

CREATIVE ACCOUNTING: DO CHARACTER EDUCATION AND RELIGION MATTER?

Ratna Candra Sari

Universitas Negeri Yogyakarta

Sukirno

Universitas Negeri Yogyakarta

ABSTRACT

Accounting scandals raise educators' awareness of the importance of character and religiosities issues in accounting education. This study aimed to test the effectiveness of character and religion education in reducing the intentions of doing creative accounting, and compare them between students at the university that implements character and religion education and students in state universities that do not implement character and religion education. The result shows that student of state universities with character education have lower effect of attitudes on intentions to perform creative accounting rather than students in state universities without character education. However there is no significant difference between university with character education rather than religious-based state universities. Managerial implication and suggestion for future research are discussed.

Keywords: *Creative Accounting, Character Education, Religion*

INTRODUCTION

Accounting scandals such as Enron, World Com, and Tyson led to a crisis of credibility for the accounting profession. The scandals raise educators' awareness of the importance of character issues in accounting education. Some schools implementing character education curriculum (Coyne & Coyne, 2000; Lord, 2001; Skaggs and Bodenhorn, 2006; Berkowitz and Bier, 2007, Viadero, 2003) are directed to instill the values of character. There are several previous studies testing the effectiveness of character education. Viadero (2003) found that students taught by 5 character values (cooperation, assertion, responsibility, empathy and self control) have reduced their problem behaviors. Berkowitz and Bier (2007) found that character education affects socio moral cognition, prosocial behaviors and attitudes, problem-solving skills, and decreases in general misbehavior. Viadero (2003) and Bulach (2002) suggested the importance of character education in the class room. However, there is little or no empirical evidence on the effectiveness of character education in reducing other specific behaviors (Peterson & Skiba, 2001, p. 159), such as the problem of creative accounting. This study is addressed to confirm a critical gap in the extant character education literature. This studies aimed at testing the effectiveness of character education in reducing the intentions

of doing creative accounting. This study compares the intentions of doing creative accounting between students at the university that implements character education and students in state universities that do not implement character education.

Further more, this study also compares the intentions of doing creative accounting between students at state universities that implement character education and students at the religious-based universities. Theory of rationalization assumes that religious teaching/education influences ethical behaviors (Weber, 1958). Each religion forms the distinctive orientations to all aspects of life and the orientation affects peoples behavior and social institutional structures (Lanski, 1963). The theory implies that institutions including religious institutions will shape peoples behaviors (Klein, 1987). The theory of the sacred canopy argued that religion no longer affects the aspects of life due to the increased level of modern society materialism (Gorski, 2000). In the modern materialistic and very pragmatic society, there is a tendency for the exclusion of religious values. For example, several prominent politicians appear as uphold religious contents, but at the same time, carry out actions that violate religion such as corruption (Berger, 1967).

Some researchers tested the effectiveness of character education. Lasley (1997) reported that implementation of character education in elementary and secondary schools has an effect in the reduction of behavior problems and students taking more responsibility for their actions. Lord(2001) found that the character education in Texas can change the emotional climate in the school. Berkowitz and Bier (2007) test character education and effectiveness in reducing discipline problems in class. Unfortunately, there is little research on the effectiveness of character education in reducing or preventing specific deviant behaviors devi-

ate (Peterson & Skiba, 2001, p. 159) such creative accounting.

Manipulation of accounting information can be categorized into fraud and creative accounting. Fraud accounting violate accounting standards and laws, while creative accounting does not. This study focuses on the effectiveness of character education in lowering the level of creative accounting. Creative accounting explains the use of techniques appropriate to accounting standards to present in a favorable position is something that does not exist (Ana-Maria Marculescu et al., 2001). The flexibility of accounting policy is said to be the legal part of the practice. Therefore, the goodwill and the moral values of the accountant matter. Therefore, the goodwill and the moral values of the accountant matter. Mayhew and Murphy (2009) found that students who receive ethics education have misrepresented the financial statement level lower than students who do not get ethics education. However, not many studies compare the effectiveness of character education to reduce the manipulation of accounting information.

