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Influence of Accounting Records on Performance of Small and Medium Enterprises in Malaysia

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Influence of Accounting Records on Performance of Small and Medium Enterprises in Malaysia

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Abstract

Accounting is crucial to business management. Thus, the study sought to examine the influence of accounting records on the performance of small and medium enterprises in Malaysia. The study adopted the descriptive research design. The target population consisted of SME owners based in Johor Bahru, Malaysia. The target population was 850 participants. The data gathering tools consisted of questionnaires. The study results showed that accounting records was found to be satisfactory in explaining the performance and can explain 40.1% of the variations in the performance of SMEs. It was found that accounting records is positively and significantly related to performance ($\beta=.2154$, $p=0.008$). The study concluded that accounting records positively influence the performance of small and medium enterprises in Malaysia. Accounting records keeping are crucial for decision making and similarly assists in improving business performance and productivity for reliable business performance. Increasing accounting records leads to a considerable benefit that will accrue to an entity as a whole in the long run as it will lead to increased processing power, timely generation of reports and general reduction of associated operating costs. The research recommended that SMEs should ensure they use accounting records regularly. SME owners should ensure that proper and specific organizational documents are kept since they are vital for decision making. SME owners should embrace appropriate accounting records keeping techniques to attain success in their financial performance. It is suggested that the cost of operating a sound accounting system must be reduced to motivate its adoption in businesses. Extra efforts must be allocated to accounting records for the effective performance of businesses.

Keywords: *Accounting Records, Performance, Small and Medium Enterprises, Malaysia*

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1.0 Introduction

Accounting records are all of the documentation and books used to prepare financial statements or documents appropriate to audits and financial reviews. Accounting records consist of records of assets and liabilities, financial transactions, ledgers, journals, and any supporting documents like checks and invoices (Meissner, 2021). Guidelines and regulations usually force accountancy entities and accounting firms to keep accountancy documents for a specific period. In Malaysia, it is required that accountancy companies maintain records from audits and reviews for a minimum of eight years. They keep any documents that support or cast doubt on the conclusions of an audit. An accounting document is crucial to company management. Accounting records keeping contains recognition, classification, summarization, storage, protection, communication, retention, and disposal of documents to prepare financial statements. Tsai (2020) also found that plans, systems, procedures, operations, and personnel are essential to maintaining records.

Keeping records plays a crucial duty in growth by giving recorded information which is important in the strategic formulation of nationwide growth plans and strategies (Hung and Subramanyam, 2018). As the organization unit becomes a lot more complex and wider in scope, accounting evolved in response to the increased planning and control duties of management. As the government increases in size to become more centralized, an audit is established to match the increasing accountability. Sangster (2019) noted that accounting records typically are of 2 types: single entry and double entry. Single entry is a relatively less complex approach that does well for small-sized businesses. The double entry approach is complicated and demands two entries, i.e., credit and debit, on each transaction an organization makes. The objective is to balance the books and follow up on the cash movement in a particular firm. Mostly it is carried out in bigger firms and aids with identifying errors and potential fraudulence.

Performance is defined as a continuous process that entails directing the criteria through which a firm or project can be held accountable (Quinn and Kristandl, 2022). Typically, these criteria are represented as part of an internal system and cover the organization's capability to; regulate financial expenditures, meet employee's expectations, deliver prompt interventions and react to target group reactions to interventions. Skalak, Golden, Clayton and Pill (2020) argued that a company's performance refers to the organization's capability to fulfill the needed requirements, increase market portion, improve facilities, and make sure there are returns on profitability and overall performance reduction. When these are accomplished, an organization is thought to be functioning properly. Accounting documents can be regarded as a catch-all term. Various parties, like creditors, equity financiers, or groups concerned with business regulation will certainly have competing interests; their needs or choices for records will continually change.

