

Do Accounting Skills Help in the Sustainable Development of SMEs?

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ABSTRACT

SMEs play an important role in the economy and development of a country as they dominate every business sector in the world, it is estimated that more than 95% of enterprises in the world are SMEs. World Economic Forum 2015 reported that SMEs contributed 50% and 40% of GDP in high-income economies and emerging economies respectively. In 2010, Malaysia recorded 97.3% establishment of SMEs from the overall business ecosystem, majority of the SMEs establishments are classified as microenterprise (76.5%) and followed by small (21.2%) and medium (2.3%), this suggests that SMEs play an important role in the economic development of a country, especially Malaysia. However, one thing to worry about is the sustainability of SMEs in open competition, as more than 50% of SMEs close their business within 5 years of its operation, in Malaysia the rate is even higher, with more than 60% failure rates within 5 years of operation. Various causes of SMEs failure in business have been identified by various government agencies and researchers, one of the causes is the lack of accounting skills, especially in record keeping that will limit their access to the loan or financial aids available for SMEs.

The basic accounting skill needed by the SMEs entrepreneurs is bookkeeping, this is because without a proper record, it is hard for them to get an access to loans or financial aids provided by the government agency because most of the financing are provided to the entrepreneurs that are already in the business and the assessment is based on their financial records, the lack of financial records is among the reasons why SMEs will miss out on the

financial aid from the government agencies. Besides, the entrepreneurs also need to equip themselves with the cost accounting skill in order for them to understand the costing of a product so that they will not tend to overprice or under-price their products. Most of the small entrepreneurs are unable to understand the cost structures of their products, thus failing to control the cost of their products and unable to apply the appropriate pricing structures to their products.

The aim of the paper is to assess whether the accounting skill among entrepreneurs will assist in the SMEs sustainability. This paper provides a deep review and analysis on whether the accounting skills possessed by the entrepreneurs will help to sustain their businesses in the long run despite the challenges faced by the businesses, the papers focused on the SMEs since, this group dominate the business community.

Key Words: Accounting skill, SMEs, entrepreneurs, sustainable development.

1. INTRODUCTION

The business can be classified based on the several criteria or attributes, such as based on the industries the businesses belong to, their size, area of operation, and purpose of the business' existence. This classification lead to various research papers, one of the areas that capture the attention of the researcher is Small and Medium Enterprises (SME) that dominate the business sector and also contribute to the economic growth of a country, especially the developing countries. It is estimated that more than 95% of enterprise in the world are SMEs, Malaysia recorded 97.3% establishment of the SME and of these establishment, 76.5% are microenterprise and followed by 21.2% as small enterprise and 2.3% as medium enterprise (Rozita @ uji Mohammed, 2016). The population of SMEs contributed 50% and 40% of the Gross Domestic Product (GDP) in high-income economies and emerging economies respectively, in Malaysia, the SMEs contribute 36.6% to the GDP of the country (Rozita @ uji Mohammed, 2017).

Despite the contribution of the SMEs in the economy of a country, it still struggles with its sustainability, as most of them are unable to compete in the market thus this forces them to either reduce the scale of operation or close down their business. According to Rozita @ uji Mohammed (2016), more than 50% of SMEs close their business within 5 years of its operation. Even though there are no official records in Malaysia, however, it is estimated that 60% of the SMEs unable to sustain in the business and close down their operation. There are several reasons identified by the researcher and government agencies for the issues of sustainability of SMEs, among the reasons is the lack of accounting skill that lead to the others issues such as limiting their ability to obtain funding from various fund providers. Accounting skills needed

by the SMEs range from book keeping, cost & management accounting and financial management. According to the IFC Finance Gap Database, it is estimated to be \$2.4 trillion of the total financing gap for SMEs in developing countries, and of this total, about \$1.3 trillion gap exists in G20 countries, the Malaysian SME sector is said to have a financing gap of more than RM80 bil. (Yap, 2017). Table 1 shows the SMEs credit gap in selected G20 countries.

