

Creative accounting from an Islamic perspective: viewed from *sadd al dzari'ah* concept

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Abstract

Purpose - This study aims to determine how Islamic Perspective views creative accounting practices that have been happening in Indonesia if viewed from the *Sadd Al dzari'ah* Concept

Method - The method used in this research is qualitative with a library research approach. The case discussed in this study is creative accounting conducted by many companies in Indonesia, as viewed from the *Sadd Al dzari'ah* Concept.

Result - The results of this study shows that creative accounting practices in many companies in Indonesia are not follow Islamic perspectives if viewed from the *Sadd Al dzari'ah* Concept.

Implication - This research emphasizes that management should always identify all creative accounting techniques to avoid the occurrence of creative accounting.

Originality - Similar research related to creative accounting has been conducted. Still, the research about creative accounting has been widely reviewed from the Islam perspective, especially *Sadd Al dzari'ah* concept, which has never been done. This research contributes to how creative accounting practices are viewed from the Islamic perspective, especially from the *Sadd Al dzari'ah* concept.

Keywords: creative accounting; Islam; *sadd al dzari'ah*



Introduction

Accounting is known as the language of business (business language). The output from accounting is in the form of financial reports, which are used as a tool for stakeholders in decision-making. Accounting helps communicate economic events in numbers to owners, investors, and creditors to predict, plan, compare, and evaluate the company's profit capabilities and financial position. The accounting information contained in financial reports must be clear, simple, and easy for stakeholders to understand. The analysis and presentation must be trustworthy and contain information in accordance with what stakeholders want, such as being reliable, relevant, understandable, and comparable. Unfortunately, many accounting frauds in the past have caused accounting information to be misinterpreted when used by stakeholders. Certain loopholes in accounting standards facilitate companies in carrying out financial reporting irregularities.

Flexibility in accounting standards often gives rise to creative accounting practices, but objectivity can fade due to conflicts of interest, emotional ties, or other interest biases. There are three reasons why individuals commit fraud, known as the (Cressey, 1973) fraud triangle: opportunity, pressure, and rationalization. The company is considered to have more opportunities than shareholders to use the information asymmetry contained within the company. Besides that, the company is also considered to have the opportunity to use the flexibility of accounting standards when preparing financial reports. Added to this is pressure from shareholders and creditors to fulfill the bonus and debt agreements signed between shareholders, creditors, and the company. Lastly, rationalization. Weak ethical standards and setting aggressive or unrealistic targets can make company management practice creative accounting.

Creative accounting refers to the efforts made by a company to present financial reports so that they appear better than they are in the eyes of stakeholders. Although not illegal, creative accounting is contrary to the purpose of implementing accounting standards. In other words, creative

accounting is not an act of violating laws and regulations; instead, it is an act of fraud and unethical conduct. Creative accounting is the act of exploiting gaps in accounting standards. By exploiting this gap, management presents a better picture of the company's performance achievements.

Accounting recognizes the terms earnings management, fraud, and creative accounting. These three terms have something in common: they both involve certain efforts made by managers to make financial reports look better in the eyes of stakeholders. Even though they have almost the same meaning, these three practices have different goals and techniques. Earnings management is a practice carried out by management to make financial reports look better in the eyes of stakeholders. Earnings management aims to meet market expectations regarding company performance. Various earnings management techniques that can be used include changing accounting methods, accounting estimates, or shifting the timing of income recognition (Setiawati & Na'im, 2000). Earnings management is legal as long as the practices carried out do not violate accounting standards. Creative accounting has a broader scope of meaning than earnings management.

According to Usmar (2014), creative accounting has a broader definition than earnings management. Creative accounting is a deliberate act by management to beautify financial reports by displaying profits as desired by the owner. The technique used can change the numbers presented in the financial statements through various alternative accounting methods, estimates, and other practices still within the framework of accounting rules and standards. Creative accounting is closer to managers' interpretation of a standard. Meanwhile, earnings management is the managers' choice of accounting method, but it focuses more on management efforts to manage profits for the company's and the manager's interests.

Fraud is an act of fraud carried out by management intentionally to mislead users of financial reports to take personal advantage (opportunistic managers). Acts of fraud include misuse of assets and fraudulent financial statements (Mardianto; Tiono Carissa, 2019). Techniques used include recording fictitious income and hiding debts. Fraud is an act that violates the

law because it is an illegal act. Meanwhile, creative accounting beautifies financial reports by utilizing the flexibility of accounting standards (Blake et al., 2005). Techniques used include income smoothing and debt restructuring. Creative accounting cannot be explicitly said to be illegal as long as the actions taken do not violate the financial accounting standards (SAK) implemented in the company. However, creative accounting can mislead the understanding of financial report users.