Literature Review

Creative accounting

The term 'creative accounting' is used to describe the use of applicable accounting techniques that allow the company to report financial results that do not accurately describe the substance of their business. The creative accounting method is noteworthy that, although there is use of generally accepted accounting principles, it has proven to be misleading/deceptive (Metcalf, 1977, p188). In general, creative accounting is unethical designed to prepare the financial statements in order to meet the expectations of managers regarding the financial position and performance, resulting in mis-representation of the performance of the company (Balaciu & Pop, 2008, pp. 935-940

An ethical obligation for all parties involved in the preparation of financial statements in that financial statements should represent the true financial condition. The financial report is one way to report company's business performance to investors, regulators, and stakeholders (Elliott, B. et al. 2005). Reporting an accounting process involves a lot of judgment and resolving conflicts between competing approaches to the presentation of the results of financial events and transactions (Jameson, 1988). Flexibility in the accounting standards provides the opportunity for manipulation and misrepresentation. The activity is known as 'creative accounting' (Jameson, 1988). Creative accounting is the use of knowledge of accounting rules to manipulate the figures in the accounts of a business. Merchant and Rockness (1994) and Schipper (1989) stated that creative accounting is a full disclosure of management intervention in the financial reporting process. Gray (1988) stated that creative accounting is unethical because its consequences can be drawn in terms of potential damage for each expected beneficiary of the decision

Theory of Reasoned Action

The Theory of Reasoned Action (Fishbein & Ajzen 1975; Ajzen & Fishbein 1980) states that the individual performance of a given behavior is primarily determined by a person's intention to perform that behavior. This intention is determined by two major factors: the person's attitude toward the behavior (beliefs about the out comes of the behavior and value of these out-comes) and the influence of the person's societal environment or subjective norm (beliefs about what others think the person should do).

Attitudes toward the behavior consists of positive and negative evaluations. Positive evaluation is the evaluation of positive

results, or results that drive the behavior. Evaluation of positive beliefs cause high attitudes toward the behavior to occur. Confidence negative (N) is a combination of the like lihoods of out comes with the evaluation of out comes. The higher the value of N, the lower the intention of doing creative accounting since they result from desirable but unlikely outcome or unlikely undesirable. Attitudes toward a behavior will increase intention to perform the behavior.

A subjective norm refers to the person's perceptions of the social pressures to perform or not perform the behavior in question. Generally, people will perform behaviors that they value highly and that are popular with others and will refrain from behaviors that they do not regard favorably and that are unpopular with others (Petty & Cacioppo, 1981). A subjective norm is developed to incorporate beliefs of specific referents and the individual's motivation to comply with these referents. A referent is an individual or group of individual whose opinion has influence on the individuals decision process. Individuals who believe that the referent group agrees with their behavior and have a desire to do here to another person, the higher the intention to do creative accounting.

Udin (2000) tested the theory of reasoned action on the intention to perform fraudulently CFO of financial reporting. Udin(2000) found that attitudes significantly effect on the intention to perform fraudulently of financial reporting. Following Ajzen & Fishbein 1980 in the theory of reasoned action, we propose these hypotheses:

- H1a : there are positive effect positive belief on attitudes toward creative accounting
- H1b : there are negative effect negative belief on attitudes toward creative accounting
- H1c : attitudes effect on intention to do creative accounting

H1d : referent group effect on subjective norms

H1e : subjective norms effect on intention to do creative accounting

The Effectiveness of Character Education

Character education is defined as the growth of those aspects of the individual that represent his or her ethical worth including behavior, cognition, affects, values, personality, identity, and skills that are not moral themselves but support moral functioning (Berkowitz & Fekula, 1999, p. 18). Michael Josephson (2002) developed 6 pillars of characters consisting of trustworthiness (honesty, integrity, reliability, loyalty), respect, responsibility, fairness, caring, and citizenship. Peterson and Skiba (2001) suggests that lecturers should have certain qualifications to teach character education. Such qualifications include (1) self-respect that derives feelings of worth not only from competence but also from positive behavior toward others; (2) social perspective taking that asks how others think and feel; (3) moral reasoning about the right thing to do; and (4) moral values such as kindness, courtesy, trustworthiness, and responsibility.

