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ROLE OF CA IN FC AND IT'S IMPACT ON SUSTAINABLE DEVELOPMENT: A REVIEW OF DEVELOPING COUNTRIES

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Abstract: This review paper examines the multifaceted role of creative accounting in facilitating financial crimes and its impact on sustainable development within developing countries. Drawing upon a comprehensive review of existing literature, this study defines creative accounting and financial crimes, sustainable development, and explores how the former, often operating within legal loopholes, can be leveraged for illicit financial activities and for distraction from sustainable development principles. The paper delves into specific techniques employed, such as the manipulation of revenues, expenses, assets, and liabilities, and provides examples from various developing economies. It further investigates the underlying factors contributing to the prevalence of creative accounting in these regions, including weak regulatory frameworks, inadequate corporate governance, and political connections. The objectives and motivations behind such practices, ranging from improving financial ratios to personal gain, are also discussed. This paper emphasizes the connection between creative accounting and "green washing" that causes distortions in sustainable development reports. By synthesizing current research, this paper highlights the profound impact of creative accounting on financial reporting and sustainable reporting quality and decision-making effectiveness and identifies the challenges in detection and prevention. Finally, it underscores the critical role of forensic accounting and propo-

ses implications for policymakers, regulators, and businesses in developing countries, while also suggesting avenues for future research.

Keywords: *Creative accounting, Financial crimes, Developing countries, Financial reporting, Corporate governance, Fraud, Forensic accounting, Earnings management, Green washing, Sustainable development.*

1. INTRODUCTION

Financial crimes pose a significant threat to economic stability and development globally, with developing countries often bearing a disproportionate burden due to vulnerabilities in their regulatory and governance frameworks. Within this landscape, creative accounting emerges as a subtle yet potent instrument frequently exploited to perpetrate such illicit activities. Creative accounting, while often operating within the letter of the law, leverages loopholes and ambiguities in accounting standards to present a misleading financial picture of an entity (Rahman et al., 2023). Moreover, taking into consideration some ambiguities in regulation of sustainable development reports, it worth mentioning that these reports are subjected to distortions within the framework of standards as well (Ren, 2025; Achimugu et al., 2025). This practice, also known as earnings management or aggressive accounting blurs the lines between legitimate financial reporting and outright fraud, making detection and prosecution particularly challenging. The term “green washing” has been established to describe evasions from the real picture in sustainable development reports (Achimugu et al., 2025).

The pervasive nature of creative accounting and its role in facilitating financial crimes is a growing concern, particularly in developing economies where robust oversight mechanisms may be nascent or easily circumvented. Historical instances, such as the widespread financial scandals in Bangladesh, including the 1996 IPO stock market crisis and the 2010-2011 Dhaka and Chittagong stock exchange scams, underscore the devastating impact of such practices on national economies and investor confidence (Rahman et al, 2023).

Similarly, the collapses of major corporations like Enron and World.com, though in developed countries, serve as stark reminders of how creative accounting can lead to catastrophic financial outcomes, driven by factors such as inadequate financial reporting, misapplication of financial data, and a lack of corporate ethical values (Rahman et al, 2023).

Manipulative distortions into sustainable development reporting can lead to misrepresentation of real financial performance and sustainable strategy of a company.

This review paper aims to provide a comprehensive examination of the role of creative accounting in financial crimes within developing countries and its impact on sustainable development. We will begin by establishing clear definitions of creative accounting and financial crimes, setting the conceptual foundation for our analysis.

Subsequently, the paper will delve into the specific mechanisms through which creative accounting facilitates financial misconduct, exploring various techniques employed to manipulate financial statements. We will also investigate the unique scope and objectives of creative accounting in developing country contexts, considering the socio-economic and regulatory environments that contribute to its prevalence. Then we will describe the connection between creative accounting and "green washing" that causes distortions in sustainable development reports. The discussion section will synthesize these findings, highlighting the broader implications for financial reporting quality and decisionmaking, and addressing the challenges inherent in combating these sophisticated forms of crime. Finally, the conclusion will offer policy recommendations and identify areas for future research to foster greater financial transparency and accountability in developing nations.

2. DEFINITIONS

To understand the intricate relationship between creative accounting and financial crimes, it is crucial to establish clear definitions for the key terms used throughout this paper.

