

# An Exploratory Study on the Accounting Practices among Pasar Tani Micro-Entrepreneurs in Malaysia

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## Abstract

Micro entrepreneurs contribute significantly to economic growth, and poverty eradication through self-employment, and job creation. However, micro-entrepreneurs are believed to wrestle with effective financial recording and planning. In the absence of proper bookkeeping and accounting, business analysis, and hence future growth planning are difficult. This exploratory study draws on the Social Entrepreneurship Bookkeeping Program initiated by the Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Malaysia, in 2018. This study examines whether the micro-entrepreneurs at Pasar Tani maintain a proper record of their business transactions, and if not, what are the reasons for not doing so. Using a purposive sampling design involving sixteen micro-entrepreneurs, this study finds a striking result that half of them did not record their business transactions at all. The other half recorded their transactions but to a very limited extent. Furthermore, most of them had no accounting background and were not aware of the importance of bookkeeping for their business growth. Interestingly, 62.5% of the micro-entrepreneurs indicated that they were keen to learn more about accounting even though only 37.5% of them claimed that such a learning opportunity exists. Together, the findings of this study suggest that more accounting short courses and training programs should be organized and promoted to assist the micro-entrepreneurs with their financial recording and planning.

**Keywords:** bookkeeping, financial records, accounting, micro-entrepreneurs

## 1. Introduction

Bookkeeping is part of the accounting process, which entails recording and reporting the financial transactions or economic events of a business. Extant literature on bookkeeping and accounting practices among micro-entrepreneurs documents mixed evidence. However, the definition of a micro-entrepreneur 'depends on the purpose to which it is to be put so that different aspects of smallness may therefore be more appropriate for some purposes than for others' (Hynes, 1992, p. 39). In Malaysia, the SME Corporation (SME Corp) defines micro-enterprises as firms with annual sales of less than RM300,000 or employees of less than 5 (SME Corp, 2020) (Note 1).

The main contribution of this study is that it focuses on the micro-entrepreneurs in the smaller annual sales brackets between RM40,000-60,000. To date, empirical evidence on bookkeeping and accounting practices among this smaller group of micro-entrepreneurs is scarce. These businesses are interesting to study as there is no statutory requirement for them to disclose their financial information. They have a simple business model with a single sales source and very few cost items. This simplicity potentially discourages the entrepreneurs from voluntarily recording their business transactions thinking that it is not necessary. Furthermore, most of these businesses are financed by the owner's personal savings. The absence of pressure from fund providers may further disincentivize them from practising proper accounting record keeping.

Arguably, a proper accounting system is critical for the decision-making process even for small-scale business entrepreneurs (Hatteu, 2012; Umeji & Obi, 2014). For example, business transaction records are required for an accurate break-even or profit margin analysis (Chepkemoi, 2013). Prior research indicates that 60% of micro, small, and medium enterprises (SMEs) fail within the first few months of operation (Bowen, Morara, & Mureithi, 2009).

According to Germain (2010), one of the key causes of the ensuing demise of SMEs was the failure to practice proper recording of business financial transactions or bookkeeping.

This study draws on the Social Entrepreneurship Book Keeping Program initiated by the Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Malaysia, in 2018. This program was intended to assist micro-entrepreneurs at Pasar Tani to record their business transactions in accordance with the established accounting principles (Note 2). The program involved 96 first year degree students majoring in Accountancy, 30 supervising lecturers, and 16 micro-entrepreneurs. The students were assigned as Junior Consultants to help the micro-entrepreneurs record their business transactions in a cashbook (Note 3). While doing so, the students were given the opportunity to conduct a survey and interview the micro-entrepreneurs to find out more about their business and bookkeeping practices. At the end of the project, the students presented their findings to the lecturers verbally and in writing. Their presentations and written works were then graded accordingly.

Using the students' written reports, we attempt to address the following research question: Do the Pasar Tani micro-entrepreneurs maintain a proper record of their business transactions, and if not, what are the reasons for not doing so? The remainder of this paper is organized as follows. Section 2 reviews the extant literature on bookkeeping among micro-entrepreneurs. Section 3 presents the research method, followed by results and discussion in Section 4. Finally, Section 5 concludes.