One of the state-owned pharmaceutical companies in Indonesia was involved in a creative accounting case. This case shows that net profit engineering was carried out through overstated sales and merchandise inventory in several pharmaceutical units belonging to the state-owned pharmaceutical company. The pharmaceutical company is suspected of having engineered a profit of 100 billion rupiah to become 132 billion rupiah. The misstatements arose due to inflated inventory values and double recording of sales.

Another case example is one experienced by a state-owned company in the transportation sector. In 2005, the company reported a profit of 6.9 billion rupiah, even though, in reality, it suffered a loss of 63 billion rupiah. After research, it turned out that the inflated profits came from tax bills from third parties that had not been collected for three years, which were reported as customer receivables. In fact, according to SAK, tax bills from third parties that have not been collected for a long time cannot be recorded as assets.

Another case occurred at a telecommunications company in Indonesia. The company hedges derivative transactions to reduce income, which will impact reducing taxes. The company carried out 17 foreign exchange and interest rate swap contract transactions worth US\$ 275 million, causing the company's revenue to decline. For 3 years, from 2004-2006, the company experienced losses worth Rp. 653 Billion. This loss resulted in a decrease in taxes paid to the state by IDR 323 billion. The hedging transaction was allegedly directed at debts to other telecommunications companies abroad. This practice is a transfer pricing practice, a creative accounting practice in the tax world that aims to avoid taxes legally.

According to Ismael (2017), creative accounting has a negative impact on the reliability of financial reporting. Creative accounting plays a significant role in financial reporting. Akpanuko & Umoren (2018) also stated that creative accounting contributes to unfair reporting of company operations, deceives the public, potential investors and shareholders, and increases the company's failure rate. In line with Akpanuko & Umoren (2018), Ajibolade (2008); Norri (2013), accounting practices also contributed to the bankruptcy of large companies in the world, such as Enron, Worldcom, and Parmalat. This was due to the information produced. From creative accounting practices that are misleading and unreliable to users of financial statements.

The purpose of preparing financial reports is not only as a tool for management accountability to shareholders but also as a decision-making tool. When management has carried out financial engineering so that the financial reports cannot show the company's actual performance, the preparation of financial reports cannot fulfill the primary purpose of making financial reports.

When viewed from an Islamic perspective, creative accounting is an important issue currently in the spotlight. The practice of creative accounting carried out by management raises questions about how the actual law for implementing creative accounting is viewed from an Islamic perspective, especially the concept of *Sadd Al dzari`ah*, because when viewed from a procedural perspective, creative accounting is not a practice that violates the rules. However, if viewed from a procedural perspective, creative accounting is not a practice that violates the rules. Behavior, then creative accounting's actions are considered unethical because creative accounting is considered authoritative to other parties, especially the owner as the primary stakeholder. *Sadd Al dzari`ah* is a concept contained in Islamic sharia to close all doors to damage. The proof of the concept of *Sadd Al dzari`ah* is found in the Qur'an, surah Al – An`am: 108:

وَلَا تَسُبُّوا الَّذِينَ يَدْعُونَ مِنْ دُونِ اللَّهِ فَيَسُبُّوا اللَّهَ عَدْوًا بِغَيْرِ عِلْمٍ كَذَلِكَ زَيْنًا لِكُلِّ أُمَّةٍ
عَمَلُهُمْ ثُمَّ إِلَىٰ رَبِّهِمْ مَرْجِعُهُمْ فَيُنَبِّئُهُمْ بِمَا كَانُوا يَعْمَلُونَ

And do not insult those they invoke other than Allah, lest they insult Allah in enmity without knowledge. Thus We have made pleasing to every community their deeds. Then to their Lord is their return, and He will inform them about what they used to do.

In the verse above, Allah *Subhanahu wa Ta'ala* forbids Muslims from criticizing deities other than Allah *Subhanahu wa Ta'ala*, because this could cause them to criticize Allah *Subhanahu wa Ta'ala* in return. Blaming deities other than Allah *Subhanahu wa Ta'ala* is permissible, but if criticizing deities other than Allah *Subhanahu wa Ta'ala* will cause more significant damage, namely making Allah *Subhanahu wa Ta'ala* also be criticized by them, then this becomes prohibited. Another impact is that they will become increasingly hostile and hate the Islamic religion (Abu 'abdullah Muhammad Al-Qurtubi, 2018). The concept of *Sadd Al dzari'ah* is a concept that teaches that something permissible is not permissible in the Islamic view if something permissible becomes a *wasilah* or door that causes terrible things to happen.

