Acta Universitatis Danubius
ŒCONOMICA

Impact of Creative and Aggressive Accounting on the Quality of Financial Reporting in the Hospitality Industry in Zimbabwe

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Abstract: Objectives The study examined the impact of creative and aggressive accounting on the quality of financial reporting in the hospitality industry in Zimbabwe., **Prior Work** The study also identified the motives behind creative accounting and established the areas that are mainly affected by creative accounting in financial reporting. **Approach** This study adopted a mixed-methods research design, integrating both qualitative and quantitative approaches. Twenty-six semi-structured interviews were conducted, and financial statements were analyzed from five hotels which were randomly sampled. **Results** The study found that management uses creative accounting for their personal gain, to improve share market prices, to avoid paying taxation, to ensure that they do not fail in debt covenants, and to acquire loans from financial service providers. The study found that hotels in Zimbabwe use creative accounting methods such as altering accounting principles, asset valuation, intra-company transactions, undervaluing liabilities, and early revenue recognition. The findings further revealed that there is a significant relationship between creative accounting practices and the quality of financial reporting in the hospitality industry in Zimbabwe. **Implications** This suggests that those entities that practice creative accounting practices in manipulating their financial statements, jeopardize the quality of the reports, and misleading various stakeholders, hence, they should be sanctioned or forced to pay penalties. **Value** This study provides research-based knowledge as it is the first studies to be conducted in Zimbabwe on creative accounting in the hospitality industry in Zimbabwe.

Keywords: Creative accounting; Quality; Financial reports; Hospitality industry; Zimbabwe.

JEL Classification: M410

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1. Introduction

The hospitality industry is one of the pillars of Zimbabwe's economic landscape, contributing significantly to tourism, employment generation, and overall economic development (Shereni, 2022; Dube, 2021). In this dynamic sector, where customer preferences and market trends evolve rapidly, the accuracy and transparency of financial reporting assume paramount importance. Dimitrijević, Obradović, & Milutinović (2018) stated that clear and reliable financial reporting serves as the bedrock for sound decision-making, investor confidence, and effective regulatory oversight. Mavengere and Dlamini (2023) assert that high-quality financial reporting not only supports effective decision-making but also instills stakeholder confidence. However, the unique characteristics of the hospitality industry, coupled with challenging economic conditions, may create an environment conducive to the emergence of creative and aggressive accounting practices, which can potentially compromise the quality of financial reporting (Milašinović, Jovković & Dragičević, 2022; Carmona & Trombetta, 2003).

Measures have been taken globally to enhance financial reporting standards and transparency. For instance, the International Financial Reporting Standards (IFRS) and local accounting regulations aim to curb accounting manipulations and ensure the reliability of financial statements. Financial reporting offers various stakeholders timely, accurate, and reliable financial data needed for making effective business decisions (IASB, 2019). Asuquo (2020) also asserts that financial reporting presents financial data that supports objective and well-informed decision-making. However, Ahmed (2017) claims that the freedom accountants have over various accounting options creates room for intentional information manipulation or concealment. There are techniques that make companies appear more desirable than they are, projecting more profitability and financial stability (Abed et al., 2022). Creative and aggressive accounting practices have the potential to affect the reliability, accuracy, quality, and transparency of financial reports, thereby influencing stakeholder perceptions (Schrand & Zechman, 2012).

Even though the literature offers insights into creative and aggressive accounting practices in various industries (Mavengere & Dlamini, 2023; Jan, 2021), there remains a notable gap in understanding their impact within the context of the hospitality industry in Zimbabwe. Considering the uniqueness of the hospitality industry, which includes seasonal variations, complex cost structures, and diverse revenue sources, this presents an environment where these practices may be prevalent. Hence, the question is: how creative and aggressive accounting practices influence the quality of financial reporting in the Zimbabwean hospitality industry and its implications for stakeholders. The absence of empirical research on this issue within the Zimbabwean hospitality context hinders stakeholders' ability to gauge the extent of creative and aggressive accounting practices and their effects on financial reporting quality. Addressing this gap is essential for enhancing financial transparency, safeguarding stakeholder interests, and maintaining the credibility of the hospitality industry's financial information. This study embarks on an exploration of the intricate relationship between creative and aggressive accounting practices and the quality of financial reporting within the hospitality industry in Zimbabwe. By delving into the impact of these practices on the financial reporting process, the study aims to shed light on potential risks, challenges, and repercussions for stakeholders, encompassing investors, regulators, creditors, and the public.