Currently there is an increasing desire to implement character education because of the decline of the morality of students. Lori Wiley (1998) states that the morals of children dropped dramatically as the increasing abuse, vandalism, and violence. Some schools and universities incorporate character education into the curriculum. Some universities implement character education in the curriculum as compulsory for students.

Lord (2001) found that The Dallas State Schools also instituted character education programs in Texas and were able to see the entire emotional environment of their school district change; it became a kinder, gentler place, and some schools even reported that

fight and suspensions had started to decline (Lord, 2001). In St. Louis, Missouri implementing comprehensive school reform model through character development. The school made the school curriculum integrated with the curriculum at home and in the community, thus working to create a more caring group of learners. Through this model, students were able to recognize violations of justice without internalizing or reacting to them in an inappropriate manner (Wiley, 2000).

Whitman Middle School integrate and incorporate character education into the school culture, resulting in lower levels of number of students' suspensions in half (Coyne & Coyne, 2000). Berkowitz and Bier (2007) found that character education impact on the socio moral cognition, pro-social behaviors and attitudes, problem-solving skills, and reduced general misbehavior" (p. 38). Their research provided evidence that character education programs were effective in decreasing classroom disciplinary problems.

Viadero (2003) and Lasley (1997) found that character education has an effect in reducing behavior problems and an increasing in the students taking more responsibility for their actions. Accordingly we hypothesize that character education reduces the influence of attitudes on the intention of conducts of creative accounting

H2a : Character education has moderating effects on the influence of attitudes on intention, particularly the influence of attitudes on the intentions to conduct creative accounting will be lower in students at universities that implement character education than those that do not.

H2b : Character education has moderating effects on the influence of subjective norms on intentions to conduct creative accounting, in particular the effect of subjective norms on intentions

to conduct creative accounting will be lower at universities that implement character education than those that do not.

We also compare the effectiveness of the implementation of character education in religious based universities. There are two theories that explain the influences of religion in everyday life. First, according to the theory of rationalization, according to this theory of religious influence on job choices, attitudes, and ethical behaviors (Weber, 1958). Implies that institutions including religious institutions will shape our behaviors (Klein, 1987). Second, the theory of the sacred canopy argued that religion no longer affects the aspects of life due to the increased levels of our modern society materialism (Gorski, 2000). Rawwas et al., 2006 found that the religious school students in Japan have high level of academic dishonesty than students at secular universities. It supports the sacred canopy; the high level of competition and the increasing materialism led to the erosion of religious values in our lives (Berger, 1967; Gorski, 2000). Considering the overall conclusion from the above discussion, we hypothesize:

H3a : There are differences in the influences of attitudes on intentions to conduct creative accounting at state universities that implement character education and religious-based state universities.

H3b : There are differences in the effect of subjective norms on intentions to conduct creative accounting at state universities implement character education and religious-based state universities.

Methods

Sampling Procedure

A survey and questionnaires were used to gather data from senior-level undergradu-

ate economics and business students attending public universities which implement character education, state university and religious-based state university which do not.

Sample selection used the cluster sampling approach. The sample was restricted to students who had taken the course of business ethics and intermediate accounting at three universities. The total sample consisted of 188 students; 121 students from state universities; 67 state university students from religious-based. Universities male respondents were 46% and women 54%. The average age of students in the state universities was 22.6 years, the average age was private university 23.4. The average state university GPA was 3.05 and an average GPA of private university students was 3.15.

Creative Accounting

Decision-making processes can be divided into four categories: Having ethical awareness, being able to recognize an ethical issue, being able to establish ethical intentions, and individual engagement in an ethical action or behavior. This study examined the level 3 using intention students do creative accounting. The case of creative accounting using transfer pricing cases between related parties. Related parties can agree on a transfer price beyond the agreed price on an independent party. Related parties have flexibility in determining transfer prices. So that the transfer pricing between related parties can be used to manipulate earnings (Cheung et al. (2009).

