

**FACTORS INFLUENCING ACCOUNTING PRACTICES
AMONG SMEs IN MELAKA**

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“I admit this report is the work of my own except the summary and excerpts of which
I have only described the source”

Signature :.....

Name :.....

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ABSTRACT

Title effect of the accounting practices to SMEs in Melaka is one of the problem that author recognized during her internship since many SMEs lack of accounting practices management in their business. The factor to have a better SMEs performance in accounting practices is knowledge of the manager, skills of the manpower and financial constraint of the company. The purpose of this research is to identify the factors that influencing accounting practices among SMEs in Melaka. SMEs in Melaka have been chosen in this research since the author is study in Melaka and it will make flexible and cost reduce for author. The research is quantitative method which author use questionnaire as instrumental research to distribute to the SMEs. A few steps in methodology have been discussed on the chapter 3. SPSS analysis are used to make a data analysis for this research. The result of this research are discuss in chapter 4 using a stated method. Results and findings are shown on this chapter. After all, the conclusion and recommendation are being explains in the last chapter which is chapter 5.

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LIST OF ABBREVIATIONS

1. UTeM: Universiti Teknikal Malaysia Melaka
2. NGOs: Non-Government Organizations
3. MASB: Malaysian Accounting Standards Board
4. SMEs: Small, Medium and Enterprises
5. NSDC: National SME Development Council
6. MEs: Micro Enterprises
7. MAS: Management Accounting Services
8. SMPs: Small and Medium Accounting Practices
9. NAfTA: National Award for Management Accounting
10. FYP: Final Year Project
11. PSM: Projek Sarjana Muda

CHAPTER 1

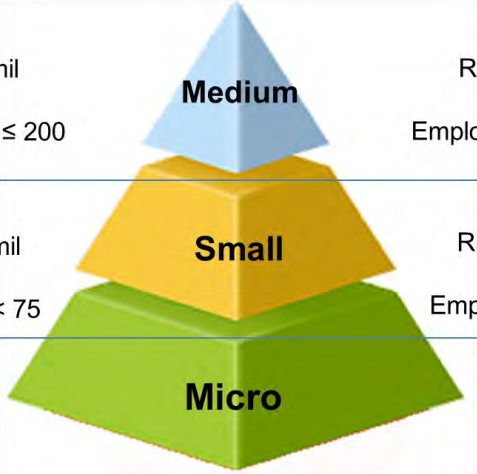
INTRODUCTION

1.0 Introduction

In this world of globalization everybody wants to have a business to survive in economic crisis which currently wave in Malaysia. Schools and Universities encourage their students to have business and seminars, talk and booth were organized by the NGOs and the government to produce a quality entrepreneur which can establish their business last longer and compete in the market. However, are they concern about the internal business? To be exact, are they known one of the key successes of the business is accounting practices? Accounting Practice is a routine way in which the financial activities of a daily business entity are collected and recorded. The accounting practices of firms refer to the method in which their accounting policies are executed and routinely complied with, usually by an accountant and or auditors or the terms of accounting professionals. One of the most important accounting practices needed when starting a business consists of keeping accurate records about how the business is doing financially over time. It involves the process of identifying, measuring, collecting, analyzing, preparing, interpreting, and delivering information that helps managers meet organizational objectives (Horngren et al., 2007). Management Accountant Chartered Accountants (UK) (2000) sees management accounting as part of management requiring identification, generating, presentation, interpretation, and use of information related to formulating business strategies that plan and control activities, make decisions, efficient use of resources,

and performance improvements and value enhancements. According to Awani (2015) Malaysian companies are all set to adopt the global accounting standards by 2018, according to the Malaysian Accounting Standards Board (MASB).