Table 1 SME Credit Gap in Selected G20 Countries

Country	No of Enterprises ('000)	Total credit gap (\$Billion)	Access to finance as major barrier (%)
Argentina	2,133	67	34
Brazil	16,030	237	42
China	103,548	338	18
India	49,634	140	23
Indonesia	41,116	28	15
Korea, Rep.	4,644	114	17
Russian Federation	3,605	50	44
Saudi Arabia	1,843	237	42
South Africa	2,213	13	15
Turkey	4,120	73	20
Total	228,886	1,297	

(Sources: Joint World Bank Group–Islamic Development Bank G20 Islamic Finance Policy Paper, Leveraging Islamic Finance for SMEs, Istanbul, 2015)

1.1 Problem Statement and Objective of study

As mentioned earlier, SMEs dominate the business sector as it is estimated that more than 95% of the business in the world are SMEs, and the SMEs contribute about 40% - 50% to the Gross Domestic Product (GDP) of a country. In Malaysia, there are 97.3% of the SME establishments with 36.6% contribution in the GDP. Despite of this contribution in the GDP, the issue arising is the sustainability of the SMEs. It is estimated that more than 50% of SMEs close their business within 5 years of its operation, while for Malaysia, it is estimated that 60% of the SMEs are unable to sustain their business. One of the causes identified is the lack of accounting skills, especially in record keeping which will limit their access to the loans or financial aids available for SMEs. This problem raises the question whether the accounting skills possessed by the owners will assist in the SMEs sustainability. Hence, this paper will try to assess whether the accounting skills among entrepreneurs will assist in the SMEs sustainability. The paper will provide a deep review and analysis on the issue of sustainability of the SMEs.

2. LITERATURE REVIEW

2.1 SMEs Definition

SME Corp in 2013 provide definition of Small and Medium Enterprise (SME) for manufacturing, and services and other sector, for the manufacturing, it is defined as a company with sales less than RM50 million or full-time employees not more than 200 persons, while for services and other sector, the company sales less than RM20 million and full-time employees not more than 75 persons. SME Corp further classifies the SMEs into three categories namely, Micro, Small, and Medium. Following are the detail definition based on three categories of SME:

Table 2 SME Definition

Manufacturing	Categories	Services and Other Sector
Sales turnover less than RM300,000 or Full-time employees less than 5.	Micro	Sales turnover less than RM300,000 or Full-time employees less than 5
Sales turnover between RM300,000 to less than RM15 million or Full-time employees between 5 to less than 75.	Small	Sales turnover between RM300,000 to less than RM3 million or Full-time employees between 5 to less than 30.
Sales turnover between RM 15 million to less than RM50 million or Full-time employees between 75 to less than 200.	Medium	Sales turnover between RM 3 million to less than RM20 million or Full-time employees between 30 to less than 75.

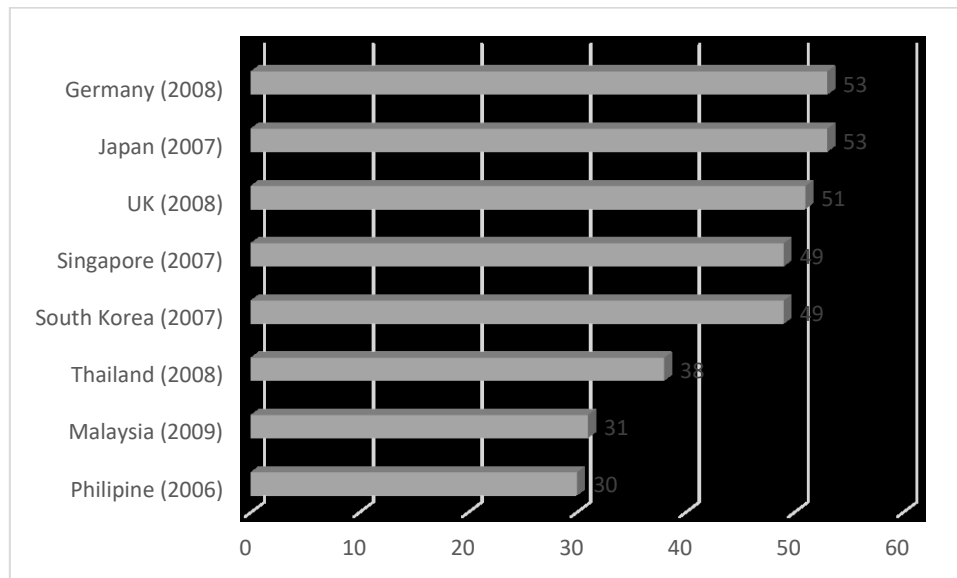
(Sources: SME Corp Malaysia)