The core objectives of this study are to assess the extent to which creative accounting practices influence the quality of financial reporting in the Zimbabwean hospitality industry. This study carries profound implications for a broad array of stakeholders within the hospitality industry, as well as for the overarching landscape of financial reporting in Zimbabwe. The findings of this study are poised to deepen the understanding of the challenges posed by creative and aggressive accounting practices, thus informing better decision-making by investors, creditors, regulators, and other pertinent entities. Furthermore, this study may serve as a resource for regulatory bodies and industry associations in their endeavors to bolster financial reporting standards and uphold transparency across the hospitality sector. By illuminating these practices and their ramifications, the study aspires to foster enhanced financial transparency and informed decision-making within the realm of Zimbabwean hospitality. The structure of this research paper is organized as follows: Section 2 provides an extensive review of pertinent literature, including creative and aggressive accounting practices, financial reporting quality, and the specific landscape of the hospitality industry in Zimbabwe. Section 3 outlines the research methodology, encompassing data collection methods, sample selection, and analytical techniques. In Section 4, the findings are presented and analyzed, while Section 5 concludes the paper with implications, recommendations, and avenues for future research.

2. Literature Review

Due to the unfathomable shock caused by the intensity of creative accounting in the modern business environment, the topic is of huge global concern. Luca Pacioli first raised the subject of creative accounting in 1494 (Kamau, 2016). Creative accounting refers to the strategic and deliberate manipulation of financial data, accounting policies, and transactions to present a more favorable financial position or performance than the actual economic reality of an organization (Al-Natsheh & Al-Okdeh, 2020; Sanusi & Izedonmi, 2014; Mulford & Comiskey, 2011; Jones, 2011). According to Khattab (2012), creative accounting is the technique of transforming accounting numbers from their actual form to an ideal form that may be utilized to advantage both the business and its executives using various tools. It often involves exploiting flexibility within accounting rules to achieve specific financial outcomes while still complying with legal and regulatory requirements.

The possibilities for creative accounting can be identified in six essential areas: regulatory pliability, a lack of legislation, the capacity of managers to use their discretion when making future assumption-related decisions, the timing of certain transactions, the use of fictitious transactions, and finally the reclassification and presentation of financial data (Blazek, 2021; Mulford & Comiskey, 2011). Aggressive accounting, on the other hand, entails using accounting policies to understate expenses or overstate revenues, leading to the potential misrepresentation of financial statements (Amat & Gowthorpe, 2004; Schipper, 1989). These practices are often driven by motivations such as meeting earnings targets, avoiding covenant violations, and enhancing stock market perception (Dechow & Skinner, 2000). Such practices, if left unchecked, can distort the perception of an organization's financial health and erode the credibility of its financial reports.

According to Abiola and Adebimbe (2012), corporations and financial institutions participate in creative accounting due to the anticipated advantages. These advantages could include, among other things, a positive impact on the share price and cheaper borrowing costs for corporations because of an enhanced credit rating. However, while pursuing such rewards can be advantageous to the company in the short run, it might be harmful in the long run, especially considering the going concern assumption. Okoye and Alao (2018) posit that businesses practice imaginative accounting for the following reasons: income smoothing, tax liability reduction, share price enhancement, and reward benefits. The motivation behind the adoption of creative and aggressive accounting practices can vary. In the hospitality industry, where revenue recognition and expense management can be complex, pressures to meet financial targets, secure funding, and maintain market reputation may drive such practices (Chaney et al., 2010). However, these practices can lead to distorted financial ratios, misallocation of resources, and reduced investor confidence (Richardson et al., 2004). Previous studies have highlighted that such practices are common in the hospitality sector (Carmona & Trombetta, 2003). However, Healy & Palepu (2003) suggested that regulatory enforcement and penalties may not be consistently effective in deterring these practices.

Table 1. Creative and Aggressive Accounting Studies Reviewed.