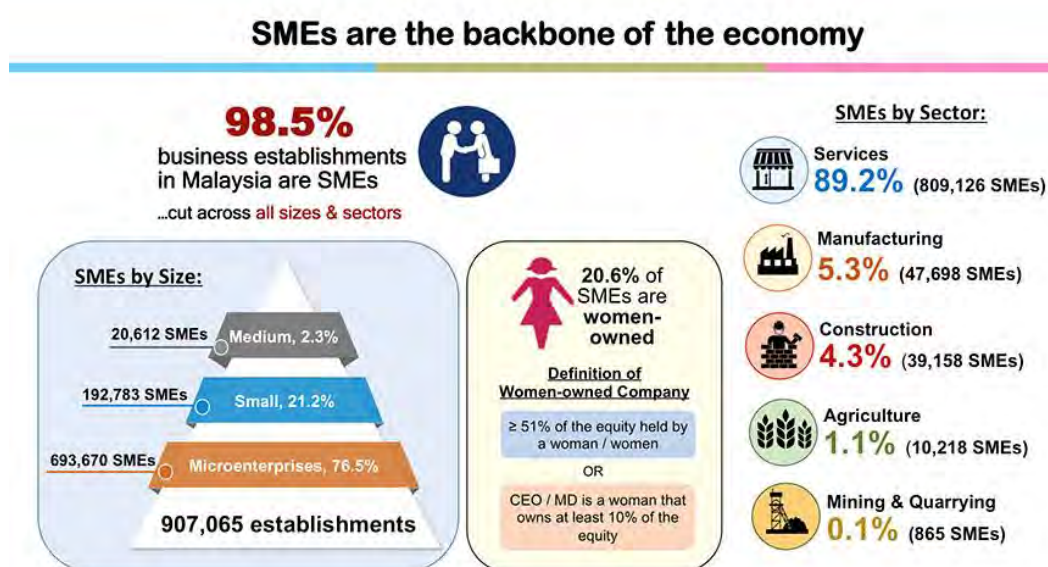
SME Corporation Malaysia (SME Corp. Malaysia) is a Central Coordinating Agency under the Ministry of International Trade and Industry Malaysia and formulates overall policies and strategies for Small and Medium Enterprise (SMEs) and coordinates the implementation of SME development programmes across all related Ministries and Agencies. It acts as the central point of reference for research and data dissemination on SMEs, as well as, provides advisory services for SMEs in Malaysia. SME Corp. Malaysia also assumes the role of the Secretariat to the National SME Development Council (NSDC), which is chaired by the Prime Minister of Malaysia. Now in Malaysia there is 98.5% business establishment in Malaysia are SMEs which can be said 2.3% is from medium, 21.2% is from small and 76.5% is from microenterprises.

Manufacturing		Services and Other Sectors
Sales turnover: $RM15 \text{ mil} \leq RM50 \text{ mil}$ <u>OR</u> Employees: From 75 to ≤ 200		Sales turnover: $RM3 \text{ mil} \leq RM20 \text{ mil}$ <u>OR</u> Employees: From 30 to ≤ 75
Sales turnover: $RM300,000 < RM15 \text{ mil}$ <u>OR</u> Employees: From 5 to < 75		Sales turnover: $RM300,000 < RM3 \text{ mil}$ <u>OR</u> Employees: From 5 to < 30
Sales turnover: $< RM300,000$ <u>OR</u> Employees: < 5		Sales turnover : $< RM300,000$ <u>OR</u> Employees: < 5

Source: SME CORP MALAYSIA

Figure 1.1: Definition of category, namely micro, small and medium

Given that there have been many developments in the economy since 2005 such as price inflation, structural changes and change in business trends, a review of the definition was undertaken in 2013 and a new SME definition was endorsed at the 14th NSDC Meeting in July 2013. The definition covers all sectors, namely services, manufacturing, agriculture, construction and mining & quarrying. In SMEs there are divided to three type of enterprise which are micro, small and medium. These three type of SMEs can be defined into two sector such as manufacturing or services and other sectors.



Source: SME CORP MALAYSIA

Figure 1.2: Profile of SMEs

As shown in the web 20.6% SMEs are women-owned which mean more and equal than 51% of the equity held by a woman or CEO and Manager Director is a woman that owns at least 10% of the equity. To be more precise they were categorized by sector which 89.2% provide services, 5.3% is manufacturing, and 4.3% are doing construction, 1.1% in agriculture and 0.1% in field of mining and quarrying (SME Corp Malaysia).

Based on the Census of Establishments & Enterprises (2005) by the Department of Statistics Malaysia, out of the 548,267 SMEs established in Malaysia, 435,324 (78.7%) business establishments were contributed by the Micro Enterprises (MEs). The MEs involved in all three main sectors in Malaysia namely as services that consist of highest number with 381,585 MEs (87.7%), agriculture with 31,838 MEs (7.3%) and manufacturing stand by 21,516 MEs (4.9%). Small and medium enterprises (SMEs) in play a vital role in the Malaysian economy and are considered to be the backbone of industrial development in the country. However, few studies examined their development, challenges and future prospects. Therefore, the aim of this paper is to examine and analyse the role of SMEs in different sectors as well as their major contribution to the economy. (Ali. S. S. and Nelson. O. N.). According to SME Corp Malaysia (2016), SMEs accounted for 98.5% of business establishment in Malaysia are SMEs for all sizes and sectors.

