



Uncovering Creative Accounting Practices in MSMEs from the Perspective of Ethics and Professional Compliance

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ABSTRACT

This study investigates creative accounting practices among MSMEs in Pontianak, focusing on ethical and professional compliance aspects. Using a qualitative descriptive approach with case studies on five MSMEs, data were collected through interviews and financial document analysis. Findings reveal that revenue timing shifts and cost manipulation are common, driven by pressure to maintain company image. These practices reflect limited ethical awareness and weak compliance with accounting standards, highlighting the need for stronger education and regulatory oversight to promote transparent and accountable financial reporting.

INTRODUCTION

The practice of creative accounting has come into global attention in recent decades due to its potential in hiding the true financial condition of a business entity. In the midst of increasing market competition pressure and demands for financial transparency, this phenomenon has also begun to penetrate the Micro, Small, and Medium Enterprises (MSMEs) sector. MSMEs have an important role in the economic structure, especially in developing countries such as Indonesia, which records a contribution of 60.3% to the Gross Domestic Product (GDP) and absorbs more than 97% of the national workforce (Ministry of Cooperatives and SMEs of the Republic of Indonesia, 2023). However, the weak supervisory system and lack of understanding of accounting ethics among MSME actors make them vulnerable to manipulative practices such as creative accounting. This practice is not always explicitly against the law, but it is often against ethical principles and applicable professional standards. Globally, a report from the Association of Certified Fraud Examiners (ACFE, 2022) shows that 42% of fraud cases in financial statements occur in the small business sector. This shows the urgency to further examine how creative accounting practices take place in the context of MSMEs, especially from the point of view of ethics and professional compliance.

Although studies on creative accounting have been conducted extensively in the large corporate sector, research that specifically addresses this practice in the context of MSMEs is still limited. Some previous studies, such as those conducted by Jones (2021) and Alsharari (2022), have focused more on manipulation techniques in the financial reporting of public companies. The study conducted by Wulandari et al. (2023) in Indonesia did touch on the accounting compliance aspect of MSMEs, but did not explicitly highlight creative accounting practices in terms of professional ethics. In addition, the internal aspects of MSME actors as managers of financial statements were often overlooked in previous studies. Thus, there is a significant research gap related to the understanding and application of ethics and professional compliance in creative accounting practices among MSMEs, which needs to be studied more deeply.

This research explicitly aims to uncover various forms of creative accounting practices carried out by MSMEs and analyze them from the perspective of professional ethics and compliance with accounting standards. The main focus of this study is to identify the motivations, patterns, and levels of awareness of MSME actors towards the ethical and professional consequences of their manipulative practices. Using a qualitative-descriptive approach based on case studies, this study delves deeply into the dynamics of creative accounting practices that have so far escaped regulatory and academic attention.

Theoretically, this research is expected to contribute to the development of accounting ethics discourse and enrich the literature on accounting practices in the MSME sector. On the practical side, the findings of this research are expected to be the basis for policymakers, professional associations, and training institutions to design intervention programs that can improve ethical literacy and accounting compliance among MSME actors. Thus, the results of this study not only strengthen theoretical understanding, but also encourage the realization of

more transparent, honest, and responsible financial reporting practices in the small and medium business sector.

THEORETICAL REVIEW

The Concept of Creative Accounting

Creative accounting refers to the practice of manipulating financial statements by exploiting gaps in accounting standards to present financial conditions that do not fully reflect reality (Jones, 2021). While not directly unlawful, this practice is often ethically questioned because it is contrary to accounting principles that prioritize the reliability and honesty of financial information. According to Amat, Blake, and Dowds (2020), creative accounting is carried out through techniques such as early revenue recognition, delays in recording costs, and managing accounting estimates. This technique can undermine the transparency of financial reporting and impact the economic decisions of stakeholders. In the MSME sector, this practice is often considered a form of adaptive strategy, especially when facing external pressures such as creditor demand or profit targets.

Accounting Practice in MSMEs

MSMEs have special characteristics such as a simple organizational structure, weak separation of functions, and limited human resources and technology (Wulandari et al., 2023). These factors make MSME actors more vulnerable to accounting practices that do not meet standards. Research by Alsharari (2022) shows that many MSMEs do not understand accounting standards thoroughly and tend to report based on intuition or momentary needs. In many cases, financial statements are prepared only as a formality to meet loan requirements or tax purposes, rather than as an accountable managerial tool. This shows that there is a gap between ideal accounting principles and real accounting practices in the field.

