

# MAINTENANCE OF ACCOUNTING RECORDS COMPETENCIES AMONG MICRO SMALL AND MEDIUM ENTERPRISES IN MUKAH DIVISION SARAWAK

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**ABSTRACT :** *The ability to manage and administer finance is a critical aspect that should be given serious considerations in Small and Medium Enterprises (SMEs). Every inflow and outflow of cash will affect the financial report of an SMEs business. Therefore, this study was done to determine the maintenance of accounting records competencies among the micro SMEs (manufacturing sector) in the division of Mukah, Sarawak. A total of 37 micro SMEs (manufacturing sector) registered with the Mukah District Council were chosen to answer a questionnaire provided to them. Descriptive analysis was done on the data collected in the form of frequency and percentage using the Statistical Package for the Social Sciences (SPSS 21.0) software. The study reveals more than a half SMEs (manufacturing sector) in Mukah Division have poor accounting records maintenance due to low knowledge on accounting, poor attitude on accounting practice and low awareness on the importance of maintenance accounting records. Therefore as the language of the business, the practice of maintenance accounting records among the micro SMEs (manufacturing sector) needs to be refined and adhered to. The researcher suggests that the government need to be more assertive in ensuring the owners of businesses prepare financial statements according to existing standards. Other than that, professional bodies and learning institutions need to work together to produce a recording system that is easy to use, to understand, reliable, accurate, consistent and would be able to provide information at any time. For the micro SMEs (manufacturing sector), the culture of continuous learning should be sown in them so that they would not stop learning after a certain level. Knowledge and skills need to supplemented and amended continuously to ensure the businesses are maintained and thrive in the future.*

**Keywords:** *bookkeeping, accounting records, SMEs*

## 1.0 INTRODUCTION

The role of small and medium enterprises (SMEs) is of increasing importance in planning the future of Malaysian economy. 99.2% of the business community is from the SMEs. As such SMEs has a very close ties with every aspect of economy which includes micro industries, rural communities, business suppliers and end product manufacturers. Basically the SMEs forms the bulk of the private sector. Thus the aspiration to achieve the status of a high income country as outlined in Vision 2020 depends largely on the efforts to realize the full potentials of SMEs especially micro enterprises.

This is supported by Mohd Akbal dan Rafiuddin [13], who says that SMEs function to assist the country's industrial base. This is to avoid the dependence on the sensitivities of global economy. SMEs have to be developed in an integrated and comprehensive manner especially in periodical economic relations. SMEs appears as the pulse and engine of domestic investments that generates the Malaysian economy. The role and contribution of SMEs is increasingly important in achieving Vision 2020 and to turn the country into an industrial country. In fact, SMEs can be turned as the base, spine and the main bearer in fulfilling the hopes and the ideals of our country's vision on economic developments after 2020.

Data from the Malaysian Statistical Department [5] shows that SMEs comprise 99.2% of the entire business organizations in Malaysia or equivalent to 548,267 enterprises. From that total, SMEs contributes 32% to gross domestic product (GDP), 59% of employment and 19% from export. A major part of SMI (87%) is involved in the service sector, whereas 7% from the manufacturing and 6% from agriculture. Approximately 60% of the total SMEs are involved in the subsectors of commercial distribution. SMEs

employ about 3.7 million workers and constitute 59% of employment in the private sector. Two third of those workers are in the service sectors. Micro enterprises also accounted for the bulk of employment in the distributive trade sector, while most employments for large firms are in the manufacturing, construction and mining as well as in financial services and insurance sectors.

According to authors in [8], annual Report of the Small and Medium Enterprises, the main problem faced by SMEs is debt management. Much has been said about SMEs who do not know the difference between the company's money and their own money. Lack of knowledge and poor skills of financial management among SMEs cause them to have trouble in repaying loans. Thus, questions arise concerning business management practices among SMEs, especially Bumiputera agriculture entrepreneurs.

This is supported by Zaidatol and Habibah[20], emphasizing that there are some weaknesses among the entrepreneurs such as lack of capital, lack of marketing skills, lack of knowledge and technology, shortage of skilled workers, lack of skills and knowledge of management and the inability to get the right business premises. The findings by [4] Humam and colleagues showed that the same factors have also led to business failures due to poor management, marketing and financial issues, legal and regulatory factors and personal factors and entrepreneurship. According to Abd. Moen Jumat and colleagues [1], often small businessmen will ignore certain management functions within the organization. Among them are related to financial management, which requires specific technical skills.

