

## **CASH-FLOW REPORTING BETWEEN POTENTIAL CREATIVE ACCOUNTING TECHNIQUES AND HEDGING OPPORTUNITIES CASE STUDY ROMANIA**

*Dumitru Matis<sup>1</sup>  
Alina Beatrice Vladu<sup>2</sup>  
Laura Negrea<sup>3</sup>*

*ABSTRACT: We have studied the cash flow reporting issues in Romania, trying to establish if there is an interest in using creative accounting techniques in order to manipulate cash flow reporting. Another issue of our research is focused on the possibility of using hedging opportunities by financial managers of Romanian companies, in order to at least partially protect future cash-flow from external fluctuating factors.*

*In order to achieve our goals, we have issued a questionnaire, submitted to authorize auditors from Romania (208 audit companies and 267 individual auditors).*

*Our study lead us to conclude that creative accounting techniques related to cash flow are only partly known and used by the Romanian companies. On the other hand, hedging techniques were found to be very little known and used by Romanian managers. In this respect, the few instruments used are related to bank and insurance products like factoring, receivables insurance, financial instruments based on interest and foreign exchange rates.*

*Key words: cash flow, creative accounting, hedging opportunities*

*JEL Codes: M41, M42*

### **Introduction**

Cash flow is defined as the difference between money in and money out and it was probably invented by the early merchants. Its importance grew over time and today we can say without risk of error that: Cash is king.

An over flight of the liquid funds is a good indication of success and of course an over flight of the debt is an indication of failure. A company can juggle with the value of assets and liabilities but when the money runs out then its days are numbered.

So, if cash is king its importance for the company is beyond any doubt.

As we have studied the literature, we realized that a fundamental determinant of firm value is represented by cash flow.

As Harlan Platt (2008) observed most of the definitions focusing on the cash flow issues are bifurcated in two categories reflecting two different ways of interpretations and valuation of the company, referring to the valuation of the firm's equity and on the other hand on the valuation of the entire company.

Prior evidence regarding cash flow reporting tend to treat this sensitive topic related to the fact that reported cash flow does not always articulate with income statement and balance sheets

---

1 *Babes-Bolyai University, Faculty of Economics and Business Administration, [dumitru.matis@econ.ubbcluj.ro](mailto:dumitru.matis@econ.ubbcluj.ro)*

2 *Babes-Bolyai University, Faculty of Economics and Business Administration, PhD Student, [beatrice.vladu@econ.ubbcluj.ro](mailto:beatrice.vladu@econ.ubbcluj.ro)*

3 *Babes-Bolyai University, Faculty of Economics and Business Administration, PhD Student, [emillaura007@yahoo.com](mailto:emillaura007@yahoo.com)*

(Bahnson, 1996). The differences can be material enough to mislead the users of the financial statements.

It is well known that cash flow is an important attribute for prediction regarding the future of the company as it is an important factor of valuation, that way sometimes the cash flow information is manipulated in order to achieve the desired image.

Creative accounting regards areas like balance-sheet and profit and loss account but when it comes to cash it is a lot harder to manipulate because you can raise value or minimize value but you can not make the money pops. So, it is not surprising that the scope for creative accounting is here quite rightly restricted but not impossible.

As long as outsiders' ability to assess the real cash flow of the business is limited, the premise is created and at the same time the opportunity for creativity.

And of course we keep asking ourselves: why use creative accounting if you can protect future cash flow using hedging opportunities?

The underlying principles of cash flow hedging have a long heritage, advanced and substantially refined and extended by Froot, Scharfstein and Stein (1994). The cash flow hedging concept recommends that managers engineer their operating cash flows so as to be able to continue value enhancing investment programs.

### **Research methodology**

We review the literature on the various techniques of accounts manipulation and hedging opportunities related to the cash flow issues.

In order to see what particular findings from the foreign and national literature can fold the Romanian economic context we used two types of survey methods like: questionnaire and interview.

We used those particular types of survey methods because we wanted to ensure the ability to observe those phenomena in a natural setting and we wanted the respondents to be more honest in their responses because of the anonymous nature.