The given case has received comments from experts in the field of finance both academician and practitioners. All comments stated that the presented case had a high level of realistic realism. The case given is: You are the manager of a business group (G). PT C and PT B are members of the business group. You receive compensation of 30% of the profits of PT C and 50% of the

profits of PT B. PT C does not sell coal directly to potential buyers, but sell it through PT B. Determination of unfavorable prices (under reasonable prices) at PT B than in prices with independent parties (arm's length) will maximize your compensation and profit maximization of the majority shareholder, but harming the interests of PT C and minority shareholders.

Theory reasoned action

The instrument used to measure belief evaluation, subjective norms, attitudes and behavioral intention questions were phrased and scaled in a manner illustrated by Ajzen and Fishben (1980).

Questions to negative belief sare "transfer pricing under the fair value will increase audit risk" (response: Likert scale from agree to disagree). Questions of subjective norms are "if I do transfer pricing under reasonable price, then all the important people in the

company will do the same (response: Likert scale from Disapprove to approve). Question to Attitude is "transfer pricing to increase compensation and benefit controlling share holders to the detriment of minority share holders is.." (response: Likert scale from good to bad). Intention: "I intend to make the determination of the transfer price below the market price"(response: Likert scale from agree to disagree).

To encounter social desirability bias, we also use indirect questions. Indirect questioning frequently has been used to control this social desirability bias (Fisher 1993). Indirect questioning asks respondents about what "other people" think about a sensitive issue. Respondents may find it easier to express their own opinions and attitudes on a sensitive issue in response to such indirect and impersonal questions (Kidder and Judd 1986; p.262).

Tabel.1. Measurement Variable:

Variables	Measurement
Creative accounting	1 case each response
Positive belief	2 questions dan Lykert type scale
Negative belief	1 question dan Lykert type scale
Referent group	3 questions dan Lykert type scale
Intention	4 questions dan Lykert type scale
Attitude	2 semantic differential measures

Results and Discussion

To test the hypothesis, we used structural equation model with partial least square (PLS) since they can test multiple dependent and independent variables simultaneously. The measurement models are used to evaluate the relationship between indicator and constructs in assessing the reliability and validity of the indicators that relate to a particular construct. The

measurement analysis indicated that all constructs are significantly above the value of the 0.60 loading level (Table 2). The loading minimum value of 0.60 indicates that the measure is accounting for at least 60% of the variance underlying the construct. Chin (1998a) states that the loading should be at least 0.60 and the composite variable coefficients for the construct are all above the accepted level of 0.70 (Nunnally, 1967).

Table 2. Reliability and Convergent Validity

Latent Variable	Mean	SD	Loading
Positive belief evaluation (Composite reliability= 0.720; AVE=0.750)			
Positive belief Evaluation 1			0.750
Positive belief Evaluation 2			0.750
Referent group (Composite reliability=0.677; AVE= 0.643)			
Referent group 1			0.708
Referent group 2			0.593
Referent group 3			0.621
Attitude (composite reliability= 0.784; AVE=0.695)			
Attitude 1			0.789
Attitude 2			0.820
Attitude 3			0.546
Attitude 4			0.582
Intention (composite reliability= 0.774; AVE=0.794)			
Intention 1			0.794
Intention 2			0.794

Construct validity was assessed being using convergent validity and discriminant validity. Convergent validity was assessed being using the average variance extracted (AVE). Convergent construct validity was

considered as having good if it hasan value AVE of 0:50 orhigher (Hulland, 1999). As shown in Table 2 for all constructs the AVE values area bove 0.60, So it meets the convergent validity.

Table 3. Discriminant Validity

	Positive belief evaluation	Reference group	Attitude	Intention
Positive belief evaluation	0.750			
Referent group	0.236***	0.643		
Attitude	0.176**	0.222**	0.695	
Intention	0.136*	0.098*	0.377***	0.794

Diagonal element: square root of AVE; off-diagonal: correlation between construct
 ***p<0.01 (one-tailed); **p<0.05; *p<0.10

Discriminant validity assess as whether the construct of shares more variance with its measures than with other constructs. It is evaluated by comparing the square roots of AVEs to the correlation between the constructs. When the AVE square root the construct is greater than the correlation between

the construct with another construct, then it is considered as valid. Table 3 shows the correlation among constructs in the off-diagonal and the square root of AVEs in the diagonal. The analysis showed that the diagonal element is greater than the off-diagonal elements, indicating adequated