Accounting must be well organized and properly guiding information to operate and regulate a company instead of bringing in other administrative challenges that the sole owner needs to follow (Schaltegger, Bennett & Burritt, 2018). The accounting systems for sole proprietors must satisfy such activities as offering vital capital details for the proprietors and managers for them to have the ability to regulate firms in a competitive market and to come up with proper choices to prevent the firm from failing and expand the firm. Moreover, proprietors who own companies alone might

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have certain requirements and problems ensuring that bookkeeping systems are simple, not enforce unneeded operative expenses. Organizations benefit from available accounting information; more important is the availability of accounting that promotes the solution or resolution of business preparation, organization and control function of the ventures as a social organization (Romney, Steinbart, Mula, McNamara & Tonkin, 2019).

Appropriate accounting recordkeeping shows how the transaction was handled and corroborates the steps considered to abide by business standards (Singleton & Singleton, 2019). Record keeping is the foundation on which a compliance program needs to be anchored on stages that ought to be put in place to capture the documentation and events which happen throughout a transaction. Keeping documents is essential for the thriving of different firms. A detailed recordkeeping mechanism allows business owners to create precise and prompt financial reports that reveal the firm's achievements and present state (Graham, Harvey & Rajgopal, 2020). Having a financial report produced from a well-organized recordkeeping system, performance within a certain period with another period can be contrasted. A correct record of the firms' financial performance is a driver to monitor performance in other certain areas. Keeping records is key for the successful performance of a firm.

A comprehensive recordkeeping mechanism makes it easy for business people to calculate accurate and timely financial reports, which gives a clear picture of the progress of the business (Dropkin and Halpin, 2021). Accounting records offer a proper foundation for total and accurate tax calculation. Business relies on proper accounting documents to develop good policies concerning the company. Plans like expansion, drop or keep decisions of product lines produce or buy decisions, about the size of borrowers. As a result, if correct documents are maintained, they will initiate efficient, proper prompt decision-making and improve the performance of small-scale industries. Accurate accounting documents allow firms to handle their finances and make proper financial decisions which subsequently enhance their performance (Brown, Beekes & Verhoeven, 2018).

1.1 Research Objective

To examine the influence of accounting records on performance of small and medium enterprises in Malaysia

2.0 Literature Review

Abdul-Rahamon and Adejare (2019) examined the influence of accounting documents keeping on performance of firms in USA. According to the purposes of the research, a detailed style such as individual interviews and survey were made use of as the considerable approaches for primary data gathering. Data gathered was evaluated utilizing both the qualitative and quantitative approaches. The descriptive statistics utilized tables and percentages. Chi- square and evaluation of variation were used to assess data, through STATA 10 version with the coefficient of determination (R^2) 0.7545 that suggested 75.45 % of the variant in financial performance can be explained by the level of accounting records keeping. Adhering to the result of the research, it is consequently concluded that there is a strong positive relationship in between bookkeeping files

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maintaining and performance of ventures. Keeping records is important for making decision that undoubtedly influences efficiency of firms. It is advised that the proprietors and supervisors of the small firms need to take on correct bookkeeping records methods for efficient financial performance in their firm.

Ganyam and Ivungu (2019) discovered that the relevance of small and medium ventures in several countries cannot be over stressed since they play important functions in the particular country of both established and developing nations like work generation and destitution decrease. Nonetheless, most of SMEs have fallen short to regard the advantages of well-structured bookkeeping system that can certainly have allowed them maintain good financial declaration. The research investigated the level to which accounting information is being utilized to identify the financial performance of SMEs. Collections of questions were provided to 550 SMEs proprietors out of whom 150 surveys were valid and reviewed making use of Likert scale. It was found that while participants acknowledge that substantial advantages of keeping appropriate documents is to recognize the efficiency of the business which record keeping is essential to the success of the business, many of the SMEs owners do not have fundamental audit understanding and fear the expense connected with preparing financial statement for this reason they maintain the records themselves manually. The research suggests that SMEs owners need to strive to maintain proper documents and where important search for the services of SME specialists to work at little cost due to the fact that the cost associated with business falling short as a result of absence of appropriate document keeping much goes beyond the cost of good document keeping for a business concern.