Creative Accounting

Creative accounting is a multifaceted concept that generally refers to accounting practices that, while adhering to the letter of accounting rules and regulations, exploit loopholes or ambiguities to present a more favorable, albeit misleading, financial picture of a company (Rahman et al, 2023). It is often described as a euphemism for practices that may follow standard accounting principles but manipulate figures to achieve desired outcomes. Various sources offer slightly different nuances to this definition:

Creative accounting follows required laws and regulations but capitalizes on loopholes to falsely portray a better financial image of a company (Rahman et al, 2023).

Creative accounting is a euphemism referring to accounting practices that may follow the letter of the rules of standard accounting practices.

The creative accounting definition refers to a way of reporting financial statements in a less-than-transparent way. It involves taking advantage of accounting loopholes, rules, or grey areas to manipulate financial records and statements.

Creative accounting is a description of accounting practices that are not considered illegal but may be somewhat out of the ordinary. According to Cambridge dictionary, creative accounting refers to ways of explaining how money has been spent, that hide what has really happened to it.

Creative accounting refers to the lawful exploitation of legal loopholes to benefit a company's financial reporting with misleading figures.

Kamal Naser, from an academic perspective, defines it as: "Creative accounting is the transformation of financial accounting figures from what they truly are" (Naser, 1993).

Creative accounting, though not always illegal, involves the strategic manipulation of financial data within the boundaries of existing regulations to achieve specific reporting objectives, which can include improving financial ratios, managing earnings, or reducing tax liabilities. The fine line between aggressive but legal accounting and fraudulent activity is often blurred, making it a powerful tool for financial misconduct.

Financial Crimes

Financial crimes encompass a broad range of illegal activities characterized by deceit, concealment, or breach of trust, and are designed to obtain money, property, or to avoid payment or loss of money or property, or to secure business or professional advantage. In the context of this paper, financial crimes specifically refer to those illicit activities that are facilitated or concealed through the use of creative accounting practices. These can include, but are not limited to:

Fraud: Intentional misrepresentation of financial information to deceive stakeholders, such as investors or creditors, leading to financial loss for the victims (Dote-Pardo & Severino-González, 2025). This often involves the deliberate manipulation of financial statements through creative accounting techniques.

Embezzlement: The fraudulent appropriation of property by a person to whom it has been entrusted. Creative accounting can be used to hide the misappropriation of funds or assets.

Money Laundering: The process of concealing the origins of money obtained illegally by passing it through a complex sequence of banking transfers or commercial transactions. Creative accounting can obscure the true nature of transactions, making it difficult to trace illicit funds.

Tax Evasion: The illegal avoidance of taxes by individuals, organizations, or corporations. Creative accounting techniques can be employed to artificially reduce taxable income or inflate deductible expenses.

Developing Countries

For the purpose of this review, developing countries refer to nations with lower average incomes, less developed industrial bases, and lower Human Development Index (HDI) scores compared to developed countries. These countries often face unique challenges, including weaker institutional frameworks, less mature financial markets, higher levels of corruption, and less stringent regulatory oversight, which can create fertile ground for the proliferation of creative accounting and financial crimes (Rahman et al., 2023; Siddique, 2024). The term is used broadly to encompass emerging markets and economies where the issues discussed in this paper are particularly pertinent.

3. ROLE OF CREATIVE ACCOUNTING IN FINANCIAL CRIMES

Creative accounting plays a pivotal, albeit often subtle, role in the perpetration of financial crimes, particularly in developing countries where regulatory environments may be less stringent and oversight mechanisms less robust. While creative accounting itself may not always be illegal, its inherent ability to distort financial realities makes it a powerful tool for those seeking to engage in illicit activities (Rahman et al., 2023). The line between aggressive but legal accounting and outright fraudulent activity is often a fine one, and creative accounting frequently serves as a precursor or a means to conceal more serious financial misconduct.

One of the primary ways creative accounting facilitates financial crimes is through **earnings management**. Companies may use creative accounting techniques to smooth out earnings, present a consistent growth trajectory, or meet analyst expectations, even when underlying financial performance does not support such a picture. This manipulation can mislead investors and creditors, leading to inflated stock prices or easier access to credit, which can then be exploited for fraudulent purposes. For instance, a company might prematurely recognize revenue or delay the recognition of expenses to boost reported profits, thereby attracting investments under false pretences (Honkova & Mysková, 2024).