When we elaborate our questionnaire and interviews we set our main goal through this question: *What do we want to capture*. In order to achieve our goal, we decided on the target population and sample size (Who will be asked?) in number of 475 authorized Romanian auditors for our questionnaire (submitted by email) and a number of 5 interviews with Romanian specialists of the four commercial banks in our country, able to offer complex hedging instruments, and specialized in corporate banking: BRD Group Societe Generale, UniCredit Tirioc Bank, ING Bank and RBS Bank. The 5 specialists gave us an overview of the system and the portfolio of the entire bank.

### **Reasons for Cash Flow Manipulation**

Cash flow is often considered to be one of the cleaner figures in the financial statements the most reliable (WorldCom have demonstrated however that this is not quite like that). Companies' benefit from strong cash flow is reflected in its image – a strong cash flow means being more attractive and in the end that is what an investor wants.

When it comes to cash flow manipulation we can say without risk of error that all it comes down to embellish the image of the company and to distort the perception of financial statement users. Cash flow being the life blood of the company its importance is beyond words, that way if a company can distort this particular area, it has already won a privileged place on the market.

### **How the Manipulation Is Done**

Creative cash flow reporting refers to any and all steps used to create an altered impression of operating cash flow especially and in the process, provide a misleading signal of firm's sustainable cash generating ability. Steps employed in order to mislead or to misrepresent a firm's

sustainable cash generating ability may employ reporting flexibility within the boundaries of Romanian fiscal code and the fourth directive.

But, how exactly the manipulation is done?

Howard Schilit (2002) identified some shenanigans regarding cash flow in his successful book „How to detect accounting gimmicks & fraud in financial reports”, claiming that those are the most used in attempting to boost the image of the company. Those particular shenanigans are identified as follows:

- recording revenue when cash is received, even though future obligations remain,
- accelerating discretionary expenses into current period,
- using the law flexibility in cash flow classifications,
- taking actions that extend beyond the boundaries of the law,
- benefiting taxes related to nonoperating cash flow as operating cash flow.

Others, like Robert Halsey (2002) in its courses, identified some techniques used to improve operating cash flow as following: extending payables, reducing research and development and other necessary operating expenses, securitizing receivables, treating operating costs as capital expenditure, tax benefits from employee stock options exercise, financing customer purchases.

Based of fundamental research and both the discussion with experts in the field from Romania, we narrowed this vast area of creative accounting regarding cash flow at the following presented in Table no.1:

**Table no. 1**

**Creative Cash Flow Areas**

<b>Areas</b>	<b>Creative cash flow</b>
<i>Lack of honesty regarding accounts payable</i>	A company has written a check for one of its suppliers and while the „check is in the mail” this particular cash manipulating company will not deduct the accounts payable with honesty and puts those amounts in the operating cash flow as cash on hand. Another way for a company to boost its cash flow image is related to delay in writing all their checks.
<i>Non – operating cash</i>	Non-operating cash is usually money which has nothing to do with business (e.g. money from securities trading). To include this particular non operating cash it would only distort the true cash flow performance of the company's business activities. They should be dealt with separately. The ultimate goal is to distort the operating cash flow.
<i>Capitalization of expenses that are questionable</i>	Not all of capitalizations of expenses are questionable. The capitalization became questionable if the expenses are regular production expenses, which are part of the operating cash flow performance of the company. If the regular operating expenses are capitalized, they are recorded not as regular production expenses but

	<p>as negative cash flows from investment activities. While it is true that the total of these figures - operating cash flow and investing cash flow - remain the same, the operating cash flow boosted than that of companies that deducted their expenses in a timely fashion. Basically, companies engaging in this practice of capitalizing operating expenses are merely juggling an expense out of one column and into another for the purpose of being perceived as a company with strong core operating cash flow. The ultimate goal is to pop up the operating cash flow.</p>
<p><i>Selling Accounts Receivable</i></p>	<p>This is also called securitizing. The agency buying the accounts receivable pays the company a certain amount of money, and the company passes off to this agency the entitlement to receive the money that customers owe. The company therefore secures the cash from their outstanding receivables sooner than the customers pay for it. The time between sales and collection is shortened, but the company actually receives less money than if it had just waited for the customers to pay. So, it really doesn't make sense for the company to sell its receivables just to receive the cash a little sooner - unless it is having cash troubles, and has a reason to cover up a negative performance in the operating cash flow column. This can distort the operating cash flow from negative one to a much boosted one.</p>

*Source: Authors projection In the end everything comes down to operating cash flow*

Managers are well aware of the importance placed by investors and creditors among others like analysts on operating cash flow. If a company can raise operating cash flow, even as total cash flow remains unchanged, communicates enhanced financial performance.

