

# Micro Businesses: Do They Need Accounting?

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## Abstract

The contribution of micro enterprises (MEs) is essential towards economy development in Malaysia. MEs provided job opportunities to the people, especially to those with low-incomes, and also offer more affordable goods and services to the public. Despite having advantages, current MEs are still unrecognised and it is hard to see positive development in terms of growth. This study aims to explore the current accounting record keeping practices among MEs owners in Kelantan, Malaysia, and the extent of use of accounting information in the business decision making. The data was collected through random sampling method of survey questionnaires to 500 micro-business owners, however only 150 were agreed to involved, given a response rate of 30%. Descriptive analysis was applied and the findings of this study revealed that the majority of the MEs owners do not keep complete accounting records with some of them not keeping any record at all. It shows lack of accounting knowledge and existence of unused accounting information in the business. This study recommends the development of a simple accounting module for MEs and provides training and continuous support to help the MEs. This study also recommends that the regulators enforce mandatory record keeping to improve accounting practices in Malaysia.

**Keywords:** Micro enterprises; record keeping; accounting systems; practice; Kelantan.

## INTRODUCTION

In Malaysia, Small and Medium Enterprises (SMEs) are important in driving the economy, which can lead to the transformation of the country. The contribution of SMEs to the gross domestic product (GDP) has increased from 4.1% to 36.3% over a five-year period (2011–2015), which has been supported by good performance across all the economic sectors. In the context of Malaysia, SMEs consists of three different categories of enterprises: micro, small and medium. Each category is defined based on the total number of full-time employees and the total annual sales (The Central Bank of Malaysia, 2015). Micro enterprises (MEs) refer to the businesses with sales turnover of less than RM300,000 or the number of full-time employees being less than five for any sector. About 76.5% of business establishments in Malaysia are constituted by MEs (SME Corp Malaysia, 2017). It does prove their important role in the economy and society, and they are regarded as the backbone of Malaysia's economy (Husin & Ibrahim, 2014). As supported by Musa, Shuib, Hafizah, Isa, Osman, and Abu Bakar (2016), MEs globally contribute very significantly towards improving household income to meet family needs.

These enterprises helped in creating many job opportunities, reducing the issue of unemployment as well as poverty, and simultaneously maintaining profitability (Isa, Saleh, & Sapiei, 2008; Rogerson, 2000; Servon, 1999). For people with low incomes, especially in Malaysia, MEs can help to reduce poverty through market-driven and productive activities (Jamak, Ali, & Ghazali, 2014). Thus, they contribute to the economic development of a country (Cassells & Lewis 2011; Hairuddin, Noor, & Ab Malik, 2012; Rasiah, 2002).

Osoimehin, Jegede, Akinlabi, and Olajide (2012) stated that the micro and small-scale enterprises are catalysts in the socio-economic development of a country. These enterprises require small capital to start operating and have small risks. MEs offer many affordable goods and services to the public because their goods are usually priced lower. They produce basic goods and services for the use of the populations (Jamak et al., 2014). The income generated from the business can be used by the owners to support their family on a daily basis (Hairuddin et al., 2012).

Due to their important contribution to the economy, the Malaysian government committed to facilitate the support to breakout strategy for the MEs by spending a large sum of money (Jamak, Salleh, Sivapalan, & Abdullah, 2011). The 2016 Budget supports the long-term development of SMEs with a total of RM9.5 billion being allocated, including RM107 million under the SME Masterplan to continue with the implementation of the High Impact Programmes, including modernisation of MEs (SME Annual Report, 2015/16). Indeed, the government of Malaysia has developed programmes, institutions or support agencies such as SME Corp, Malaysian Agricultural Research and Development Institute (MARDI), SME Bank, *Amanah Ikhtiar Malaysia* (AIM), *Tabung Ekonomi Kumpulan Usahawan Niaga* (TEKUN) and other related agencies to provide guidance, promotion, finance, and facilities in order to attract the entrepreneurs in micro businesses.