### 1.1 Background

The function of accounting is important to help business decision-making process more objective by offering the information needed for evaluations. According to authors in

[3], Financial Accounting Standard Board, the main purpose of bookkeeping and accounting practices in business are to determine the profit or loss of a business by tracking expenses and income and to assess business performance and financial position of the business for the expansion of business scale.

The findings Onaolapo Adekunle Abdul-Rahamon and Adegbite Tajuddeen Adejare [16] shows that there is a strong relationship between the record-keeping accounting and the performance of small companies. This means keeping accounting records affect the performance of small-scale business. Accounting record keeping is essential to make a decision. Adjustments and business records also help to improve business efficiency and productivity for effective business performance. It also found that the accounting record keeping increase the chances of business operations and attain success, and provides information to allow the control of cash in the business.

Therefore, a study to evaluate the financial management and accounting practices among bumiputra entrepreneurs involve in eatery business is indispensable. This is because according to Norhayah and Mohd Saiful Nizam [14], shortcomings in financial management and accounting usually does not reveal its significant impact in the early stages, but as the organization moves towards long-term growth goals then this aspect will be turn into something very important

### 1.2 Problem Statement

Among the elements of financial management is the practice of accounting in business. Accounting is the backbone of a business. Failure to practice, especially accounting record would cause difficulties in preparing financial reports, especially Profit and Loss Statement and Balance Sheet Statements. When it is difficult to prepare financial reports, the accuracy of calculation of the amount of profit and loss is dubious. This is one of the reasons which cause difficulties in the growth of business and acquiring loans.

SME Corporation Malaysia (2012), particularly SMEs and micro enterprises also face challenges in securing financing from the banks, due to poor creditworthiness, the poor accounting records of funding or lack of businesses that are viable. For banking institutions, they face challenges due to the lack of expertise, especially in the field of new and largely unexplored because of the risks that are considered high.

Following the importance of maintenance accounting record in a small organization, this survey will analyze those practices among micro SMEs (manufacturing sector) in Mukah, Sarawak. This is in line with the view of Abd. Moen and colleagues [1], who stated that academic study on financial management practices are rare, especially for the target group of small traders.

Therefore, the objective of this study is to identify maintenance of accounting records competencies among micro SMEs (manufacturing sector) in Mukah, Sarawak. It is important because if the accounting record is not maintain and accounting principles are not put into practice, the financial position of the business cannot be measured, limiting the development of the business, and traders would also find it difficult to obtain grants and funding.

### 1.3 Research Objective

First is to determine the accounting records practiced by SMEs in Mukah, Sarawak. Second is to identify the relationship between knowledge and accounting record practiced among the SMEs in Mukah, Sarawak. Third is to identify the relationship between attitude and accounting record practiced among the SMEs in Mukah, Sarawak. And last is to identify the importance of maintenance accounting records and accounting record practiced among the SMEs in Mukah, Sarawak.

### 2.0 RESEARCH METHODOLOGY

The population for this study was 40 micro SMEs (manufacturing sector) in Mukah, Sarawak. Mason [11], suggests that the study population was selected based on the aspects which include the need to meet the research questions, ready to work, interviews and can provide the necessary information. According Krejci and Morgan [7],, if the population is 40, then the sample to be used is 37.

Micro SMEs (manufacturing sector) in Mukah, Sarawak are the subject of the study. Therefore, a set of questionnaires have been prepared for distribution to the respondents for information about maintenance accounting records in their business. Researchers meet with the respondents in their premises for interviewing them by using a questionnaire which was developed and made observations on financial management governance.

### 3.0 DATA ANALYSIS

Data were analyzed using SPSS software using descriptive statistics such as mean and percentage. Scale used to mean interpretation in this study are as follows:

**Table 1 : Min Interpretation Scale**

Min value	Interpretation Level
1.00 till 2.33	Low
2.34 till 3.67	Medium
3.68 till 5.00	High

*Source : Norhayah, Mohd Saiful Nizam & Ahmad Masduki (2015)*

### 3.1 Background of Respondents

Based on the findings, most of the respondents aged 41-50 years, which is 35.1 percent followed by 29.7 percent aged 51-60 years, 31-40 years represented 18.9 percent, 10.8 percent for the group in the range of 20-30 years and 5.4 percent for the group 61 -70 years. Analysis showed that the majority is Melanau totaling 78.4 percent. While women represent 64.9 percent. 16.2 percent of respondents were single, while 78.4 percent were married. Analysis also showed that 45.9 percent had levels of education in the UPSR while 16.2 percent had education level in PMR. In addition, 35.1 percent have education at the SPM level. Next, 2.7 percent have a Sijil Kemahiran.