Creative accounting also serves as a mechanism for **tax evasion**. By manipulating financial statements to reduce reported income or inflate deductible expenses, companies can illegally lower their tax liabilities. This can involve complex schemes such as transfer pricing manipulation, where transactions between related entities are priced to shift profits to lower-tax jurisdictions, or the misclassification of expenses to maximize deductions. Such practices deprive developing countries of much-needed tax revenue, hindering their economic development and public service provision.

Furthermore, creative accounting is instrumental in concealing various forms of **fraud**. This includes outright financial statement fraud, where the entire financial reporting process is intentionally distorted to deceive stakeholders (Dote-Pardo & Severino-González, 2025). Techniques such as holding open books to record additional sales, delaying revenue on partial shipments, and changing inventory values have been identified as common methods used to manipulate financial figures (Honkova & Mysková, 2024). These manipulations can hide embezzlement, kickbacks, or other forms of asset misappropriation, making it difficult for auditors and regulators to detect the true nature of the transactions (Gupta & Kumar, 2020).

In developing countries, the role of creative accounting in financial crimes is often exacerbated by specific contextual factors. Weak corporate governance practices, political connections, and a lack of corporate ethical values have been identified as significant antecedents to creative accounting practices (Rahman et al., 2023). For example, in Bangladesh, instances of creative accounting have been linked to political connections and a disregard for ethical values, leading to financial scandals and

the collapse of financial institutions (Rahman et al., 2023). The case of PK Halder, who laundered millions from multiple financial institutions in Bangladesh, highlights how creative accounting can be used to falsify financial statements and facilitate large-scale financial crimes (Rahman et al., 2023). Similarly, in Nigeria, creative accounting has been implicated in various financial frauds and the looting of public funds (Mmamefune & Eloho, 2025).

The impact of creative accounting extends beyond direct financial loss; it erodes trust in financial markets, discourages foreign investment, and undermines the overall economic stability of developing nations. The lack of transparency and accountability fostered by creative accounting practices makes it challenging for investors to make informed decisions, leading to market inefficiencies and a higher risk of financial crises (Rahman et al., 2023). Therefore, understanding the intricate ways in which creative accounting is employed is crucial for developing effective strategies to combat financial crimes in these vulnerable economies.

4. SCOPE OF CREATIVE ACCOUNTING IN DEVELOPING COUNTRIES

The scope of creative accounting in developing countries is extensive, permeating various sectors and manifesting in diverse forms due to a confluence of socio-economic, political, and regulatory factors. While the fundamental techniques of creative accounting are universal, their prevalence and impact are often amplified in developing economies, posing significant challenges to financial transparency and stability. One of the primary factors contributing to the widespread use of creative accounting in developing countries is the presence of **weak regulatory frameworks** and enforcement mechanisms. Many developing nations lack comprehensive and robust accounting standards, or their existing regulations are poorly enforced due to limited resources, corruption, or a lack of political will (Rahman et al., 2023; Siddique, 2024). This creates an environment where companies can exploit legal loopholes and ambiguities with relative impunity, knowing that the likelihood of detection and punishment is low. The absence of strong independent oversight bodies and effective auditing practices further exacerbates this issue, allowing creative accounting practices to flourish unchecked.

Inadequate corporate governance structures also play a significant role in expanding the scope of creative accounting. In many developing countries, corporate boards may lack independence, expertise, or a strong commitment to ethical conduct. This can lead to situations where management, often with the complicity of the board, manipulates financial statements to serve personal interests or to meet unrealistic performance targets (Rahman et al., 2023). Political connections, for instance, have been identified as a significant antecedent to creative accounting practices in Bangladesh, where such ties can shield companies from scrutiny and accountability

(Rahman et al., 2023). The lack of transparency in decision making processes and the concentration of power within a few individuals or families can further facilitate the use of creative accounting for illicit purposes.

The **economic pressures** faced by companies in developing countries can also broaden the scope of creative accounting. Businesses operating in these environments often contend with volatile economic conditions, limited access to capital, and intense competition. In an effort to attract investment, secure loans, or maintain a facade of financial health, companies may resort to creative accounting to present an artificially strong financial position. This can involve inflating assets, understating liabilities, or prematurely recognizing revenues, all of which distort the true financial performance and risk profile of the entity.

