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| Research Article

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The Impact of Creative Accounting on the State's General Budget

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Abstract: This study aims to examine the relationship between creative accounting and tax revenues and their implications for Iraq's general budget during the period from 2019 to 2023. The importance of this topic lies in highlighting the impact of creative accounting practices on the state's financial system, particularly in light of the economic conditions and financial challenges facing Iraq. This research also reflects a modern approach by applying the modified Jones and Jones model, which is considered an innovative tool for measuring creative accounting. Additionally, the study employs the effective tax rate to assess tax revenues, enhancing the accuracy of the extracted results.

The study sample consists of 53 companies listed on the Iraq Stock Exchange, where the financial data of these companies were analyzed to test the research hypotheses. The results showed that creative accounting has a direct adverse impact on the state's general budget, indicating that creative accounting practices can negatively affect the allocation of the state's financial resources.

Key words: Creative accounting, general budget, tax revenues, financial manipulation, Iraq Stock Exchange, fiscal policy, budget deficit.

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INTRODUCTION

Accounting practices and methods have undergone significant changes and transformations in the last decade of the twentieth century, in line with the shifts in the global economic system. Consequently, many multinational companies, in pursuit of greater profits, expanded their activities to include global markets. However, this expansion was accompanied by numerous financial scandals, leading to the collapse and bankruptcy of several companies. The primary cause of these failures was the exploitation of loopholes in accounting principles and standards by

companies to enhance the quality of their financial data and statements in creative ways, a practice commonly referred to as **creative accounting** (Hamqani & Siddiqi, 2015: 61).

In the present era, scholars and analysts across the world largely agree that **reducing tax liabilities often results from the misuse of tax laws**. Taxpayers exert significant efforts in tax planning and exploiting weaknesses and loopholes in tax regulations to minimize their tax burden. The ultimate consequence of such actions is a **decline in government revenues** (Payne & Raiborn, 2018). In response, governments have taken numerous measures to improve tax legislation and revise these loopholes, aiming to **mitigate** rather than **entirely eliminate** their effects, given the practical impossibility of completely preventing them, even through legal means (Evana, 2019).

Scott (2003) argues that **income tax is the most common motivator behind the application of creative accounting techniques**, including earnings management. Consequently, tax authorities impose **specific accounting rules** for calculating taxable income, thereby limiting corporations' ability to manipulate taxable income through creative accounting. This reflects the impact of creative accounting on tax revenues and its implications for the general budget of various countries (Yorke, Amidu, & Agyemin-Boateng, 2016: 112–131).

Taxes are one of the **primary tools of fiscal policy**, enabling governments to generate financial revenues and steer economic activities toward achieving economic and social stability, which is essential for funding public expenditures. However, in Iraq, the role of tax legislation in achieving **economic and social objectives** has been limited due to the country's heavy reliance on **oil revenues** for funding expenditures. The Iraqi tax system is characterized by its **rigid structure and lack of adaptability** to economic growth requirements or shifts in the economic landscape. As a result, the contribution of tax revenues to the state budget has remained **low**, averaging **only 11.1% of total public revenues**. This underscores Iraq's **rentier economic model** and its substantial dependence on **oil revenues to finance its general budget** (Hassan & Abdulhamid, 2023: 190).

The role of **tax revenues** in financing Iraq's **general budget** is considered weak due to their low contribution percentage. This is attributed to the **low efficiency of the tax system**, which has failed to **utilize its full tax potential effectively**. As a result, significant tax revenues have been lost, which could have contributed to **budget funding and securing government expenditures** (Hassan & Abdulhamid, 2023: 208).

The **research problem** lies in **Iraq's reliance on oil rent** and its impact on the stability of the Iraqi economy, along with the **low percentage of other revenues**, including **tax revenues**. This is largely due to the **lack of focus on measures and strategies** that could enhance these revenues, such as preventing **creative accounting practices** used by some companies to **minimize or defer tax payments**. These companies employ such practices to benefit from **cash flow savings by postponing tax liabilities**.

Accordingly, the **research dilemma** can be framed in the form of a key question:

"Can creative accounting, through its various procedures and methods, influence public revenues, the size of government expenditures, and the management of financial deficits in Iraq's general budget?"

