

Equilibrium Behaviour of Creative Accounting Practices for Financing Externally Evidence from Turkey

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Abstract:

This paper examines the impact of using creative accounting practices on external financing processes and the priorities available to Turkish manufacturing firms in achieving equilibrium reporting strategies for external financing at the lowest possible cost. Following a literature review, creative accounting practices are measured to demonstrate steady earnings streams as an income smoothing strategy in Big Bath theory's scope using unexpected accruals to justify external financing. Since the management can maintain its presence at the lowest costs resulting from economic fluctuations in the Turkish market, the firm priorities for external financing are determined rationally to fund capital expenditures or finance operations sustainably without depleting financial resources by adopting equilibrium reporting strategies represented by the creative accounting practices. The paper data are collected from 143 Turkish manufacturing firms listed in the Istanbul Stock Exchange using the Orbis database in 2015-2019. Multiple

regression is used to test hypotheses. The study concluded that unexpected accruals are significantly related to external financing to achieve sustainable growth, but it is not strong enough. Some determinants have a positive moderating effect on the negative relationship between earnings management and external financing needs. This paper provides new insights into the Turkish market regarding managers priorities for creative accounting practices. It gives broader horizons to research some of the determinants that may affect the relationship between creative accounting practices and external financing.

Keywords: *Big Bath theory; Creative Accounting Practice; Emerging Market; Equilibrium reporting strategies; External Financing.*

1. INTRODUCTION:

The essential country priority represents addressing constraints resulting from internal or foreign policies imposed on its economy. Previously, Turkey's accounting regulations focused on protecting the state interests as financial data was only reported for tax purposes (Cooke & Cürük, 1996). The openness of economic and political relations between Turkey and the United States contributed to strengthening the accounting profession by establishing capital markets, building relationships with international accounting bodies, and legislating laws that contributed to the accounting profession's development (Balsari & Varan, 2014). Besides, Turkey has always been seeking to enter the European Union, and the Turkish Accounting Standards Board has begun to publish accounting standards fully compatible with IFRS to achieve international acceptance. However, according to (Perera 1989), the accounting information produced according to international accounting standards in developed countries is not relevant to the least developed countries' decision models. Therefore, it is difficult to trust the accounting and financial information originating from developing countries; this has been confirmed. Previous Turkish studies indicated that it was difficult for professional accountants to adapt to international financial reporting standards due to complex terminology problems and lack of knowledge of IFRSs (Erdoğan & Dinç, 2009) despite attempts to adapt to IFRS. The problematic issue is that many managers depend on accountants who have a high knowledge of IFRS to deal with "creative accounting" (Blake et al., 2005). However, does management have the ability to implement creative accounting practices as an indicator of equilibrium in reporting strategies to meet its financing needs by setting its priorities within Turkish market conditions?

Most academia discussions point out that creative accounting practices concentrate on the idea of manipulating earnings to the detriment of investors (Copeland, 1968); (Wokukwu, 2015); (Blake et al., 2000); (Sayal & Singh, 2020). Managers show a significant loss in the current period and then a large profit margin in the following period, known as Big Bath Theory (Riyadi et al., 2018). (Dye, 1988) proposes two reasons for management to manipulate earnings: external demand to increase its stock price, and internal demand related to the optimum contract, whether the demand for an increase in the stock price or the pursuit of an ideal contract, both are considered sources of financing. It is assumed that management will achieve a deliberate balance in creative accounting practices to obtain external financing with the lowest possible financial risk (Kirschenheiter & Melumad, 2002). The equilibrium

reporting strategies depends on market efficiency or the management insight related to achieving the company goals at the lowest possible cost. (Revsine, 1991) indicates that accounting can only be a means of managing the relationship between managers and financing providers through an efficient market. The more the market mechanisms will operate efficiently, the higher the prospect of accounting manipulation in pricing and contracting decisions appropriately, and the lesser the potential financial risk.