Accounting Professional Ethics and Professional Compliance

Professional ethics in accounting include the principles of integrity, objectivity, professional competence, confidentiality, and professional conduct (IFAC, 2023). When these principles are ignored, financial reporting becomes unreliable. In the context of MSMEs, weak external supervision and lack of formal education on accounting ethics are the main causes of low adherence to professional principles. A study by Yustisia and Ramdhani (2021) revealed that most MSME actors are not aware of the accounting profession's code of ethics, so they are not aware of the ethical consequences of manipulative practices. In fact, the application of ethical principles and professional standards is the main foundation in maintaining the quality of financial reporting and preventing fraud.

Relevance of Previous Studies and Research Gaps

Previous studies have generally focused on creative accounting practices in public companies or large corporations (Jones, 2021; Amat et al., 2020), while

studies that specifically examine similar practices in the MSME sector are still very limited. Studies that highlight the dimensions of ethics and professional compliance in MSME accounting practices have also not been widely found, especially in the context of developing countries such as Indonesia. Therefore, research is needed that explicitly examines how creative accounting practices are carried out by MSME actors and the extent to which these practices can be assessed based on ethical principles and accounting compliance standards. This research aims to fill these gaps and contribute to a more comprehensive understanding of financial statement accountability in the MSME sector.

METHODOLOGY

Research Approach

This research uses a qualitative-descriptive approach with an exploratory case study design, which aims to explore in depth the creative accounting practices that occur in MSMEs and analyze them in the framework of professional ethics and professional compliance. This approach was chosen because it is able to contextually describe the social realities and accounting behaviors in the micro and small business environment, which often escape formal supervision and are dynamic (Creswell & Poth, 2018).

Research Population

The population in this study is all MSMEs operating in the trade and service sector in the Pontianak area, Indonesia. The sampling technique was carried out using the non-probability purposive sampling method, because this study requires participants who have certain characteristics that are relevant to the focus of the study. Five MSMEs were selected based on criteria: (1) have internal financial statements for at least the last three years, (2) compile reports independently or with the assistance of an in-house accountant, and (3) are willing to participate in interviews and provide financial documents. From each business unit, two key informants were selected (business owners and accounting staff or financial report makers), so that there were a total of ten informants.

Data Collection Techniques

Data collection techniques were carried out through semi-structured in-depth interviews, analysis of financial statement documents, and limited participatory observation in the business work environment. The interview guide is prepared based on the principles of accounting ethics from the International Federation of Accountants (IFAC, 2023), especially related to integrity, objectivity, and professional responsibility. To ensure the validity of the data, the researcher triangulated techniques and sources, namely comparing the results of interviews, documents obtained, and observational findings. Data validation is also carried out through the member checking technique, by asking the informant for reconfirmation of the summary of the transcribed interview results.

Research Procedure

The research procedure begins with the selection process of participants through direct contact. Next, the researcher scheduled an interview session and collected documents at their respective places of business. The collected data were analyzed using reflective thematic analysis, which included the stages of open coding, categorization, and interpretation of meaning patterns. This process is supported by NVivo 14 software to improve efficiency and accuracy in managing and interpreting qualitative data systematically. This analysis is focused on uncovering the creative accounting patterns that emerge and how business actors interpret these practices from the perspective of ethics and professionalism in financial reporting.

RESULTS AND DISCUSSION

This research focuses on two key informants of five MSMEs in Pontianak: business owners and accounting staff (or financial report makers). Through semi-structured interviews, five main forms of creative accounting practice were found that were carried out consciously and repeatedly, with a variety of motives and methods.

Acceleration of Revenue Recognition

The practice of accelerating revenue recording emerged as a strategy to strengthen the company's image in the annual financial statements. The owner of MSME Snacks revealed:

"We usually record sales transactions at the beginning of the year to December, especially if you want to apply for a loan, so that it looks good." (PU-01, Interview June 12, 2024).

This statement shows the practice of premature revenue recognition. The owner deliberately postponed the recording of sales transactions from the beginning of the year to December, the goal is to make the previous year's financial statements look better in the eyes of outsiders such as banks. This is contrary to accrual-based accounting principles and creates distortions in business performance analysis. The accounting staff also revealed:

"I was asked by my boss to enter the order bill from January to December. It's normal at the end of every year." (SA-01, June 12, 2024 interview).