If everything regarding creative cash flow comes down to operating cash flow, why this is possible?

The answer is quite simple and reduces to flexibility.

When we are talking about flexibility we are referring to the flexibility permitted in its calculation, by the law. Some companies have demonstrated a willingness to ply this flexibility in an effort to pushing up amounts reported as operating cash flow. Although such steps raise operating cash flow they do not increase sustainable cash flow (real cash, cash that could be used, as free cash flow), but even so it is important to raise operating cash flow, because the cash provided by operating activities is the primary source in supporting the company's sustainable development. It is this particular source of cash that provides management with money to meet dividends and discretionary expenses. Unlike cash provided from investing or financing activities, operating cash flow comes from a renewable source, in the end a sustainable one.

This particular flexibility is related to the classification decisions that artificially raise operating cash flow. Some involve investing items that get reclassified to the operating section.

Others involve financing items that get reported as operating cash flow. But as we argued before all comes down to operating cash flow.

Referring to this flexibility in order to understand better what this particular flexibility may do, we have selected one example regarding problems with investment security. Because we have not found in Romania one example which fold very well on what we want to bring into discussion (because Romanian companies do not disclose too much information regarding their cash flow statement) we selected the case of an foreign company.

#### **Investment classification choices**

Investment classification choices (*trading, available-for-sale or hold-to-maturity*) depend on intent.

Classification presents potential problems in the statement of cash flows when *non-financial* companies (as in Table no.2 and 3, Nautica Enterprises Inc.,) report trading securities as operating activities because these transactions are not likely to recur. As example we have selected as follows presented in Table no.2 and Table no.3, from the US Securities Exchange Commission (Home page available: [www.sec.gov](http://www.sec.gov)) new system which requires disclosure in form and documents of the American companies. Annual reports regulation of Nautica Enterprises Inc. for the years presented below were selected using SEC internet site (<http://sec.edgar-online.com/nautica-enterprises-inc/10-k405-annual-report-regulation-s-k-item-405/2001/05/29/Section2.aspx>). We selected the case of an foreign company, as we noticed before, because we have not found in Romania one example which fold very well on what we want to bring into discussion (because Romanian companies do not disclose too much information regarding their cash flow statement).

Table no.2

**Nautica Enterprises, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
(Amounts in thousands)**

No.	Characteristics	Values at Year Ended March 2, 2002	Values at Year Ended March 3, 2001	Values at Year Ended March 4, 2000
	<b>Cash flow from operating activities</b>			
1.	Net earnings	17.259	46.103	46.163
2.	Adjustments to reconcile net earnings to net cash provided by operating activities:			
2.1.	Deferred income taxes	-6.921	-2.478	-1.035
2.2.	Depreciation and amortization	29.045	22.968	17.072
2.3.	Provision for bad debts	5.161	1.451	1.424
2.4.	Loss on impairment of long-lived assets	7.870	--	--
3.	Changes in operating assets and liabilities, net of assets and liabilities acquired			
3.1.	Short- term investments	-804	28.445	21.116
3.2.	Accounts receivable	14.342	-17.935	-768
3.3.	Inventories	41.766	-24.142	-3.667
3.4.	Prepaid expenses and other current assets	1.902	-2.024	-20
3.5.	Other assets	-1.824	-36	-2.686
3.6.	Accounts payable - trade	-15.394	14.833	-548
3.7.	Accrued expences and other current liabilities	109	7.054	3.292
3.8.	Income taxes payable	-1.363	3.779	3.458
4.	Net cash provided by operating activities (total)	91.148	78.018	83.801
	<b>Cash flow from investing activities</b>			
5.	Purchase of property, plant and equipment	-44.268	-41.712	-33.289
6.	Acquisitions, net of cash acquired	-55.282	--	--
7.	Payments to register trademark	-91	-199	-277
8.	Net cash used in investing activities (total)	- 99.641	-41.911	-33.566

Source: Nautica, Form 10-k 405 Annual report regulations, 2002

If we look at the short term investments we will notice that those are integrated in „cash flow from operating activities”. Nothing unusual so far.

