

Title: Accounting practice in Bangladesh**Author:** MD ABDUL MOZID (1), MD NURUL ISLAM (2), MD RAKIBUL HASAN (3)

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Abstract:

This document is the result of a study of accounting and global perspectives in Bangladesh. Global scenarios are included in the survey to explain the scope of accounting practice. Accounting can be a blessing or a curse. This is the benefit of introducing something new to refine the accounting system, which adds to the body of existing accounting knowledge. When an unethical element invades, it becomes a curse. However, in the real world, accounting practices tend to show that in most cases they are curses rather than blessings and therefore undesirable. The main purpose of this practice is usually to attract unsuspecting investors, or to present unfair accounting by exaggerating, sometimes misleading, or misleading conditions in a company's financial position. Is to get the above reward. In recent years, accounting practices have increased not only in Bangladesh but also in many developed countries. However, It is clear that the scope of corporate financial statements presented in some developing countries violates all known ethical standards. This study emphasizes the need to prevent, rather than stop, corporate practices, if they exist. This document recommends the international introduction and recognition of forensic accounting. National accounting bodies, courts, and governments need to take strict measures to thwart this practice. Misrepresentation of facts or fraudulent financial reporting due to falsification of a company's financial statements should be considered a serious and punishable offense. Accountants must adhere to high ethical standards and maintain integrity in all professional activities. They need to ensure that accounting professionals are based on ethical principles and values, impose national and international respect and trust, and put an end to misleading accounting and financial reporting fraud.

Keywords: Accounting, Published accounts, Accounting policies, Forensic accounting, Ethical principles, Bangladesh.

Introduction

In 1992, Terry Smith's book caused a turmoil in the UK (UK) professional accounting community. Smith, under the subtitle "Remove Camouflage from Corporate Accounting," entitled "Accounting for Growth," described the cover book as "the book they tried to ban," but who would "ban it?" I didn't say "I did." He later described the title of the book as "intentional puns." In his view, "Most of the company's apparent profit growth in the 1980s was the result of accounting minions rather than minions. True economic growth" (Smith, 1992: 4). He gave an example of a private company that collapsed shortly after reporting a profit of £ 130,000 in 1976, but was later acquired by another company, Lonrho. A more dramatic example was Polypek, a British textile company. On September 3, 1990, the company "announced record interim results for the six months to June 30, 1990, and made enthusiastic comments on the outlook for the year ahead ... Polypek 1990. He took office on October 25, "(Smith, 1992: 221). These were some of the few similar examples cited in the book. The above example raises the fundamental question

that "a company that reports significant profits over a particular period of time can soon collapse." Some of the possible answers to this question are in the first two words of the title of this article, "Creative Accounting." This article refers to Bangladesh and looks at it from a global perspective. The rest of the work consists of five sections. Section 2 analyzes the conceptual aspects of creative accounting, and Section 3 analyzes its causes and consequences. Section 4 provides an overview of common accounting scenarios in Bangladesh using information obtained from a variety of sources. Section 5 sheds light on accounting practices from a global perspective. Section 6 concludes the investigation and provides some recommendations.

Conceptual Aspects of Accounting

As a matter of focus, creative accounting is not offensive in itself. However, when unethical elements invade, the resulting accounting details become untrue and unfair. Creativity in that context is like calling half a glass of water half full, rather than explaining it to be half empty. Both statements are virtually correct, but they convey different images because they draw different images. Business accounting creativity can occur in at least three different financial market situations. The first is when a company fluctuates its stocks to attract investors and subscribes to those stocks at face value or premium, depending on the financial market's assessment of the company's future outlook. The second is when a company already listed on the stock exchange wants to draw an attractive financial position so that it can trade at a premium. Finally, companies listed on the stock exchange can declare and pay high dividends based on their swelling earnings through overvaluation of assets, undervaluation of liabilities, and changes in the stock valuation system. I will. Short term. Run. Unethical considerations in creative accounts have deepened, and terms such as fraud auditing and forensic accounting 2 have become popular and are emerging as new professions. Accountants and auditors are increasingly required to appear in court to take testimony.

