

Effect of Creative Accounting Practices on the Financial Performance of selected Sri Lankan Companies

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This research is an empirical survey of creative accounting practices in Sri Lanka. Practitioners do the creative accounting for the purpose of making the company appear to be financially stronger or weaker depending on the management's anticipation. Thus, creative accounting practices do not provide a "true and fair" view of the financial statements. The general objective of the study was to assess the effect of creative accounting practices on the financial performance in Sri Lankan companies. This research considered tax avoidance, accelerated depreciation, and income smoothing as part of the major creative accounting practices that affect financial performance of Sri Lankan companies. The research used descriptive statistics to observe the major practices of creative accounting that affect to financial performance of Sri Lankan companies. The target population was professional in accounting and finance sector. A sample of 60 professionals was used for the study. Primary data was acquired through administering questionnaires and distribute to chartered accountant, accountant, CEOs, CA/ACCA student, auditors, company secretary and lecturers in accounting and finance sector. Statistical Package for Social Sciences Software (SPSS) 20.0 was used in carrying out the descriptive analysis. The study found that tax avoidance has a major influence on financial performance of the firm. Under tax avoidance aspect, tax incentives has a significant influence on firm's profitability showing that tax avoidance impacts financial performance. The findings also established that income smoothing has a hand in influencing financial performance and its practice resulted in decrease in financial performance. The research revealed that accelerated depreciation significantly influence financial performance of firms the respondents feel, firms do take advantage of accelerated depreciation to improve their financial performance.

Keywords: Creative accounting, Financial performance, Tax avoidance, Income smoothing, Accelerated depreciation