BUT, if we look how this was reported in the previous years as in Table no.3, (belonging to the investing activities) we will notice that this resulted in the **overstatement** of operating cash flow by \$28.4 million (57%) in fiscal year end 2001 and \$21.1 million (34%) in fiscal year end 2000.

**Table no.3**

**Nautica Enterprises, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
(Amounts in thousands)**

<b>No.</b>	<b>Cash flow from investing activities</b>	<b>Values at Year Ended March 4, 2000</b>	<b>Values at Year Ended February 27, 1999</b>
1.	Purchase of property, plant and equipment	-33.289	-20.224
2.	Acquisitions, net of cash acquired	-	-1.650
3.	Sale (purchase) of short-term investments	21.116	-2.764
4.	Payments to register trademark	-277	-169
<b>Total</b>	<b>Net cash used in investing activities</b>	<b>-12.450</b>	<b>-24.807</b>

*Source: Nautica, Form 10-k 405 Annual report regulation, 2000*

**Cash flow hedging opportunities in Romania**

In an extremely volatile climate, Romanian managers get more and more acquainted to treasury products, in an attempt to control the risk, as much as possible.

Nowadays all significant corporate banks in Romania are promoting and offering various hedging instruments. If companies with foreign shareholders benefited of know-how and experience in using financial instruments as hedging possibilities, many of Romanian based companies were somehow reluctant to these products. Forced by economic dynamic, Romanian managers have begun to look deeply into cash flow hedging opportunities.

As well as the creative accounting techniques, applied to cash flow reporting, hedging techniques have an influence on future cash-flow, affecting the result in specific ways.

These methods are also a possibility to improve future cash flow, but this is more or less where the similarities end.

According to Professors Barry Elliot and Jamie Elliot, cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with the recognized asset or liability and that will affect reported net income.

In this respect, cash-flow hedging is not at all an “all problems solver”, but mostly represents a method of reducing or managing the exposure to risk and to incertitude, without having as purpose speculative earnings. They create the premises of issuing cash flow reports and budgets that are based, at least in part, on constant values instead of variables.

For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.

Of course financial instruments are a generous topic and much can be discussed, from accounting and reporting point of view, mostly. But, through this short research we are more interested in discovering techniques and methods available for Romanian companies, as well as the use and influence on cash flow reporting.

We have verbally approached treasury specialists from main Romanian banks, trying to discover which the commonly used instruments for cash flow hedging are.

We have discovered that most financial instruments available and used for cash flow hedging are focused on two main areas: foreign exchange and interest rate risk management.

As far as the foreign exchange hedging instruments are concerned, the interest is increasing. Romanian companies, importers as well as exporters have very much experienced the negative effect of volatility of exchange rates. The recent depreciation of Romanian Ron has brought many companies that import goods from EU countries in front of a difficult challenge. The invoices coming to maturity, have affected the cash flow equilibrium, by generating higher cash outflows.

Unfortunately, some of Romanian companies have too late acknowledged the benefit a hedging instrument could have generated.

One of the simplest hedging instruments is a forward agreement, based on foreign exchange rate. A forward contract is a commitment to buy or sell at a certain future date, a fixed quantity of the “support” element, at a price set at the moment of closing the contract.

We have asked one of the treasury specialists we have approached to make a simulation, for a fictive company, signing a Forward agreement, intending to buy EUR 100,000, on 12<sup>th</sup> August 2009, when the NBR official exchange rate was 4.2239, with the settlement date of 12<sup>th</sup> October (2 months). We mention the Forward exchange rate calculated at settlement date was 4.2897 RON/EUR.