Fleiter, Schleich and Ravivanpong (2019) argued that the small and medium firms are ending up being gradually vital in relation to job creation around the world. This research looked for to create the link in between audit document keeping techniques and SMEs performance in Germany. The research was led by following study query: What is the connection in between document keeping techniques and efficiency of SMEs? The study was led by business possible design. The target population was 1200 and sample dimension of 300 registered SMEs proprietors in Germany. Ex post facto research design was made use of. Data was collected utilizing arranged surveys. Examination of dependability and authenticity of tools was done at $\alpha > 0.7$. Comprehensive information was made use of to develop frequencies, percentages, means and standard deviation. Inferential data used Pearson connection as well as regression analysis to examine the relationship, the impact and to inspect the hypothesis at $p \leq 0.05$. Findings on document keeping strategies disclosed that the organization generated most budget-friendly desirable unit rise of $\beta = 0.031$. Findings expose a beneficial impact on the efficiency of SMEs. The null hypothesis was accepted that SMEs accounting document keeping techniques has no significant result on performance of SMEs. This research suggests that SMEs owners improve the training on calculation of rates of interest and are required to have the reporting and analyzing skills. The research concluded that in order for SMEs to thrive, there is need to have an investment on financial monitoring approaches especially financial reporting and evaluation by stakeholders' specifically banks.

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Ibrahim, Ali and Besar (2020) carried out research to examine the contributions of accounting documents in effective performance of small firms. 2 theories were created based on the purposes of the research. Study strategy was adopted and information was gathered using set of questions. Data created was checked out with means, standard deviation and weighted value and the theory developed were tested making use of Z-test statistical approach. The research discovered that the training of financial specialists by these institutions and the different professional institutes need to concentrate more on practical ways of fixing accounts reporting requirements of small and medium scale businesses; the government is required to offer enough monetary assistance, this results from the reality that if there adequate financial sponsorship, even more jobless Taiwanese will certainly participate in small businesses consequently catering their ways of living quickly than searching for unavailable white collar job. It is advised that the training of bookkeeping professionals by these organization and the many specialist institutes should concentrate more on practical means of fixing accounts reporting demands of small firms; which government should offer ideal monetary assistance, this is because of the fact that if there is enough financial support, more out of work Taiwanese will join small firms as a result acquire their means of living conveniently than looking for not available white collar tasks.

Wijekumara (2019) discovered that in Sri Lankan context small and medium ventures play a vital obligation and contribute considerably to the economic growth and social growth via job development, poverty reduction and new business development, yet on the other hand there are numerous failings of SMEs as a result of poor record keeping methods, wrong bookkeeping details, reason to undependable financial performance and to make bad financial decisions. Therefore, a lot of SMEs not long after their facilities and face financial and administration problems. The goal of the research is to determine the effect of accounting record keeping techniques on performance of SMEs in Anuradhapura location. Preparing audit records, preparing financial statements, computer usage and respondents' understanding was used as independent variables to identify the audit record keeping approaches. Financial efficiency was used as the dependent variable of this research. The study was based upon the quantifiable study technique and the data was gathered from 152 SMEs in Anuradhapura area taking advantage of a structured. Descriptive analysis, connection analysis and multiple regression examination was utilized to examine accumulated data according to SPSS 25 version. Outcomes showed that accounting records keeping strategies disclose a favorable influence on economic performance of SMEs and preparing financial statements have a considerable influence on SMEs financial performance. So, SMEs need to be interested in record keeping methods as one of the tools to enhance and improve the economic performance and important authorities require to develop detailed criteria and ought to provide templates of account record keeping strategies for SMEs to make them incredibly much easier and knowledgeable about accounting methods.