Literature Review

The relationship between **creative accounting and the state's general budget** is a critical topic that poses a challenge for many governments. There is a clear intersection between how financial data is prepared and its use in determining revenues and expenditures in the general budget. **Creative accounting** aims to modify financial data in ways that may be legally permissible but

deviate from traditional accounting practices, potentially impacting how a government's budget is structured.

The **general budget** serves as the primary tool for allocating government resources and public expenditures based on expected revenues. In this context, creative accounting can influence revenue and expenditure estimation through various techniques, including:

- **Revenue Estimation Adjustments:** Governments may use accounting techniques to reduce or defer declared revenues, affecting the amount of revenue considered in budget calculations.
- **Expenditure Deferrals:** Some governments may postpone or concentrate expenditures during specific periods using flexible accounting techniques, creating a misleading financial outlook regarding the state's actual fiscal capacity. An example of this is using financial reserves or liquidated assets in government budgets to reduce apparent spending or adjust governmental profitability in alignment with fiscal policies.

Stiglitz (2019) pointed out that these practices could **inflate or reduce** the size of government expenditures and revenues in a given period, leading to an **artificial impact on a state's financial sustainability**.

By employing **creative accounting**, governments may enhance the short-term appearance of their general budget. For example, asset revaluation techniques or modifying depreciation methods can be used to **lower declared expenses** or increase revenue through **strategic estimations** such as **reducing recorded debt or adjusting tax calculations**. These adjustments influence how budget dimensions are determined.

A **study by Kaplan & Norton (2020)** found that using **creative accounting in budget management** may result in a more "polished" budget in the eyes of citizens and investors. However, it can also **conceal fundamental flaws in long-term financial sustainability**. These practices can further **impact financial transparency**, making it more challenging for regulatory bodies and the public to accurately assess the state’s financial position.

Impact on Financial Transparency

Financial transparency in budget preparation is compromised when **creative accounting methods** are excessively utilized. This can lead to the presentation of an **inaccurate depiction** of the government’s financial situation, subsequently affecting **economic policy decisions and financial reviews** based on misleading data.

Schneider (2021) emphasized that these practices could **increase long-term financial pressure**, as governments defer certain expenditures or revenues that should be part of the actual budget.

Challenges in Budget Forecasting

Creative accounting practices can hinder the accurate forecasting of future revenues and expenditures, making it difficult for governments to establish **clear financial strategies** for long-term performance.

Horton & Kumar (2022) highlighted that the **adoption of creative accounting techniques** can affect future budget projections, making governments appear in a **stronger financial position than they actually are**, ultimately harming the credibility of long-term financial planning.

Materials and Methods

Research Hypotheses

Based on the literature, the study proposes the following research hypotheses regarding the impact of **creative accounting on the general budget**:

H1: Creative accounting has a negative impact on the general budget.

From this primary hypothesis, the following sub-hypotheses are derived:

- **H1.1:** Creative accounting has a negative impact on public revenues.
- **H1.2:** Creative accounting has a negative impact on the volume of public expenditures.
- **H1.3:** Creative accounting has a negative impact on the budget deficit.

Study Population and Sample

Before measuring the study variables, it is essential to define the **study population and sample**. The **study population** consists of **121 companies listed on the Iraq Stock Exchange (ISX)**.

The **study sample** includes **53 companies** selected from the **Iraq Stock Exchange**, distributed across various sectors, as shown in the table below:

Table 1: Sample Distribution

No.	Sector Name	Number of Companies
1	Financial Sector	17 Banks
2	Insurance Sector	5 Companies
3	Investment Sector	5 Companies
4	Services Sector	5 Companies
5	Industrial Sector	8 Companies
6	Hotels & Tourism Sector	4 Companies
7	Agricultural Sector	7 Companies
8	Telecommunications Sector	2 Companies
	Total	**53 Companies**

Data Collection and Analysis

The financial data and information were collected from the **financial statements published in the Iraq Stock Exchange**, covering **53 companies**.

To analyze the data, the **EViews 10 software** will be used for **measuring the study variables and testing the research hypotheses**. Additionally, the **multiple regression test** will be applied to examine the hypotheses, along with a **variance test** for testing the first hypothesis. Other necessary statistical tests will be conducted to ensure the **validity and accuracy of the results**.