Moreover, the **cultural context** and prevailing ethical values can influence the acceptance and prevalence of creative accounting. In some developing countries, there may be a more lenient attitude towards financial irregularities or a greater emphasis on short-term gains over long-term ethical conduct. This can create a permissive environment where creative accounting is viewed as a common business practice rather than a serious ethical transgression (Rahman et al., 2023). The lack of strong corporate ethical values has been linked to increased creative accounting practices, further highlighting the importance of a robust ethical culture within organizations (Rahman et al., 2023).

While direct comparative data with developed countries can be challenging to obtain due to differences in reporting standards and data availability, the literature suggests that the impact of creative accounting on financial crimes is often more pronounced in developing economies. This is primarily due to the systemic weaknesses in their institutional and regulatory frameworks, which provide ample opportunities for exploitation. The cumulative effect of these factors creates a fertile ground for creative accounting to be employed not just for earnings management, but as a direct tool for perpetrating and concealing financial crimes, ranging from tax evasion to large-scale fraud and embezzlement.

5. OBJECTIVES OF CREATIVE ACCOUNTING IN FINANCIAL CRIMES

The objectives behind employing creative accounting practices, particularly when they lead to financial crimes, are diverse and often driven by a combination of internal and external pressures. These motivations typically revolve around presenting a more favorable financial image, avoiding financial obligations, or personal enrichment. Understanding these objectives is crucial for identifying the warning signs of potential financial misconduct.

One of the most common objectives is to **improve financial ratios and performance indicators**. Companies may use creative accounting to artificially inflate

revenues, deflate expenses, or manipulate asset valuations to make their financial statements appear healthier than they truly are (Honkova & Mysková, 2024). This can be motivated by a desire to attract investors, secure loans from financial institutions, or meet specific covenants in existing debt agreements. A strong financial performance, even if fabricated, can lead to higher stock prices, increased market capitalization, and greater access to capital, all of which benefit the company and its management.

Another significant objective is **earnings management**, which involves manipulating financial figures to achieve specific earnings targets or to smooth out earnings volatility.

This can be done to meet analyst forecasts, maintain a consistent growth trajectory, or avoid reporting losses (Honkova & Mysková, 2024). The motivation here is often to maintain investor confidence and prevent a decline in stock value, which can have significant implications for executive compensation tied to performance metrics. By presenting a stable and predictable earnings pattern, companies aim to reduce perceived risk and enhance their attractiveness to investors.

Tax avoidance and evasion represent another key objective. Creative accounting techniques can be employed to reduce a company's taxable income, thereby lowering its tax burden. This can involve shifting profits to lower-tax jurisdictions, misclassifying expenses, or exploiting ambiguities in tax laws. While some forms of tax planning are legal, creative accounting often crosses the line into illegal tax evasion, depriving governments of essential revenue needed for public services and development initiatives, particularly in developing countries.

Beyond corporate objectives, **personal gain** for management or individuals within the organization is a powerful motivator for creative accounting that leads to financial crimes. This can manifest in various ways, such as:

Increased bonuses and compensation: Executives whose remuneration is tied to company performance metrics may manipulate financial results to trigger higher bonuses or stock options.

Concealment of theft or embezzlement: Creative accounting can be used to hide the misappropriation of company assets or funds, making it difficult to trace the illicit activities.

Insider trading: Individuals with knowledge of manipulated financial statements can use this information to engage in illegal insider trading, profiting from the artificial inflation or deflation of stock prices (Gupta & Kumar, 2020).

In developing countries, the objectives of creative accounting are often amplified by the prevailing socio-economic and political conditions. The desire to attract foreign direct investment, for instance, can lead companies to present an overly optimistic financial picture. Similarly, weak legal and regulatory enforcement can embolden individuals to engage in creative accounting for personal enrichment, with a lower perceived risk of detection and prosecution. The presence of political connections can further facilitate these objectives, providing a shield against accountability and enabling the perpetration of large-scale financial crimes (Rahman et al., 2023).