Sun (2022) noted that small and medium ventures play vital duty in lots of countries including Sri Lanka, due to its function for the country's economic development. This study discovers the level of recognition in the direction of the value of accounting document keeping practices and its information use in firms. The study style is anchored on a research technique utilizing an example of systematically chosen SMEs in Gampaha location in Sri Lanka. The target population consisted

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of 100 SMEs running retail stores, producing firms and suppliers of different services in Gampaha location in Sri Lanka. It was concluded that one of the most of the firms do not maintain proper bookkeeping records due to the fact that lack of accountancy expertise and the cost of employing expert accounting experts. There is inadequate usage of accounting information to sustain financial performance dimension by SMEs. These made it tough for business proprietors to determine their organization income properly. Absence of maintaining precise documents was highly condemned on the absence of abilities in this sector by the proprietors or supervisors. The research even more subjected that the owners and supervisors of SMEs were very satisfied for more information about specifically just how to maintain precise records of their business transactions. The results of the research additionally disclosed that majority of the SMEs run into difficulties due to lack of accountancy expertise. The research recommended that the responsible authorities need to bring up with an effective program for training the SMEs firm owners.

Bhimani and Horngren (2018) sought to determine the influence of accounting record keeping on the financial performance of firms in Sweden; a situation of bottling firm in Malmo, Sweden. 400 participants were anticipated to give information. Data was gathered by use of interview overview. It was discovered that a renovation in keeping and preparing acquisitions and sales ledgers can result in improved financial performance. It additionally discovered that the bottling business maintains acquisitions and sales ledger, money publication, profits and expenditure accounts, statement of income and balance sheet. It discovered that the majority of firms neutrally concur that purchases ledger reveals all purchases returns of business, sales ledger shows all returns to the business and sales journal shows all the receivables of the business. Lastly, the study found that the company prepares annual report as they share significant details concerning the financial strength and current performance of an enterprise. The study concluded that bottling company continue preserving cash money books since they keep an eye on the everyday cash activities made within business which assists to identify the level of success from time to time and additionally minimizes mismanagement of the firm's money therefore causing the advancement and growth of the business. The general ledger includes all accounts required to prepare financial statements; it promotes precise financial record keeping at the bottling Company. This brought about correct responsibility and clear VAT administration by the income authority in the nation. As a result the researcher suggested that a fundamental accounting record keeping system, whether theoretically or an off rack computer software program, must be straightforward to use, understandable, reliable, accurate, and consistent and developed to supply information on a prompt basis.

Komori (2020) conducted research to look at the result of bookkeeping records on financial performance of small and medium industries in Japan. Particularly the research examined whether little and medium industries maintain accounting documents of their financial transactions in Osaka, Japan and assess whether sound accountancy system dramatically enhance the performance of little and medium industries in Osaka. A survey study style was embraced for the research. Information was accumulated through survey in which survey was administered on a sample of 200 was purposively accumulated from population of picked small and medium firms. The research found that the Small and medium firms keep audit records of their financial deals in Osaka. Additionally sound accounting system has considerably boosted the efficiency of small and

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medium industries in Osaka. Based upon this, it was suggested that the expense of running sound accounting system must be reduced in order to urge the adoption of in small and medium firms in the State.

Pina, Torres and Yetano (2019) noted that the research is propelled by controversies surrounding aspects affecting performance of firms. Attributed to varying range of company model components by varied opinion blocs, monitoring accounting literature holds a claim of significant impact on the performance of business ventures. Therefore, the essence of the research is to identify the effect of monitoring accounting methods (MAP) on the performance of firms in Bremen, Germany. While overhead expense monitoring methods (OCMP), inventory administration methods (BRAT), and cash administration methods (CMP) are proxies for MAP, return on investment (ROI) is the component for performance. The researchers nonetheless created 3 certain hypotheses 1-3 and one multiplicative theory 4 from communication between the proxies for MAP as well as ROI. Taking on survey research style via structured survey, the basic design for testing theory 4 showed a favorable and considerable partnership between management accounting methods and performance of firms in the country. Specifically, examination of hypotheses 2 and 3 were significant by showing positive nexus between MAP and ROI, while theory 1 revealed insignificant connection between them. Thus, null hypothesis 2, 3, and 4 were declined and void hypothesis 1 was accepted. Concluding that the behavior pattern of ROI is greatly influenced by variations in OCMP, IMP, and CMP, the researchers consequently advised firms -operators in Germany to present some degree of management bookkeeping practices into their company model as a technique for boosting performance.