As of 18<sup>th</sup> September, already one EUR was bought on the market with approximately 4.28 RON, with almost one month before our fictive company settlement date, with no reasonable and possible estimation what it will become by settlement date. For an invoice of EUR 100,000, a fluctuation of for example 0.01 RON/EUR, results in a cash flow fluctuation of RON 1,000, at settlement date.

This is just a small example of potential consequences of the volatility of our national currency, on companies’ cash-flow. Of course, there’s always the other side of the story, and important gains can be obtained by favorable currency evolution.

But in this economic climate, certainty has become an appreciated value, maybe more than a speculative gain. We are in a country with a volatile currency and with imports of consistent value. A real aid in this context can be brought by cash flow hedging through foreign exchange risk management instruments.

According to IAS 7, the amounts that are to be included in the cash flow report are the actual amounts paid or received, therefore the rates at settlement/payment date are used. The exchange differences are relevant in calculated the amounts paid or received. Unrealized foreign currency differences are not cash flows and will be excluded from cash flow statement. Still, the effect of exchange rate variation on cash and equivalents is reported, in order to be able to reconcile amounts at beginning and at the end of the period. It is mentioned separately from operating, investing and financial cash flow and includes the differences of those cash-flows reported at yearend exchange rate.

Cash flow hedging instruments most commonly offered in Romania were identified as: forward, foreign currency option (plain vanilla option), cylinder option and other complex instruments. These were identified on banking institutions’ web sites, as well as during our discussions with a few treasury specialists.

Of course all these options have a cost, but it’s a matter of management assessing the opportunity cost, and if they decide that having a straight value of cash inflow or outflow is better than giving in to highly volatile risk, than the result is an optimized future cash flow statement, modified through risk management techniques rather than creative accounting methods.

The other relevant cash-flow hedging area is reserved for interest rate risk management. A simple and used method is IRS – Interest Rate Swap that has the effect for the company of transforming a variable into a constant. Most loans contracted by Romanian companies are either in RON, or in EUR. For EUR loans, the base rate is EURIBOR, to which a margin is added. We all know that one of the effects of current financial crisis is the evolution of EURIBOR, encountering historical minimum, we have know values around 1%, while only last year values around 4% were available. But who can asses the future evolution?

Companies with loans of million of euros, and not only, find themselves in the position of hardly being able to estimate future cash outflows related to interest payments. This is why, instrument like Interest Rate Swap is a solution for insuring a future constant cash flow related to these payments. It is an agreement between two parties, based on a contract, to exchange over a certain period of time, fixed interest payments, against variable interest payments, related to a fixed

amount of capital – in this case, the loan. Actually, a swap contract is a contract through which, one operator exchanges a debt with certain characteristics, with a debt with different characteristics.

Other methods used, with approximately the same result are instruments like CAP, Collar, Floor, all fixing the variable base rate to an interval, thus diminishing the fluctuation risk.

As an effect on cash flow statement, we can find first of all an increase in cash outflows related to interest payments, as the rate agreed will always be higher than the one on the market, but on the long run, the stability of the value of respective outflows is an advantage more and more visible even to Romanian managers, who not really used to these types of products.

The bottom line is coping with a shortage in cash on immediate short term, in order to benefit from the advantage of stability, of being able to manage at least partially the cash flow fluctuation, generated by external factors, separately from company's operations.

According to IAS 39, a contract is considered a hedging contract, only if the efficiency can be proven.

To qualify for hedge accounting at the inception of a hedge and, at a minimum, at each reporting date, the changes in the fair value or cash flows of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%.

These two opportunities (based on foreign exchange rate and interest payments) of hedging part of the cash-flow statement are of course not as spectacular as creative accounting techniques. But, they bring, in our opinion, a positive effect for the users of cash flow statements. They are a way of managing external factors with influence on cash flow elements, transforming some variable elements into constants, and at the same time, being very helpful in cash flow forecasts. Thus, end users can form also a positive image on the management of the company, that takes time to benefit from opportunities that actually bring added value to cash flow statements, and not only.

Although these are rather simple financial instruments, compared to the potential diversity, they are provided by Romanian banks, are available starting some years ago, and can become important cash flow hedging methods, also for companies based in our country.