Ultimately, the objectives of creative accounting, when intertwined with financial crimes, are about creating a false reality to deceive stakeholders, avoid obligations, or illicitly enrich individuals. These motivations highlight the need for robust governance, stringent regulatory oversight, and strong ethical frameworks to counteract the detrimental effects of such practices on financial markets and national economies.

6. METHODS OF CREATIVE ACCOUNTING LEADING TO FINANCIAL

Crimes

Creative accounting employs a variety of methods to manipulate financial statements, often exploiting the flexibility inherent in accounting standards or the lack of stringent oversight. When these methods are used with fraudulent intent, they directly contribute to financial crimes. The following are some common techniques and how they facilitate illicit activities:

6.1. Revenue Recognition Manipulation

One of the most prevalent methods involves manipulating revenue recognition to inflate reported income. This can be achieved through:

Premature Revenue Recognition: Recognizing revenue before it is earned or before all conditions for recognition are met. This can involve shipping goods before a sale is final, booking sales that are contingent on future events, or recognizing revenue from long-term contracts too early (Honkova & Mysková, 2024). This method artificially boosts current period profits, misleading investors and creditors about the company's true performance.

Fictitious Sales: Recording sales that never occurred. This can involve creating fake invoices or shipping documents to generate non-existent revenue. This is a direct form of fraud, designed to inflate sales figures and earnings (Dote-Pardo & Severino-González, 2025).

Channel Stuffing: Inducing distributors or customers to buy more products than they can promptly sell, often by offering deep discounts or extended payment terms. While not always illegal, if the intent is to artificially boost sales at the end of a reporting period and the products are likely to be returned, it can be a deceptive practice that misrepresents financial health (Honkova & Mysková, 2024).

6.2. Expense Manipulation

Manipulating expenses can either involve understating them to inflate profits or overstating them to reduce taxable income:

Capitalization of Expenses: Treating routine operating expenses as capital expenditures. This defers the expense recognition over a longer period (through depreciation), thereby increasing current period profits. This method can be used to hide poor operational performance or to meet earnings targets.

Understating Provisions and Reserves: Failing to adequately provide for bad debts, warranty claims, or other potential liabilities. This artificially inflates current profits by reducing expenses. When done intentionally to mislead, it constitutes a form of financial statement fraud.

Shifting Expenses to Other Periods: Delaying the recognition of expenses to a future period or accelerating them into the current period, depending on the desired financial outcome. This can be used to smooth earnings or to reduce current period profits for tax purposes (Honkova & Mysková, 2024).

6.3. Asset and Liability Manipulation

Creative accounting can also involve misrepresenting the value or existence of assets and liabilities:

Overstating Assets: Inflating the value of existing assets or recording non-existent assets on the balance sheet. This can include overvaluing inventory, property, plant, and equipment, or intangible assets. This method makes the company appear more financially stable and creditworthy than it is. **Understating Liabilities:** Omitting or understating existing liabilities, such as loans, accounts payable, or contingent liabilities. This improves key financial ratios and makes the company's financial position seem stronger. This can be used to hide debt or to avoid meeting loan covenants.

Off-Balance Sheet Financing: Structuring transactions in a way that keeps debt or other liabilities off the company's balance sheet. While some forms are legitimate, aggressive use can obscure the true financial leverage and risk of a company, misleading stakeholders.

6.4. Accounting Policy and Estimate Manipulation

Exploiting the flexibility in accounting standards related to policies and estimates is another common method:

Changes in Accounting Policies and Estimates: While legitimate changes are allowed, creative accounting involves making changes with the primary intent of manipulating financial results rather than reflecting a more accurate economic reality. For example, changing depreciation methods or inventory valuation methods can significantly impact reported profits (Honkova & Mysková, 2024).

Aggressive Application of Accounting Principles: Interpreting accounting standards in a way that pushes the boundaries of what is acceptable, often favoring an outcome that benefits the company's reported financial performance. This can involve complex interpretations of revenue recognition rules or asset valuation guidelines.

These methods, when employed with deceptive intent, transform creative accounting from a mere aggressive accounting practice into a tool for financial crimes. They enable companies and individuals to misrepresent financial health, evade taxes, embezzle funds, and defraud investors, ultimately undermining the integrity of financial markets, especially in developing countries where oversight is often less rigorous (Dote-Pardo & Severino-González, 2025).