## 2. Literature Review

### 2.1 Definition of Micro, Small, and Medium Enterprises

Micro, small, and medium enterprises are usually known as SMEs. SMEs are typically defined using a variety of employee, sales, and/or asset criteria (Musah, 2017; United States International Trade Commission, 2010). However, there is no single universally agreed-upon definition of SME. The requirement to scale the terms 'micro', 'small', and 'medium' to meaningful levels, based on the normal size of enterprises and amount of economic activity in the country, is one reason why countries adopt various definitions (United States International Trade Commission, 2010).

In Malaysia, the SMEs' definition is provided by the SME Corp. This definition is employed by other government agencies and regulators including the Central Bank of Malaysia (Bank Negara Malaysia, 2023). As mentioned earlier, micro-enterprises are defined by SME Corp as enterprises that generate less than RM300,000 revenue yearly and/or employ less than 5 full-time employees (Note 5). Table 1 below compares the definition of SMEs in Europe, North America, and Malaysia.

Table 1. Definition of SMEs in Europe, North America, and Malaysia (Source: Turner & Ledwith, 2018; SME Corp, 2020)

Country	Company size	Number of employees		Annual sales/turnover	
Europe	Micro	0 - 10		€0-2mil	
	Small	11 - 50		€2-10mil	
	Medium	51 - 250		€10-50mil	
North America	Micro	0 - 20		Not applicable	
	Small	20 - 100		Not applicable	
	Medium	100 - 500		Not applicable	
Malaysia		Manufacturing	Services and others	Manufacturing	Services and others
	Micro	0 - 4	0 - 4	<RM0.3mil	<RM0.3mil
	Small	5 - 74	5 - 29	RM0.3mil - <RM15mil	RM0.3mil - <RM3mil
	Medium	75 - 200	30 - 75	RM15-50mil	RM3-20mil

### 2.2 Bookkeeping and Accounting

Accounting is described as the methodical classification, recording, and summarization of transactions and business events in monetary terms, followed by the interpretation of the results to allow interested parties to make decisions (Abd Rauf, Abu, & Mahmud, 2017). Bookkeeping is a subset of accounting. It represents the first three steps of accounting process (i.e., transaction classification, recording, and summarizing). These activities are mechanical,

transactional, and administrative in nature (Abd Rauf et al., 2017; Fuscaldo, 2023). In contrast, accounting as a whole, is more subjective, offering business proprietors financial insights based on bookkeeping data (Fuscaldo, 2023). Figure 1 below summarizes the complete accounting process.

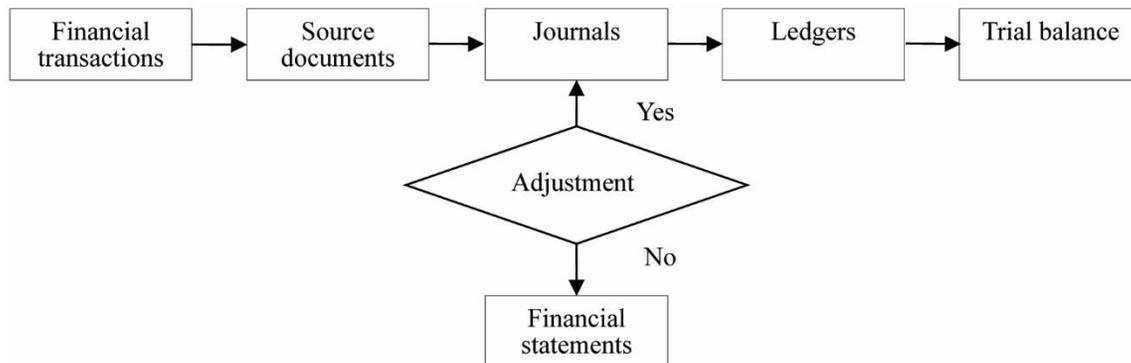


Figure 1. Accounting process (Source: Abd Rauf et al., 2017)