This paper theoretically examines the issue of equilibrium in reporting strategies through the practice of creative accounting and the extent to which management relies on creative accounting practices to justify external financing processes to cover capital expenditures or to finance all its operations, after using the funds resulting from equity financing and the issuance of stocks to achieve sustainable growth in the Turkish market. Suppose the firm priority is to finance the capital expenditures that will be capitalized into assets that will make the firm substantial capital enjoy very high survival rates. In contrast, if external financing is relied upon to finance capital expenditures in the long run, operational efficiency will be affected due to loan growth increases (Kwan & Eisenbeis, 1997). A firm may adopt an aggressive financing policy to fund all activities that leads to a low level of current assets to total assets or high current liabilities to total liabilities. The low level of current assets may lead to lower liquidity and stockouts, then the firm profitability will be affected, and the difficulties in maintaining smooth operations will be resulted (Van-Horne & Wachowicz, 2008). The successful equilibrium in creative accounting practices depends on the market efficiency that creates better opportunities for efficient operations to achieve more returns to meet obligations.

The Turkish market is classified as an emerging market. Emerging markets have tragic implications for fiscal, monetary and trade policies, as operating fluctuations, income fluctuations and sudden stops are visible (Aguiar & Gopinath, 2007). Besides, Turkish accountants face complex terminology and a lack of knowledge of IFRSs (Erdoğan & Dinç, 2009). These implications make it difficult for management to rationally practice creative accounting and achieve equilibrium in reporting strategies to justify external financing. According to (Al-Mohareb & Alkhalaileh, 2019), there is a significant positive relationship between the discretionary accruals and financial leverage in the Jordanian market, which is considered one of the emerging markets, and that the dependence of Jordanian firms on external financing was aggressive, which affected on capital structure policy. (Akpanuko & Umoren, 2018) examine the degree to which creative accounting practices contribute to increasing the failures of Enterprises. They also identify the motivations for these practices. The study is conducted by an analytical survey in banks and other firms in Nigeria. The findings show that creative accounting practices deceive the shareholders and potential investors increasingly due to lack of some regulations, including adequate control and punishments.

This study provides new insights into the Turkish market regarding practising of creative accounting, gives broader horizons for research in the relationship among the study variables and some determinants that may affect the relationship between creative accounting practices

and external financing, which may change among different sectors within the same country or other countries. The structure of this paper is classified as follows. Section 2 clarifies the background of main study variables, literature review and developing hypotheses. Section 3 describes the methodology used to attain the research objective. Then, section 4 discusses the main results. Finally, section 5 concludes the study by delivering research conclusions, contributions and future research opportunities.

2. BACKGROUND, LITERATURE REVIEW AND DEVELOPING HYPOTHESES:

Background:

While the phenomenon of "creative accounting" has been recognized for two decades, numerous studies investigate its causes. However, this concept is very outdated when Venetian merchants reported the transactions between themselves using ink and quill pen. The inkwell was sometimes knocked over on these books to render entries illegible if any contradictions occurred. According to (Lamberton 2005), this example proves that businesspeople's dishonest behaviour is not a recent phenomenon and goes back centuries ago. Prior studies (Blake et al., 2000) utilize words such as "fiddling", "deception", and "taking advantage" to describe creative accounting as a disreputable practice. These practices led to the emergence of a concept known in the literature called earnings management due to creative accounting (Healy & Wahlen, 1999).

As for creative accounting practices, (Copeland 1968) was one of the early researchers who described account manipulation to implement the income smoothing strategy, to increase or decrease recorded net income at will, where the company shows a more significant loss in the current period and then followed by a considerable margin of profit in the next period (Riyadi et al., 2018). This process is called "Big Bath" as an aspect of the equilibrium reporting strategies, if used wisely, to provide a high quality of financial information to stakeholders in order to build insight into the amounts, timing and uncertainty of future cash flows in the efficient markets (Kirschenheiter & Melumad, 2002); (Moumen et al., 2015). Hence, the management runs earnings with smoothing depending on the level of cash flows observed (Kirschenheiter & Melumad, 2002). For income smoothing purposes, managers can use both accruals and cash flows. However, given the high costs arising from the manipulation of cash flows, and because their manipulation is much more noticeable than the manipulation of accruals, managers are likely to prefer using accruals to normalize the recorded earnings management (Peasnell et al., 2000). Therefore, accruals are certified by the difference between reported income and cash flow, reflecting the cumulative impact resulting from the implementation of the accrual basis in the cash flow approach of earnings management detection (Mendesa et al., 2012).