Causes and Effects of Accounting

The real cause of accounting is conflicts of interest between different interest groups. Managing the interests of shareholders is paying less taxes and dividends. Investors-Shareholders are interested in getting more dividends and capital gains. The national tax authorities want to collect more and more taxes. Employees are interested in getting better salaries and higher profit sharing. However, accounting puts one or two groups in an advantageous position at the expense of other groups. One day, the current author had the opportunity to talk to the company's chief accountant in this regard. The Chief Accountant said in a conversation that he was determined to retain profits for the expansion of existing units and the establishment of new units. As a matter of course, His interest was to pay less taxes and less dividends, and as a result, to "prepare" financial statements. This type of accounting led David Schiff (1993: 94) to warn investors. In general, receiving a company's financial statements at face value can be a "disaster recipe." Earnings per share (EPS), which is often misunderstood by investors paying too much attention, can be boosted by the accountant's creative pen strokes. " Schiff (1993: 94-95) mentions six of the many ways businesses can use their profits: (i) hidden pension liabilities, (ii) canceling costs. Instead of capitalizing, (iii) growing faster than accounting sales of collections or inventories, (iv) negative cash flows, (v) integrating the income and capital of owning subsidiaries and unable to receive them , (vi) Follow practices that look conservative in reverse situations [for example, if the low-priced LIFO (last-in, first-out) cost inventory layer is "expanded" and sold at

the current price, now Profitability is exaggerated].

Accounting: Bangladesh Scenario

The research presented in this article is exploratory and is based on both primary and secondary sources. Secondary sources include published books, magazines, periodicals, reports and newspapers. The subjects of the survey are (1) List of Certified Accountants Available from Bangladesh Institute of Certified Accountants (ICAB) (as of July 1, 2004), (2) List of Cost and Management Accountants (Currently as of July 1, 2004).) List of university accounting professors available from the Bangladesh Association of Cost Control Accountants (ICMAB) and (3) from the University of Bangladesh Scholarship Board (UGCB) (as of July 1, 2004). For analytical purposes, the data collected is organized into four tables using percentages to show the results of the analysis of expert opinion. The expert poll-based analysis aimed to find out whether the expert opinion was in agreement with or different from the information based on the bibliographic survey. Another purpose was to study their perceptions of creative accounting, which seems to be a daily problem in the accounting systems of developed and developing countries. The survey used a simple random sampling method (with substitutions) to extract samples from the three groups of respondents (population), as shown in the table above. The overall sample size of the study is about 10 percent of the population. Key information was gathered by conducting a short survey consisting of only five questions related to some relevant topics in creative accounting. Almost all questions were in a structured form, a closed form. The questionnaire (shown in the appendix) is It was conducted from Bangladesh to (i) 70 certified accountants, (ii) 60 administrative accountants and cost accountants, and (iii) 30 university accounting professors. Each respondent answered the questionnaire at the time of implementation.

Analysis Based on Published Materials

The authors assume that Accounting has long been practiced in Bangladesh. But the questions are: (1) which organizations practice this? (2) To what extent is it practiced? These questions should interest investors. Many of the company prospectuses published in Bangladesh are based on creative accounting. An instance of created reporting of prospectus relates to M. M. Dyeing and Finishing Mills Ltd. According to section 135 of the Bangladesh Companies Act 1994, the detailed 'matters to be specified in [company] prospectus and reports to be set out there in' are contained in Schedule-III of the Companies Act. This Schedule requires the auditors to report on: (i) the profits of the company showing clearly the trading results and all charges and expenses incidental thereto excluding income or profits having no relation to the trading for the period covered and excluding also items of profit or income of a non-recurring nature but including amounts appropriated for taxation and reserve [clause 24(2) of Schedule-III] and (ii) rates of dividend paid, sources from which such dividends were paid, and classes of shares on which such dividends were paid, and in case dividends were not paid at all, or on any class of shares, a statement of that fact [clause 24(1)(b) of Schedule-III]. The report shall cover a period of five financial years immediately preceding the issue of the prospectus. However, in the cited case, the auditors of the company did not audit the financial statements for the four months ended 31 st October 1999, but surprisingly included the unaudited figures in their reports on profits, and also covered unaudited period in their report on dividends. The association of auditors name/report without audit could mislead prospective investors. However, issuing such report (which could