Author(s)	Year	Method	Sample Size	Country	Findings of the study
Bello, Abububaka, & Adeyemi	2016	Regression analysis	75 companies	Nigeria	The findings revealed that IFRS did not reduce the tendency for creative accounting.
Amidu, Yorke, & Harvey	2016	auto correlation analysis	119 companies	Ghana	The adoption of IFRS in Ghana resulted in relatively high profits and a low prevalence of tax evasion.
Okoughenu, Evbota & Amughoro	2019	Descriptive statistics and regression analysis	129 listed companies	Nigeria	Findings showed that creative accounting cannot be reduced by IFRSs but by good corporate governance practices.
Mavengere & Dlamini	2023	Beneish model	19 banks	Zimbabwe	The study detected manipulation in published financial statements for banks in Zimbabwe.
Nyakarimi	2022	Beneish model and regression analysis	Banks (34 in Kenya), (30 in Tanzania) and (20 in Uganda)	Kenya, Tanzania, and Uganda	The study found that banks from Kenya and Tanzania were involved in creative accounting, while Ugandan banks did not practice it.
Milašinović et al.	2022	Beneish M-score mode	100 randomly selected hotels	Republic of Serbia	The study found that during the COVID-19 pandemic, the level of creative accounting was high in the hospitality industry.

Source: Own formulation

3. Methodology

This study adopted a mixed-methods research design, integrating both qualitative and quantitative approaches. The qualitative phase involved in-depth interviews to gather rich insights into the perceptions and experiences of key stakeholders regarding creative and aggressive accounting practices. The mixed-methods research design aims to provide a comprehensive understanding of the impact of creative and aggressive accounting on the quality of financial reporting in the Zimbabwean hospitality industry. By combining qualitative insights with quantitative analysis, the study strived to offer a well-rounded perspective on this critical issue. Semi-structured interviews were conducted with a diverse set of stakeholders, including 9 financial managers, 12 chief accountants and 5 external auditors. Data was collected from February to April 2023. Through interviews, the study explored their understanding of creative and aggressive accounting practices, their motivations, and their perceived effects on financial reporting quality. Quantitative data was collected through the analysis of financial statements from a sample of hospitality companies to quantify the extent and impact of these practices on financial reporting quality. Annual financial statements were collected from company websites. These statements were analyzed to identify potential indicators of creative and aggressive accounting practices.

3.1. Sampling Method

The study adopted the purposive sampling technique for the selection of participants for interviews to ensure representation of various perspectives within the Zimbabwean hospitality industry. This approach ensured the inclusion of participants from different roles, segments, and sizes within the industry, and purposive sampling has been applied by various scholars (Dlamini, 2022). Nine financial managers, 12 chief accountants and five external auditors were interviewed in this study. For quantitative data collection, a stratified random sampling technique was used to select a sample of hospitality companies in Zimbabwe.

3.2. Data Analysis

The study used thematic analysis in analyzing interview data. Data was transcribed from the audio recordings, coded, categorized, and analyzed to identify common themes and patterns related to creative and aggressive accounting practices and their effects on financial reporting quality. Quantitative data analysis involved both descriptive and inferential statistics. Descriptive analysis quantifies the occurrence of potential indicators of creative and aggressive accounting practices in financial statements. Inferential analysis, such as correlation and regression, was used to assess the relationship between these practices and financial reporting quality metrics. Data collected from a qualitative approach was also triangulated with quantitative data. For ethical consideration, informed consent was obtained from interview participants, and their identities were kept confidential. Permission was sought to use financial statements for analysis, ensuring compliance with data protection regulations.

4. Results

Both qualitative and quantitative data were analyzed, and the information about the profiles of the participants is crucial since it affects the validity and dependability of the study's findings (Creswell, 2016). From the twenty-six participants, 34.6% were finance managers, 46.2% were chief accountants, and 19.2% were external auditors. Table 2 presents the profiles of the participants.

Table 1. Profile of Respondents

	PERCENTAGE (%)
JOB POSITIONS	
Finance Managers	34.6%
Chief Accountants	46.2%
External Auditors	19.2%
	100%
YEARS WORKING IN THE ORGANISATION	
Less than 2 years	9.5%
3 to 5 years	23.8%
6 to 10 years	38.1%
More than 10 years	28.6%
	100%
HIGHEST EDUCATIONAL LEVEL	
Diploma	0.00%
Undergraduate Degree	35.7%
Master's degree	57.1%
Professional courses (ACCA, CIMA etc)	7.2%
	100%