Measuring the Study Variables

Independent Variable

The independent variable in this study is **creative accounting**, which will be measured using two models:

1. Jones Model (1991)

The **Jones Model (1991)** is one of the key accounting models developed by **Dechow, Sloan, and Jones** to detect **financial manipulation in corporate financial statements**. The model is based on the idea that **companies may use accounting estimates to adjust and inflate their earnings in an unauthorized or non-transparent manner**.

The primary goal of this model is to **measure variations in earnings** that could indicate **manipulation in financial reporting** through **creative accounting practices**. It specifically focuses on identifying **abnormal changes in earnings**, which may result from **inappropriate use of accounting provisions**.

This model is represented by the following equation:

(Equation to be inserted here)

$$\frac{TA}{A_{t-1}}_t = a1\left(\frac{1}{A_{t-1}}\right) + a2\left(\frac{\Delta REV}{A_{t-1}}\right) + a3\left(\frac{PPE_t}{A_{t-1}}\right) + et$$

TA: Represents the total accruals for year **t**.

2. The Modified Jones Model (1995)

The **Modified Jones Model** is one of the accounting techniques used to detect **illegal or questionable accounting practices**, such as **earnings manipulation**. It is an adaptation of the **original Jones Model**, which was developed in the **1990s by economist Jones** to identify financial manipulation.

The model is designed to provide **a more accurate approach** in detecting **earnings management practices**, improving upon the limitations of the original **Jones Model**.

The **Modified Jones Model** is represented as follows:

(Equation to be inserted here)

$$NDA_t = a1\left(\frac{1}{A_{t-1}}\right) + a2\left(\frac{\Delta REV - \Delta REC}{A_{t-1}}\right) + a3\frac{PPE_t}{A_{t-1}} + et$$

Dependent Variable

This variable represents the **state's general budget, public revenues, and public expenditures**.

First: General Budget

The general budget is measured through the **budget deficit**.

1. Budget Deficit:

The **budget deficit measure** is a tool used to assess the gap between government revenues and expenditures. It simply reflects the difference between the funds collected by the government from taxes and other sources of revenue and the amounts spent on public programs and services. If expenditures exceed revenues, the government faces a **budget deficit**.

How to Calculate the Budget Deficit:

The budget deficit is calculated using the following formula:

Budget Deficit=Government Expenditures−Government Revenues

Second: Public Revenues

Public revenue is a tool used to measure the volume of revenues collected by the government from various sources over a specified period. This measure includes all funds generated by the government from **taxes, fees, income from government assets, loans, and other sources**.

How to Calculate Public Revenues:

To calculate public revenues, all revenues from the mentioned sources over a specific period (usually a fiscal year) are summed using the following formula:

Total Public Revenues=Tax Revenues+Non-Tax Revenues+Loans and Grants

Third: Public Expenditure Measure

The **public expenditure measure** is used to assess the total spending by the government over a specific period on various public sectors and activities. This measure includes all funds disbursed

by the government on **public programs and services**, such as **education, healthcare, defense, infrastructure, and social welfare**.

How to Calculate Public Expenditures:

To calculate total public expenditures, all government expenses incurred over a specific period (usually a fiscal year) are summed using the following formula:

Total Public Expenditures=Current Expenditures+Investment Expenditures+Transfer Expenditures+Defense and Security Expenditures

Control Variables

1. Company Size

The **company size measure** is a tool used to assess the company's size based on various **financial and administrative factors**. This measure considers multiple criteria, including **revenues, profits, assets, number of employees, and other indicators** that reflect the company's financial capacity and operational scale. The primary goal of the company size measure is to provide a benchmark for **comparing companies or analyzing their growth over time**.

How to Calculate Company Size:

Company size can be calculated using different approaches depending on the selected criteria. In this study, the researcher has adopted the following formula:

Company Size=Natural Logarithm of Total Assets

2. Financial Leverage

Financial leverage is a measure used to determine the extent to which a company relies on debt to finance its activities compared to using its **own equity capital**. This measure indicates how a company utilizes **debt financing** to enhance **potential returns on shareholders' equity**. The higher the financial leverage, the **greater the financial risk** the company assumes; however, it may also lead to **higher returns if the business is successful**.