not be thought over before six months) has become a rule in Bangladesh rather than exception, being issued also by the auditors of Pharma Aids Ltd. and Rahim Textile Mills Ltd. The authors also found the existence of Accounting in Pharma Aids Ltd., previously referred to. The company had capitalized borrowing costs on long-term loans from 1 July 1994 to 30 June 1997, although it commenced commercial operations on 1 July 1984, thereby violating paragraph 25 of IAS 23 (International Accounting Standard 23: Borrowing Costs) which had been adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) as Bangladesh Accounting Standard (BAS). Clearly, the intention was to convert the accumulated loss of Taka 37.90 lakh on 30 June 1996 into a retained earning of Taka* 0.736 million (US\$ 11682.539) on 30 June 1987. Besides this, the company charged “depreciation on fixed assets as per production proportionate ratio”, a method of depreciation never heard of in the manufacturing sectors. This apparently does not conform to IAS 4 (International * 1 US\$ = Bangladeshi Taka 63.00. Accounting Standard 4: Depreciation) adopted by the ICAB. The results of all these dubious practices were that the company purported to have earned profits during the period July 1, 1996 through September 1997 whereas, in reality, it had incurred losses. This apparent profit entitles the company to declare interim dividend at 10 percent. Such dividend declared, not backed by actual profit, is illegal since it is paid out of capital. The Accounting here made “paper entrepreneurs” appear like “successful entrepreneurs”. We found another instance of Accounting in the financial statements of Rahim Textile Mills Ltd. for the six months ended 31 December 1997. The company charged depreciation under declining balance method but limited the depreciation to the capacity utilized proportion – an unheard of depreciation method in the manufacturing sector of Bangladesh. This again does not agree with the IAS 4. Moreover, the company treated the “loss during trial operation” as deferred revenue expenditure to be written off over a period of 5 years although such treatment is not allowed by Generally Accepted Accounting Practices [paragraph 4 of Statement of Standard Accounting Practice (SSAP) 11 issued by the New Zealand Society of Accountants. Sequel to this practice of creative accounting, the company’s loss for a period at Taka 2.566 million (US\$ 40730.158) were transformed into a net profit of Taka 0.440 million (US\$ 6984.1269), and a deficit of Taka 3.762 million (US\$ 59714.285) shown as retained earnings of Taka 0.440 million (US\$ 6984.1269). A traditional case of creative accounting, which is largely practiced in Bangladesh, involves Cenco Incorporated (Medical/Health Division). The company inflated the value of inventory to increase profit by falsifying records. The inflation of profit originally took place for one year and once only. However, it could not be covered in the next year, so larger inflation of profit had to be effected the next year. The time came when much larger inflation could no longer take care of the problem. The company then arranged for a fire outbreak and listed both the missing and obsolete inventory as having been destroyed by the fire. Initially, shareholders benefited from the Accounting practice; but ultimately suffered when their share prices fell after the fraudulent accounting picture came to light and the company was embroiled in litigation (Alam, 1988: 7). It is unfortunate that in recent days, issued company prospectuses in Bangladesh have tended to ignore the “notes to financial statements” as well as the information required by BAS/IAS, especially as regards disclosures and accounting policies. However, the Securities and Exchange Commission (SEC), regulatory authority for public limited companies listed with the stock exchanges in Bangladesh, is recently working as a constant watchdog in this regard. SEC lodged a criminal case in the second quarter of 2000 with the court of the Chief Metropolitan Magistrate (CMM) against Mark Bangladesh Shilpa and Engineering Ltd. and its directors under section 25 of the Securities and Exchange Ordinance 1969 for the company’s involvement in overvaluation of its assets and misappropriation or

improper utilization of initial public offering (IPO) funds. SEC detected the overvaluation of assets by employing technical experts in this regard. In another case, SEC detected professional misconduct of an auditor (M. A. Fazal & Co.), which, while auditing, ignored false figures and statements given in the annual accounts of Rupam Oil for the year 1996-97.