In contrast, cross-country differences in accounting quality are likely to remain even after IFRSs are adopted because the quality of accounting will not be isolated from the country legal and political system in which the company resides (Soderstrom & Sun, 2007). Therefore, creative accounting practices are performed by taking advantage of the IFRSs, and missing regulations in the law, to prepare financial reports to achieve a specific priority

(Hatcher, 2004). One of the managers' priorities is to reduce income tax payments by managing their earnings and showing losses, according to (Moreira 2006). Besides, trying managers to reduce firms risk exposure avoids the legal consequences resulting from creative accounting practices (Ibrahim et al., 2011) and (Manzano et al., 2014).

Literature review:

Most empirical studies examine the relationship between creative accounting practices and the quality of financial information focus on the uncertainty arising from future cash flows, investor decisions and financing processes. However, the priority of companies that use the practice of creative accounting for external financing purposes in an emerging market, such as the Turkish market, has not been addressed. There is a knowledge gap related to managers ability to run earnings and assess the risk of capital expenditure as one of the typical scenarios that lead to potential bankruptcy due to the recession in the Turkish market. In addition to practising creative accounting by management to justify external financing operations for its activities after equity financing and issuing stocks to finance its operations, it may be less risky.

According to (Zhang et al., 2020), both accruals and real earnings management are positively related to external financing. This positive relationship is especially significant for companies that rely on equity rather than debt financing. The association between creative accounting practices conducted to smooth income, tax avoidance, and financial performance is tested by (Ali et al., 2020) within publicly listed Malaysian firms. The outcome suggests that the financial performance of Malaysian public listed companies is influenced by income smoothing. (Siyabola et al., 2020) examine the association between creative accounting practices and the investment decisions in selected listed manufacturing firms in Nigeria. They indicate that financial information manipulation contributes to misleading users by providing information that affects their decision making. As a result, corporate governance should be applied to mitigate the effects of creative accounting practices. According to (Wokukwu 2015), the manipulating aspect is emerged by using creative accounting practices. Corporate managers exploit accounting standards to meet or beat market expectation. He also indicates that other external factors affect earnings management and revenue recognition, which tracks some excesses relating to earnings management and complex financing arrangements to preserve CEOs compensation incentives and meet earnings projection. (Benito et al., 2008) indicate to some creative accounting practices like deferring payments and instalment plans, as well as borrowing decentralization that is described as false disclosure in financial statements of the debt connected with the projects to generate new financing methods, which are misjudged for meeting the convergence criteria imposed by the European Union without a dramatic reduction in public investment. (Mcnichols & Wilson, 1988) argue that their discretionary position can be used by management to achieve the financial position and stability they assumed; for example, managers decide to raise or decrease the bad debt provisions.

Developing hypotheses:

In order to avoid fluctuations in net income, the management uses creative accounting practices to demonstrate steady earnings streams as an income smoothing strategy. It makes management convince the shareholders of the company's financial position stability and convince the lenders of its ability to meet its financial obligations. However, inappropriate creative accounting practices as a manipulation may lead to the firm at risk (Gherai & Balaciu, 2011); (Gordon, 1964); (Beidleman, 1973). In contrast, the Turkish market is considered an emerging market, and it is likely to go through periods of economic recession, which leads to lower efficiency of operations and fewer returns, which affects the ability to repay debt. We assume that management pays attention to address the consequences of a recession by focusing on two aspects, growth strategy and growth capacity. Thus, managers determine the amount of their external financing they need to finance executable operations to achieve actual growth, after using the funds generated from the issuance of shares and retained earnings without depleting financial resources (Higgins, 1989), allowing managers to generate funds internally, strengthening the dividend policy. Turkish firms do not have to make costly periodic cash payments for the long-term.