How to Calculate Financial Leverage:

Financial leverage is calculated using the **debt-to-assets ratio**, which shows the proportion of assets funded by debt relative to total assets.

Financial Leverage=Total DebtTotal Assets .

3. Company Age

Company age is a measure used to determine the length of time since the company was established or since it commenced business operations. **Company age** is a key indicator for analyzing **business stability, market strength, and adaptability to economic and industry changes** over time.

How to Calculate Company Age:

Company age is calculated using the following formula:

Company Age=Current Year−Year of Establishment

4. External Audit Measure

The **effectiveness of external auditing** is assessed by determining whether the company is audited by one of the **Big Four auditing firms**. The study classifies companies based on whether they are audited by the **Federal Board of Supreme Audit (FBSA)** or by an independent auditor.

- If the company is **audited by the FBSA**, it is assigned a value of **1**.

- If the company is **audited by an independent auditor**, it is assigned a value of **0**.

Models for Testing Study Hypotheses

$R_{it}= \alpha_0+\beta_1 EM_{it} +\beta_2 SIZE_{it} +\beta_3 LEV_{it} +\beta_4 AGE_{it} + \beta_5 QA_{it} +\sum \varepsilon it$……*Model No. 1*

$R_{it}= \alpha_0+\beta_1 EM_{it} +\beta_2 SIZE_{it} +\beta_3 LEV_{it} +\beta_4 AGE_{it} + \beta_5 QA_{it} +\sum \varepsilon it$……*Model No. 2*

$EX_{it}= \alpha_0+\beta_1 EM_{it} +\beta_2 SIZE_{it} +\beta_3 LEV_{it} +\beta_4 AGE_{it} + \beta_5 QA_{it} +\sum \varepsilon it$……*Model No. 3*

$EX_{it}= \alpha_0+\beta_1 EM_{it} +\beta_2 SIZE_{it} +\beta_3 LEV_{it} +\beta_4 AGE_{it} + \beta_5 QA_{it} +\sum \varepsilon it$……*Model No. 4*

$BD_{it}= \alpha_0+\beta_1 EM_{it} +\beta_2 SIZE_{it} +\beta_3 LEV_{it} +\beta_4 AGE_{it} + \beta_5 QA_{it} +\sum \varepsilon it$……*Model No. 5*

$BD_{it}= \alpha_0+\beta_1 EM_{it} +\beta_2 SIZE_{it} +\beta_3 LEV_{it} +\beta_4 AGE_{it} + \beta_5 QA_{it} +\sum \varepsilon it$……*Model No. 6*

The Variables of the Above Models Can Be Explained as Follows:

- **EM1** → Creative Accounting According to the Jones Model
- **EM2** → Creative Accounting According to the Modified Jones Model
- **R** → Public Revenues
- **EX** → Public Expenditures
- **BD** → Budget Deficit
- **SIZE** → Company Size
- **LEV** → Financial Leverage
- **AGE** → Company Age
- **QA** → External Auditing

Hypothesis Testing

The **main hypothesis** states:

H2: There is a negative impact of creative accounting on the general budget.

From this main hypothesis, the following sub-hypotheses are derived:

First: Testing the First Sub-Hypothesis - The Impact of Creative Accounting on Public Revenues

This sub-hypothesis states:

H2.1: There is a negative impact of creative accounting on public revenues.

To test this hypothesis, the following **regression models** will be used:

(Regression models to be inserted here.)

$\boldsymbol{R_{it}= \alpha_0+\beta_1 EM_{it\,t} +\beta_2 SIZE_{it} +\beta_3 LEV_{it} +\beta_4 AGE_{it} + \beta_5 QA_{it} +\sum \varepsilon it}$……***Model No. 1***

$\boldsymbol{R_{it}= \alpha_0+\beta_1 EM_{it\,t} +\beta_2 SIZE_{it} +\beta_3 LEV_{it} +\beta_4 AGE_{it} + \beta_5 QA_{it} +\sum \varepsilon it}$……***Model No. 2***