Analysis based on Expert Opinion Survey

In this sub-section, we examine the problem of this study (related to a few issues only), by a surveying and analysis of experts' views. These experts are (i) chartered accountants of Bangladesh, (ii) cost and management accountants of Bangladesh, and (iii) university teachers of accounting of Bangladesh. The issues addressed are: (1) whether Accounting has long been in practice in limited liability companies in Bangladesh, (2) whether the prospectuses issued by these companies ignore "notes to financial statements" as well as the information required by BAS/IAS, especially with reference to disclosures and accounting policies, (3) whether Accounting is a blessing or curse for the companies, (4) what the reasons are for regarding Accounting as a blessing or curse, (5) what possible measures could be adopted to stop the practice of creative accounting, and (6) if, and what, important code of ethics should be included in accounting education. The issues and respondents' opinions are analyzed in table 2.

Table 2: Responses as to whether creative accounting has long been in practice in the organizations of Bangladesh

Respondents	Chartered Accountants	Cost & Management Accountants	University Teachers of Accounting	
Responses	<i>f</i> (percent)	<i>f</i> (percent)	<i>f</i> (percent)	Total
Yes	60 (85.7%)	52 (86.7%)	19 (63.3%)	131 (81.9%)
No	10 (14.3%)	08 (13.3%)	06 (20.0%)	24 (15.0%)
Don't know	-- --	-- --	05 (16.7%)	05 (03.1%)
Total	70 (100%)	60 (100%)	30 (100%)	160 (100%)

Note: *f* stands for frequency.

Table 2 shows that a substantial majority of chartered accountants (85.7 percent), cost and management accountants (86.7 percent) and university teachers of accounting (63.3 percent), that is, overall 82 percent of all the respondents taken together are of the view that Accounting has long been in practice by companies in Bangladesh, while only 16.7 percent of university teachers of accounting seem to have no idea about how long Accounting has been in practice by companies in Bangladesh. It is, therefore, clear that Accounting has been in practice in Bangladesh, although it is not clear for how long.

Table 3: Responses as to whether the prospectuses issued by the organizations in Bangladesh ignore "notes to financial statements" as well as the information required by the BAS/IAS especially with regard to disclosures and accounting policies

Respondents	Chartered Accountants	Cost & Management Accountants	University Teachers of Accounting	
Responses	f (percent)	f (percent)	f (percent)	Total
Yes	66 (94.3%)	58 (96.7%)	25 (83.3%)	149 (93.1%)
No	04 (05.7%)	02 (03.3%)	03 (10.0%)	09 (05.6%)
Don't know	-- --	-- --	02 (06.7%)	02 (01.3%)
Total	70 (100%)	60 (100%)	30 (100%)	160 (100%)

It is evident from table 3 that an overwhelming majority of chartered accountants (94.3 percent), cost and management accountants (96.7 percent) and university teachers of accounting (83.3 percent), an overall 93 percent of all the respondents taken together agree that prospectuses issued by companies in Bangladesh tend to ignore “notes to financial statements” as well as information required by BAS/IAS, especially as regards disclosures and accounting policies. In this respect, only a small proportion of university teachers of accounting (6.7 percent) have regretted their inability to respond to whether prospectuses issued by companies in Bangladesh ignore all those information or not.

Table 4: Responses as to whether Accounting is a curse or blessing for the organizations in Bangladesh

Respondents	Chartered Accountants	Cost & Management Accountants	University Teachers of Accounting	
Responses	f (percent)	f (percent)	f (percent)	Total
Curse	65 (92.9%)	54 (90%)	25 (83.3%)	144 (90%)
Blessing	05 (07.1%)	06 (10%)	05 (16.7%)	16 (10%)
Total	70 (100%)	60 (100%)	30 (100%)	160 (100%)