This is a review definition that was endorsed in 2013, the previous definition for manufacturing is minimum and maximum annual sales turnover are RM250,000, and RM25 million respectively, or minimum and maximum employees of 5 to 150 full-time employees respectively. While for other industries, the minimum and maximum annual sales turnover are RM200,000 and RM5 million respectively, or minimum and maximum employees of 5 to 50 full-time employees respectively (Rozita @ uji Mohammed, 2016). This revised definition increases the number of SMEs establishment up to 97.5% as compared to the previous definition of only 87% establishments (Rozita @ uji Mohammed, 2016), this difference is due to the increase in the annual sales turnover band and number of full-time employees band under the revised definition. This revised definition causes those business that previously categorized as large companies now fall under the SMEs categories.

2.2 SMEs Contributions

SMEs dominate over 90% of the businesses in the world, this means the majority of the businesses around the globe are in the categories of either micro, small or medium enterprises, and from this domination, SMEs contributes 30% to 50% of the Gross Domestic Products (GDP), diagram 1 shows data of the SMEs contribution in the GDP in selected countries.

Diagram 1 SMEs Contributions in the GDP in Selected Countries.



(Sources: Strengthening Entrepreneurial Training: Initiatives to accelerate the growth of SMEs, 2016)

In Malaysia, SME Corp in 2016 stated that the SMEs contribution to GDP is 36.6% and they also contribute to 65.3% of employment in the Malaysian labor market (SME CORP, 2018). Despite this contribution, the third quarter of 2016 SME survey reported by SME Corp shows that 29% of the SMEs business worsened in their performance and 42% of SMEs has maintained their business and only 29% has improved in their business. However, third quarter of 2017 SME Survey by SME Corp shows an improvement in the percentage of SMEs which improve and maintain their business, the survey shows that 40% of the SMEs improved in the business, while 40% remain in the business and 20% of the SMEs business worsened in their performance. The increase in the survivalist of the SME in the business are due to the consumer confidence, positive business environment and higher consumer spending.

2.3 SMEs Issues and Challenges

The SMEs facing several issues and challenges from various factor, prior literature identified several issues and challenges encountered by the SMEs in business, among the issues and challenges are higher of cost of production due to lack of the

economies of scale and scope as compared to the larger business (Yoshino & Taghizadeh-Hesary, 2016; Rozita @ uji Mohammed, 2016). The higher cost of production will cause the cost of production per unit to increase significantly as compared to the larger businesses. Besides, the lack of information among the SMEs are also one of the challenges encountered by the SMEs (Yoshino & Taghizadeh-Hesary, 2016; Rozita @ uji Mohammed, 2016; Agwu and Emeti, 2014). The cause for the lack of information among the SMEs is due to the lack of networking among the industry whether internally or externally. In addition, the lack of research and development is also one of the challenges faced by the SMEs (Yoshino & Taghizadeh-Hesary, 2016; Rozita @ uji Mohammed, 2016; Agwu and Emeti, 2014). The SMEs seem reluctant to invest in research and development because of the significant amount of funding needed to be allocated but with no significant increase in earnings immediately flowing to the owner.

Geographical factor also can be one of the factors that influence the performance of the SMEs, strategic location is one of the critical factors to determine the success of the SMEs in business (Yoshino & Taghizadeh-Hesary, 2016; Rozita @ uji Mohammed, 2016). A location with low purchasing power customers will definitely impact the income of the business as compared to the location with high purchasing power customers. In addition, the SMEs find it difficult to raise money from either banks or the capital market as compared to large businesses (Yoshino & Taghizadeh-Hesary, 2016; Rozita @ uji Mohammed, 2016; Agwu and Emeti, 2014). This is because of many lenders' view that SMEs are riskier than large businesses and they do not have proper accounting records (Yoshino & Taghizadeh-Hesary, 2016). Besides that, lenders can closely and continuously observe large amounts of loans at relatively lower cost as compared small amount of loans. (Yoshino & Taghizadeh-Hesary, 2016).