Information from the accounting staff corroborates the owner's statement. This indicates that the practice is not a technical initiative, but rather a direct instruction. The consistency of this action at the end of each year reflects that acceleration.

Delay in Recording Expenses

Recognition of operating expenses, such as electricity and payroll, is often deliberately delayed to increase profit margins in month-end or year-end reports.

Income recognition has become an institutionalized work pattern, not a mere coincidence. MSME owners stated:

"We usually hold electricity bills and daily energy honorariums, the note will be next month. So that it doesn't lose on paper." (PU-02, Interview June 15, 2024).

This quote confirms the motivation to present a more profitable business performance in a pseudo-manner. The owner delays the recording of the expense on the grounds that the report does not show a loss, even though the load has already occurred. This violates the principle of matching, where income and expenses must be recorded in the same period. According to what the financial statement making officer revealed:

"There is a direction from the owner to make a pending load recording. So I saved the invoice first, it will be in the next month." (PK-01, Interview June 15, 2024).

The report officer explained that there was an explicit order from the owner not to immediately record the overdue load. This practice shows the subordination of the accounting function to managerial decisions and is an example of ethical deviations in the reporting process.

Inventory Estimate Blurring

Business actors resist depreciation of old or expired goods to maintain high asset values. Regarding the depreciation, MSME business voters revealed:

"I have never depreciated the old stock. Even though it doesn't sell, I consider the price fixed. If not, the assets look small." (PU-03, Interview June 20, 2024).

The owner openly stated that the old stock was not depreciated in value even though it did not sell. The goal is so that the value of the assets in the report does not decrease. This suggests that the owner is using the financial statements as an imaging tool, not as a control tool or reflection of reality. The financial admin also knows this and states:

"I know there is dead stock, but the boss asked for it to be calculated according to the purchase price. If it is reduced, it can drop the balance sheet value." (AK-01, June 20, 2024 interview)

The financial admin is aware that there are damaged or unsold goods (dead stock), but are asked to keep recording them according to the initial purchase price. This means that this practice is intentional and systematic, and leads to the obscuration of financial information to maintain the company's image.

Cash Flow Engineering

This practice is carried out by three MSMEs by accelerating cash inflows and postponing the payment of obligations so that the cash flow statements look positive. The MSME owner emphasized:

"Customers are asked to pay quickly, but our vendors pay late. In the report, cash flow looks smooth." (PU-04, Interview June 23, 2024).

This owner's strategy indicates the practice of engineering cash flow by accelerating cash inflows and delaying cash outflows. The goal is not efficiency, but to create the illusion that the business has healthy liquidity. This can mislead third parties such as creditors or investors. In line with what the business owner conveyed and justified it:

"I was given a new schedule: direct income was recorded, expenses were postponed. Let cash flow be positive." (SA-01, June 23, 2024 interview).

The change in the recording schedule directed by the supervisor shows that the positive cash flow does not come from real activities, but is the result of manipulation of recording time. This poses a high risk to the quality of financial information, especially in short-term decision-making.

Selective Profit Reporting

Some MSMEs create two versions of the earnings report for different purposes, with the external version tailored to the needs of stakeholders such as investors and financial institutions. The report was revealed by one of the business owners:

"There are two reports: the one for us and the one for the bank. Which makes the bank neater'." (PU-05, Interview June 27, 2024).

This statement reveals a serious practice of compiling two versions of financial statements with different intentions. Reports for outside parties are made to look neat and financially healthy. This is a form of financial statement tailoring that is unethical and can be categorized as fraud. The preparation of two versions of the report is authorized by the compiler of the financial report:

"I compile two reports every month. The one for the complete internal, the external one customized." (PK-03, Interview June 27, 2024).

The reporter directly acknowledged that two reports are compiled regularly every month. This practice jeopardizes business accountability and opens up potential for violations, especially if the reports are used for lending or fundraising purposes from investors.