Table 4 shows that quite majority of chartered accountants (92.9 percent), cost and management accountants (90.0 percent) and university teachers of accounting (83.3 percent), an overall 90 percent of all the respondents, regarded Accounting as a curse, while a small proportion of all the three groups of respondents considered Accounting a blessing for companies in Bangladesh. Those few who consider creative a blessing have given one vital reason for their answer. This is that some companies in Bangladesh have been found to be interested in refining their accounting system. For example, Bangladesh Lamps Ltd. and Bangladesh Electrical Industries (Pvt.) Ltd. have adopted inflation accounting, under the guidance of N. V. Philips Gloeilampen fabrieken, Holland. These companies maintain two sets of accounts – one set under Historical Cost Accounting system that ignores the effects of inflation and another set under Replacement Cost Accounting system that incorporates the effects of inflation. Some companies listed with the stock exchanges are also found not to follow the requirements of IASs in the accounting system, although they are required to observe it according to rule 12 of the Securities and Exchange Rules 1987 (effective from October 1997). On the other hand, those who have regarded Accounting as a curse have argued that in many organizations of Bangladesh, unethical elements are found to have created accounts in order to attract investors. They present an exaggerated and misleading or deceptive state of company financial affairs so that more and more people are

attracted to invest in the companies. This way of presentation is undesirable and for that reasons a curse.

Conclusions and Recommendations

It is clear from the foregoing discussion that Accounting practice is found not only in Bangladesh but also in developed countries like the UK, the USA and Australia. In the USA, to check creative accounting, the practice of forensic accounting is on the increase. In a country like Bangladesh where the unethical aspects of Accounting are rampant, the practice of forensic accounting (i.e., investigative accounting done by forensic accounting consultants to solve problems in courts) needs to be introduced and recognized. In this regard, Loren Kellogg, a US CPA (Certified Public Accountant) whose “Financial Statement Alert” scrutinizes public companies’ questionable accounting practices, advises investors to examine carefully shareholder letters and management’s discussion and analysis of financials, and to try to read between the lines by looking at four basic areas: (i) extent of a company’s earnings from operations, as opposed to onetime occurrences, warning signs in the financial statements (e.g., shrinking profit margins, or fast growing inventories or receivables, or insufficient cash generation, etc.), (iii) changing accounting methods to more favorable one, or using accounting methods different from the ones the competitors use, and (iv) assets or liabilities on (or off) the balance sheet that might affect future earnings (vide Schiff, 1993: 94). The result that emerges from the analysis of expert views is that Accounting has long been in practice in Bangladesh. Most of the companies in Bangladesh create accounts in an undesirable way to attract investors, while some of the companies practice it with a good motive of refining the accounting system. It is a good sign. Another healthy sign is that experts have started feeling that the unethical practice of Accounting should be stopped by all means. They also recommend that while imparting accounting education, it is the indispensable duty of the instructors to instill the moral virtues of honesty, integrity and incorruptibility into the very fiber of students’ character. To detect and prevent the pitfalls of creative accounting, punitive measures have to be taken by national accounting bodies, courts and Government. The country needs to have a sound, strong stock market as the foundations of free and fair enterprise system. Ethical codes need to be given much importance by the Accounting Profession. Accountants need to understand ethical codes in proper perspective and follow them accordingly. Students of accounting also need to learn all these by heart. Fraudulent financial reporting has to be prevented by all means. Misrepresentation of facts and falsification of accounts have to be treated as great offences and dealt with strictly. Every accountant should keep in mind that ethical conduct and accounting education are critical to modern society, the business world and the accounting profession. Lapses in ethical behavior of accountants endanger the accounting profession’s credibility. The liability of an accountant for his/her acts and faults is not restricted to his/her immediate client alone but extends also to third parties who rely upon his/her professional advice. An accountant should, therefore, need to take all care to ensure that his/her advice is not incorrect or misleading, as third parties who rely upon his/her instructions or financial statements may hold him/her liable for consequent financial losses incurred. To ensure that the accounting profession commands the respect and confidence it deserves from the public and, simultaneously, to check unethical aspects of creative accounting, the need for accountants to adhere strictly to the code of professional ethics can hardly be overemphasized.

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