To be more specific, earnings management as the most effective means of income smoothing that decomposes into two elements, operating cash flow and accruals (Sloan, 1996). Thus, total accruals are extracted by subtracting operating cash flow from net income. This approach leads to the notion of the extent to which the unexpected accruals used as a justification for external financing needs after using the funds resulting from equity financing and the issuance of stocks to finance its operations to achieve sustainable growth. Based on these arguments, this study hypothesized that:

Managers rely on creative accounting practices to justify external financing's need after financing their operations from internal sources in manufacturing firms listed in Turkey. H1:

Capital expenditures create more potential value for the firm. Since decisions like these involve financing capital expenditures incur a high cost, most firms evaluate the asset's benefits against the missed opportunity if they are not acquired. Evaluating capital spending benefits requires examining whether these benefits remain steadfast even in the worst-case scenarios such as economic recession, inflation, declining revenues, default or potential bankruptcy (Allen, 1976); (Middaugh & Cowen, 1987). Management determines the cost of capital expenditures and assesses the risk of capital spending in uncertainty economic conditions, future cash flows, customer purchasing habits, asset performance, and potential technology improvements. In a Turkish case, as has been shown in the literature, management may not be able to run its earnings wisely through the use of "Big Bath" as an aspect of the equilibrium reporting strategies. Turkish accountants face complex terminology and a lack of knowledge of IFRSs that provide a high quality of financial information to stakeholders that enable them to decide to finance a capital project (Erdoğan & Dinç, 2009). However, even if management can create high-quality accounting information by managing earnings to justify financing the capital expenditures, the management may not invest in a

capital project based on unrealistic information (Trueman, 1986). Thus, it is dangerous that management funds its capital expenditures externally based on irrational creative accounting practices. Based on these arguments, the second hypothesis is:

Managers do not rely on creative accounting practices to fund capital expenditures in manufacturing firms listed in Turkey. H2:

The management uses some determinants that affect earnings management and external financing needs. Financial leverage determines a firm's ability to use its fixed-burden assets to increase its level of income. Besides, leverage is used to determine the number of financial resources needed to increase earnings (Ramli et al., 2019). (Francis et al., 2005) stated that firms that are more dependent on external financing are liable to report higher quality accounting numbers because they believe it will lead to a lower cost of external financing. Profitability is considered a variability factor based on the income smoothing strategy implemented by managers to practise creative accounting, where the level of current earnings management contributes to predicting future profitability (Kallunki & Martikainen, 2003). Finally, firms with large total assets indicate that the company has reached maturity as the company enjoys positive cash flow and is considered to have good prospects in a relatively long period. Besides, companies with large total assets also reflect that the company is relatively stable and capable of generating earnings than companies with small total assets (Collins et al., 1987). These variables represent the control variables. Based on these arguments, this study hypothesizes that:

Some determinants affect the relationship between earnings management and external financing needs in manufacturing listed firms in Turkey. H3:

3.THE METHODOLOGY OF RESEARCH:

Research Design

Turkey has shown great interest in improving the accounting profession's level and has made significant steps in this field. However, Previous Turkish studies indicated that it was difficult for professional accountants to adapt to international financial reporting standards due to complex terminology problems and lack of knowledge of IFRSs despite adapting to IFRS (Erdoğan & Dinç, 2009). Therefore, this paper examines the issue of equilibrium in reporting strategies through the practice of creative accounting and how the management relies on creative accounting practices either to justify external financing processes to cover capital expenditures or to finance all its operations, after using the funds resulting from equity financing and the issuance of stocks to achieve sustainable growth by testing the sample of manufacturing firms listed in the Istanbul Stock Exchange from 2015 to 2019. The study conducted empirically by extracting relevant data from the Orbis database, and regression analysis is also used. The study population is characterized by a heterogeneity that consists of 217 companies. The 74 companies are excluded, so the outcome is 143 companies, with a total asset value of 350 million US dollars and a net income of 21 million US dollars. The

study depends on the North American Industry Classification System (NAICS 2017) to extract the manufacturing firms as a block, not each sector.