جدول 23: نتائج اختبار علاقة المحاسبة الابداعية بالايرادات العامة

Model No. 2			Model No. 1			Variable
Prob.	t-Statistic	Coefficient	Prob.	t-Statistic	Coefficient	
0.023	7.5087	1.2596	0.038	6.3615	1.2475	C
0.013	-0.943	-0.039	0.0017	-0.2042	-0.0511	EM
0.0421	-6.6457	-0.4487	0.0371	-5.4985	-0.4608	SIZE
0.3314	0.9358	0.2789	0.3264	-0.2114	-0.2668	LEV

0.3351	4.5098	0.279	0.3301	3.3626	0.2669	AGE
0.023	-1.056	-0.19123	0.018	-0.0912	-0.20333	QA
6.2147			4.1478			F-statistic
0.000			0.001			Prob(F-statistic)
0.38			0.26			Adjusted R-squared

Translation:

The above table demonstrates the validity of **Test Model No. 3** using the **Jones Model**, as the **F-statistic** value was **(4.1478)**, and the statistical significance **(Prob)** value was **(0.001)**, which is **less than 1%**, indicating the overall significance of the test model. Additionally, the table shows that the statistical significance **(Prob)** value for the independent variable, **Creative Accounting (EM)**, was **(0.0017)**, meaning that there is a **statistically significant effect** of creative accounting on the **public revenues** of the state.

The **regression coefficient (Coefficient)** was **(-0.0511)**, indicating that the relationship is **negative (inverse correlation)**.

Similarly, the table confirms the validity of **Test Model No. 4** using the **Modified Jones Model**, as the **F-statistic** value was **(6.2147)**, and the statistical significance **(Prob)** value was **(0.000)**, which is also **less than 1%**, confirming the significance of the overall test model. Additionally, the statistical significance **(Prob)** value for the independent variable, **Creative Accounting (EM)**, was **(0.013)**, implying that there is a **statistically significant effect** of creative accounting on **public revenues**.

The **regression coefficient (Coefficient)** was **(-0.039)**, indicating a **negative relationship**.

Results and Discussion

Public Revenues:

Thus, companies that engage in **creative accounting** tend to **reduce public revenues** by using accounting practices whether **legal or illegal** to minimize the amount of **tax revenues paid** by the companies in the **study sample**. Therefore, the **practice of creative accounting has a statistically significant impact on public revenues**.

Second: Testing the Relationship Between Creative Accounting and Public Expenditures

The **second sub-hypothesis** derived from the **main hypothesis** is formulated as follows:

H2.2: There is a negative impact of creative accounting on the level of public expenditures.

To test this hypothesis, the following **regression model** will be used to examine the second sub-hypothesis of the second main hypothesis:

(Regression model equation to be inserted here.)

$$EX_{it} = \alpha_0 + \beta_1 EM_{it\,t} + \beta_2 SIZE_{it} + \beta_3 \text{LEV it} + \beta_4 \text{AGE it} + \beta_5 QA_{it} + \sum \varepsilon it \ldots\ldots\ldots\ldots\ldots \textit{Model No. 3}$$

$$EX_{it} = \alpha_0 + \beta_1 EM_{it\,t} + \beta_2 SIZE_{it} + \beta_3 \text{LEV it} + \beta_4 \text{AGE it} + \beta_5 QA_{it} + \sum \varepsilon it \ldots\ldots\ldots\ldots\ldots \textit{Model No. 4}$$

Table 3: Hypothesis Testing Results

Model No. 4			Model N3			Variable
Prob.	t-Statistic	Coefficient	Prob.	t-Statistic	Coefficient	
0.233	9.8031	1.2838	0.22	8.3727	1.2919	C
0.023	-3.2374	-0.0148	0.01	-0.193	-0.0067	EM
0.0521	-8.9401	-0.4245	0.0391	-7.5097	-0.4164	SIZE
0.3414	3.2302	0.3031	0.0284	-0.2002	0.3112	LEV
0.3451	6.8042	0.3032	0.0321	5.3738	0.3113	AGE

0.233	-3.3504	-0.16703	0.22	-1.92	-0.15893	QA
6.2182			5.2423			F-statistic
0.000			0.000			Prob(F-statistic)
0.33			0.29			Adjusted R-squared

The above table demonstrates the validity of **Test Model No. 5**, as the **F-statistic** value was **(5.2423)**, and the statistical significance **(Prob)** value was **(0.000)**, which is **less than 1%**, indicating the overall significance of the test model. Additionally, the table shows that the statistical significance **(Prob)** value for the independent variable, **Creative Accounting (EM)**, was **(0.01)**, meaning that there is a **statistically significant effect** of creative accounting on **public expenditures**.

