

## **A Study On Food Sector Firms Listed At Borsa Istanbul In Terms Of Creative Accounting Practices**

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### **Extensive Summary**

Information included in financial statements is required to be correct, reliable, and capable of satisfying the needs of those who need it. The financial statements not bearing these qualifications reduce the confidence in especially publicly-held companies and harm their continuity. Financial information users that make decisions based on financial information suffer substantial losses due to incorrect and imperfect financial information. As a result, scandals and financial crises are experienced in companies.

Today some publicly-held companies manipulate information to increase their own value as well as the value of their stocks. Creative accounting is the most commonly used financial information manipulation method. Creative accounting is defined as presenting the financial position of a company differently from its real position by using the flexibility and lacunae in its accounting policies.

Creative accounting practices are the practices performed by taking advantage of the lacunae in generally accepted accounting principles. They are employed to present enterprises better than they actually are sometimes and are utilized to create a good impression about managers some other times. Though they make considerable contributions to companies in the short term, they may give birth to negative results for them in the medium and long term. The most important reason underlying the intention of an enterprise to employ creative accounting is lack of a corporate governance mentality. In other words, creative accounting practices stem from corporate management's not presenting information to the shareholders of the enterprise in a fair, transparent, accountable, and responsible way (Gacar, 2012, p. 78-79).

Especially publicly-held companies turn to creative accounting practices in order to provide fund at a lower cost, pay less tax, distribute more profit, and have a higher firm value and stock value. Creative accounting practices involve financial information manipulation and the transfer of business activities to financial statements contrary to facts in order to mislead and deceive financial information users. They also lead to accounting scandals and reduce confidence in companies.

Creative accounting practices that are performed by making use of the lacunae in accounting rules decrease trust in independent auditing and confidence in companies and therefore give rise to financial crises in the long term.

The purpose of this study is to reveal whether or not 16 food sector firms that have been being traded at Borsa Istanbul (BIST) for minimum 10 years engaged in manipulation by resorting to creative accounting practices between 2013 and 2014. To this end, The Beneish TR model was used, and the variables specified in the model were calculated based on the data of the years 2013 and 2014. As publicly-held companies are subject to independent auditing and are obliged to announce their financial statements as per the Turkish Commercial Code no. 6102, the financial statements of 16 food sector firms that are traded at BIST belonging to the years 2013 and 2014 were obtained from the Public Disclosure Platform.

The Beneish (1999) and the Beneish TR (2004) models were used as research methodology mainly because the variables specified in these models are derived from the information included in balance sheets and statements of income, and the use of two-year financial statement data was enough. Identification of food sector firms that engage in manipulation by turning to creative accounting practices is largely about their practices against accounting standards. Thus, the data included in basic financial statements such as balance sheets and statements of income were used, and the food sector firms stably traded at BIST were focused on in this study.

16 food sector firms that have been being traded at BIST for minimum 10 years were identified. The firms included in the option platform, second national market, and watch list market were excluded. 16 food sector firms were found to have been being traded at national market for minimum 10 years. Since the use of two-year financial statement data was enough for the Beneish TR model, the years 2013 and 2014 were taken into consideration. Mi value was reached with 9 independent variables used in the Beneish TR for this period. Mi value gives information about whether an enterprise resorts to financial information manipulation.

The equation used for obtaining Mi value and relevant coefficients are presented below (Küçüksözen, 2004, p. 319):

$$Mi = -1.547 + (1.276 * TAE) + (-1.770 * BKM) + (0.082 * AKE) + (0.225 * AME) + (-0.488 * PSE) + (-0.514 * TVE) + (-0.341 * BYE) + (0.972 * SSE) + (0.060 * FSE)$$

If an investor who has the financial statements of a company belonging to two years allowing him to make a comparison between them uses this equation, he can predict whether the company engaged in financial information manipulation (Küçüksözen, 2004, p. 482). The Mi values of 16 food sector firms that have been being traded at BIST for minimum 10 years are presented in Table 1. The independent variables used for the calculation of Mi value were computed by using the data in the financial statements published at Public Disclosure Platform.

Normal distribution had to be ensured to obtain statistically accurate results about the Mi values of 16 food sector firms that have been being traded at BIST for 10 years

for the years 2013 and 2014 (Bekçi and Avşarlıgil, 2011, p. 151). Hence, there was a need to test whether the Mi values had normal distribution. The extreme values preventing the normal distribution of the dataset were identified in the boxplot, and 3 firms were excluded from analysis. Kolmogorov-Smirnov and Shapiro-Wilk tests proved the normal distribution of the dataset including the Mi values of 13 food sector firms that have been being traded at BIST for minimum 10 years.

Descriptive statistical data were obtained for the Mi values. The mean of the Mi values was found to be -2.0534, and the standard deviation was calculated to be 0.60029. The lesser the standard deviation is, the better the mean represent the series. It is clear that the mean represents well the dataset composed of Mi values in the present study.

Zi values that were obtained by converting the dataset composed of the Mi values of 13 food sector firms that have been being traded at BIST for minimum 10 years into normal variable yielded the probability of manipulation based on creative accounting practices (Bekçi and Avşarlıgil, 2011, p. 148).

While interpreting the analysis results, Zi values obtained through the conversion of the Mi values of the firms included in analysis into normal variable were taken into consideration. Zi values were divided into 4 main areas. The 1st area refers to no finding indicating that the firms have turned to financial information manipulation; the 2nd area refers to a possibility of financial information manipulation; the 3rd area refers to a considerable possibility of financial information manipulation; and the 4th area refers a very high possibility of financial information manipulation.

This study determined whether 13 food sector firms that have been being traded at BIST for minimum 10 years engaged in manipulation by resorting to creative accounting practices between 2013 and 2014. For only 2 firms out of 13 firms under examination, there was no finding indicating the existence of manipulation through creative accounting practices. Findings indicating a possibility of financial information manipulation were obtained for 2 firms. Findings indicating a considerable possibility of financial information manipulation were obtained for 5 firms. Findings indicating a very high possibility of financial information manipulation were obtained for 4 firms. Of 13 food sector firms that have been being traded at Borsa Istanbul for minimum 10 years, 2 were seen to be in the 1st area, 2 in the 2nd area, 5 in the 3rd area, and 4 in the 4th area.

In the light of all these, it can be said that elimination of lacunae in the accounting policies of firms will reduce creative accounting practices as it is considered that they engage in creative accounting practices by using the flexibility and lacunae in their accounting policies. The lacunae in accounting policies may be eliminated through a strict auditing system supported by legal regulations. Severe material and moral sanctions must be imposed on members of the accounting profession and accounting staff in order to set up a sound order in this matter. This will bring down the number of firms that engage in financial information manipulation by resorting to creative accounting practices.