### 2.3 Significance of Bookkeeping and Accounting Records for Micro-Enterprises

In Malaysia, the financial reporting requirements for SMEs are primarily governed by the Malaysian Private Entities Reporting Standard (MPERS). However, it is important to note that the application of the MPERS framework for financial reporting is mandatory only for small and medium firms. Micro-enterprises in Malaysia were exempt from preparing full financial statements. They were allowed to prepare simplified financial statements containing a simplified statement of financial position and a simplified profit and loss statement, along with limited notes. In the absence of regulatory reporting, common incentives for micro-enterprises to maintain accurate books of accounts include obtaining financing from banks, microfinance institutions, or venture capital firms (Okwena, Okioma, & Nyakundi, 2011; Musah & Gakpetor, 2017). Unfortunately, most micro-entrepreneurs underrate the significance of bookkeeping and accounting for their internal management and decision making. Generally, proper bookkeeping is a financial control instrument that allows entrepreneurs to understand how their businesses are doing financially and take steps to improve firm performance (Eric & Gabriel, 2012; Mutua, 2015; Owusu, Assabil, & Asare-Kyire, 2015). Particularly, it is expected to help entrepreneurs in improving efficiency and production, controlling creation and growth, and lowering operating expenses (Abdul-Rahamon & Adejare, 2014). As business management hinges on the maintained business records, the absence of proper bookkeeping potentially translates into poor planning and decision making (Dulin, 2019). In his survey, Musah (2017) documents that micro-enterprises that keep good books and records are able to make critical business decisions and accurate business modifications. They also have lower running costs and are more efficient and productive.

Lussier (1995) develops a model that incorporates sixteen quantitative and qualitative managerial parameters to predict the success or failure of small businesses. This model has been tested across industries and nations with its prediction accuracy above 50% (Note 4). Lussier's model was also tested for a sample of micro-entrepreneurs with 0 to 10 employees (Lussier & Corman, 1996). This well-tested model includes bookkeeping and financial control as one of the predictors. Consistently, the extant literature has established that failures of micro-enterprises exhibit a homogenous process including limited access to funding (Angeles, Calara, & de Guzman, 2019; Muridan & Ibrahim, 2018; Rodríguez Vázquez, Raccanello, & Aguilar Pérez, 2015; Wan Mustapa, Al Mamun, Mohamad Anuar, & Hayat, 2019) as well as lagged or inept problem-solving (Ropega, 2011; Tiwary, Pandey, & Agarwal, 2022). While these factors may lead to business collapse over time, a failure to embrace proper bookkeeping is suggested to cause a more immediate catastrophe within as short as several months (Germain, 2010).

Despite the established importance of proper bookkeeping and accounting, empirical evidence suggests the level of its implementation among micro-entrepreneurs is still low. This is particularly evident in developing countries including Nigeria (Umeji & Obi, 2014), Ghana (Owusu et al., 2015), and the Philippines (Dulin, 2019; Yap, 2019). Even in countries where micro-entrepreneurs practice bookkeeping pervasively such as South Africa, it is mostly done manually and without completing the bookkeeping cycle (Nyathi & Benedict, 2017). Musah (2017) analyses and presents his survey findings on bookkeeping and accounting practices among small enterprises in Ghana according to three categories: (1) source documents kept and records of receipts, payments (purchases and other expenses), and customers' details, (2) books/journals maintained, and (3) financial statements prepared. His results

suggest while some small firms keep the source documents and maintain certain books and records, most of them do not prepare a complete set of financial statements. Some of the firms do not even prepare any financial statements at all.

An important deterrent of the bookkeeping and accounting practice among micro-entrepreneurs is potentially their lack of accounting skills and awareness of the bookkeeping and accounting importance. A survey by Umeji and Obi (2014) documents that record-keeping was one of the skills perceived to be very important by the micro-entrepreneurs in Nigeria, but the levels of possession were still below expectations.