### 3.2 Analysis of Business Background

Based on findings, 89.2 percent of business is of sole proprietorship. 8.1 percent were partnership. The analysis also shows that most businesses are aged between 5-10 years, representing 43.2 percent and only 2.7 percent were aged between 0-2 years. A total of 89.2 percent have a number of employees less than 5 and 10.8 percent have a number of

employees more than 5. Analysis also showed that most businesses nature were in the food production representing 73 percent, 13.5 percent in textile industries, and only 2.7 percent in the furniture industries. Only 5.5 percent were GST enable.

### **3.3 Analysis of maintaining accounting record practice**

Analysis shows 64.9 percent were saving and compile the source documents of business transactions and ensure that all business transactions have documents to be recorded while another 35.1 percent did not practice. Only 43.2 percent records transaction into the first book of original entry such as cash book. Only 24.3 percent were prepared ledgers, 13.5 percent were prepared trial balance, 21.6 were prepared income statement and 16.2 percent were prepared balance sheet for their company.

### **3.4 Analysis of Average Mean By Knowledge, Attitude and The Importance of Maintaining Accounting Record**

#### **3.4.1 Knowledge of Maintaining Accounting Record**

Analysis shows 45.9 percent of the respondents have low knowledge of maintaining accounting record while 35.1 percent have a high knowledge while only 18.9 percent have medium knowledge towards maintaining accounting record. An item that has a dominant score was knowledge of bookkeeping cycle begins with the source documents that is with min 3.79 while the most less dominant is that the respondent can explain the basic concepts of bookkeeping at a min value of 2.89.

#### **3.4.2 Attitude Towards the Maintaining Accounting Record**

Analysis shows most of the respondents have a moderate attitude towards the maintaining accounting record, namely 51.4 percent. And only 2.7 percent having low levels of attitude and 45.9 percent showing high levels of attitude to maintaining accounting record. The average mean of attitude towards the maintaining accounting record is 3.5. The most dominant mean score is 4.11. This proves that the respondent always include supporting documents to prove a transaction. This indirectly prevent them from being deceived by irresponsible parties. Meanwhile, the least dominant mean score is 2.13 which is only a few business need an accounting in the business.

#### **3.4.3 The importance of maintaining accounting record**

Analysis shows a total of 67.6 percent of the respondents felt that maintaining accounting record is important for their business while only 10.8 per cent felt the maintaining accounting record is not important. The mean for overall items is 3.68. Respondents felt that the maintaining accounting record is important to help business plan the future and facilitate business tracking information such as customer information, sales information, etc. This is because; the mean score for this item is the most dominant at 3.78. On the other hand, the less dominant items with mean score 3.46 is maintaining accounting record in research activities for the purpose of business expansion.

### **3.5 Hypothesis testing**

Pearson correlation test was perform to identify the relationship between the variable.

Ho1 : There is no significant relationship between knowledge and maintenance accounting record practiced.

Analysis shows the significant (2-tailed) value is 0.000. This value is less than 0.5. Hence there is a statistically moderate correlation (Guilford Rule of Thumb) between knowledge and accounting record practiced. Thus it can be concluded that when the knowledge is decrease, accounting record practiced also low.

Ho2 : There is no significant relationship between attitude and accounting record practiced. Analysis shows the significant (2-tailed) value is 0.000. This value is less than 0.5. Hence there is a statistically moderate correlation (Guilford Rule of Thumb) between attitude and accounting record practiced. Thus it can be concluded that when the attitude is bad, accounting record practiced also not practice.

Ho3: There is no significant relationship between the importance of maintenance accounting records and accounting record practiced. Analysis shows the significant (2-tailed) value is 0.023. This value is less than 0.5. Hence there is a statistically low correlation (Guilford Rule of Thumb) between the importance of maintenance accounting records and accounting record practiced.

### **4.0 DISCUSSION**

The study reveals more than a half micro SMEs (manufacturing sector) in Mukah Division has poor accounting records maintenance due to low knowledge on accounting, poor attitude on accounting practice and low awareness on the importance of maintenance accounting records. This is consistent with findings in previous studies by Mensah et al. [12]; Amaoka, [2]; Maseko and Mayani, [10]; Yahaya *et al.* [19]; Kofi *et al.* [6]. Although there are documents stored and transactions recorded, the method of recording can be defined as weak and does not meet the basic standards of accounting. Most micro SMEs (manufacturing sector) practice financial management and bookkeeping in an informal manner. Informal means such entrepreneurs just do some basic things and their activities are carried out based on their own rules. According to [18]Rosdi (2002), one of the failures of bumiputera entrepreneurs in comparison with other entrepreneurs is weaknesses in managing a system of record in business.