MEs possess high potential to compete with large-scale businesses, if the entrepreneurs improve their business performance. Many studies conducted on SMEs at a global level and in Malaysia (see Akram, 2015; Hoq, Ha, & Said, 2009; Khalique, Isa, Abdul, Shaari, & Ageel, 2011; Saleh, Caputi, & Harvie, 2008) identify various barriers to business facing SMEs in a competitive environment. For examples, Cheng, Abdul Kadir, and Abdul Manaf (2014) focused on strategic planning of SMEs; Jebna and Baharudin (2013) and Kaya and Alpan (2012) concentrated more on the success factors affecting SMEs; Usman, Buang, and Usman (2015), were interested in women entrepreneurship. To date, very few studies dealing with MEs in Malaysia (see Al Ma'mun & Ekpe, 2016; Musa et al., 2016; Selamat, Abdul-Razak, Gapor, & Sanusi, 2011), focus on key success and challenges among entrepreneurs, and little attention has been paid to research on MEs, particularly on the state of accounting practices.

Therefore, more studies are still needed on MEs in Malaysia, particularly focusing on the practice of accounting system. Accounting systems provide detailed information about the financial conditions of a business to its owners and managers in any industry. These systems

can be used to measure financial performance (Maseko & Manyani, 2011), which can also be used as a typical language in business (Abuka & Ekwe, 2014; Abdullahi, 2014; Olatunji, 2013). Jayabalan, Raman, Dorasamy, and Ching (2013) supported that, accounting is a systematic process of identifying, recording, measuring, classifying, verifying, summarising, interpreting and communicating financial information.

Accounting roles such as general ledger, accounts receivable, accounts payable and payroll are the fundamental sources of accounting information that are well known in every business. This paper provides insights into accounting practices among MEs in Kelantan, which is known as one of the state in Malaysia that actively involved in business activities and its entrepreneurship capabilities among small business (Yaacob, 2010). Thus, it is chosen as the most suitable area for the current study. Furthermore, Kelantan is also included in the East Coast Economic Region (ECER), which is a part of the main economic plans in the 9th Malaysian Plan (for the period of 2006-2010). There is indeed need to explore the accounting practices of MEs in Malaysia and the extent to which the accounting information is important in their business.

This study will promote awareness among MEs owners on the importance of accounting information as well as add to the literature on accounting practices among MEs and to the general body of knowledge. It will also have important policy implications for the government of Malaysia.

### **Issues and Problems of Micro Enterprises in Malaysia**

Salleh and Ibrahim (2011) argued that MEs have been involved in the national economic development in terms of productivity, value added and job creation, along with an increase in the number of MEs year after year. MEs also have the distinctive exclusivity when compared to the large and medium enterprises (Hairuddin et al., 2012). However, the performances of the MEs in Malaysia have failed to reach the desired target, even though many programmes have been conducted to help sustain their business (Isa et al., 2008; Rahman, Yaacob, & Mat Radzi, 2016).

According to Holden (2016), the failure rate of Malaysian SMEs is quite high, about 80-90 percent, during their first year of operation. This figure is important in order to understand the real problems faced by Malaysian MEs. Garg and Walia (2012) noted that, micro and small enterprises faced challenges with respect to management ability such as managing their business accounts. Lack of management capability such as financial control might drive these enterprises to engage with issues that are beyond their core business (Cassells & Lewis, 2011; Isa et al., 2008; Williams & O'Donovan, 2015). According to the Malaysian SME Annual Report (2015/16), the survey findings highlighted that about 44.8% of the respondents stated that they faced cash flow or liquidity problems, particularly MEs. Muhindo, Mzuza, and Zhou (2014) found that many enterprises like MEs do not apply accounting in their business.

Muchira (2007) conducted a case study to investigate the application of accounting record among micro and small enterprise operations in Kenya and found that those enterprises do not keep complete accounting records because of lack of accounting knowledge and the high cost of hiring professional accountants. A more recent study by Madurapperuma, Thilakerathne, and Manawadu (2016) revealed that, an incomplete accounting record would cause inefficient use of accounting information to support financial performance measurement by SMEs in Sri Lanka. As mentioned by Nwobu, Faboyede, and Onwuelingo (2015), challenges may be overcome easily when businesses use accounting and finance to support and guide the business properly. Few scholars agreed that accounting plays a critical role in an enterprise whether it is a success or a failure (Amidu, Effah, & Abor, 2011; Smirat, 2013).