Many previous studies have been carried out on creative accounting, but creative accounting research in terms of Islamic values has never been carried out. Research related to creative accounting with the title Creative Accounting Practices in Cooperatives in East Java conducted by (Agustia & Palupi, 2018) stated that during 2012-2014, cooperatives in East Java had implemented creative accounting practices to increase or decrease profits. The cooperative management increases its SHU when the factual profit is lower and reduces it when it is higher. This practice aims to reduce SHU fluctuations, so that the cooperative looks stable and does not pose a high risk to the business.

Hołda & Staszal (2016) also researched creative accounting in several European and American countries. The results of this research conclude that creative accounting can be considered a positive accounting phenomenon in

Eastern Europe and Central Europe, while in South America, creative accounting can be considered neutral. In Germany and England, creative accounting can be considered an action that leads to fraud in financial statements. Marilena & Corina, (2012) stated that creative accounting is a legal action, but it has ethical violations because it contains elements of lies and fraud. Oyedokun (2018) stated that the aggressive accounting technique is not an act of cheating, but this technique is a step or entrance to fraud. According to experts, creative accounting is not an easy problem because it concerns the information provided by accounting and presented in financial reports, which is the basis for many economic decisions.

Strakova & Zvarikova, (2021) researched creative accounting and found that creative accounting was seen as something legal as long as it did not violate state law, while Sari et al., 2018 stated that students from religious-based campuses considered creative accounting as an ethical practice compared to students from the public campus.

Tsuyoshi & Yamamoto, (2023) state that creative accounting has become a big problem in corporate governance and has caused serious economic problems in a country. Rahman, Muhammad Shajib Hasan et al., (2023) stated that creative accounting influences organizational performance in Bangladesh. Rahman, Muhammad Shajib Hasan et al., (2023) stated that to avoid creative accounting, organizations must strengthen political connections, corporate governance, corporate ethical values, and the company's future orientation. Bala, (2013) states that creative accounting in a company can be reduced by increasing the role of corporate governance and improving the quality of accounting information.

This research examines how creative accounting is when viewed from an Islamic perspective, the concept of *Sadd Al dzari`ah*. Meanwhile, this research is connected to Islamic values with the concept of *Sadd Al dzari`ah* because many creative accounting practices occur in Indonesia, which incidentally is the country with the largest Muslim population in the world. The concept of *Sadd Al dzari`ah* is used in this research because the concept of *Sadd Al dzari`ah* is a concept contained in Islamic sharia to close the door to evil, so it

is hoped that by implementing this *Sadd Al dzari`ah* concept, companies in Indonesia will avoid tendency to do creative accounting. Apart from that, no previous research has been found regarding creative accounting which is viewed from the concept of *Sadd Al dzari`ah*. This research aims to discover how the concept of *Sadd Al dzari`ah* in Islam views creative accounting practices and how to prevent creative accounting practices according to the concept of *Sadd Al dzari`ah*. This research is expected to provide theoretical and practical contributions regarding how the concept of *Sadd Al dzari`ah* in Islam views the practice of creative accounting as well as the role of the concept of *Sadd Al dzari`ah* in efforts to prevent creative accounting practices.

Literature Review

Creative Accounting

Creative accounting is an accounting practice that is outside the rules and provides benefits to certain parties. Creative accounting can be described as a financial reporting practice that influences income to appear normal. This practice does not provide tangible economic benefits to the parties concerned, in this case, shareholders. In summary, creative accounting is an action management takes to manipulate the numbers in financial reports to make the company's performance look good in the eyes of stakeholders (Blake et al., 2005).

Creative accounting is a practice that has the potential to be carried out as a result of individual creativity more in their interests and indirectly causes problems in the ethical dimension of creative accounting. From an information perspective, agency theory provides a clear picture of the creative accounting scenario. Managers abuse their position by manipulating financial reporting for their interests and presenting "pretty" information to shareholders. Lack of "individual skills" or reluctance to carry out detailed analysis means that individual shareholders do not have a clear and correct view of the effects of accounting manipulation resulting from creative accounting.