### **Romanian economic context- results of the questionnaire**

During our research, we have tried to complete an email survey, among 475 authorized Romanian auditors, out of a total of 580, choosing only those having the email address available on Bucharest Stock Exchange. After two week, we have received 45 answers, mostly from Romanian audit firms.

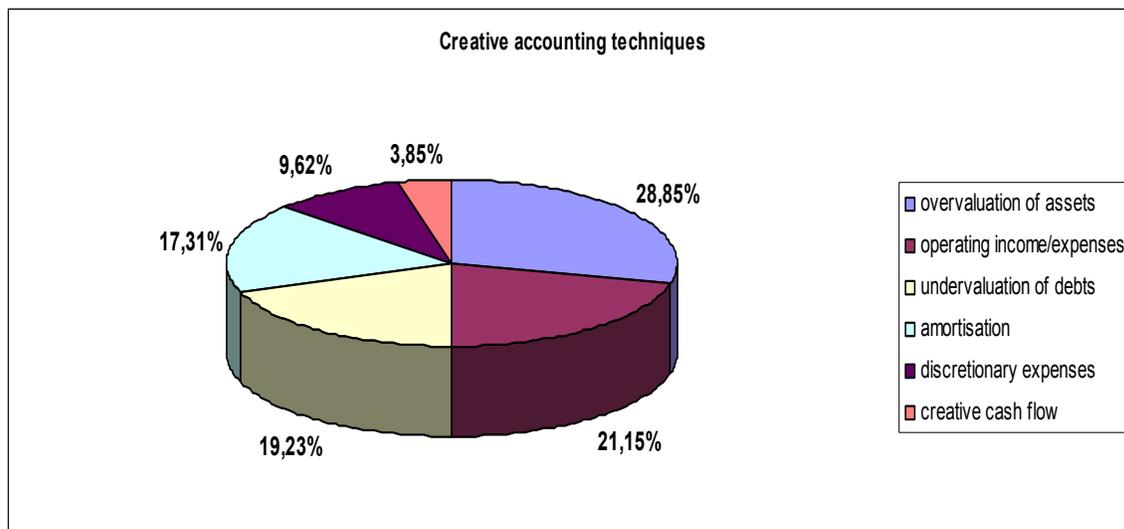
77% out of the respondents declared to have an experience between five and ten years, the majority performing audit missions on a number of 20 to 100 companies.

We intend to continue this study, after receiving answers for one month, in order to form a sustainable opinion and conclusion.

Still, at this stage, it is interesting to see that almost all (84%) declared that creative accounting techniques are only partly known and used by Romanian companies.

Among the most frequent methods of creative accounting observed, the respondents referred to assets overvaluation, to operating revenues and expenses and undervaluation of debts.

Please see below, a synthesis of the results:



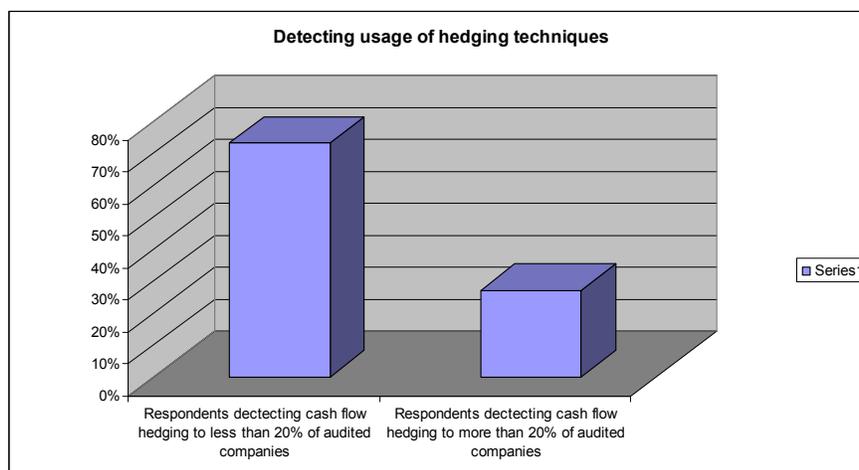
**Fig. No. 1 – Creative accounting technique**

Apparently, in the respondents' opinion, most of the techniques surround either the operating result, or "improving" the balance sheet, by boosting the assets, or affecting the indebtness level, by undervaluation of the passive elements.