Source: Own formulation

In terms of work experience with the organization (finance managers and chief accountants), two participants (9.5%) had less than 2 years, five (23.8%) had between 3 and 5 years, eight (33.3%) between 6 and 10 years, and six (28.6%) had more than 10 years. The participants' education level indicates that we can rely on the responses given that all of them are able to respond to the issues associated with creative and aggressive accounting. Obaje (2020) stated that the educational level of participants is directly correlated with the reliability of the responses they provide. In this study, there were no diploma holders; 35.7% were undergraduate degree holders in accounting or finance; 57.1% had a master's degree; and 7.2% had a full ACCA. The study observed that management uses creative accounting for their personal gain, to improve share market prices, to avoid paying taxation, to ensure that they do not fail in debt covenants, and to acquire loans from financial service providers. Most of the participants (63%) agreed that managers subject themselves to more benefits than hotel owners, hence engaging in creative accounting. These results are consistent with those of Egwurube (2021) and Kamau (2016), who presented similar results. Emmanuel and Haruna (2017) also found that failing to adhere to debt covenants results in cash flow issues and creditor withdrawals, which have a negative influence on the firm's creditworthiness and rating. Figure 1 shows the techniques applied by the Zimbabwean hotels for creative accounting.

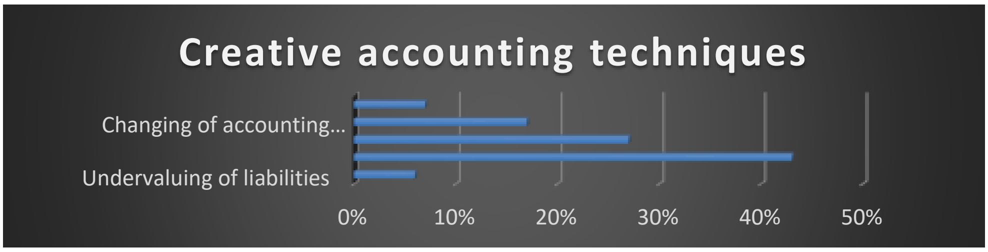

Figure 1. Techniques Applied in Creative Accounting.

Source: Own formulation

The study found that intra-company transactions (43%) are the most used techniques in creative accounting, followed by premature recognition of revenue (27%) and changing of accounting methods (17%). Though asset valuation schemes (7%) and undervaluing of liabilities (6%) were found to be the least used techniques by hotel companies,

Table 3. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.577[a]	.333	.296	1.388

a. Predictors: (Constant), Creative Accounting

Source: Own formulation

Table 4. ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	17.333	1	17.333	9.000	.008[b]
	Residual	34.667	18	1.926		
	Total	52.000	19			

a. Dependent Variable: Quality Financial Reporting

b. Predictors: (Constant), Creative Accounting

Source: Own formulation

The results of the regression analysis show that the p-value is 0.008, which is less than the significance of the test, which is 0.05. In this case, the p-value is less than the significance level, which suggests that the results are statistically significant at the chosen alpha level of 0.05. These findings reveal that there was a significant impact of creative accounting practices on the quality of financial reporting in the hospitality industry in Zimbabwe. In this case, an adjusted R-squared of 0.333 indicates that approximately 33.3% of the variability in the quality of the financial reporting can be explained by the creative accounting practices. The adjusted R-squared (0.3333) indicates a good fit for the analysis of the impact of creative accounting practices on the quality of financial reporting in the hospitality industry in Zimbabwe. This suggests that this model captured a moderate amount of the variation in the dependent variable.

Furthermore, through qualitative data collection, it was discovered that creative accounting affects the relevance of reported information by taking away the information's confirmatory and predictive value, making it irrelevant. The study also found that creative accounting aims to mislead the truth and has a considerable impact on how faithfully financial information is represented. According to the study's findings on understandability, it can still be understood even with creative accounting if the information is accurate and given clearly. The findings also implied that creative accounting renders financial statements untrustworthy due to the presentation of inaccurate or misleading information.

5. Conclusion

The study examined the impact of creative accounting on the quality of financial reporting in the hospitality industry in Zimbabwe. The study observed that management uses creative accounting for their personal gain, to improve share market prices, to avoid paying taxation, to ensure that they do not fail in debt covenants, and to acquire loans from financial service providers. The study found that hotels in Zimbabwe use creative accounting methods such as altering accounting principles, asset valuation, intra-company transactions, undervaluing liabilities, and early revenue recognition. However, in Zimbabwe, the most popular creative accounting technique was internal hotel transactions. The findings further revealed that there is a significant relationship between creative accounting practices and the quality of financial reporting in the hospitality industry in Zimbabwe. It is recommended that those entities that practice creative accounting practices in manipulating their financial statements, jeopardizing the quality of the reports, and misleading various stakeholders be sanctioned or forced to pay penalties. There is a need for future studies to consider the application of creative accounting in other sectors in Zimbabwe.

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