According to Usmar (2014), if viewed from the perspective of positive accounting theory, creative accounting is not a problem as long as the practice does not conflict with accounting standards. From an ethical perspective, creative accounting is considered unethical because creative accounting is considered a form of information manipulation that can mislead users of financial reports. Usmar (2014) concluded that creative accounting is a bad accounting practice because it reduces the reliability of financial report information and contradicts the concept of fair and accurate financial reporting. As a result, financial reports are still considered to have limitations because they are insufficient to be used as a decision-making tool.

In some literature, creative accounting can be interpreted as a white-collar crime. White-collar crime is a crime committed by professionals in subtle and unclear ways whose driving factor is no longer extended poverty but is motivated by greed. Recipients of delegations of authority commit white-collar crimes and trust Istifadah & Senjani (2020). According to Omurgonulsen & Omurgonulsen (2009) creative accounting is very vulnerable to occurring in companies because of the many gaps in accounting standards, the lack of autonomy of government regulatory and supervisory bodies, the difficulty of enforcing legal and ethical rules, in addition to the personal greed factor of top management which is a factor, the root of the problem.

Several motivations have been identified for stimulating creative accounting behavior in organizations. First is to report a decrease in business income to reduce taxes paid. Second, to allow the company's performance to appear better in the future, the company will maximize its reported losses to make a bad loss for that year. This is called 'big bath' accounting to smooth income. Third, to provide a positive view on public expectations, security assessments, and risk reduction for analysts in anticipating capital market transactions and maintaining company performance within analyst expectations.

***Sadd Al dzari`ah* Concept**

Dzari`ah means the path or washilah that conveys the purpose or goal. Dzari`ah, in the context of this research, is a way to arrive at forbidden or halal actions. Islam is a comprehensive religion, so Islam not only regulates relationships between humans towards Allah *Subhanahu wa Ta`ala*, but Islam also regulates relationships between humans and other humans, including economic transactions. When there is an economic transaction that is haram, then the way or method that conveys that haram thing is also haram, and vice versa.

On the basis of the *Sadd Al dzari`ah* concept, law is divided into two: 1) Goal/Maqashid, namely maqashid al-syariah in the form of benefit. 2) Wasaail/ method, namely the path to achieving the goal

Thus, the concept of *Al dzari`ah* is an action carried out by humans to get closer to carrying out things that are obligatory or haram. Allah *Subhanahu wa Ta`ala* has prohibited fraud, so all actions that lead to fraudulent practices, such as weighing scales and putting water in piles of food, are prohibited. As narrated in the hadith narrated by Muslim and Turmudzi, it is said that the Messenger of Allah was walking in the market and came across piles of food. He put his hand into the pile of food, then suddenly his hand touched something wet in the pile of food. He saw then asked the food seller: "What is this wet thing, O you who have this food?" The trader answered, "O Messenger of Allah, the food was hit by raindrops." Rasulullah SAW said, "Why don't you put it on top so buyers can see it? Whoever cheats, he is not from my group." (HR. Muslim and Turmudzi). The evidence regarding *Sadd Al dzari`ah* is found in the QS. al-An`am: 108:

وَلَا تَسْبُوا الَّذِينَ يَدْعُونَ مِنْ دُونِ اللَّهِ فَيَسْبُوا اللَّهَ عَدْوًا بِغَيْرِ عِلْمٍ كَذَلِكَ زَيَّنَّا لِكُلِّ أُمَّةٍ عَمَلَهُمْ ثُمَّ إِلَىٰ رَبِّهِمْ مَرْجِعُهُمْ فَيُنَبِّئُهُمْ بِمَا كَانُوا يَعْمَلُونَ

And do not insult those they invoke other than Allah, lest they insult Allah in enmity without knowledge. Thus We have made pleasing to every community their deeds. Then to their Lord is their return, and He will inform them about what they used to do.

يَا أَيُّهَا الَّذِينَ ءَامَنُوا لَا تَقُولُوا رَاعِنَا وَقُولُوا أَنْظِرْنَا وَاسْمِعُوا^ظ وَلِلْكَافِرِينَ عَذَابٌ أَلِيمٌ

O you who have believed, say not [to Allah 's Messenger], "Ra'ina" but say, "Unthurna" and listen. And for the disbelievers is a painful punishment.

This concept of *Al dzari`ah* contains all efforts that convey to us all actions forbidden or required by Allah *Subhanahu wa Ta`ala*. An example of this concept is that a creditor is prohibited from asking for a gift from the debtor at the start of the transaction, because this method can result in the creditor falling into usury. The Prophet Muhammad SAW also prohibited hoarding transactions because this could cause a scarcity of goods in society (Djazuli, 2010).