	SMEs	Percentage (%)	
Micro	693, 670 SMEs	76.5%	} 907, 065 establishments
Small	192, 783 SMEs	21.2%	
Medium	20, 612 SMEs	2.3%	

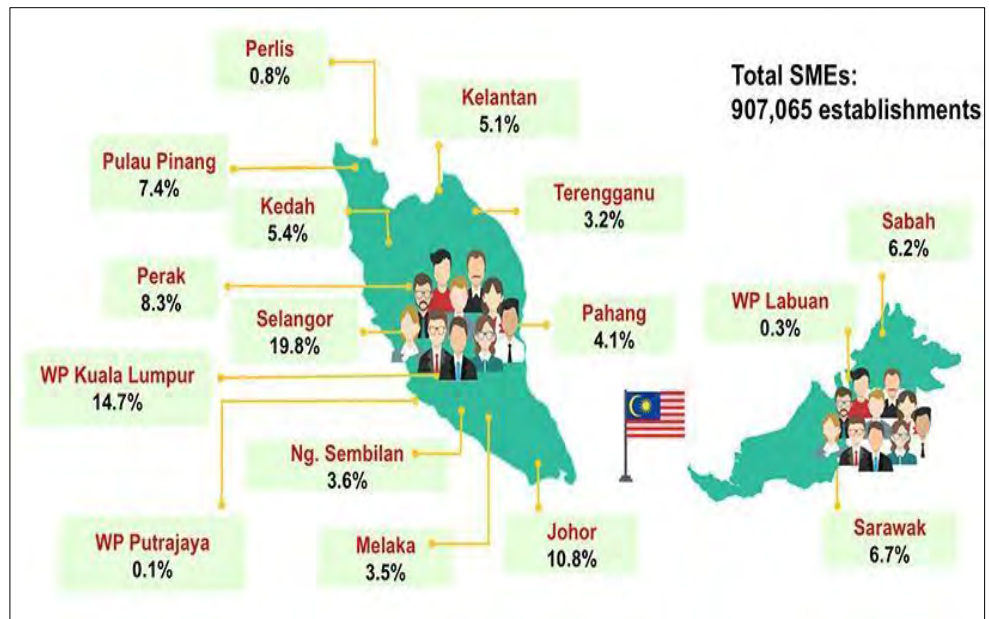
Table 1.1: Analysis in different sector

Based on Table 1.0 above, it shows that largest number of establishment in year 2016 is sector in micro with percentage 76.5%. Other than that, mostly entrepreneur joined SMEs are majority from women. There are 20.6% of SMEs are owned by women. Women-owned company defined as at least 51% of the equity held by a woman or women or also defined as CEO / MD is a woman that own at least 10% of the equity. Statistic of MEs (Micro-Enterprise) by sectors is shown as below:

Sectors	SMEs	Percentage (%)
Services	61, 8754	89.2%
Manufacturing	36, 765	5.3%
Construction	29, 828	4.3%
Agriculture	7, 630	1.1%
Mining & Quarrying	694	0.1%

Table1.2: Statistic of MEs by sectors

Last but not least, there are overviews of SMEs in Malaysia by state with overall establishments 693, 670 of MEs as shown below:



Source: SME CORP MALAYSIA

Figure 1.3: Total SMEs establishment

This research aims to know what are the factors that influence accounting practices in the SMEs to be a better performance. According to Omerzel and Antoncic (2008), entrepreneurs' knowledge has an impact on the firm's performance. Thus, for SMEs to succeed and attain growth, sound entrepreneurial knowledge of both the internal and external market in which they operate, such as attaining grants, shorter credits, targeting consumers and obtaining long-term liabilities such as loans, is eminent. SMEs tend to face a greater uncertainty toward the external environment than large firms. As such, large firms are innovative with products and services to sustain continuous evolution and changes (Ha-Brookshire, 2009). While this is obviously advantageous to larger firms, SMEs lack these mechanisms (Marcotte, 2011).

1.1 Problem Statement

Accounting practices and SMEs are link each other and the role of accounting practices to business are very crucial which at the end of every year they have come up with annual return report and financial report. However, mostly of the SMEs fail to fulfill the actual accounting practices since they might not have the knowledge which is owner itself, skills from the manpower and budget to hire manpower or to hire freelance accountant or agent. Although the success of small firms depends on many factors, both external and internal, the implementation of sound accounting practices is critical for any firm's survival and growth (Collis and Jarvis, 2002; Leichti, 1981; McMahon, 2001; Mc Mohahon and Holmes, 1991). Granlund (2001) suggested that low financial performance may put economic pressure on the firm to change its Management Accounting Services (MAS) to increase performance. It is time consuming, expensive and difficult to maintain and reconcile that bookkeeping or accounting by the person, business or entity. Knowledge and past experiences contribute to performance and growth of small firms. Rasmussen and Nielsan (2011), Sidika (2012) and Okpara (2011) argue that a higher level of entrepreneur education has a positive effect on productivity, which subsequently leads to higher profitability.