3.0 Research Methodology

The study adopted the descriptive research design. The target population consisted of SME owners based in Johor Bahru, Malaysia. The target population was 850 participants. The data gathering tools consisted of questionnaires. The data was analyzed using both descriptive and inferential statistics.

4.0 Research Discussion and Findings

4.1 Correlation Analysis

The correlation analysis was conducted to examine the association between the variables. The results presented in Table 1 describe the correlation analysis

Table 1: Correlation Analysis

		Performance of Business	Accounting Records
Performance of business	Pearson Correlation	1.000	
	Sig. (2-tailed)		
Accounting Records	Pearson Correlation	.255**	
	Sig. (2-tailed)	0.000	0.000

The correlation results from Table 1 show that accounting records are positively and significantly associated with performance ($r=.255$, $p=.000$). The results concur with Abdul-Rahamon and Adejare (2019), who articulated that keeping accounting records is important for making a decision that undoubtedly influences the efficiency of firms. Therefore, the proprietors and supervisors of various businesses must take on correct bookkeeping records methods for efficient financial performance in their firm.

4.2 Regression Analysis

The section comprised of model fitness, analysis of variance and regression of coefficient. The results presented in Table 2 indicate the model fitness

Table 2: Model Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.361a	0.401	0.397	0.11858

The results from Table 2 show that accounting records was found to be satisfactory in explaining the performance. This is supported by the coefficient of determination, also known as the R square of 40.1%. This signified that accounting records explain 40.1% of the variations in the performance of SMEs.

Table 3: Regression of Coefficient

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.5754	0.1545		4.154	0.015
Teacher quality	0.2154	0.1244	0.351	3.042	0.008

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Based on the results presented in Table 3, it was found that accounting records is positively and significantly related to performance ($\beta=.2154$, $p=0.008$). This was supported by a calculated t-statistic of 3.042, larger than the critical t-statistic of 1.96. The results implied that when the accounting records increase by one unit, business performance will increase by 0.2154 units while holding other factors constant. Wijekumara (2019) exposed that accounting records keeping strategies disclose a favorable influence on the performance of firms and preparing financial statements have a considerable influence on a firm's financial performance.

5.0 Conclusion

The study concluded that accounting records positively influence the performance of small and medium enterprises in Malaysia. The improper auditing records keeping will lead to poor financial performance and good auditing records keeping will bring about far better financial efficiency in the business. Accounting records keeping are crucial for decision making and similarly assists in improving business performance and productivity for reliable business performance. Continued maintenance of cash books helps monitor the day-to-day business transactions. Accounting records are the products of an accounting system. Increasing accounting records leads to a considerable benefit that will accrue to an entity as a whole in the long run as it will lead to increased processing power, timely generation of reports and general reduction of associated operating costs

6.0 Recommendations

The research recommended that SMEs should ensure they use accounting records regularly. They must make sure that proper and specific organization documents are kept since they are vital for decision making. This can be ensured by starting program training concerning records keeping and using educated and skilled employees. The SME owners must embrace appropriate accounting records keeping techniques for them to attain success in their financial performance. More efforts are needed to keep accounting records for businesses' performance because bookkeeping highly influences performance. It is suggested that the cost of operating a sound accounting system must be reduced to motivate its adoption in businesses. Extra efforts must be allocated to accounting records for the effective performance of businesses.

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