Independent Variable (Creative Accounting Practices): 3.1.1

Prior studies have considered that both creative accounting practices and earnings management are two faces for the same coin (Amat & Gowthorpe, 2004). Creative accounting practices were characterized by (Copeland 1968) as an ability to increase or decrease recorded net income at will, called the strategy of income smoothing. By the Jones model, earnings management is detected as an income smoothing evaluation, considered a big bath theory. Therefore, earnings management based on the cash flow approach describes total accruals as net income less operating cash, which is the first step.

$$TAC_{it} = NI_{it} - CFO_{it} \dots\dots\dots(1)$$

In the second step, (Jones 1991) assumes that expected accruals are constant so she can control the effect of changes in a firm's economic conditions. All elements in equation (2) are deflated by lagged total assets (TA_{it-1}) to avoid heteroscedasticity problem that might lead to non-constant expected accruals (Höglund, 2012). The ordinary least square estimates the b_1 , b_2 , and b_3 .

$$TAC_{it}/TA_{it-1} = b_1 (1/ TA_{it-1}) + b_2 (\Delta REV_{it} / TA_{it-1}) + b_3 (PPE/ TA_{it-1}) + \epsilon_i \dots\dots\dots(2)$$

Once again, this study uses deflated elements by lagged total assets (TA_{it-1}) to avoid non-constant volatility related to the prior period to reduce the high probable standard deviation of unexpected accruals. Then, the β_0 , β_1 & β_2 extracted by equation (2) are employed in equation (3).

$$EAC_{it} = \beta_0 (1/ TA_{it-1}) + \beta_1 (\Delta REV_{it} / TA_{it-1}) + \beta_2 (PPE/ TA_{it-1}) \dots\dots\dots(3)$$

(Jones, 1991) admits that her model orthogonalizes total accruals for revenues to extract unexpected accruals consequently. It creates a biased estimate of earnings management toward zero. In order to eliminate the estimated tendency of the Jones Model, the change in revenues (ΔREV_{it}) is adjusted for the change in receivables (ΔRA_{it}) in the event period; this is confirmed by (Dechow et al., 1995). The expected accruals are measured by the Modified Jones Model as follows:

$$EAC_{it} = \beta_0(1/ TA_{it-1}) + \beta_1 ([\Delta REV_{it} - \Delta RA_{it}] /TA_{it-1}) + \beta_2 (PPE/ TA_{it-1}) \dots\dots\dots(4)$$

After having calculated all explanatory variables, the Modified Jones Model is adopted to extract unexpected accruals as a proxy of earnings management in this study as follows:

$$UEAC = (TAC_{it}/TA_{it-1}) - [\beta_0(I/TA_{it-1}) + \beta_1([\Delta REV_{it} - \Delta RA_{it}]/TA_{it-1}) + \beta_2(PPE/TA_{it-1})] \dots\dots\dots(5) \quad]$$

Dependent Variable (External Financing):

The Turkish market is an emerging market, and it is likely to go through periods of economic stagnation, which leads to the low efficiency of operations and lack of returns, which affects the ability to pay the debt. Thus, managers determine the amount of external financing they need to fund the executable operations to achieve real growth after using the funds generated from the issuance of stakes and retained earnings without depleting financial resources (Higgins, 1989), which allow managers to generate funds internally and strengthen the dividend policy. It does not entail costly periodic cash payments in the long run. From these arguments, the difference between real growth rate and sustainable growth rate is made to determine the rate at which external financing is needed (Karakaya et al., 2017).

In contrast, Capital expenditures create more potential value for the firm. Since decisions like these involve financing capital expenditures incur a high cost, most firms evaluate the assets' benefits against the missed opportunity if they are not acquired. However, others focus on funding the expansion of their assets, which is known a capitalization. Thus, they look for financing sources to cover capital expenditures without looking at achieving returns in the short term (Fernandes & Ferreira, 2007).