The concept of *al-dzari`ah* can be classified into two types: *Sadd Al dzari`ah* and *fath dzari`ah*. *Sadd Al dzari`ah* is *dzari`ah*, used to close the road to damage or *mafsadat*. *Fath Al dzari`ah* is *dzari`ah* used to open the way to goodness, because *dzari`ah* is *washilah*. An example of the case of *Fath Al dzari`ah* when related to the concept of creative accounting is the obligation to prepare financial reports to safeguard the assets that have been entrusted and a form of management accountability to the owner. Another example of a case in line with the *fath Al dzari`ah* concept is forming a board of commissioners and an audit committee as a form of suitable corporate governance mechanism in a company. The formation of this board of commissioners is a form of effort by the owner to monitor management performance so that the owner can continuously monitor management performance and all efforts made by management are in line with what the owner wants.

Research Methods

The research method used in this research is qualitative. A qualitative research method is based on post-positivism philosophy; the object studied is natural and the researcher is the critical research instrument (Sugiyono, 2014). The approach used in this research is a library research approach. With a library research approach, qualitative research uses sources from previous research literature. The aim of using a qualitative method using a library research approach in this research is to discover in depth how creative accounting law is in the Islamic view when viewed from the perspective of the *Sadd Al dzari'ah* concept. According to Mahanum, (2021) the qualitative research process using a library research approach includes six stages, starting from: 1. Determining the topic, 2. Searching for relevant literature, 3. Developing arguments, 4. Surveying related literature, 5. Critique the literature, 6. Write a review.

The research topics that are criticized in this research are the background, techniques used when practicing creative accounting, and how creative accounting law in Islam is viewed from the concept of *Sadd Al dzari'ah*, as well as how efforts to prevent creative accounting are viewed from the concept of *sadd al dzari'ah*. Data sources in this research include secondary data. Secondary data was obtained from various books, financial reports and literature in the form of scientific journals, both national and international, that discuss creative accounting practices.

Results and Discussion

Creative Accounting – Fraud and Earnings Management

Creative accounting has been used in various countries, both in practice and terminology. In several works of literature, the term creative accounting is often known as income smoothing, earnings smoothing, cosmetic accounting, financial or accounting crafts. Some countries use different terms. The Netherlands uses earnings management, France uses the term fabricated account, the United States uses earnings management, Japan Windows

dressing, Austria uses manipulative accounting, and England windows dressing (Balaciu et al., 2009).

Creative accounting is an action taken by management to manipulate the numbers contained in financial reports so that the financial reports look beautiful in the eyes of stakeholders (Blake et al., 2005). According to experts, there are various techniques and methods commonly used by management in carrying out creative accounting actions, including changing accounting methods, judging accounting estimates, changing methods for determining income and costs, reclassifying accounts, reclassifying discretionary accruals and non-discretionary accruals (Amat & Gowthorpe, 2011). Baralexis, (2004) states that the creative accounting technique that is often used is earnings management. Earnings management techniques used include increasing profits or reducing profits. The motivation for earnings management is to obtain external funding and reduce taxes.

Based on the explanations of Stolowy, G; Breton, (2004) and Oyedokun, (2018), several techniques that can be used in creative accounting practice include: windows dressing and off balance sheet financing. Windows dressing is a transaction carried out by a company to show that the company's financial reports appear better than they actually are. Examples of these transactions include:

- Delay payments to suppliers, so that the end-of-period cash balance appears higher than it should be,
- The receivables loss reserve account recorded is too low, so that the receivables figure appears to be higher than it should be,
- Sell fixed assets whose accumulated depreciation has material value
- Offer early shipping discounts to customers to speed up revenue recognition, from future periods recorded to the current period
- Cut supplier expenses to be recorded in future periods (Cugova & Cug, 2020).

