

## CHALLENGES ON ACCOUNTING PRACTICES AND CAPITAL FUNDING AMONG MICRO BUSINESS IN MALAYSIA: A DESCRIPTIVE ANALYSIS

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### ABSTRACT

*Micro business provides a significant contribution to the economic growth. Nowadays, there is an increasing number of micro business. However, micro business was not able to compete in capital market. Therefore, the objectives of this paper are (i) to identify basic accounting practices among micro business in Malaysia; (ii) to identify the challenges on accounting practices and external capitals among micro business in Malaysia (iii) to propose a simple accounting module for micro business. Online questionnaire was distributed to micro business owner. The descriptive analysis was conducted using SPSS version 28. Overall, this study found that the respondents agreed accounting barriers, funding barriers, and key profile of micro business are the challenges for micro business to survive in the capital market. Additional finding found that technology and pandemic are also part of the challenges. This paper proposed a simple module for accounting practice and proper financial statement. The training for micro business owner is also needed to enhance their financial literacy. For example, encourage professional and academic experts to provide training on voluntarily basis to the micro business. By identifying these challenges, it may provide opportunity for improvement for micro business's strategy and policy maker for micro financing such as Bank Negara and SME Corp Malaysia.*

**Keywords:** *Micro business, accounting, funding, financial literacy, micro financing.*

### 1.0 INTRODUCTION

Micro business is one of the main drivers of economic growth. Previous studies have stated that micro business contributes to Gross Domestic Product (GDP) of countries around the world including China, Germany, Japan, Korea and Malaysia, where the contribution percentage is between 40% to 60% to the country's GDP. Micro business contributing to the country's economy growth by creating dynamic market-oriented, providing opportunities for the workforce, reducing poverty as well as promoting democratization. Micro business provides employment opportunities to over four million workers in Malaysia (Bank Negara Malaysia, 2021).

Micro business can be defined based on the sales turnover or number of full-time employees (whichever is lower). In Malaysia, guideline issued by SME Corp. Malaysia defined micro business, as business which has sales turnover of less than RM300,000 or less than 5 full-time employees.

The Malaysian Government supports the growth of micro business by considering it in the 11th National Economic Plan (RMKe-11), developing SME Masterplan initiative (2012-2020) and the implementation of the 6 High Impact Programs including the other supporting plan. Even though the economy is affected by COVID-19 pandemic, financial institutions are actively supporting financial assistance and loans to micro business so that small businesses can

continue their businesses and engage in investment activities that can benefit their business growth. The Malaysian Government also introduced PENJANA (*Pelan Jana Semula Ekonomi Negara*) or the National Economic Recovery Plan as an inclusive and holistic approach to Malaysia's economic recovery. Information on each program, finance assistance or scheme by Bank Negara Malaysia and SME Corp Malaysia are on the website (<https://www.bnm.gov.my/sme-financing>).

### 1.1 Research Problem

Globally, the research found the trend on the existence of small and medium enterprise companies is very encouraging, however, only a handful of SMEs including micro businesses have managed to maintain competition in the market. Most of them had to close operations halfway. Although there are various factors that influence the inability to compete in the market, but the failure to manage finances is among the factors that contribute to the failure. (Robyn & Johnny, 2020).

Due to that, a study by Kitomo et al. (2020) discussed how SMEs which include micro business faced a challenge to obtain bank loan as an external capital due to low financial literacy. Similarly, a study from Malaysia also discusses similar issue faced by micro business, which is the application for financial credit was unsuccessful whenever they proceed for application due to the inability of micro business to provide complete business accounting records (Muridan & Ibrahim, 2016). Roslan et al. (2018) discussed that micro business may face lack of capital assistance resulted from unsuccessful of getting credit facilities. This might cause the growth of micro businesses to be slowed down.

Though various initiatives have been implemented by the respective parties, yet micro business unable to compete in the market due to lack of capital even though various initiatives of capital assistance have been provided. Therefore, to search for the factors that influence the inability to be in this market require further study so that a precise solution can be put forward for the well-being of micro business.

### 1.2 Research Objectives

- i. To identify basic accounting practices among micro business in Malaysia.
- ii. To identify the challenges on accounting practices and external capitals funding among micro business in Malaysia.
- iii. To propose a simple accounting module for microbusiness.

## 2.0 LITERATURE REVIEW

Generally, the implementation of accounting practices for micro business may help them to evaluate their performances and identify shortcomings and business potential for future improvement. It is very important for micro-entrepreneur to know the basic principles of accounting, for example how to separate business items and personal items (Abdul Razak et al., 2021)

The positive effects of adopting accounting practice provide a justification to the bank's approval especially if micro business applies for loan facilities (Zelie et al., 2020). Additionally, accounting information can be described as the liquidity position of a business and encourage additional capital investment on the business (Kitomo et al., 2020).

Agir (2017) conducted a survey among micro businesses in Nigeria found that inability to prepare accounting reports leads to low financial performance of micro business, difficult to obtain financial assistance and challenges to the budgeting implementation. Most seriously this may lead to the business collapse (Qubbaja, 2020). Failure in the financial management

may result on the liquidity challenges and close down of business even in the early year of operation and may causes for business failure (Barbosa ,2021; Rachapaettayakom et al.,2020).

Kitomo et al. (2020) mentioned some of the challenges for micro business are to provide accounting records due to low financial literacy and lack of financial discipline. In fact, most micro business owners have lack of knowledge in accounting causing them to refuse to implement accounting practice. However, this may lead to difficulties in obtaining bank approval for loan applications.