Agwu and Emeti (2014) describe that most of SME's accounting systems lack standards and has no appropriate assessment of their performance. This will lead to higher chances of mismanagement and consequently put their sustainability in question. In addition, lack of knowledge in various taxation systems also become one of the major challenges to the SMEs (Rozita @ uji Mohammed, 2016; Agwu and Emeti, 2014), some of SMEs may able to hire tax consultants to overcome the challenge, but the tax consultant may excessively tax the SMEs that might impact the income of the business (Agwu and Emeti, 2014).

2.4 Accounting Skill for SMEs

Accounting is a process of classifying, recording, summarizing of transactions and business event and interpret the result in a meaningful basis for the use of stakeholders. Accounting speaks the business language as it provides information to the owner and stakeholders of the business on what is happening in the business (Adegite, 2010). Accounting skill are skills needed in the business such as record keeping, attention directing, financial management and reporting skills. These skills improve decision making, performance evaluation and reporting of the business (Akande, 2011). Accounting skill are one of the contributors to the performance of the business, the owner are advised to invest in building of the accounting skills especially in the area of record keeping, cost & management accounting and financial management.

Record keeping or book keeping is a technical skill to classify the business transaction into different categories such as purchases and sales, and then record the business transaction into specific journal and ledger, and lastly to prepare trial balance, statement of profit or loss and statement of financial position. Book keeping requires deep understanding on the double entry principles for the owner to understand their record and easy to understand the analysis prepare later on. On the other hand, cost accounting is an area of accounting that is required by the owner to understand the cost structure and it is important in price setting. As defined by Murthy and Gurusamy (2009), cost accounting is the process of accounting for costs, which begins with recording of income and expenditure on the basis of which they are calculated and ends with the preparation of periodical statements and reports for ascertaining and controlling costs. The primary supply of information for cost accounting is from the various record keeping of the business. Based on Ndulue (2002) observation, most of the SMEs in developing countries do not keep proper record keeping in their business, thus with lack of information in record keeping, the SMEs unable to understand the cost of product and consequently unable to give appropriate pricing to the product. Umeji & Obi (2014) noted that there is correlation between improper business record and sustainable of the business. Inability of the SMEs to keep appropriate records will impair the ability of the business to sustain in the long run. Record keeping is not only important in analysis but also for the purpose of sustainable of the business.

Financial management is an area of finance where it focuses on money related decisions within a company, it involves planning and controlling the financial resources and balancing the risk return of the company (Abd Samad et al., 2013). It involved

making an investment decision, financing decision to finance the company and also asset management decision. The primary source of information for financial management is also from the accounting record of the business, thus it is necessary for the business to keep the accounting record for analysis purposes.

The performance of SMEs are greatly influenced by the accounting skills possessed by the owner, this is supported by Mwebesa *et al* (2018), Ekwe & Abuka (2014) and Akande (2011). As discovered by Ekwe & Abuka (2014), the owners of SMEs believe that the accounting skills is necessary in enhancing the performance of the business, however most of the them do not possess the accounting skilld required, most of them either outsource the record keeping or they keep the record but do not follow the necessary standards of preparing the account. Akande (2011) further suggest that the owner should invest in up keeping the accounting skill as it is one of the contributors in the success of the business.

3. DISCUSSION & CONCLUSION

SMEs plays an important role in improving the economy of a country, however despite the important role of SMEs, the issues of SMEs sustainability have attracted the interest of the author to provide review on the accounting skill of the entrepreneur in ensuring the sustainability of the SMEs. This study reviewed various form of journal, article, website and all relevant material to discover the role of accounting skill in ensuring the sustainability of the SMEs. The study discovered that most accounting skill does influence the performance of a SMEs, however most of the entrepreneur do not possess the necessary accounting skill for their business, the entrepreneur outsource the preparation of accounting record to third party. Record keeping or bookkeeping is found to be the most important record that should be kept by the business as this is the primary information for the cost and management accounting, taxation and financial management. Besides, preparation of financial statement without complying with the appropriate standards will lead to difficult to assess the performance of the business and consequently will lead to the chance of mismanagement and impair the sustainability of the business.

Based on the conclusion, the authors recommend that the entrepreneur invest in acquiring the necessary accounting skill for the business to sustain, some of the entrepreneur may attend some short course in accounting, but it is important for them to understand that knowing and able to prepare are two different things.

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