Table 1. Summary of Findings of Creative Accounting Practices in MSMEs

Accounting Practice Theme	Practice Indicators	Frequency Appears	Ethical Implications
Acceleration of Revenue Recognition	Recognition before realization	4 out of 5 MSMEs	Violation of the principle of prudence
Load Delay	Operating expenses are suspended from recording	3 out of 5 MSMEs	Distortion of profit information
Estimated Runaway Inventory	There is no standard procedure for stock taking	5 out of 5 MSMEs	Report unreliability
Cash Flow Engineering	Preparation of cash flow is not document-based	2 out of 5 MSMEs	Risk of decision errors
Selective Profit Reporting	Provides only stable profits	3 out of 5 MSMEs	Financial performance polishing

DISCUSSION

The findings of this study clearly indicate that creative accounting practices are still a common phenomenon among MSME actors in Pontianak. The practice of accelerating revenue recognition shows that there is a tendency for business owners to display better financial performance than the actual conditions. This is in line with the findings of Mulyadi and Anwar (2021) who stated that the pressure to attract investors or maintain a business image often encourages small business actors to manipulate transaction recognition time. This practice is contrary to the principles of accrual accounting and the principle of prudence, which are part of the ethical framework of the accounting profession according to the IFAC Code of Ethics (2022).

The delay in recording the burden was found to be carried out by three out of five MSMEs. This practice aims to reduce expenses that appear in financial statements so that net profit appears larger. This is also recorded in a study by Herawati and Putri (2023), which stated that weak internal supervision and low accounting literacy cause MSMEs to easily slip into reporting practices that do not meet standards. This practice, if continued, could mislead third parties using the report, such as banks or investors.

Furthermore, the blurring of inventory estimates was the most common finding in this study. All informants stated that they did not carry out systematic inventory recording, and there was no regular stock taking method. This results in financial statements being unreliable and difficult to use for decision-making. A study from Sari et al. (2020) supports this, stating that MSMEs tend to ignore inventory control because it is considered not a priority, even though it contributes greatly to the validity of reports.

The practice of cash flow engineering was found in two MSMEs. They compile cash flow statements based on assumptions and memories, not from transaction documents. This clearly violates the principles of documentation and integrity. As stated by Nugraha and Yuniarti (2022), inaccuracies in cash flow statements will obscure the assessment of liquidity and business health.

Finally, the practice of selective profit reporting appeared in three out of five MSMEs. Business owners state that they present a seemingly stable profit to

attract the trust of trading partners or creditors. This can be classified as a mild form of "earnings management", but it is still ethically and professionally problematic. According to Trisnawati and Hasanah (2023), this practice is rooted in a culture of "results seem more important than process," which is common in small businesses.

In general, all of the above findings point to a large gap between practice conducted in the field and accounting standards and professional ethics. Factors such as low accounting literacy, lack of training, and weak regulation and supervision are the main causes. Although not all perpetrators have the intention to commit cheating, the lack of knowledge and understanding makes this creative practice a habit that is not realized as a violation.

This study has limitations, namely the relatively small number of informants and the limited data collection area in Pontianak. Therefore, follow-up research with a wider coverage of the region and the number of participants is highly recommended. In addition, a quantitative approach can be used to measure how much influence these practices have on the quality of MSME financial statements in aggregate.

CONCLUSIONS AND RECOMMENDATIONS

This study found that creative accounting practices are still actively carried out by MSME actors in Pontianak in five main forms, namely accelerating revenue recognition, delaying expense recording, blurring inventory estimates, cash flow engineering, and selective profit reporting. These practices are carried out with the aim of beautifying financial performance in order to gain easy access to financing or maintain a business image in the eyes of external stakeholders.

Ethically, these findings indicate a violation of basic accounting principles and a low level of professional awareness. The weak position of accounting staff against the dominance of business owners also strengthens the occurrence of deliberate reporting engineering. This shows that there is still a gap in literacy and understanding of ethical and standard reporting practices.

Thus, this study recommends the importance of accounting ethics education and training interventions for MSME actors as well as increased external supervision from small business coaching institutions. This collective effort is expected to encourage more transparent and accountable financial reporting, thereby strengthening investor confidence and business sustainability in the long term.

FURTHER STUDY

Future research could explore the underlying psychological, cultural, and institutional factors that drive MSME actors to engage in creative accounting practices, providing a deeper understanding beyond surface-level motivations. Comparative studies across different regions or sectors could reveal how local business environments and regulatory frameworks influence the prevalence and forms of such practices.

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