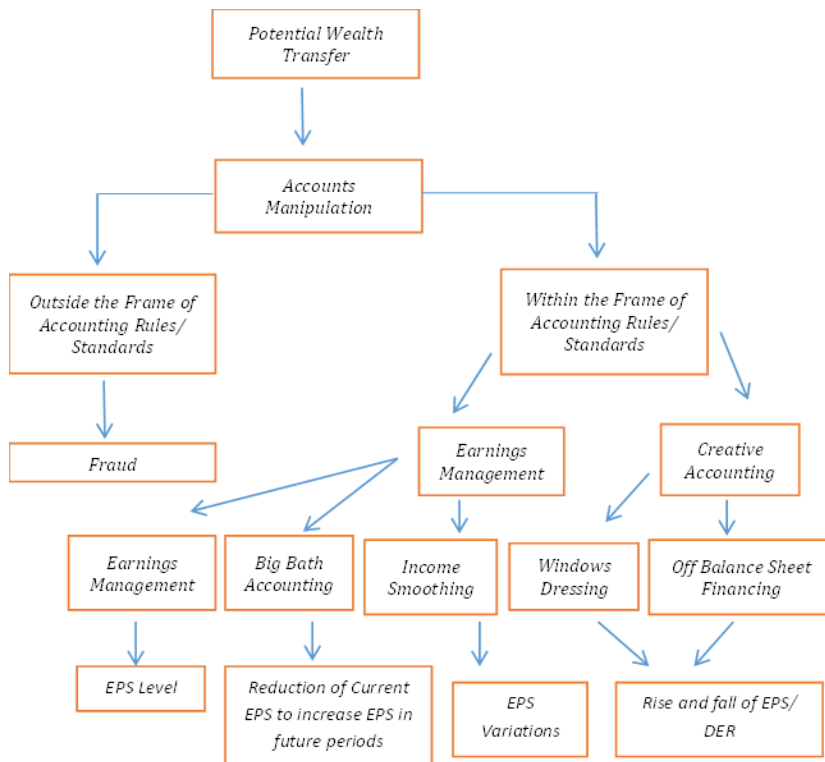


Figure 1. Basic Framework for Account Manipulation
(Stolowy, G; Breton, 2004)

This window dressing has several advantages, including:

- advantages for managers: 1) help improve management performance, 2) shows the poor performance of previous management, 3) meet internal targets set by higher management, and 4) increase profits or reduce reported losses.
- Benefits for the company: 1) Facilitate financial access, 2) Helps hide financial risks, 3) Avoid loan restrictions.

- Benefits for stakeholders: 1) Higher return on investment, 3) Stable income.

The second technique is off balance sheet financing. Off balance sheet financing is a transaction carried out by a company to cover financial risks and aims to eliminate debt risks and company solvency. Examples of this technique include:

- Replacement of financial leases into operating leases,
- Accounting for sales of receivables or factoring depends on the risks arising from non-payment of receivables
- Secured debt is recognized as a sale
- Debt that is classified into equity (Cugova & Cug, 2020).

Creative Accounting in the *Sadd Al dzari`ah* Concept

Creative accounting practices carried out by management in companies, both companies labeled sharia and companies not labeled sharia, both public companies and non-go public companies, even though creative accounting techniques carried out by companies are still included in the standard framework, include actions that are not following Islamic law, especially when viewed from the concept of *Sadd Al dzari`ah*. The concept of *Sadd Al dzari`ah* is a concept in Islam that teaches its followers to close the door to destruction. Something that is originally halal can become haram, if that something becomes a *wasilah*—or intermediary towards haram. Creative accounting is an act that should be avoided according to the concept of *Sadd Al dzari`ah*, because even though the techniques used in carrying out creative accounting are permitted according to SAK, the impact and motives for using these creative accounting techniques are misleading. The information presented in the report is biased. Creative accounting is an action that can be detrimental to stakeholders, especially investors and creditors, who base their investment and credit decisions on the information contained in financial reports. If the information in the financial statements is misleading, stakeholders are the first to suffer losses.

Table 1. Creative Accounting Transactions That Impact Performance

JIAFR 96	Identified Elements	Practices Done	Impact on Performance	Accounting Records According to the Sadd Al Dzari`ah Concept
	Development and research expenses	Expanding R&D Cost Capitalization	Increase the balance of R& D costs in the capitalization year Reduce the balance of R& D costs in the transfer year and subsequent years Impact of selecting the date to start amortization	Record R& D costs according to real expenditure
	Assets	Lease back contract	The appearance of the lease back contract is more value than the lease back transaction Record rent during the time after acquisition of the asset	Operating lease contract. Operating lease transactions are permitted in Islam, while capital leases are not permitted because there are two contracts in one leasing transaction, namely leasing and buying and selling. The reason: <i>نهى عن صفقتين في صفقة</i> Meaning: "The Prophet SAW"
	Amortization	When determining an amortization plan, there are many options and possibilities: Duration of asset usage Estimated residual value	Change the recorded depreciation rate and depreciation expenses	Record the duration of use of the asset and estimate its rationable residual value, according to the productive age of use of the asset
	Inventory	Finance- related costs are combined with the costs of producing inventory	Increase inventory balance throughout the year combining costs Decrease the inventory balance in the year the inventory write-off occurred	Separate finance related costs from costs to produce inventory