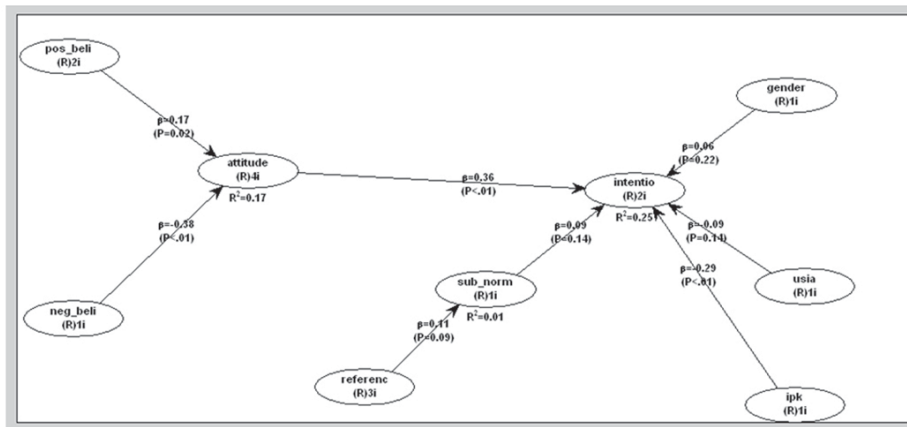
iscriminant validity. Overall, the analysis shows that measurement models are reliable and valid.

Structural model analysis

Goodness of fitting results show that

the modelis adequate, with the APC, ARS, and AARS having asignificant pvalue. The model also does notoccur inmulti collinearity with AVIF and AFVIF under 3.3. Likewise, an other indicator that fit the ideal qualified. Results of analysis appearin Figure1

Figure 1



The structural models are used to test the hypo the size drelationships, in particular examining the effect of subjective norms on the attitudes and intentions of doing cre-

ative accounting with character educationas a moderating variable. The researchers also add control variables of age, GPA, and gender.

Table 4. PLS results (path coefficient, t-statistic and R²)

Variable	Path To Attitude	Subjective Norm	Intention
Positive belief	0.17**		
Negative belief	-0.38***		
Referent group		0.11**	
Attitude			0.36***
Subjective norm			0.09
Gender			0.06
Age			0.09
GPA			-0.29***
R ²	0.17	0.01	0.25

***p<0.01 (one-tailed); **p<0.05; *p<0.10

The results of the analysis (Table 4) show that the positive belief positive effect (coefficient: 0:17; p<0.05) o attitude. Negative

belief negative effect (coefficient: - 0:38; p<0.01) to attitude (R² = 0:17). So the hypotheses H1a and H1b are supported. Group

Refferent effect on Attitude (coefficient: 0.11; $p < 0.05$; $R^2 = 0.01$), H1d supported. Attitude (coefficient: 0.36; $p < 0.01$) effect on the intention of doing creative accounting ($R^2 = 0.25$), H1c supported, whereas subjective norm (coefficient: 0.03; $p = 0.3$) had no significant effect, H1e not supported. The control variable that significantly affects intentions to do creative accounting is GPA (coefficient: -0.29; $p < 0.01$).

To test the moderating effects of character education, we performed a subgroup analysis. The subgroup analysis was done by comparing the effect of attitudes and subjective norms on students intentions to do creative accounting between students in state universities that implement character education and state universities that do not implement character education. The results of the analysis (Table 5) show that in state universities that implement character education, the influence of attitudes on in-

tention stoper form creative accounting is lower than students in state universities that do not implement character education ($p = 0.004$). Thus, H2a supported.

There are differences in the direction influence of subjective norms to intentions to do creative accounting in state university that implement character education and those that do not. As revealed by Baron and Kenny (1986), a moderator variable is a variable that affects the direction and/or strength of there lation between an independent or predictor variable and a dependent or criterion variable. Students fo at the state university which apply character education, subjective norms have a negative effect on intentions to do creative accounting (coefficient: -0.235, $p < 0.001$), Students where as in the state university students which do not apply, students the subjective normshave a positive effect to intention to do creative accounting (coefficient: 0.185, $p < 0.10$).