The creative cash flow does not seem as a point of interest, thus proving once more the little relevance given in Romania to cash flow reporting.

On the other hand, more than half mentioned that only under 5% of the audited companies used cash flow hedging methods, and 85% out of respondents considered receivables insurance or factoring to be used at a low level (under 5%).

Please find below a graphical result of our research, related to this issue. Almost all respondents agreed that not even 20% of the Romanian companies benefit of cash flow hedging instruments.



**Fig. No. 2 – Detecting usage of hedging techniques**

## Conclusions

Creative accounting techniques related to cash flow are only partly known and used by the Romanian companies as we can see from the result obtained above. The interest is still mostly in the balance sheet area, boosting assets, and diminishing debts.

28.85 % of respondents declared that overvaluation of assets is a practice of creative accounting they have discovered in their activity. Regarding other practices of creative accounting like those related to the operating income or expenses the proportion of responses is 21.15%. Close to these values and we refer to the values of 19.23% and 17.31% were the responses regarding undervaluation of debts respectively techniques of creative accounting related to amortization. As we can see above and as we noted before creative accounting techniques related to cash flow are little known and used, the percentage being 3.85.

The results of our survey showed that the majority of the Romanian managers don't use cash flow hedging methods and if they do, they use it at a very low level.

The figures are as follows:

- 73% out of the total number of respondents declared having detected cash flow hedging techniques to less than 20% out of all audited companies;
- 27% out of the total number of respondents declared having detected cash flow hedging techniques to more than 20 % out of all audited companies;
- 57.7% out of the total number of respondents declared having detected cash flow hedging techniques to less than 5% out of all audited companies.

Our study based also on the interviews of the Romanian banking treasury specialists, on their observations, revealed that this lack of interest may result out of: lack of knowledge, not sufficient promotion made by Romanian banks, fear of not benefiting from future positive trends, the benefit is not acknowledged, lack of incentives and motivations for Romanian financial managers to achieve certain constant results related to future cash flow these financial instruments are still considered in our country as speculative, rather than hedging opportunities.

If we try to give an answer to the question stated above: "why use creative accounting if you can protect future cash flow using hedging opportunities?" we our study revealed a few answers. First of all, the result of creative accounting is definitely more spectacular and the boost of operational cash flow, can improve significantly the image in the eyes of investors or creditors. On the other hand, hedging techniques, although have an important influence on cash flow reporting, it is not at such impressing level, at least on the short run, and the techniques are certainly used for different reasons.

Creative accounting creates an artificial image, without actually improving the business or cash flow, misleading the users of financial statements. The benefits can be found in the image created, in finding new investors attracted by a positive result, or maybe in influencing a bank's decision on granting a loan. Cash flow hedging brings a real help in managing risks, helps in issuing forecasts, improves results mostly on medium or long term, while using such techniques creates the image of a professional management with focus on finding hedging possibilities in a fluctuating climate.

So, although these techniques related to creative accounting and hedging are not similar and do not exclude each other, we discovered that Romanian managers would get better results in improving the cash flow of the company by taking advantage of available hedging opportunities, instead of wasting time and other resources in creating a so called „creative cash flow”.

Apart from the above mentioned conclusions, our research revealed also the fact that Romanian auditors acknowledge their role in detecting creative accounting practices. Approximately 85% of the respondents to our questionnaire are declared without reserves that a financial auditor should play an important role in detecting these practices. These results can become a start for future research, as mentioned below.

### **Limitation of the Present Study and Scope for Future Research**

The present study has been conducted based by this particular structure of the questionnaire that may cause people to poorly represent their opinion (the structure of the questionnaire can be

viewed in Annex ). Other two limitations of our study are related to the fact that our subjects elicit no response on some questions and that were typically low response rates.

After our research is completed and a significant number of answers is received, we intend to develop the issues referred to in this study, and by using econometric models, to achieve a conclusion on the Romanian auditors' view on the usage of creative accounting techniques and cash flow hedging in Romania.