Adjusting devaluating and participation bonds	Under or over evaluating participation bonds that experience impairment	Increase or decrease in the participation bond balance in the recording year The opposite impact will occur in the year of resumption	Carry out a reasonable evaluation of participation bonds that have experienced a decline in value
Adjusting devaluating and current assets	Under or over evaluating debt impairment adjustments Under or over evaluating inventory impairment adjustments	Increase or decrease in debt and inventory balances in the recording year	Carry out a reasonable evaluation of debts and inventory/ current assets that experience impairment
Risks and provision expenses	Restructuring decision dates: Level of accuracy of evaluation Consider the surplus value of provisions (although forbidden)	Impact on provision balance according to provision level The opposite effect occurs in the year of resumption	Record the costs and risks of provisions at a reasonable amount, according to real terms, without changing the provision decision date and without considering the surplus value of the provision
Long term contracts	There are several methods for recording long term contracts Percentage increase method, Method of completing work	Impact on turnover according to the method used Differential recognition of contract revenue	Consistent in using long term contract recording methods

Source: Marilena & Corina (2012)

The evidence regarding the concept of *Sadd Al dzari`ah* itself is contained in the Hadith of the Prophet Bukhari, Muslim and Abu Dawud regarding the prohibition of criticizing other people's parents which will result in other people criticizing their parents:

"Indeed, the biggest sin is for someone to abuse his parents. Then people asked the Messenger of Allah, O Messenger of Allah, how can someone curse his parents? Rasulallah answered: someone insults another person's father, then that person's father will also be cursed at, and if someone insults another person's mother, then that person will also insult his mother." (H. R. Bukhari, Muslim and Abu Dawud).

The act of criticizing other people's parents is an act that is feared to cause other people to criticize their parents in return, so the act of criticizing other people is considered an act that can trigger damage.

Intan, (1991) states that *dzari`ah* means the path or means that will lead someone to evil (*mafsadat*) and must be closed (*saddun*). Even though there is no agreement among ushul fiqh scholars regarding the *hujjah* of *Sadd Al dzari`ah*, in substance, the concept of *Sadd Al dzari`ah* is a way used to close the door to damage/mafasadat (Imam Fawaid, 2019). Dulfikar, (2023) also states that most Ushuliy ulama agree that the *Sadd Al dzari`ah* can be recognized as a source of law, even though it differs in intensity and use. Its application Ushuliy ulama also provides limitations. According to Putra, (2024) the concept of *Al dzari`ah* is a preventive effort or prevention of a case that contains evil carried out actively in Islam. *Sadd Al dzari`ah* is a method of *ijtihad* in Islamic law.

The concept of *Sadd Al dzari`ah* according to Ibn Qoyyim is divided into four parts:

- *Al dzari`ah* which causes *mafsadat* (damage). Examples are buying and selling statues, idols, buying and selling weapons during war, criticizing deities other than Allah *Subhanahu wa Ta`ala*.
- *Al dzari`ah* is a means that may be used, but is followed by motives that lead to bad actions. Examples are buying and selling grapes for making liquor (Khamr), buying and selling *inah* contracts and creative accounting practices.
- *Al dzari`ah* is a means that can be used and is not followed by motives that lead to bad actions, but if these actions are carried out it will cause harm. Examples include carrying out buying and selling transactions during the Friday prayer call and practicing creative accounting.
- *Al dzari`ah* is a tool that may be used, and sometimes it leads to damage, but the benefits are far greater than the damage caused.

Marilena & Corina, (2012) state that there are several transactions that have the potential for managers to use creative accounting practices. These transactions include: research and development costs, assets, amortization, inventory, adjustments to decrease bonds, adjustments to decrease current assets, risk costs and provisions, and long-term contracts. The following table shows creative accounting transactions often carried out by managers, along with applying the *Sadd Al dzari`ah* concept to prevent creative accounting from occurring.

In our opinion, all of these techniques are carried out to make the financial reports look beautiful in the eyes of stakeholders. This is considered tyranny perpetrated by management towards the owners. Creative accounting viewed from the *Sadd Al dzari`ah* concept is an action that management should avoid, because it contains elements of fraud and can harm owners, potential investors, creditors and all stakeholders in the long term in the future.