The **regression coefficient (Coefficient)** was **(-0.0067)**, indicating that the relationship is **negative (inverse correlation)**.

Similarly, the table confirms the validity of **Test Model No. 6**, as the **F-statistic** value was **(6.2182)**, and the statistical significance **(Prob)** value was **(0.000)**, which is also **less than 1%**, confirming the significance of the overall test model. Additionally, the statistical significance **(Prob)** value for the independent variable, **Creative Accounting (EM)**, was **(0.014)**, implying that there is a **statistically significant effect** of creative accounting on **tax revenues**.

The **regression coefficient (Coefficient)** was **(-0.0148)**, indicating a **negative relationship**.

Tax Revenues and Public Expenditures:

Thus, **companies engaging in creative accounting** work to **reduce revenue levels** by utilizing accounting practices—whether **legitimate or illegitimate**—to **minimize the amount of taxes paid**. Consequently, this leads to a **decline in public revenues**, forcing the **government to reduce public spending**, which in turn lowers **public expenditures**.

Third: Testing the Relationship Between Creative Accounting and Budget Deficit

The **third sub-hypothesis** derived from the **main hypothesis** is formulated as follows:

H2.3: There is a negative impact of creative accounting on the budget deficit.

To test this hypothesis, the following **regression models** will be used for hypothesis testing:

(Regression model equations to be inserted here.)

$$BD_{it} = \alpha_0 + \beta_1 EM_{it\,t} + \beta_2 SIZE_{it} + \beta_3 LEV\ it + \beta_4 AGE\ it + \beta_5 QA_{it} + \sum \varepsilon it \ldots\ldots\ldots\ldots \textit{Model No. 5}$$

$$BD_{it} = \alpha_0 + \beta_1 EM_{it\,t} + \beta_2 SIZE_{it} + \beta_3 LEV\ it + \beta_4 AGE\ it + \beta_5 QA_{it} + \sum \varepsilon it \ldots\ldots\ldots\ldots \textit{Model No. 6}$$

جدول37 نتائج اختبار النموذج السابع والثامن :

Model No. 6			Model No. 5			Variable
Prob.	**t-Statistic**	**Coefficient**	**Prob.**	**t-Statistic**	**Coefficient**	
0.238	10.9503	1.2959	0.221	9.3783	1.3141	C
0.028	4.3846	0.0027	0.011	0.8126	0.0155	EM
0.0571	-10.0873	-0.4124	0.0401	-8.5153	-0.3942	SIZE
0.3464	4.3774	0.3152	0.0294	0.8054	0.3334	LEV
0.3501	7.9514	0.3153	0.0331	6.3794	0.3335	AGE
0.238	4.4976	-0.15493	0.221	-2.9256	-0.13673	QA
3.5426			3.214			F-statistic
0.000			0.000			Prob(F-statistic)
0.31			0.32			Adjusted R-squared

The above table demonstrates the validity of the **test model**, as the **F-statistic** value was **(3.214)**, and the statistical significance **(Prob)** value was **(0.000)**, which is **less than 1%**, indicating the overall significance of the test model. Additionally, the table shows that the statistical significance **(Prob)** value for the independent variable, **Creative Accounting (EM)**, was **(0.011)**, meaning that there is a **statistically significant effect** of creative accounting on the **budget deficit**.

The **regression coefficient (Coefficient)** was **(0.0155)**, indicating a **positive relationship (direct correlation)**. This means that **companies engaging in creative accounting contribute to increasing the budget deficit** of the state.

Similarly, the table confirms the validity of another **test model**, as the **F-statistic** value was **(3.5426)**, and the statistical significance **(Prob)** value was **(0.000)**, which is also **less than 1%**, confirming the significance of the overall test model. Additionally, the statistical significance **(Prob)** value for the independent variable, **Creative Accounting (EM)**, was **(0.021)**, implying that there is a **statistically significant effect** of creative accounting on **tax revenues**.