In conjunction with several issues and problems that exist among MEs in Malaysia or globally, this study aims to explore the accounting record keeping practices of the various business transactions and the extent to which the owners of MEs use accounting information in their business. To ensure success or growth of MEs, accurate accounting records need to be kept. The information on how the overall accounting systems work in this setting as well as their contributions to the enterprises are essential and significant for developing economies (Ahmad & Zambri, 2015).

### **Needs of Accounting**

Accounting as a language in business provides the owner or other shareholders of the business with the knowledge on the situation of the business at a point in time (Abuka & Ekwe, 2014), and it is crucial to any enterprise irrespective of the size or type of the enterprise (Mbroh & Attom, 2011). The importance of accounting is manifested in several areas such as financial, cost, management and tax accounting (Olatunji, 2013). Accounting is responsible for analysing and monitoring the financial condition of firms, preparation of documents necessary for tax purposes and providing information to support the main organisational functions such as production, marketing, human resource management and strategic planning (Amidu et al., 2011). In accounting, the processes involved are book-keeping, purchasing and supply, bargaining, determining the labour costs, simple budgeting, keeping accurate receipts, sales records skills in keeping reliable records, sourcing for market outlets, work in progress records, credit purchases, invoices, cheque payments as well as keeping customers' records and goods inventory (Abuka & Ekwe, 2014).

Other skills that are related with accounting are good credit facility practices, operating the cash payment receipts, cash sales and prudent financial and working capital management (Abuka & Ekwe, 2014; Bushman, Chen, Engel, & Smith, 2004). Accounting not only gives the complete information to the owner for making a proper business decision based on the financial health of the enterprise but also allows the measurement of performance of the enterprise. Moreover, accounting can describe to the other stakeholders as to how well the enterprise is performing (Mbroh & Attom, 2011). A study by Amoako (2013) stressed that SMEs fail to maintain complete accounting records as they think there is no requirement to keep

accounting records that expose their financial position. The importance of accounting or financial records according to Muchira (2007) is to inform the owners of the actual profit or loss incurred, the income received from sales and the expenses incurred. Husin and Ibrahim (2014) argue that sometimes owners do not understand the usefulness of accounting and financial reporting for the purpose of decision making. As James (2002) indicates, accounting involves the preparation of information for the purposes of decision making and may require interpretation as well as simple recording of accurate information.

Therefore, accounting information is necessary because it can help owners to provide good financial statement and can be used to deal with shareholders, creditors, employees, government and other stakeholders to convince them how well financially sound the enterprise is (Nwobu et al., 2015; Smirat, 2013). Accounting information also plays an important role in the enterprise's decision making about its whole operation by estimating previous performance, adjusting current operations as well as anticipating future operations and outcomes (Maseko & Manyani, 2011; Mat & Smith, 2011; Olatunji, 2013; Ramli, 2015). Generally, MEs are not required to show their financial statement because the financial data of MEs will not be collected to be employed typically in corporate finance research (Berger & Udell, 1987). Maseko and Manyani (2011) agree that not all enterprises can keep their accounting records, especially SMEs. The owners of SMEs must keep the records according to their basic needs to support their business operations; however, previous studies found that most of MEs owners do not maintain appropriate accounting records, especially for tax compliance (Amoako, 2013; Olatunji, 2013). In order to survive in the business, MEs require a frequent use of accounting with proper accounting systems (Mbroh & Attom, 2011).

Therefore, without the right accounting practices and procedures, business firms could be headed towards financial ruin. Gaskill, Van Auken, and Manning (1993), summarised based on the works of many scholars as to why some business firms fail in terms of their performance. Apparently, factors of business failure not only directly related to the owners' characteristics (e.g. lack of focus on technical skills) but also included financial deficiencies (lack of accounting background, cash flow analysis and financial records or inadequate accounting records). While the purpose of this study is not to examine factors causing success or failure, it is essential to assess how far the MEs emphasize on accounting practices and their application.