Efforts to Prevent Creative Accounting Practices Seen from the Concept of *Sadd and Fath Al dzari`ah*

Efforts to prevent fraud, creative accounting and earnings management can be carried out by increasing the effectiveness of internal control, including law enforcement against individuals who carry out actions that lead to creative accounting practices, complying with accounting standards without exploiting loopholes in accounting standards, and implementing corporate governance. Good corporate governance improves management's moral quality through strengthening a corporate culture that upholds ethics (Wilopo, 2006). These three prevention efforts include efforts by *fath Al dzari`ah* in Islam. *Fath Al dzari`ah* is an effort to open the way to the door of goodness.

Apart from a weak internal management control system, another factor that causes creative accounting practices to occur is the absence or weak function of an audit committee in a company and family relationships within the company. This familial relationship can occur between management and

shareholders, or between management and employees (Mulford & E. E. Comiskey, 2002). Thus, strengthening internal control and the audit committee's function within a company is a preventative effort that can be carried out by the company, viewed from the concept of *fath Al dzari`ah*. Periodic restructuring of managers is also a concept of *fath Al dzari`ah* to prevent management from avoiding creative accounting practices (Usmar, 2014).

Blake et al., (2005) stated that this reduces the ease for management to change the choice of accounting methods used. The occurrence of bias or errors in predicting and estimating can be reduced by reducing the estimate's scope. This step is included in the efforts of *Sadd Al dzari`ah*. This step has already been implemented in continental Europe. Substance trumps form (substance over form) for manipulative transactions and periodization and re-evaluation of actual transactions are preventive efforts in the concept of *fath Al dzari`ah*. These steps have already been taken in America or what is better known as the Anglo-Saxons.

Efforts to prevent creative accounting, if a company applies the *sadd* and *fath Al dzari`ah* concepts, include consistent use of accounting methods, avoiding excessive estimates of the estimated economic life of assets, minimizing judgment in determining estimates, avoiding recording manipulative transactions, applying the concept substance trumps form, and re-evaluates all real transactions.

Oyedokun, (2018) suggests efforts to reduce the level of creative accounting so that it does not conflict with ethics, including drafting regulations that minimize the use of judgment, improving corporate governance, conducting regular internal audits and evaluations of the accounts contained in the report. profit and loss and financial position statements so that if at any time there is a gain or loss from changes in value, they can be identified as early as possible, ensuring that processes of accountability, transparency and fairness of transactions have been carried out in the entire process of preparing financial reports, finally asking for

advice from the auditor to regulate financial reporting and strengthening the internal control system.

According to Marilena & Corina, (2012), several transactions contain opportunities to carry out creative accounting practices, including:

Table 2. Creative Accounting Practices Based on Sadd Al Dzari`ah Concept

The potential of Creative Accounting	Solutions According to Academics	Solution According to The concept of Sadd and/or Fath Al <i>dzari`ah</i>
Selection of accounting methods	Reducing the choice of accounting methods	Consistent in determining accounting methods
Estimation and forecasting	Determine a reasonable year estimate	Avoid overestimating the economic life of fixed assets. Minimize judgment on estimates and forecasts
Closing manipulative transactions	Enhance the principle of substance over form	Avoid recording manipulative transactions, because compiling manipulative transactions will harm stakeholders. The use of the concept of substance trumps form, namely the economic reality of a transaction which is used as the basis for determining the substance of accounting, not its legal form
Real transaction moments	Re-evaluate	Record real transactions according to reality, without playing with the numbers presented in the financial reports

Source: Marilena & Corina (2012)

Conclusion

From various analyses of the techniques and methods used by managers when carrying out creative accounting, it can be concluded that creative accounting is an action that should be avoided in Islam, because it is not following the concept of *Sadd Al dzari`ah* which will open the door to damage (*mafsadat*), in the form of cheating, fraud, greed, opportunism, and tyranny towards the owner. Thus, managers are not permitted to practice creative accounting. All techniques, motives and methods managers use when carrying out creative accounting practices should be avoided in Islam. This

research implies that management is expected to consistently identify all creative accounting techniques to avoid the occurrence of creative accounting. The advice given to companies that often practice creative accounting is to immediately avoid this practice, even though the practice is following SAK. However, this practice aims to prioritize managers' personal interests and harm owners' interests. Besides that, creative accounting means that accounting cannot function as a reliable and relevant decision-making tool.

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