According to Beierse (2000), Knowledge is the factor with which entrepreneurs can distinguish themselves from their competitors and the means with which the poorly organized business environment can become well-organised. Lack of management skills among the SME employees lead to failure of a number of SMEs (Aylin et al., and Yan, 2010). It is evident that SMEs cannot afford to hire people who have professional skills, because they do not have enough funds to pay professionals. In comparison, large businesses hire people who have past experience and perfect knowledge of the industry in which they operate compared to small and medium firms. Thus, large firms most of the time stand a better chance when competing domestically and internationally.

1.2 Research Questions

- 1) What is accounting practices to business perspective?
- 2) What are the factors of accounting practices lead to better SMEs performance?
- 3) How accounting practices can be adapted in the SMEs?

1.3 Research Objectives

- 1) To investigate the understanding of manager of the business about accounting practices.
- 2) To identify the factors affecting accounting practices which lead to better business performance.
- 3) To identify the major factor which lead a company to adapt an accounting practices in their business.

1.4 Limitation of Study

The limitations of this research are time limitations and geographical factor. This research is given insufficient time to finish conducting the data collection. In addition, this research is going to conduct around historical state which is Melaka only. Therefore, the data collection for this research will be limited and the data are only applicable only to particular research area. Respondents may lie due to social desirability. Most people would like to present a positive image of them and so may lie or bend the truth to look good, e.g. pupils would exaggerate revision duration. (McLeod, S.A., 2014). The limitation of research also happens in accessing secondary information. Some journals and reports online required paying in advance in order to read.

Lastly, the limitation was language problem where the questionnaire was only designed in English version. This method has caused some time delay and confusion as some respondents unfamiliar with the meaning of the questions. Therefore, researcher needed to take time and explain the statement one by one to the owner who didn't know about accounting practices.

1.5 Scope of Study

An accountant's knowledge is invaluable when assessing an organisation's financial health and performance. Whether it's a small or a multinational corporation, qualified accountants are depended upon in steering the business towards success (Rozana, 2016). Awani(2015) precise Malaysian companies are all set to adopt the global accounting standards by 2018, according to the Malaysian Standards Board (MASB).

The study focuses what are the factors of accounting practices lead to better SMEs performance in Melaka. To determine the understanding of manager, take a serious perception on accounting practices in their business as a platform to succeed in the industry. The research is highlight business among SMEs which established in Melaka to answer the questionnaire about the topic mentioned. Since, the researcher is study in Melaka the research is more flexible to done in Melaka area. Lastly, through this research, future researchers or the public able to know the motivating factors for entrepreneurial intention of undergraduates and thus give support to them.

1.6 Summary

In this chapter, the study had clarified the introduction of the topic and background of the research study clearly. In addition, the research problems are also identified in this chapter to conduct the next process of this study. The problem being identified so that the way to solve it will be gain. The researcher also explained the purpose of this study to be conducted for further knowledge and reference.

After that, the research questions and research objectives are formed during this research. These research objectives must be achieving at the end of the research. The scope and limitation of this study are also been explained as the barrier and sample for this research to be conduct. Lastly, the researcher explains about the significant of this study being conducted. All of these are important because it contributed a clear way to complete the whole research study.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter mainly discussed the factors that influencing accounting practices to the SMEs performance in Melaka. In this chapter, the independent variable and dependent variable were formed and also was explained and discussed. This chapter also stated the overall view about the knowledge in accounting practice of its own manager, the skill of manpower in the company and the financial constraint of the company to expand in accounting expenses. Furthermore, the prediction of research which is the hypothesis and theoretical framework was also presented in this chapter.

2.1 Factors Influencing Accounting Practices to SMEs in Melaka

Effect of accounting Practices in the business definitely will give a greater impact to the company since all the documents and data were recorded to ensure the internal business go smoothly. Accounting work often sent for outsourcing includes bookkeeping and accounting processes; general ledger accounting; accounts payable; fixed assets accounting; inventory management; reconciliations; payroll accounting; taxation; accounts receivables; internal controls; preparation of financial statements;