### **3. Research Method**

This cross-sectional study was carried out in a non-contrived setting with little interference from the researcher. That is, the researcher had direct contact with the subject of study (the micro-entrepreneurs), however, the normal flow of work among the subjects was not significantly disrupted.

The data of this study is sourced mainly from the written reports submitted by the Accounting undergraduate students involved in the Social Entrepreneurship Book Keeping Program. The sample of this study is sixteen conveniently selected micro-entrepreneurs of Pasar Tani who were involved in the Social Entrepreneurship Book Keeping Program. This program was organized by the Faculty of Accountancy, Universiti Teknologi MARA Cawangan Selangor, Puncak Alam Campus as one of its entrepreneurship and community engagement activities. This program was carried out at a Pasar Tani in Saujana Utama, Puncak Alam in the following four phases: 1) 29 September 2018, 2) 3 October 2020, 3) 5-16 October 2018, and 4) 17 October 2018.

In the first phase, 96 students and accompanying lecturers visited the Pasar Tani. They then distributed the survey questionnaire to sixteen randomly selected entrepreneurs who received complimentary consultancy services from the students and lecturers. Working in a group of six, the students then conducted follow-up interviews with the micro-entrepreneurs to collect richer information needed for their reports in the second phase. Both survey questionnaires and interview protocols were reviewed by lecturers supervising the project. The final survey questionnaire and interview protocols were standardized for all student groups. Next, in the third phase, students transcribed their interviews and analyzed the collected data from both the survey and interview. Then, the final reports were prepared following a standard format outlined by the supervising lecturers. In the final phase, students presented their findings before the micro-entrepreneurs and supervising lecturers. Each group of students also handed in their written reports to their supervisors. Survey responses and interview transcriptions were also attached to the final reports.

## 4. Result and Discussion

### 4.1 Current Practice of Recording Business Transactions

Figure 2 presents the results of the survey and a structured interview with the *Pasar Tani* micro-entrepreneurs.

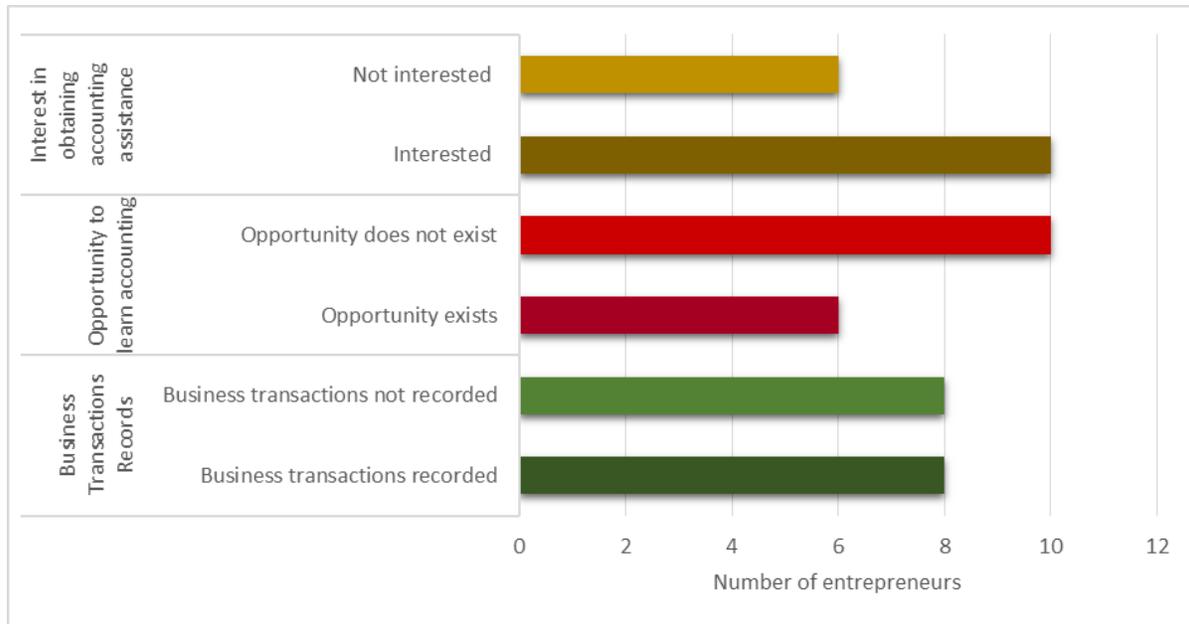


Figure 2. Number of entrepreneurs that record their business transactions, have the opportunity to learn accounting, and have an interest in obtaining accounting assistance