### **Management of Cash Flows**

Cash, as a basic unit which is earned through selling the products of an enterprise, plays a vital role in keeping the businesses running continuously (Mbroh & Attom, 2011). Cash foundation means that the cost or income is accounted for the equivalent amount of cash paid or received for it and this generally means that an entity recognises a transaction only when cash is received or paid (Maseko & Manyani, 2011). Isa et al. (2008) stated that other statements such as balance sheets, cash flow statements or fund statements are rarely used in small-scale enterprises' financial management, excluding yearly taxation returns as well as some forms of

profit and loss statements. Financial performance may be an outcome of a change in accounting management or an antecedent (Mat & Smith, 2011).

In the process of setting up and expanding operations, developing new products and investing in new staff or production facilities, it is important to maintain a good financial status (Mohamad & Sidek, 2013). Basically, the cash used is usually based on the budget or the plan payment already made by the owner (Mbroh & Attom, 2011). However, when some issues occur in the cash flow, it causes financial stress in the enterprise. This will definitely bring large number of complaints from dealers and cause the enterprise to fail in getting financial support from banks or other institutions, resulting in the business having to terminate its operation (Rasli, Norhalim, Kowang, & Qureshi, 2014).

According to Motlagh (2013) and Aren and Sibindi (2016), the success or failure of the business mostly depends on the firm's ability to generate cash flows efficiently. As supported by Ahmad (2016); maintaining proper cash flow is the most important task for entrepreneurs in order to increase profitability and sustainability of the business. Muchira (2007) asserts that, cash flow is one of the major records in any enterprise, and small businesses must consider maintaining a positive cash flow as a vital element. Mazzarol, Reboud, and Clark (2015), summarised that, the cash is generated from sales revenues (accounts receivable) and if this cash flow slows due to falling sales or slow recovery of the accounts receivable, the business will need a cash injection or become insolvent. Aren and Sibindi (2016) claimed that efficient cash flow management processes result in the business's success. Ismail (2014), conducted a study of cash flow in construction companies and claimed that without enough cash, no payment can be made to labourers and the business is faced with scarcity of resources due to limited availability of finance to purchase materials. Enow and Kamala (2016) examined the cash management practices of small, medium and micro enterprises in South Africa and found that most of the business entities managed their cash effectively. This study enables to fill gaps in research since there is limited literature on cash flow management in Malaysia.

### **Growth of the Business**

Growth may always seem to be a good thing for the companies, especially in their early stages of business. Growth of a business is important because it is a parameter for measuring the development of a business over time. Growth can also help improve the performance and quality of the management and production while increasing business profits. A business is said to be growing when employing more workers and equipment to increase production. The growth of a business shows the success of its operations. Success is always related to the achievement of goals of an individual or a group. The impressive growth of MEs is mostly due to the people's goal to be self-employed and certainly not because those small-scale enterprises are easy to be found or managed (Osotimehin et al., 2012). Rasiah (2002) agreed that the success of a firm cannot be evaluated according to the size of its business. Nonetheless, failure to provide appropriate information may lead to unsuccessful resource management and

decline in performance (Mat & Smith, 2011). For MEs survival is an important element (Jamak, Salleh, Sivapalan, & Abdullah, 2012).

Regarding business achievement, Scott and Bruce (1987) stated that various stages need to be passed through before it can be developed. Success is usually related to the performance of the business. In any sense, profit can analogously be viewed as the lifeblood and the basis of accounting of a business (Maseko & Manyani, 2011; Smirat, 2013). MEs are losing out on profits from practices such as well-improved monitoring of financial health and progress, well-developed ability to anticipate affluences or failures, better assessment of financial risks as well as greater ease in financial planning and control without suitable, current and appropriate financial reports and analysis (Isa et al., 2008). According to Gupta, Guha, and Krishnaswami (2013), enterprise growth has been studied by researchers for many years. Different terms have been used by different authors to define the stages of growth of an enterprise and understanding the growth of an enterprise depends on the definition of what the firm is, how much it has grown and what it offers to the market. Most researchers suggest that each enterprise has to start, then grow while facing various challenges and crises and finally mature and decline.