Table 5. Moderating Effect of Character Education

Path To	State university that implement character education (A)		State university that does not implement character education (B)		Religious-based state university that does not implement character education (C)		P value (two-tailed)
	Coefficient	Standard error	Coefficient	Standars Error	Coefficient	Standard Error	
Attitude → Intention	0,275***	0,101	0,308*	0,172	0,327***	0,182	A-B = p: 0,004 A-C = p: 0,787
Subjective Norm → Intention	-0,235***	0,102	0,614***	0,178	0,185*	0,073	A-B = p:0,000 A-C = p:0,002

*** $p < 0.01$ (one-tailed); ** $p < 0.05$; * $p < 0.10$

Additional testing to test the effectiveness of character education is done by comparing the effect of attitudes and subjective normson intentions of doing creative accounting in state universities implementing character education with religious-based state university. The analysis showed that there was no significant difference in the effect of attitudes towards intentions of do-

ing creative accounting at the university implementing character education than religious-based state universities ($p = 0.787$), H3a not supported. There are differences in the directions of the influence of subjective norms direction to intentions of do creative accounting. In state universities education implementing character education, the negative effect of subjective norms (coeffi-

cient: -0.235, $p < 0.001$), whereas in the religious-based state universities, the positive effect of subjective norms (coefficient: 0.185; $p = 0.002$), H3b supported.

Conclusion, limitation, and future research

This study examines whether character education is able to reduce intentions to do creative accounting using the theory of reasoned action models. Using a sample of 188 students in three different types of universities in Indonesia. Testing the moderating effect using sub-group analysis by comparing the effects of attitudes and subjective norms on intentions to do creative accounting at state university that implement character education, and state universities that do not implement character education. The effects of attitudes towards the intentions of creative accounting are lower for universities that implement character education than they are for universities that do not implement character education. It supports research by Berkowitz and Bier (2007), Viadero (2003) and Lasley (1997) that character education has effects on the reduction of problem behaviors and the increase in students who take more responsibility for their actions.

There are differences in the effects of subjective norm directions against the intentions of creative accounting. For the university implementing character education, subjective norms have negative effects on the intentions of creative accounting. For the university which does not implement, a positive influence. At universities that implement character education, individual actions are inversely related to social perceptions. Although peers around will commit acts of creative accounting, the intentions of doing creative accounting decrease. That is, they commit to their internal values without being easily influenced by the opinions of others. Mean while, at the university which

does not implement character education, actions are taken in line with the social perceptions. If peers and families state that they agree on the actions of the creative accounting, then individuals will confirm the social perception. This indicates that character education makes the individuals firm on their values because of character education teaching about the basic human values, including honesty, kindness, courage, and respect. Implementation of character education programs makes greater improvement in behaviors (Skaggs and Bodenhorn, 2006).

In comparison with the religious-based state university, there was no significant difference in the effects of attitudes toward intentions of creative accounting ($p=0.787$), although there are different directions of the influence of subjective norms on intentions to do creative accounting. In state universities that implement character education, there are negative effects of subjective norms, while in based on religious state universities, there are positive influences of subjective norms on intentions to do creative accounting. These findings support the theory, that religion has lost its influence over our lives because of increasing materialism (Berger, 1967; Gorski, 2000), so that students in religious-based university are affected by the social perceptions of unethical actions.

In contrast to the results Udin (2000) that uses a sample CFO of a state company in the US, Udin (2000) found that the only attitudes influence the intention of doing creative accounting, while subjective norms have no effect. Possible explanation can be traced to cultural differences between the US and Indonesia; the US is individualistic; while Indonesia is collectivistic (Hofstede and Hofstede, 2005) that cultural differences affect the test results of subjective norms on attitudes. Indonesia with collectivistic cultures, social perceptions affect individual

intentions to do creative accounting, while the US with individualistic culture social perception. The results showed that the negative and positive outcomes have strong influence on the attitudes and attitudes have a strong influence on intentions,

This makes students fully aware of the negative effects of fraudulently reporting on financial statements and the positive effect of ethical actions that may help reduce fraud.