## References

1. ACCA Paper P2. 2009. Corporate Reporting (International), BPP Learning Media
2. DeFond, M., and M. Hung. 2003. An Empirical Analysis of Analysts' Cash Flow Forecasts, *Journal of Accounting and Economics* 35, pp. 73-100
3. Elliot B. and Elliot J. 2008. *Financial Accounting and Reporting*, Twelfth Edition, Pearson Education Limited, pp. 336
4. Fairfield, P., S. Whisenant, and T. Yohn. 2003. The differential persistence of accruals and cash flows for future operating income versus future profitability, *Review of Accounting Studies* 8, pp. 221-243
5. Feleaga N., Malciu M. 2002. Politici si optiuni contabile, Ed. Economica, pp. 173 – 174
6. Francis, J., Olsson, P., & Oswald, D. 2000. Comparing the accuracy and explainability of dividend, free cash flow, and abnormal earnings equity value estimates, *Journal of Accounting Research*
7. Froot , K., Scharfstein, D., and Stein, J. 1993. Risk Management: Coordinating corporate investment and financing policies, *Journal of Finance*, December
8. Harlan D.Platt. 2008. *Cash Flow Contradistinctions*, Commercial Lending Review
9. Howard Schilit. 2002. How to Detect Accounting Gimmicks & Fraud in Financial Reports, R.R. Donnelley & Sons Company
10. Jonas, G. J. and J. Blanchet. 2000. Assessing the Quality of Financial Reporting. *Accounting Horizons* pp. 353-363
11. <http://www.surveysystem.com/sdesign.htm>
12. <http://trochim.human.cornell.edu/kb/survey.htm>
13. [www.iasplus.com](http://www.iasplus.com)
14. <http://www.aicpa.org/members/div/acctstd/ibr/chap6.htm>
15. [www.treasury-management.com](http://www.treasury-management.com)
16. <http://sec.edgar-online.com/nautica-enterprises-inc/10-k405-annual-report-regulation-s-k-item-405/2001/05/29/Section2.aspx>

**Annex: Questionnaire related to the involvement of financial auditors in Romania in detecting creative accounting techniques**

QUESTIONNAIRE REGARDING THE OPINION OF ROMANIAN AUDITORS ON USING CREATIVE ACCOUNTING TECHNIQUES OR HEDGING OPPORTUNITIES

(This questionnaire will be used strictly for research activity related to creative accounting)

*We ensure the confidentiality of all information provided*

1. Experience in performing auditing missions

< 1 year     | 1 - 5 years |     | 5 – 10 years |     > 10 years

2. Number of financial auditing missions performed so far

< 20     | 20 - 100 |     > 100

3. You are employee of an auditing company:

- out of the Big Four
- non resident company
- resident company
- self employed

4. You asses that Romanian companies consider manipulation of accounting results through creative accounting techniques, as important?

- yes
- no
- partially

5. You consider that Romanian companies provide clear and sufficient information related to activity performed?

- yes
- no
- partially

6. Out of the total audited firms, how many do you asses that have used cash flow hedging techniques offered by banks?

(Cash flow hedging – foreign exchange rate risk, interest rate risk, etc)

- none
- under 5%
- between 5 and 20%
- between 20 and 50%
- over 50%

7. Out of the total audited companies, how many do you estimate that have used receivables' insurance products or factoring services?

- none
- under 5%
- between 5 and 20%
- between 20 and 50%

- over 50%
8. You appreciate that creative accounting techniques are, for the Romanian financial managers:
- known and very used
  - known and used
  - known but little used
  - too little known
9. Most of the creative accounting techniques identified were based on:
- amortization techniques
  - cash flow
  - overvaluation of assets
  - undervaluation of debts
  - operational income or expenses
  - discretionary expenses
10. Do you consider that financial auditors should play an important role in detecting creative accounting practices?
- yes
  - no

Thank you for the information provided.

**\* *Investing in people!* PhD scholarship, Project co-financed by the European Social Fund, SECTORAL OPERATIONAL PROGRAMME HUMAN RESOURCES DEVELOPMENT 2007 – 2013, Babeş-Bolyai University, Cluj-Napoca, Romania**