As indicated in Figure 2, half of the interviewed entrepreneurs recorded their business transactions, while the remaining half did not record anything at all. It is important to note that those micro-entrepreneurs that recorded their business transactions did it to a very limited extent. For example, one of the micro-entrepreneurs recorded only the cash outflow. That is, none of the interviewed micro-entrepreneurs maintained proper bookkeeping. According to Onaolapo and Adegbite (2014), basic books that micro-enterprises must maintain include the sales, purchases, and general journals, cash and petty cash books, as well as nominal, debtors, and creditors ledgers. Even though maintaining a positive cash flow is arguably critical for micro-enterprises (Germain, 2010; Musah, 2017), being profitable is just as important. To measure the profitability of a business accurately, proper bookkeeping is essential.

In terms of the opportunity to learn accounting, only 6 (38%) of the micro-entrepreneurs reported that they had such an opportunity. This figure partly explains why 15 of 16 interviewees reported not keeping proper recording due to a lack of bookkeeping knowledge (which will be discussed further in Section 4.2). Interestingly, 10 (62%) of the surveyed micro-entrepreneurs stated that they were interested in attending accounting training or workshops should such an opportunity exist. These findings suggest that majority of the micro-entrepreneurs did not have bookkeeping knowledge or even the opportunity to learn that knowledge, which are consistent with prior studies such as Madurapperuma, Thilakerathne, and Manawadu (2016), Muchira (2012), and Musah (2017).

### 4.2 Reasons for Not Recording Business Transactions

Several common reasons for not recording their business transactions were reported by the interviewed micro-entrepreneurs. The reasons include time and labor constraint, lack of bookkeeping knowledge, lack of discipline, lack of trust in employees, and the perception that bookkeeping is not important and costly. Some of these reasons, such as a lack of bookkeeping knowledge and time and budgetary restrictions, overlap with those documented in prior studies (Ismail & King, 2005; Madurapperuma et al., 2016; Musah, 2017). All of the sample entrepreneurs mentioned a combination of a few of these reasons. Figure 3 depicts the number of entrepreneurs that pointed out each of those reasons.

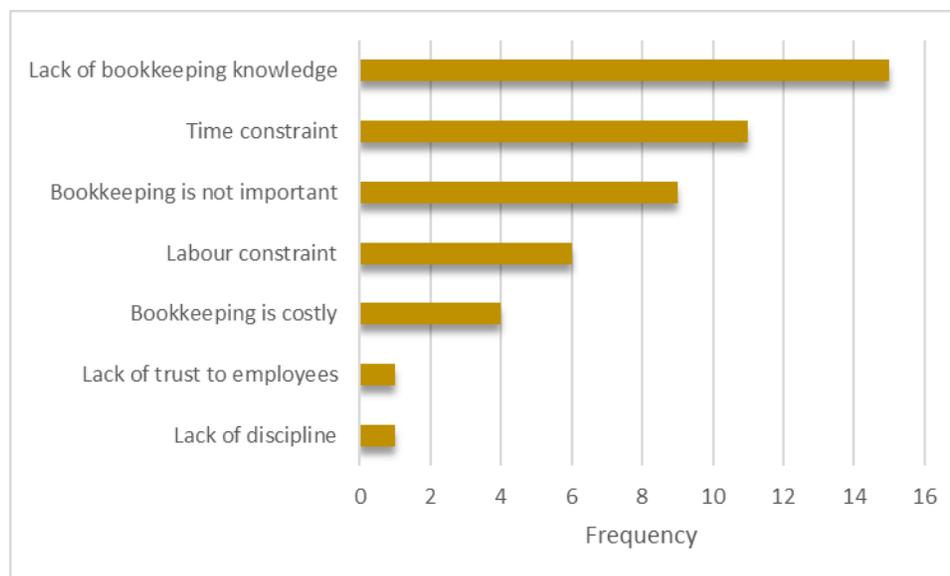


Figure 3. Reasons for not recording business transactions among Pasar Tani micro-entrepreneurs

