back and call creative accounting what it really is, fraudulent accounting, and not the other way round for them to be seen as equal to the others in other fields of endeavour.

Based on the findings generated from this study, the following recommendations are made:

- i. Creative accounting as a terminology be used to represent the novel, ethical and authentic professional accounting practices known with the profession; while the term cosmetic or fraudulent accounting be employed for those accounting practices that are unethical to the profession;
- ii. In the above regard, the International Financial Reporting Standard Committee (IFRSC) should step up action and coordinate the assertion of this stance so that the accountancy profession can still maintain its pride of place among professional bodies;
- iii. Awareness creation is necessary on the public so that they have a whollistic view of creativity in relation to all the fields of human endeavour

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An Empirical Study of Normative and Positive Considerations of Creative Accounting – Paul Emeka Obi; Dr Bridget Chika Obi and Ugonna Chinyereuba Obika

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An Empirical Study of Normative and Positive Considerations of Creative Accounting – Paul Emeka Obi; Dr Bridget Chika Obi and Ugonna Chinyereuba Obika

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APPENDIX
QUESTIONNAIRE ON THE EUPHEMIC USE OF THE TERM CREATIVE ACCOUNTING FOR UNETHICAL ACCOUNTING PRACTICE

Having being abreast with the meaning of creative accounting, do please tick objectively against the following statements below:

S/N	Items	SA	A	D	SD	U
1	Creativity in the actual sense means something novel, ethical and acceptable					
2	The above definition of creativity is so associated with a good number of discipline safe accounting					
3	One of the reasons could be because of happenings in the accountancy practice					
4	The term creative accounting is wrong for what the practice represents					
5	May be the right term should have been dubious accounting					
6	Creative accounting should mean ethical, novel and good accounting conducts					
7	Using the term creative accounting to represent unethical practices in the field of accounting could be misleading					
8	It is improper to view corrupt practices in accounting with euphemism where as its not seen that way in other fields					
9	It is about time the right terminology be employed for the right conduct or practice in accounting as is the case in other fields					
10	Normative accounting is the theory that prescribes how accounting practice should be conducted, while positive accounting theory emphasizes how it is been practiced					
11	It has not been quite long you know that creative accounting as has been employed means unethical practice in the field					

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From table 1 above,

Expected $X = 5 + 4 + 3 + 2 + 1 = 15 \div 5 = 3.00$

Calculated $X = \frac{X_1}{2} + \frac{X_2}{2} = \frac{3}{2} + \frac{3.3}{2} = 3.15$

From table 2,

Expected $X = 5 + 4 + 3 + 2 + 1 = 15 \div 5 = 3.00$

Calculated $X = \frac{X_1}{2} + \frac{X_2}{2} = \frac{3.11}{2} + \frac{4.3}{2} = 3.71$