The **regression coefficient (Coefficient)** was **(0.0027)**, indicating a **positive relationship**.

Conclusion on Tax Revenues and Budget Deficit:

Thus, **companies engaging in creative accounting** work to **increase the state's budget deficit** through **accounting practices**—whether **legitimate or illegitimate**—aimed at **reducing the amount of taxes paid**. Consequently, creative accounting leads to a **reduction in public revenues**, forcing the government to **cut public spending**, which further **deepens the budget deficit**.

Supporting Literature:

These findings align with previous research, including:

- **Stiglitz (2019)**, who indicated that creative accounting practices might **inflate or deflate government expenditures and revenues**, leading to an **artificial impact on a state's financial sustainability**.
- **Schneider (2021)**, who confirmed that these practices can **increase financial pressures in the long run**, as governments postpone expenditures or revenues that should be part of the actual budget.
- **Horton & Kumar (2022)**, who suggested that **adopting creative accounting practices may distort future budget projections**, making governments appear in **a stronger financial position than they actually are**, which ultimately damages **the credibility of long-term financial planning**.

Conclusions and Recommendations

These findings highlight the **impact of creative accounting on tax revenues** and its **implications for the general budget** during the period **2019–2023**. Through analyzing the financial data of companies listed on the **Iraq Stock Exchange** and comparing these data with the **state's general budget**, several conclusions were drawn. These findings demonstrate **how creative accounting practices can negatively affect the stability of tax revenues and cause fluctuations in the state's budget**.

This study also sheds light on the **complex relationship between corporate financial practices and the ability to generate stable tax revenues**, providing insights into how financial systems can be improved to ensure economic stability.

Key Findings:

- Certain **creative accounting techniques**, such as **revenue deferral or cost inflation**, may **reduce tax revenues**, thus decreasing the state's income and **negatively impacting** its ability to **fund public projects**.
- Companies may **overestimate revenues** or **delay recognizing certain earnings** to minimize tax liabilities, leading to **fluctuations in annual tax revenues**.
- The **use of creative accounting reduces transparency** in **financial reports** presented to **tax and regulatory authorities**, making it difficult for tax authorities to assess **the actual income of companies**.
- Manipulating financial reports makes it **challenging to predict** the **amount of tax revenues** that can be collected annually, which **affects budget stability** and complicates the government's **expenditure planning**.
- The adoption of creative accounting practices **raises concerns among foreign investors**, reducing trust in **the local business environment**, leading to **a decline in foreign direct investments**, which in turn **negatively affects the national economy**.
- Due to **tax revenue fluctuations** caused by creative accounting, governments may struggle to **align their fiscal planning with actual revenues**, making **long-term financial and economic planning more difficult**.

Recommendations:

1. **Strengthening Transparency in Financial Reporting**

- It is essential to **enforce strict accounting standards** that require companies to **publish transparent and accurate financial reports**.
- These reports should include a **full disclosure of all revenues and expenses** to prevent **misrepresentation of financial data**.

2. **Strategy for Managing Revenue Fluctuations**

- The study recommends **developing strategies to minimize the impact of tax revenue fluctuations** on the general budget.
- This can be achieved by **creating financial reserves or an emergency fund** that the government can use during **periods of declining tax revenues**.

3. **Encouraging Foreign Investments**

- Enhancing **financial transparency** and **boosting confidence in the local financial system** by ensuring **the application of legal and reliable accounting practices**.
- This will contribute to **attracting foreign investments** and **increasing economic activity**.

4. **Reforming Government Fiscal Policies**

- The government should **review its fiscal policies** to ensure they can **adapt to potential tax revenue declines** caused by **non-transparent accounting practices**.
- These policies should include **contingency plans** to **increase revenues** in case of financial instability.

5. **Balancing Revenues and Expenditures**

- The government must develop **fiscal policies** that ensure a **balance between tax revenues and expenditures**.

- **Continuous monitoring of public spending** is necessary to **prevent budget deficits caused by declining revenues**.

Final Thoughts:

The findings of this study emphasize the **urgent need for regulatory reforms** to mitigate the negative impacts of **creative accounting on the general budget**. By implementing **stronger financial controls and transparency measures**, governments can **ensure sustainable economic growth** and **maintain fiscal stability** in the long run.

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