Control Variables: 3.1.3

In this study, the management takes advantage of the financial leverage and profitability data on disclosures to justify frequent external financing. Besides, manufacturing firms have vast assets, need external financing. All these factors selected to achieve more contribution to relevant literature are considered when building the research methodology. All variables are presented in Table 1 as follows:

Table 1. The variables used in the study

Variables	Code	Descriptions
Dependent Variable		
External Financing Needs	<i>EXN</i>	Growth Rate – Sustainable Growth Rate
External Financing for Capital Expenditures	<i>EXT</i>	(capital expenditures – Operating cash flow) / capital expenditures
Independent Variable		
Creative Accounting Practices	<i>UEAC</i>	Unexpected accruals (Jones Model, 1991)

Control Variables		
Profitability	<i>ROA</i>	Net Income / Total Assets
Leverage rate	<i>LV</i>	Total Debt / Total Assets
Size	<i>SZ</i>	Log. Total Assets

The following regression equations are run to estimate the impact of creative accounting practices on the external financing needs for both priorities along with the control variables by applying the panel data regression analysis in SPSS software as follows:

$$EXN = \alpha + \beta_1 (UEAC) + \beta_2 (ROA) + \beta_3 (LV) + \beta_4 (SZ) + \varepsilon \quad (6)$$

$$EXT = \alpha + \beta_1 (UEAC) + \beta_2 (ROA) + \beta_3 (LV) + \beta_4 (SZ) + \varepsilon \quad (7)$$

4. ANALYSIS AND RESULTS:

The research population extracted by the Orbis database from 2015 to 2019. It is characterized heterogeneity within the manufacturing firms listed on the Istanbul Stock Exchange that consists of 227 companies, 84 companies are excluded, so the outcome is 143 companies. The employed sample is adjusted by treating extreme outliers by demonstrating the 1.5 IQR rule to be more homogeneous among each variables' observations.

After having adopted the value of parameters extracted from equation (2) to calculate expected accruals in equation (4), which provides the most effective results of earnings management to get the outcomes of unexpected accruals for each firm, that is made using the scenario analysis necessary to determine the best findings related to the creative accounting practices within two options. Firstly, calculating the parameters to describe the practice of 143 firms as a small set in one year, then pooling all sets as a combined more extensive set with five years to obtain a more precise estimate of that characteristic, secondly, adopting the standardized values of parameters for 143 firms for five years. As a result, the first scenario is chosen to start listing the results of this study.

Descriptive Statistics:

Descriptive statistics aim to identify the main features of study variables, whether central tendency and measures of variability. The main variable features used in this study are reported in Table 2.

Variables	Minimum	Maximum	Mean	Std. Deviation
<i>EXT</i>	-4.416	8.071	1.830	3.406
<i>EXN</i>	-16.257	17.999	0.693	12.636

UEAC	-64.189	70.019	5.492	35.058
ROA	-15.044	23.812	4.103	8.410
SZ	2.880	6.982	4.982	0.790
LEV	0.075	402.218	87.228	84.321

Table 2 presents descriptive statistics for 143 manufacturing firms of Turkey and 715 observations from 2015 to 2019. Results indicate that the mean value of **EXT** is 1.83, and the standard deviation is 3.41. It means that the policy of financing Turkish companies' capital projects is not risky, as it depends on increasing the size of their operations. Thus, the increase in financing in capital expenditures depends on the Turkish market's efficiency in enhancing the opportunities for efficient operations to achieve more returns to fulfil the obligations. For **EXN**, the mean value is 0.69, and the standard deviation is 12.64. It means many aggressive managers follow a funding policy for all activities after using the funds generated from the issuance of stocks and retained earnings without depleting financial resources. Besides, the large standard deviation of **UEAC** of 35.06 so that those managers use creative accounting practices to create information enables them to convince shareholders of the need for financing. In terms of the rest variables, the standard deviation of **ROA** and **SZ** are 8.41 and 0.08, respectively. What is striking is most firms' dependence on debt that appears in the standard deviation of **LEV** 84.32. In sum, a lower standard deviation is not necessarily preferable. It all depends on the market situation and the shareholders and investors' willingness to assume that risk.