7. THE CONNECTION BETWEEN CREATIVE ACCOUNTING, "GREEN WASHING" AND DISTORTIONS IN SUSTAINABLE DEVELOPMENT REPORTS

Sustainable development concept stems from the dichotomy of two dimensions of individual "self": selfish inclinations that consistently favour one's interests and altruistic tendencies that value the interests of others. When self-interest prevails over altruism, individuals are driven to impact the field of economics and accounting. Within the accounting field, this is evident through prioritizing profit and loss statements and utilizing short-term financial success metrics. This approach frequently disregards company operations' social and environmental consequences (Ermawati & Suhardianto, 2024).

Though global competition for access to limited resources led companies to understanding of inevitability to tackle various global challenges, such as climate change, social inequality, and economic sustainability, through their operations and commercial strategy. The importance of sustainability reports becomes increasingly evident as the awareness of social responsibility and the emphasis on corporate sustainability in financial markets expand. As a result, altruistic tendency has started wide spreading.

There have been conducted a lot of studies to provide evidence on the reasons for the transition from financial reporting to sustainability reporting. Research on the impact of organizations' ESG management on stock prices from 1980 to 2009 reported that shareholders prefer investing in environmentally responsible companies, leading to an 84% increase in their stock prices, while companies with environmentally irresponsible practices experience a 65% decline in stock prices (Coşkun et al., 2025). A research by Ernst & Young and the Boston College (2013) (Value of Sustainability Reporting, 2013) revealed that reasons, such as transparency to stakeholders, competitive advantage, risk management, stakeholder pressure, corporate culture, and brand/reputation were stated as factors that cause companies to publish sustainability reports. Based on the Sustainability Reporting Survey conducted by KPMG in 2020 (The time has come, 2020), it was found that 80% of the top 100 global companies have provided reports on their sustainability initiatives. The dissemination of sustainability information has emerged as a crucial means for stakeholders to access

non-financial information about corporations and comprehend the external impacts of their company operations (Ermawati & Suhardianto, 2024). This trend resulted in appearance of a concept of “green accounting” and its gaining recognition (Vintilă & Buboï, 2024a), an integrated approach to accounting, including not only traditional financial indicators, but also the social, environmental, and economic aspects of a company’s activities (Palamarchuk et al., 2025).

The primary aim of accounting is generating the real and impartial picture of financial performance of a company and valuable insights to its stakeholders. As far as stakeholders interests spread beyond profits and losses sustainability reporting considers being not only a showcase of social responsibility but a market advantage and incentive to investors.

To illustrate the idea it is worth bringing a quotation:

“Ten or 20 years ago, companies were thinking, ‘I need a sustainability strategy’. Now companies realize that they do not need a sustainability strategy – they need a sustainable strategy. Specifically, that means adopting business practices that are sustainable in the long run, and this requires integrating management accounting not just to the financial dimension, but the environmental and social performance as well” (Roel Drost, Ph.D., the chief value officer for Dutch sustainability consulting company Ecochain) (Jankalová & Jankal, 2024).

Nevertheless, certain companies exploit the market’s inclination towards sustainability reporting by using “greenwashing” practices. This involves exaggerating their sustainable advantages in management or business to persuade investors and other stakeholders to accept their social and ecological values, capabilities, or contributions.

Creative accounting and “green washing” a based on the same agency theory, theory of information asymmetry, positive accounting theory and managerial opportunistic behaviors. Indeed, the separation of ownership and control can lead managers to engage in opportunistic behaviours such as creative accounting practices, “green washing” that prioritize their own interests over those of stakeholders, adversely affecting financial and sustainable reporting quality.

According to ACCC Findings (Greenwashing by businesses in Australia, 2023), “green washing” techniques are usually used for misleading consumers, making their purchasing decisions in relation to business’ environmental credentials, misleading governmental institutions entitled to control sustainability of business, misleading other stakeholders reach a desirable marketing position, misleading investors, supporting companies, evading from sustainable development agenda, etc. A misleading, meaningless, or unclear claim breaches consumer trust and hurts confidence in both the claim itself and sustainability claims in general. Businesses genuinely pursuing more sustainable products and services often incur additional production or research costs. This fact combined with consumers’ increasing interest in purchasing sustainable products means false or misleading sustainability claims unfairly disadvantage businesses making genuine claims. This undermines effective competition and can

create a disincentive for businesses to invest in sustainability (Greenwashing by businesses in Australia, 2023). For investors misalignment of capital, caused by "green washing" practices, can result in reputational risks and potential financial losses when the truth is revealed (Lagasio, 2024).