Many studies have been conducted on the performance of enterprise development (see Turyahebwa, Sunday, & Ssekajugo, 2013; Chashmi & Fadaee, 2016; Gichaaga, 2013; Nichter & Goldmark, 2009). Turyahebwa et al. (2013) found that there is positive relationship between financial management practice and business performance. Gichaaga (2013) concludes that accounting approach is the most highly used among the manufacturers to facilitate decision making. The effects of accounting practices (on growth and performance) are not well documented or that there is lack of literature dealing with MEs in Malaysia. There is need for a study that can help the entrepreneurs in this size sector.

## **METHODOLOGY**

This study employed a survey-questionnaire to gather data concerning the research topic. The population of this study comprises the micro business sector in the state of Kelantan, Malaysia. The population is obtained from the SMEs Corp website and there are about 35,400 MEs being established in Kelantan. The unit of analysis for this study is the enterprise, and the owner or manager of the micro enterprise became the key respondents, representing their business. The questionnaire involves three sections. The content of Section A is about the demographic profile of respondents; Section B is regarding accounting information system and cash flows; Section C asks about the growth of the MEs. The process of selecting the targeted respondents was carried out using random sampling whereby each respondent in the population had an equal probability of being selected. With randomisation, a representative sample from a population provides the ability to generalise the results (Creswell, 2009). From the population, 500 targeted respondents were sampled for this study; however, only 150 or 30% of the survey questionnaires were returned and used for the final analysis. A frequency distribution analysis was conducted using SPSS Version 22 for the items in all the sections of the questionnaire.

## FINDINGS

### A. Respondents' Profiles

Table 1 provides information about the respondents' profiles. Among 150 respondents, there were 46 males (31%) and 104 females (69%). This indicates that the majority of small business owners in this study are females. It is not surprising because Kelantan is one of the states in Malaysia that is popular for women entrepreneurs who actively participate in MEs (Zamzuraidah & Widad, 2004). About 57% of the respondents are young entrepreneurs at the age of 40 or below, and respondents at the age of 50 or above are about 24%. It shows that young people are interested in business and may also indicate that getting a paid job becomes challenging. Majority of the respondents have completed their secondary education (57%), about 13% have completed only primary education and 9% have never attended school or undergone formal education. Of the total respondents, only 21% hold diplomas and bachelor degrees.

Table 1: Respondents profile

Gender			Age			Working status in business		
	N	%		N	%		N	%
Male	46	30.7	Below 30	53	35.3	Full-time	134	89.3
Female	104	69.3	30–39	33	22.0	Part-time	16	10.7
<b>Total</b>	<b>150</b>	<b>100</b>	40–49	28	18.7	<b>Total</b>	<b>150</b>	<b>100</b>
			50–59	19	12.7			
			60 above	17	11.3			
			<b>Total</b>	<b>150</b>	<b>100</b>			



Level of education			Type of Business			No. of year in business		
	N	%		N	%		N	%
Primary school	20	13.3	Food & Beverage	67	44.7	Less 1 year	17	11.3
SRP/PMR (secondary school-level 1)	17	11.3	Clothes	39	26.0	1-2 years	30	20.0
SPM (secondary school-level 2)	69	46.0	Fruits	6	4.0	2-3 years	9	6.0
Matriculation/STP M/Diploma	22	14.7	Retail	14	9.3	3-5 years	17	11.3
Bachelor degree	9	6.0	Services	5	3.3	5-7 years	13	8.7
Not attending school	13	8.7	Others	19	12.7	7-10 years	11	7.3
<b>Total</b>	<b>150</b>	<b>100</b>	<b>Total</b>	<b>150</b>	<b>100</b>	Above 10 years	53	35.3
						<b>Total</b>	<b>150</b>	<b>100</b>