Relationships Between Variables:

Table 3 shows the Pearson correlation coefficient to reveal an association between two variables. Hence, the relationships between the variables are studied more closely, especially between **UEAC** and each **EXN** and **EXT**.

Table 3. The Correlation coefficients of the variables					
Variables	EXN	UEAC	ROA	SZ	LEV
EXN	1				
UEAC	0.167**	1			
ROA	-0.313**	-0.127**	1		
SZ	0.092*	0.015	0.223**	1	
LEV	-0.041	-0.022	0.074*	0.086*	1

Note: (*) and (**) indicate the significant correlation at the 0.05 and 0.01 level, respectively.

In details, the table indicates that there is a significant positive correlation between **UEAC** and **EXN** at 1% ($p < 0.01$), while the coefficients of **ROA** are negative and significant at 1%. Besides, **SZ**'s coefficient is positive and significant, at 5% ($p < 0.05$). However, there is no

correlation between *EXN* and *LEV*. As a result, most Turkish companies' managers practice creative accounting for financing operations to justify external financing. The financing policy depends on determining the amount of financing to be used after using the funds generated from the issuance that stores and retained profits for the companies' operations. The preliminary results indicate that both profitability and size variables have a moderate effect on the relationship between earnings management and external financing needs in manufacturing listed firms in Turkey.

Variables	<i>EXT</i>	<i>UEAC</i>	<i>ROA</i>	<i>SZ</i>	<i>LEV</i>
<i>EXT</i>	1				
<i>UEAC</i>	-0.024	1			
<i>ROA</i>	0.088*	-0.127**	1		
<i>SZ</i>	0.058	0.015	0.223**	1	
<i>LEV</i>	0.058	-0.022	0.074*	0.086*	1

Note: (*) and (**) indicate the significant correlation at the 0.05 and 0.01 level, respectively.

In Table 4, It has been tested the correlation between *EXT* and *UEAC* to ensure that the management does the creative accounting practices to find justifications regarding cover the capital expenditures by using external financing. The results indicate no significant relationship between *EXT* and *UEAC*, which are the study's main variables. When the management run its income smoothly, it avoids the fluctuations in net income so that management uses creative accounting practices to demonstrate steady earnings streams. The earning streams do not need to be directed only to cover capital expenditures. There may be other firm objectives that should be achieved, which must be given priority. Thus, The parent variable of external financing needs *EXN* is adopted in this study.

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
		0.375a	0.141	0.136	11.7444531	
ANOVA						
1		Sum of Squares	df.	Mean Square	F	Sig.
	Regression	16043.815	4	4010.954	29.079	.000a
	Residual	97793.915	709	137.932		

Total	114136.812	715			
Coefficients					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-10.441	2.856		-3.656	0
<i>UEAC</i>	0.044	0.013	0.112	3.47	0.001
<i>ROA</i>	-0.5	0.054	-0.333	-9.216	0
<i>SZ</i>	2.67	0.574	0.167	4.65	0
<i>LEV</i>	-0.004	0.005	-0.28	-0.805	0.421
a. Predictors: (Constant), <i>UEAC</i> , <i>ROA</i> , <i>SZ</i> , <i>LEV</i>					
b. Dependent Variable: <i>EXN</i>					

Regression analysis is used to find the impact of the independent variable on the dependent variable. The main variable features used in this study are reported in Table 5. In this table, R's value that measures the strength of the relationship between variables is 38%. It means that there is a relationship between *UEAC* and *EXN*, but it is not strong enough. It indicates that there may be other variables that influence the strength of this relationship. The R square value clarifies that the changeability can explain 14.7% of the variability in the *EXN* in model-independent variables used in the study.