Studies conducted on "green washing" revealed that these practises affect corporate performance quite similar to creative accounting influence such as increasing a company market value, financial performance and financial indices while a lack of visible green initiatives is detrimental to firm value, negatively affecting accounting-based financial indicators and shareholder wealth (Feghali et al., 2025).

8. DISCUSSION

The preceding sections have illuminated the intricate ways in which creative accounting, a practice often operating within the legal grey areas of financial reporting, serves as a potent enabler of financial crimes, particularly in the context of developing countries. The synthesis of findings from various studies underscores a critical reality: while creative accounting may initially be employed for seemingly benign objectives like earnings management or tax optimization, its inherent flexibility and potential for distortion can easily be leveraged for illicit purposes, leading to significant economic and social repercussions.

One of the most profound impacts of creative accounting, when used to facilitate financial crimes, is the **erosion of financial reporting quality (QFR)**. As evidenced by research in Bangladesh, creative accounting practices, while sometimes positively influencing QFR in a superficial sense (e.g., by making financial statements appear more appealing), ultimately undermine the reliability and trustworthiness of financial information (Rahman et al., 2023). This distortion makes it exceedingly difficult for stakeholders – investors, creditors, regulators, and the public – to ascertain the true financial health and performance of companies. The lack of transparent and accurate financial reporting leads to misallocation of capital, inefficient market operations, and a general distrust in the financial system.

Furthermore, the manipulation of financial data through creative accounting significantly impairs **decision-making effectiveness (DME)**. When financial statements are intentionally misleading, decisions based on such information are inherently flawed. Investors may make poor investment choices, leading to substantial losses; creditors may extend loans to financially unstable entities, increasing their risk exposure; and regulators may fail to identify and address systemic risks within the financial sector (Rahman et al., 2023).

The negative impact of creative accounting on DME is a recurring theme, highlighting the critical need for reliable financial information to support sound economic decisions (Rahman et al., 2023). The challenges in detecting and preventing creative accounting-related financial crimes in developing countries are multifaceted. As dis-

cussed, **weak regulatory frameworks** and enforcement mechanisms create an environment conducive to such practices (Rahman et al., 2023; Siddique, 2024). The absence of stringent accounting standards, coupled with limited resources for oversight and investigation, allows perpetrators to operate with a lower perceived risk of detection. Moreover, **inadequate corporate governance** structures, often characterized by a lack of independent oversight, ethical leadership, and robust internal controls, provide fertile ground for creative accounting to flourish (Rahman et al., 2023). The influence of **political connections** further complicates the landscape, as these ties can shield illicit activities from scrutiny and accountability (Rahman et al., 2023). There has been conducted a number of research discovered long list of predispositions facilitating creative accounting practices that lead to reducing financial reporting quality (Khatun & Sobhan, 2025; Ali & Majid, 2023; Toudas et al., 2024; Firas, 2025; Abdullah, 2025; Ababneh & Aga, 2019).

The critical role of **forensic accounting** emerges as a vital countermeasure in combating financial crimes facilitated by creative accounting. Forensic accounting, with its specialized investigative techniques, plays a crucial role in detecting, investigating, and preventing financial fraud. Studies highlight that forensic accounting can significantly reduce fraud by strengthening internal controls, increasing financial transparency, and enhancing the trustworthiness of financial reporting. The development of forensic accounting expertise, through education, training, and awareness programs, is therefore essential for developing countries to build a more robust framework against financial crime.

However, the fight against creative accounting and financial crimes extends beyond forensic accounting. It necessitates a holistic approach that includes:

Strengthening regulatory bodies: Enhancing the capacity and independence of financial regulators to develop and enforce robust accounting standards and conduct thorough investigations.

Promoting corporate governance reforms: Encouraging the adoption of best practices in corporate governance, including independent boards, strong internal controls, and ethical leadership.

Fostering ethical values: Cultivating a culture of integrity and ethical conduct within businesses and the accounting profession.

International cooperation: Collaborating with international bodies and other countries to share information, best practices, and facilitate cross-border investigations of financial crimes.