The analysis also showed that most respondents had a low level of knowledge about the basic principles of accounting in business. This is support by [10]Maseko and Mayani (2011) in a study conducted in Zimbabwe found that majority of the SMEs in Zimbabwe do not keep complete accounting records due to lack of accounting knowledge. Also according to [17]Redmond & Walker (2009), the majority of owners or managers do not have any financial management training, although most of them feel it is quite important to them. Most of them say it is very useful to them but they still will not follow it. This is proven when most of them know how to start a cycle of accounting but difficult to explain further the cycle due to lack of application of such practices in their business.

## 5.0 RECOMMENDATIONS AND CONCLUSIONS

### 5.1 Recommendations

#### 5.1.1 Recommendations to the SMEs

Based on the findings, a number of proposals have been submitted to the entrepreneur especially for micro SMEs. The first proposal was to follow a program, workshop or training relating to maintain accounting records and financial management. This is because, by following such activities the operators' knowledge on accounting practices will increase and will indirectly enhance the motivation to maintain accounting records in business.

The second proposal is to further enhance the applications of accounting practices that have been learned in the business. This is because with the application of accounting practices in the business there are a number of advantages and benefits to be obtained by operators. The first is the operator can identify the increase and decrease in their business revenues. Improvement and reduction can be identified with the distinction between the financial statements of the current year and the previous year's financial statements. Next, be able to identify gross profit and net profit for their business. These results are obtained when preparing the statement of profit and loss. In addition, operators can also identify the number of owned assets. Assets will be identified when the financial statements are available. Finally, operators can identify excessive spending that is affecting the business. By identifying them, operators can reduce expenses that have been identified and indirectly increase the profitability of the business.

#### 5.1.2 Recommendations to aid agencies

Aid agencies identified by the researchers during the study was the Department of agriculture, the Majlis Amanah Rakyat (MARA), Amanah Ikhtiar Malaysia (AIM) and the Department of fisheries. Most of the entrepreneurs get help from these agencies, not only in terms of capital, but also product processing equipment. For example, operators of food products; dry cookies, entrepreneurs get help in terms of processing equipment such as a mixer, baking machines and other equipment's for the processing of the products.

Throughout the findings by researchers, many agencies were found to provide assistance in terms of equipment. There are several agencies that often implement joint programs with the operators, but the programs mainly focused on product related programs. Thus, the researchers recommend that donor agencies work with educational institutions to provide exposure to entrepreneurs about the accounting practices. Conduct programs and workshops that focused on financial management and application of accounting practices in the business. This is to increase the level of awareness and knowledge among SMEs in accounting.

#### 5.2 Recommendation to future research

Based on the experience of the researcher while doing the survey, a number of the recommendations and opinions of researchers can be applied by researchers in the future. The first recommendation is, future researchers should increase the population as well as the scope of the study. This is because this study is only for SMEs in Mukah, Sarawak only. Due to a limited population, the study is quite difficult to run.

In addition, future research will also make a difference between business operators when the scope and population enlarged.

The second recommendation is to carry out research in different areas such as rural areas and in the city. This is because the motivation and goals of operators in both these places is likely to be different. The goal of operators in the city mostly is to expand further their business while the rural entrepreneurs do their business just to cover the cost of their daily needs.

### 5.3 CONCLUSION

This study has set a number of objectives to be achieved after this study. The objective is to identify the maintenance of accounting records competencies among micro SMEs (manufacturing sector) in Mukah, Sarawak. The finding is very low.

The application levels of accounting practices by SMEs are at a low level. Most operators only reserve the source documents and did not register all transactions done while some only recorded sale transactions of their business. This is due to the knowledge and attitude of the SMEs who do not place importance to the practices of accounting. Most SMEs only run business to support and cover the cost of their lives without wishes to enlarge their business again. They feel no accounting practice should be done because the income they earn is just the profit to cover the cost of their lives.

Most of the SMEs don't have the knowledge and basic skills on practices of accounting. This is because, lack of workshops and training held by the parties concerned. SMEs must apply the activities of accounting practices in the business to enhance and balance their knowledge of accounting practices. Accounting is a language of business. Without accounting, doing business is just like a hobby.

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