Moreover, the F-test value is significantly more considerable than the p-value ($p < 0.05$) and indicates whether your linear regression model provides a better fit to the data than a model that contains no independent variables. If this condition is fulfilled, the null hypothesis is rejected, and the alternative hypothesis accepted. The results indicate that the F-value is 29.079, and the p-value is 0.000, which is less than 0.05 means that the independent variables in the model have a significant influence on the external financing needs. This result confirmed by previous studies (Malkiel & Cragg, 1970); (Frankel et al., 1995).

The above results are consistent with those of (Moreira 2006); (Al-Mohareb & Alkhalaileh, 2019); (Ali et al., 2020), (Siyanbola et al., 2020) and (Zhang et al., 2020). In Turkish firms, managers adopt creative accounting practices to justify their need for external financing to the company operations. In turn, managers assess the Turkish market fluctuations and their consequences due to the rise in costs in rigid financial reporting manipulation. Therefore, the management specifies the amount of external financing they need to finance executable operations to achieve actual growth after using the funds generated from the issuance of shares and retained earnings without depleting financial resources (Higgins, 1989). Findings indicate a significant positive relationship between creative accounting practices and external financing needs at 95%. Therefore, the first hypothesis is accepted.

Through the results of the Pearson test, it is found that there is no correlation between creative accounting practice and external financing of capital expenditures, which is consistent with previous studies (Allen, 1976); (Trueman, 1986) and (Middaugh & Cowen, 1987). Management determines the cost of capital expenditures and assesses the risk of capital spending in uncertainty economic conditions, future cash flows, customer purchasing habits, asset performance, and potential technology improvements. In a Turkish case, management may not be able to run its earnings wisely through the use of "Big Bath" as an aspect of the equilibrium reporting strategies due to Turkish accountants face complex terminology and lack of knowledge of IFRSs that provide a high quality of financial information to stakeholders that enable to decide for financing a capital project (Erdoğan & Dinç, 2009). Therefore, the second hypothesis is accepted.

In this regression shown, the external financing needs are predicted to increase 0.044 when the unexpected accruals go up by one, decrease by 0.5 when **ROA** goes up by one, increase by 2.67 when **SZ** goes up by one, decrease by 0.004 when **LEV** goes up by one and is predicted to be - 10.441 when Beta coefficients are zero. Besides, the t-value of **UEAC** is 3.47, with a p-value of less than 5%. It indicates a 95% probability of being correct that creative accounting practices affect external financing needs. Therefore, the first hypothesis is accepted. For the third hypothesis, the t-value of **ROA**, **SZ** and **LEV** are -9.216, 4.65 and -0.805, respectively. These some control variables have a significant effect on external financing needs at 95%. Therefore, the third hypothesis is accepted.

5.CONCLUSIONS:

This study investigates the impact of creative accounting practices on external financing needs, whether at the operational level to cover capital expenditures or more comprehensively, using firms listed in the Istanbul Stock Exchange manufacturing industry using data analysis methods in 2015 2019. The Turkish market is considered an emerging market and is likely to go through periods of economic recession, which leads to lower efficiency of operations and fewer returns to repay debt. Besides, Turkish accounting standards setters have taken the initiative to "adapt" to IFRS, rather than adopting them directly, contributing to the emergence of complex terminology problems and a lack of knowledge of IFRS among Turkish accountants. Findings indicate that management is interested in addressing the repercussions of the recession and pushing the economy forward within specific controls and with less risk to obtain external financing for its operations by adopting equilibrium reporting strategies represented by the creative accounting practices. Managers determine the amount of external financing they need to fund viable operations to achieve actual growth after using the funds generated from the issuance of stokes and retained earnings without depleting financial resources.

Moreover, the capital expenditures required to assess the risk of capital spending in uncertain economic conditions, future cash flows, asset performance, and potential technological improvements. Consequently, the results proved that managers in Turkish firms do not risk practising creative accounting to justify the capital spending that carries the company high

costs. This paper provides new insights into the Turkish market regarding managers priorities for creative accounting practices. It gives broader horizons to research some of the determinants that may affect the relationship between creative accounting practices and external financing.

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