The ongoing debate about whether creative accounting is a blessing or a curse is particularly relevant in developing countries. While some argue that it offers flexibility for companies to navigate complex economic landscapes, the evidence overwhelmingly suggests that its misuse for financial crimes far outweighs an potential benefits. The long-term consequences, including diminished investor confidence, stunted economic growth, and increased social inequality, underscore the urgent need for comprehensive strategies to curb its detrimental effects.

"Green washing" practices as being based on the same theoretical platform and intended on similar aims can be curbed by means of the same basic recommendations (Vintilă & Buboï, 2024a; Palamarchuk, 2025; Ren, 2025; Achimugu et al., 2025; Song, 2025; Shkromyda et al., 2025; Ababneh & Aga, 2019; Vintilă & Buboï, 2024b):

- strengthening the institutional governance framework, standards' regulation, integration the framework of IFRS with relevant needs of sustainable development performance;
- ethical accounting practices and following a basic principle of accounting conservatism;
- strengthening corporative code of ethics with continuous professional and ethics training among the accountants and the top management; promotion of a culture of integrity and accountability within the organization;
- enhancing transparency and consistency in the preparing of financial and sustainable reports to build investor confidence;
- strengthening the corporate governance structure, giving awareness to employees and management in terms of corporate governance ethics;
- development of accountants' personal and social responsibility by means of evolving their leadership skills so as to make them more resistant to fraud and data manipulation;
- the key role of the strict internal control and external audits to detect and prevent tampering with financial and sustainable data;

9. CONCLUSION

This review paper has systematically explored the intricate and often detrimental role of creative accounting in facilitating financial crimes within developing countries. Our analysis underscores that while creative accounting, in its purest form, involves the strategic manipulation of financial figures within legal boundaries, its inherent ambiguities and the exploitation of loopholes make it a potent instrument for illicit activities. In developing economies, where institutional weaknesses, regulatory gaps, and governance deficiencies are often more pronounced, creative accounting frequently transcends mere aggressive reporting to become a direct enabler of fraud, tax evasion, embezzlement, and other financial misconducts.

We have identified several key mechanisms through which creative accounting contributes to financial crimes, including the manipulation of revenue recognition, expense management, and the misrepresentation of assets and liabilities. These techniques, often employed to present an artificially favorable financial picture, ultimately deceive stakeholders, distort market signals, and undermine the integrity of financial reporting. The motivations behind such practices are varied, ranging from the desire to attract investment and manage earnings to personal enrichment through illicit gains.

Developing countries are particularly vulnerable to the adverse effects of creative accounting-driven financial crimes due to factors such as weak regulatory frameworks, inadequate corporate governance, and the pervasive influence of political connections. These systemic vulnerabilities create an environment where the risks associated with financial misconduct are often outweighed by the potential rewards, leading to a higher incidence and greater impact of such crimes. The consequences are far-reaching, encompassing not only direct financial losses but also a significant erosion of investor confidence, a hindrance to economic development, and increased social inequality. The critical role of forensic accounting in detecting and preventing these crimes cannot be overstated. As a specialized discipline, forensic accounting offers the tools and expertise necessary to unravel complex financial manipulations and expose fraudulent schemes. However, combating the pervasive influence of creative accounting in financial crimes requires a multi-pronged approach. This includes strengthening regulatory bodies and their enforcement capabilities, promoting robust corporate governance reforms, fostering a strong ethical culture within businesses and the accounting profession, and enhancing international cooperation to address cross-border financial illicit flows.

“Green washing” practices that are based on the same accounting theory platform and aims on similar goals mostly affecting stakeholders decision making process, indicates strong connection with creative accounting. Creative accounting in its manifestation as “green washing” practices invades manipulative distortions into sustainable development reporting and leads to misrepresentation of real financial performance and sustainable strategy of a company.

In conclusion, creative accounting, when misused, poses a severe threat to the financial stability and economic progress of developing nations. Addressing this challenge demands a concerted effort from all stakeholders – governments, regulators, businesses, and the accounting profession – to build more resilient, transparent, and accountable financial ecosystems. Future research could further explore the effectiveness of specific regulatory interventions in curbing creative accounting practices in diverse developing country contexts, and investigate the long-term economic impacts of such interventions.

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