Figure 3 reveals that 15 (93.75%) of the interviewees associated the absence of proper business transaction records with their lack of bookkeeping knowledge. 11 (68.75%) of them faced time constraint while 9 (56.25%) believed that bookkeeping is not important leading them to resort in not practicing bookkeeping. 6 (37.25%) of them faced labour constraint and 4 (25%) perceived bookkeeping as costly.

Together, an important implication of the above findings is that more bookkeeping and accounting training opportunities should be made available to Pasar Tani entrepreneurs if bookkeeping practice is to be improved among them. Furthermore, the findings of this study bear out the conjecture that ‘continued policy support for new business start-up micro-enterprises must be based on a stronger training element’ (Smalibone, 1990, p. 44).

## 5. Conclusion

The importance of proper bookkeeping has been well established including its bankruptcy-inducing effect (Germain, 2010). However, a large number of micro-entrepreneurs are still not keen to maintain a proper business recording. The findings of this study extend our understanding of this issue by documenting that a lack of bookkeeping knowledge is another major hindrance to proper bookkeeping among micro-entrepreneurs. This low level of knowledge potentially leads to a lack of awareness of the importance of bookkeeping.

In addition, a simple business model, and the absence of pressure from external fund providers are arguably the disincentives to a proper recording system. Many micro-entrepreneurs believe they could manage just fine without the records. An interesting area for future research would be to analyze the costs and benefits of proper bookkeeping to micro-entrepreneurs particularly to those in the smaller sales threshold. Given a simple business model and the absence of agency problem, it would be interesting to delve into the net benefits of a proper financial recording.

While this study addresses an important topic and provides valuable insights, it is limited by small, geographically specific sample, biased (purposive) sampling, and narrow scope. Consequently, it is hard to generalize the findings to broader micro-entrepreneur population or different regions.

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## Notes

Note 1. SME Corporation Malaysia (SME Corp) is the central coordinating agency under the Ministry of Entrepreneur Development and Cooperatives (MEDAC) that coordinates the implementation of development programmes for small and medium enterprises (SMEs) across all related Ministries and agencies.

Note 2. *Pasar Tani* is a form of marketplace in Malaysia established in 1985 by the Federal Agricultural Marketing Authority (FAMA). The business concept of *Pasar Tani* is to provide a niche market for the micro entrepreneurs who are mainly farmers or producers to market their products directly to consumers.

Note 3. It is important to note that the impact of the project on the entrepreneurs' subsequent accounting record-keeping practices is beyond the scope of this project due to its limited follow-up. This impact measurement is a key potential extension for this project in the future. Additionally, the project could be extended to identify potential strategies for implementing accounting-related training programs for micro-enterprises, as this study reveals micro-entrepreneurs' interest in learning more about accounting and their perceived lack of opportunities.

Note 4. Refer to the guideline for SME definition issued by SME Corp (accessible at [https://www.smecorp.gov.my/images/pdf/2023/Guideline\\_on\\_SME\\_Definition\\_Updated\\_Sept2020\\_Final.pdf](https://www.smecorp.gov.my/images/pdf/2023/Guideline_on_SME_Definition_Updated_Sept2020_Final.pdf)) for further details.

Note 5. Lussier's model has been tested across industries including retail (Lussier, 1996), services (Lussier & Corman, 1996), and real estate (Lussier, 2005). This model has also been tested across nations such as Central Eastern Europe (Lussier & Pfeifer, 2000), Chile (Halabi & Lussier, 2014; Lussier & Halabi, 2010), Israel (Marom & Lussier, 2014), Pakistan (Hyder & Lussier, 2016), and Ghana (Gyimah, Appiah & Lussier, 2020).

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