..cont

Business Place			Number of full-time employee (Including owner)			Number of part-time employee (Including owner)		
	N	%		N	%		N	%
Own shop	26	17.3	1	85	56.7	0	127	84.7
Own stall	14	9.3	2	42	28.0	1	11	7.3
Own transport/ food truck	4	2.7	3	9	6.0	2	6	4.0
Rented shop	50	33.3	5	8	5.3	4	3	2.0
Rented stall	37	24.7	<b>Total</b>	<b>150</b>	<b>100</b>	More than 5	0	0
Others	19	12.7				<b>Total</b>	<b>150</b>	<b>100</b>
<b>Total</b>	<b>150</b>	<b>100</b>						

<b>Estimated Daily Income</b>		
	<b>N</b>	<b>%</b>
Less than RM100	18	12.0
RM101–RM200	52	34.7
RM201–RM300	27	18.0
RM301–RM400	13	8.7
RM401–RM500	11	7.3
RM500 above	29	9.3
<b>Total</b>	<b>150</b>	<b>100</b>

51% of the MEs were founded more than five years ago, which implies that most of them were mature entities and had a lot of experience in doing business. The respondent’s working status revealed that the majority (89%) of the owners of the MEs operated their businesses as full-time job; indicating their full commitments to the business and that the business was their main source of income. 57% of the MEs were run by the owners themselves without any assistant, followed by 28% who received help from one full-time worker. Only 13% of the MEs employed between one and four workers on a part-time basis.

About 29% of the respondents run the business at their own shop, stall or transportation, while 58% operated through rented shops or stalls. The rest operated the business at free locations, such as at the beach, off the road, in front of school or building, etc. Majority (45%) of the businesses sold foods and beverages, followed by those selling clothes (26%). This implies that the MEs provided necessity products to the public and the business did not require complicated skills. The respondents estimated their daily incomes with the majority of them earning RM300 or and below (65%) and less than 10% making more than RM500 a day. However, with only 46% of respondents having recorded their daily sales, this estimation could be questionable.

### **B. Accounting Record Keeping**

The respondents were asked about their current accounting record keeping practices and the results are presented in Table 2. It is surprising that only 86 (57%) respondents maintained their accounting records and only 10% (of the 57%) recorded using proper accounting systems. The remaining only jots down the business transactions as notes in the books. Around 94% of the 57% recorded the transactions in the books and the rest (6%) used Microsoft Excel. For those who did not record business transactions (64 respondents), the challenges faced were that some of them (49%) claimed that they did not have accounting knowledge at all, 20% had some knowledge but found it too difficult to apply it and the rest (31%) also had some knowledge but

did not have the time to deal with accounting processes which they considered to be too complicated.

Table 2: Accounting record keeping

		Yes	No
1.	Recorded business transactions in the books of accounts	86 (57)	64 (43)
2.	From the answer 'Yes' in item 1 (n = 86):		
	Recorded using proper accounting systems	9 (10)	77 (90)
3.	From the answer 'Yes' in item 1 (n=86):		
	Written in the books	81 (94)	
	Using Excel	5 (6)	
4.	From the answer 'No' in item 1 (n = 64):		
	No accounting knowledge at all		31 (49)
	Have some accounting knowledge but accounting too difficult to use		13 (20)
	Have some accounting knowledge but time consuming to do the recording process		20 (31)

# number in ( ) refer to percentage

### C. Types of Books of Accounts and Financial Statements

The survey listed 12 types of books of accounts and financial statements and asked the respondents to select those that they consistently prepared. Table 3 shows that cash book was the highest adopted book, being maintained by 57% of the respondents, followed by purchase and sale records, being maintained by 45% and 46% of the respondents, respectively. About 41% and 31% of the respondents, respectively, kept records for inventory and billing. However, the utilisation of payroll, accounts receivable and accounts payable were still very minimal (less than 20%). Meanwhile, general ledger, statement of cash flows, statement of income, statement of financial position and financial budgeting were among the lowest adopted books, being used by less than 10% of the respondents. Almost all respondents (98%) could not differentiate between cash basis and accrual basis of accounting.

