

ARTICLE WRITING

CREATIVITY ACCOUNTING- IN REFERENCE OF PNB SCAM & PACL SCHEME SCAM 2015



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CREATIVITY ACCOUNTING

Creativity accounting involves some of the accounting practices that follow demanded rules and regulations, however stray from what those norms mean to achieve. It is basically a term which is described as the practices of applying improper accounting policies or entering into composite or ‘special purpose’ transactions with the goal making a company’s financial statement take shape to a more relevant position. Although creative accounting is legal, the loopholes they utilize are often improved to prevent such behaviour.

There is a misrepresentation of the true income and assets of a company or other organisation. Creativity accounting is when companies represent their accounts in such a manner that they earn money or falsify their profits.

Creative accounting must be used if it is within consequences of the law and achieves the ultimate goal of the company and its increasing stock value. It should be benefit to the company in short run as well as long run. It basically refers to the need of knowledge of accounting rules to misappropriate business accounting figures, it is also termed as abusing of company’s financial statements which is practiced by the managers of the organisation to fool their shareholders and earn money.

Transforming the financial accounting figures from the actual ones to desire by taking advantage of existing codes or ignoring some or all of them.

WHY CREATIVITY ACCOUNTING IS PRACTISED?

The owners and market reactions is similar more and more to manager’s actions are highly judged on revenue, market growth, market share, earning per share and large bonuses. So, companies want to show their report to the investors and at such times they need to manipulate their data and need to practice creative accounting.

Creative accounting is basically used to:

* Hide a specific bad year/bad accounting results for their company
* Force to show a good year/good accounting results
* Showing their company the best
* Showing smooth results always and the stability of their company
* Boosting up their assets to avoid take-overs

THE MOTIVATIONS OF CREATIVE ACCOUNTING

* Incentives
* Bonus payments
* Benefits from share options
* Job security
* Personal satisfaction
* Covering up the frauds
* Tax management
* Management buyouts
* Self-interest of managers

PNB SCAM: NIRAV MODI SCAM

The size of the most recent trick to hit the Indian keeping money framework is remarkable. Punjab National Bank uncovered for the current week that it had recognized false exchanges worth more than Rs 11,380 crore in a Mumbai branch. That sum is about twofold the measure of cash the administration mixed into the bank, India's second-biggest open loan specialist, to help cover its non-performing resources issue. It was 33% of the bank's whole market capitalisation when it was accounted for. By any measure, the size of this claimed wrongdoing is abnormal.

Furthermore, the declared culprits are not faceless bank authorities. The bank has claimed that the trick included organizations associated with well known Nirav Modi, who is an extremely rich person, and is known to have ultra-rich customers including Hollywood and Bollywood stars. Reports have now recommended Modi left India previously Punjab National Bank documented a First Information Report. Then, strikes are being directed at properties associated with the organizations crosswise over India. Furthermore, the issue has turned political, with the Congress blaming the BJP for looking the other path as Modi left the nation.

Be that as it may, what precisely happened? Albeit much is yet to be uncovered, a note coursed by Punjab National Bank to different banks gives a few points of interest of the trick up until now.

What was the trick?

As per Punjab National Bank's note, a lesser level branch official "unauthorised and deceitfully" issued Letters of Undertakings for the benefit of organizations associated with the Nirav Modi gathering. The LoUs enabled the organizations to get purchaser credit – basically advances intended to be utilized to purchase material that would be transported in into India – from remote branches of other Indian banks. At the end of the day, Nirav Modi's organizations were supposedly ready to get advances in outside monetary standards, without offering any security. Additionally, the Punjab National Bank note guarantees that these credits, which should be utilized straightforwardly to pay for the transported in merchandise, were rather utilized for different things like paying back different advances taken from different banks.

What are LoUs?

A LoU is basically a letter of credit, where one bank tells another that it will meet a client's risk. For an above-board import exchange this would have worked in the accompanying way:

One of Nirav Modi's organizations approaches Punjab National Bank for a LoU to import gems from Hong Kong.

Punjab National Bank gives the LoU for, say, Allahabad Bank's Hong Kong branch.

As a result of the LoU, Allahabad Bank assumes that any cash it reaches out to the Nirav Modi organization will be paid back by Punjab National Bank. So it puts the cash into a Nostro account – a sort of record held by one bank in remote money in another bank.

Nirav Modi's organization now approaches this cash to pay for the imports.

Inside a stipulated period, once the imports have really been transported into India.

PACL SCHEME SCAM 2015

Advised financial specialists of PACL Ltd (past Pearls), advertise controller Securities and Exchange Board of India (SEBI) had requested that they hold all archives with himself or herself and not to share or handover it to anybody for any reason. SEBI said the Justice RM Lodha Committee named by the Supreme Court to discard properties of PACL and pay continues to speculators has not approved anybody to gather checks, cash or case shapes from financial specialists.

In an announcement, SEBI stated, "The (Justice RM Lodha) Committee is in receipt of protestations, whereby, it is learnt that specific people under the act of authorisation from the advisory group. In such manner, it is emphasized that advisory group has not approved any individual to gather any cash or claim in any way at all, along these lines financial specialists may be careful and are warn to not fall in the trap of any such news, report or ad."

Prior on 27 November 2016, the market controller, while brightening the procedure to positive discount made it clear that the discount would be started endless supply of a sizable sum by the Committee. It stated, "In such case, financial specialists would be required to document their cases just in the initial arrange upon particular warning by the Committee. Till such notice, speculators are asked for to hold their archives with themselves and not to part with them for any reason at all."

The Lodha advisory group is regulating the Supreme Court requested procedure of offering PACL's benefits the nation over and discounting Rs49,100 crore gathered from more than 56 crore speculators.

The pinnacle court in a request on 2 February 2016 set-up a board of trustees headed by its previous boss equity RM Lodha to pitch resources of PACL to discount financial specialists Rs49,000 crore gathered through aggregate speculation conspire that were held as illicit by advertise controller SEBI.

Coordinating that no court in the nation would engage any supplication in regard of the offer of PACL resources, the seat additionally limited the PACL from going for any more speculations from the general population. The cash to be discounted to the financial specialists was supposedly gathered by PACL and Pearls Golden Forest Limited - two organizations having a place with Nirmal Singh Bhangoo-oversaw- for the sake of offer and improvement of farming area.

CONCLUSION

Creative accounting is like double-edged weapon, which can be used or abused by the management. If it is abused then the sole fault is of the management and not of CA itself.

* It is difficult to draw an ethical line on creativity accounting because :
* GAAP often allow multiple accounting methods that a company can choose from
* Estimates are employed.
* Technically not illegal but could fall into unethical area if the true values are grossly misrepresented and inflating the performance.
* Must benefit company in the short run and long run.

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