Table 3: Types of books of accounts and financial statements

		Frequencies (n = 150)
1.	Cash book	86 (57)
2.	General ledger	12 (8)
3.	Payroll	29 (19)
4.	Billing	49 (33)
5.	Inventory	62 (41)
6.	Accounts receivables	27 (18)
7.	Accounts payables	27 (18)
8.	Purchasing	67 (45)
9.	Sales	69 (46)
10.	Statement of cash flows	9 (6)
11.	Statement of Income	9 (6)
12.	Statement of Financial position	8 (5)
13.	Financial budgeting*	8 (5)

# number in ( ) refer to percentage

\*item no. 13 is not in the list provided but was added by respondents

#### D. Cash Flows

Table 4 shows the findings about the cash flows with 124 respondents (83%) claiming that they had good management of cash flows of the business; however, only 70% of them had recorded cash flows daily and consistently, of which only 10% had followed the accounting systems and the rest 90% recorded them just as notes in their books.

Table 4: Cash flows

		Yes	No
1.	Able to manage cash flows	124 (83)	26 (17)
2.	From the answer 'Yes' in item 1 (n = 124)		
	Recorded cash flows daily and consistently	87 (70)	37 (30)
3.	From the answer 'Yes' in item 2 (n = 87)		
	Recorded cash flows using proper accounting system	9 (10)	78 (90)
4.	Cash flows problem in next three months	34 (23)	116 (77)
5.	Cash flows problem in next six months	67 (45)	83 (55)
6.	Use cash flows information for business decision making	112 (75)	38 (25)

# number in ( ) refer to percentage

A total of 116 (77%) and 83 (55%) respondents claimed that their businesses would not have any problem with respect to the cash flows for next three and six months, respectively. All the

respondents refused to answer the condition of their cash flows in next twelve months. A total of 112 respondents (75%) stated that they used cash flow information for business decision making.

**E. Use of Accounting Information**

Respondents were also asked about the use of accounting information in the business (Table 5). Of the total respondents, 68 (45%) claimed that their important business decisions were based on accounting information and 85 (57%) declared that they referred to the accounting information to evaluate their business performance. About 32% of those respondents who did not use accounting information in business decision making agreed that accounting information is important but they did not have the required knowledge. While 68% concluded that they did not need accounting information in their business at all. Lastly, only 21 (14%) respondents had attended any training or courses related to the use of proper accounting system to record the business transactions or analyse accounting information for business decision making or use in business operations.

Table 5: Use of accounting information

	Yes	No
1. Use accounting information in business decision making	68 (45)	82 (55)
2. Use accounting information to evaluate business performance	85 (57)	65 (43)
3. From the answer 'No' in item 1 (n = 82)		
Accounting important but no knowledge		26 (32)
Accounting is not important		56 (68)
4. Attended related training/courses	129 (86)	21 (14)

# number in ( ) refer to percentage

**F. Growth of the Business**

Respondents shared their assumptions about the growth of their business. Five growth indicators were evaluated, as listed in Table 6. The results showed that 88% of the respondents claimed that their business revenue was good since they had started their businesses and another 85% assumed that the businesses were profitable. However, only 20% of the respondents hired more workers to help them in their business, with 59% of them claiming that the business had more fixed asset compared to when they had started. About 56% of the respondents offered more products or services compared to when they had first started.

Table 6: Growth of the Business

		Yes	No
1.	Revenue of business is good	132 (88)	18 (12)
2.	Business is making profit	128 (85)	22 (15)
3.	Hire more worker	30 (20)	120 (80)
4.	Has more fixed assets	84 (56)	66 (44)
5.	Offer more product or services	84 (56)	66 (44)

# number in ( ) refer to percentage

## DISCUSSION

Accounting is important and is regarded as a language of business. The extent of accounting record keeping using proper accounting systems by the MEs owners in Malaysia is unknown. Some interesting but alarming findings are revealed by this study. About 43% of the MEs owners did not keep any accounting records of their business transactions and almost 95% did not prepare the financial statements. Without having any business transactions recorded in the books of accounts and the financial statements, the owners would not have an idea about the performance of their business and would not be able to seek guidance in making business decisions. The main role of accounting is to provide information about business's wealth, financial position and results of operations.

In the surveyed MEs, 57% have recorded their business transactions; however, it is not a complete set of accounts which is very minimal and too basic to be used in the business decision making. These results confirm the findings that most SMEs do not keep full records of their business transactions (Maseko & Manyani, 2011). The accounting record keeping by MEs owners is not followed using proper accounting systems, rather just recorded as notes in the books. This finding is in line with the study by Mbroh and Attom (2011) that the owners of MEs usually prefer to make notes and jot down their records. The claim by some respondents in this current study that they use accounting information for business decision making and for evaluating their performance is questionable as the accounting information they have is not resourceful to provide relevant information. The incomplete records lead to inefficient or wrong use and interpretation of accounting information which results in wrong decisions being taken to support the business operations.

In many cases, micro businesses use cash basis of accounting, which means that they recognise transaction when cash is received or paid. However, in this study, the respondents did not know about the cash or accrual basis of accounting. Majority of them used to just jot down some information, which they thought was important, about the business transactions in a common book for all kinds of transactions.

Furthermore, almost half of the respondents (44% and 43%, respectively) did not use any accounting information in business decision making and to evaluate business performance. Surprisingly, 56 respondents (37% of the total respondents) claimed that accounting

information was not important to their business. These alarming results may be one of the factors why they remained micro businesses, even though they had involved in their respective businesses for more than 5 years, and shockingly, 35% of the respondents had already been in the businesses for more than 10 years. They could not move forward or expand their enterprises to large-scale businesses. This can be said as only 20% of the respondents hired more workers since the business had started and about 57% of the businesses were run by the owners themselves without any help from others. Even though they assumed the revenue and profit of their businesses to be good, they did not have complete documents/records to prove the same.

The MEs owners are not aware about the importance of accounting record keeping of their business transactions, from which they can obtain the accounting information for their businesses. Mbroh and Attom (2011) found that the small-scale enterprises could not afford to hire a significant person to do the accounting jobs. The owners of MEs in this study lacked book-keeping knowledge to record their business transactions, and accounting seemed strange to them.

### **CONCLUSIONS AND RECOMMENDATIONS**

This study has provided insights into the root problems faced by the MEs. They do not have knowledge about the basic accounting record keeping practices using proper accounting systems. The use of accounting information in business decision making and as a performance measure out of consideration, the record keeping practices are still a big challenge for them. Without proper record keeping practices, the use of accounting information and financial performance measure still remains far from achievable. It is important for the regulators to develop simple book-keeping and financial statement modules for MEs to meet the purpose rather than making them follow the general financial reporting standards which are neither reasonable nor practical for micro businesses (Stainbank, 2008). The users of accounting information of MEs are mainly the business owner themselves, who use it in economic decision making. Thus, the financial reporting of this enterprise should meet its purposes while not burdening them with the complicated applications and standards.

Further, the concerned government agencies need to play a more active role in providing training and courses to create awareness about the importance of accounting record keeping of the business transactions and the use of accounting information in their operations and decision making among these businesses. This would help in preparing the records and so that the practice does not stop when the training or courses are over, continuous monitoring and advice must be reachable by them when needed. In addition, regulators can enforce mandatory record keeping to improve the businesses' use of accounting as well as to improve accounting practices in Malaysia. Hence, this study will be useful to the owner of MEs, especially in Kelantan to realize the importance of accounting information and beneficial of the doing accounting record. Having a better knowledge and understanding can equip business owners to expand their business, create more job opportunities within the communities and contribute to

positive social change. Lastly, future study can be undertaken to identify problems or area of improvement which can be used by the relevant government agencies to formulate policies to ensure the survival of MEs in Malaysia.

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