A study conducted by Roslan et al. (2018) involving micro entrepreneurs in Malaysia found that micro entrepreneurs do not keep their business records and are not concerned on the separation of business and private transactions. Their study also found that micro entrepreneurs practice business records manually but has low level of accounting literacy.

Micro businesses also face challenges to implement practical accounting due to lack of awareness of the importance of accounting practices to the micro business (Adhikari, 2020). In fact, this is supported by Rukmini et al.(2020) which found that micro businesses and SMEs in Indonesia believed that preparing financial statements and keeping accounting records is a waste of time and increase costs to micro businesses.

In addition, the challenges to micro business in preparing financial statements and practicing the accounting system is due to lack of skill in accounting, unaware attitude of micro business owners, high cost to hire related parties to prepare accounts as well as their concerns on the business accounting information will create attention of the regulator for tax collection (Qubbaja, 2020).

Furthermore, the size of micro business is considered as a weakness in terms of finance and human resources. It also leads to technical and bureaucratic challenges for micro business. Most micro businesses are said to have limitations in obtaining funds from fund providers. Even micro business is considered as risky and subject to conditions that are difficult to meet by micro business (Harun Jasin et al., 2016; Mohd Thas Thaker & Mohammed, 2015). Therefore, survey conducted by Kandasamy, Lee, & Ng(2018) recommends for a secured framework for small business, initiatives on monetary, digital, regulation, facilities and social protection agenda for small business since technology is also a part of the challenges to micro business.

### **3.0 RESEARCH METHODOLOGY**

Questionnaire was distributed online. As a result, a total of 103 usable questionnaires were obtained from micro business owners. Data were analysed using Statistical Package for Social Science (SPSS) version 28. The analysis involved in this study is frequency analysis. The questionnaire assessed on the basic of accounting practices such as profit calculation, objective of record keeping, challenges on preparing business financial statement, challenges for obtaining external capital and awareness on micro financing resources.

**4.0 FINDINGS**

**Table 1: Formula for profit calculation**

	Frequency	Percent (%)
Not Sure	4	3.9
Sales - COGS	10	9.7
Sales - COGS - Expenses	86	83.5
Total Sales	3	2.9
Total	103	100

Table 1 showed that 83.5% (f = 86) respondents agreed that the formula for calculating business profit is sales minus cost of goods sold minus expenses. This indicates that micro business owners have a good foundation of accounting knowledge. On the other hand, although the percentage is very small, 16.5% of the respondents gave wrong or uncertain formula choice, this basic knowledge needs to be understood by every entrepreneur. Therefore, it's good to organize training for micro business owner so that they have a clearer information on how profit is calculated in a business.

**Table 2: Frequency analysis of objectives of record keeping**

	Profit & Loss		Assets, Liabilities Capital		Credit Facilities		Taxation		Personal	
	F	%	F	%	F	%	F	%	F	%
Not Sure	0	0	0	0	0	0	0	0	0	0
Strongly Disagree	1	1	0	0	1	1	1	1	2	1.9
Disagree	2	1.9	6	5.8	11	10.7	7	6.8	19	18.4
Agree	32	31.1	35	34	42	40.8	34	33	39	37.9
Strongly Agree	68	66	62	60.2	49	47.6	61	59.2	43	41.7
Total	103	100	103	100	103	100	103	100	103	100

Table 2 showed the summary of frequency analysis on the objectives of record keeping. Overall, most respondents keep business records for the purpose of assessing their financial performance and financial position. Meaning that, more than 80% of the respondents in this study were aware of the use of financial statements to access various credit facilities provided by various micro financial institution in Malaysia.

**Table 3: Frequency analysis of challenges in preparing business financial statements**

	Skill & Expertise		Guidance		Time & Cost	
	F	%	F	%	F	%
Not Sure	5	4.9	8	7.8	16	15.5
Strongly Disagree	0	0	0	0	0	0
Disagree	6	5.8	4	3.9	52	50.5
Agree	52	50.5	59	57.3	31	30.1
Strongly Agree	40	38.8	32	31.1	52	50.5
Total	103	100	103	100	103	100

Table 3 summarizes the frequency analysis for the challenges in preparing business financial statements which showed that majority of the respondents agreed that they face challenges related to lack of knowledge and expertise on accounting and respondents also agreed that lack of help and guidance from certain parties who may help them to prepare the financial statement for their business are some of the challenges they faced.

Another significant finding from this analysis is that 50.5% of the respondents do not agree that time and cost constraint them to prepare financial statements. It can be discussed that micro-entrepreneur are willing to commit in term of cost and time, compared to other challenges that require commitment from external parties such as professional expertise and training from external parties to guide them to be more accounting literate.

This study also provides an open-ended question on the challenges to micro business in preparing business financial statements. Among the responses were: *not disciplined in managing documents; did not see the importance of business record layout as a mandatory matter; lack of technological knowledge because nowadays most procedures are online, especially during MCO*. This can be explained that, the attitude of owners, digital and technological factors are also among the latest challenges to micro business especially during pandemic and movement control order (MCO) to prepare business account.

**Table 4: Frequency analysis of challenges for obtaining external capital**

	Documentation		Bureaucracy		Lack of Information		Lack of Skill Expertise		Small Size	
	F	%	F	%	F	%	F	%	F	%
Not Sure	4	3.9	10	9.7	11	10.7	13	12.6	13	12.6
Strongly Disagree	0	0	0	0	2	1.9	1	1	0	0
Disagree	2	1.9	2	1.9	5	4.9	6	5.8	1	1
Agree	54	52.4	52	50.5	58	56.3	50	48.5	57	55.3
Strongly Agree	43	41.7	39	37.9	27	26.2	33	32	32	31.1
Total	103	100	103	100	103	100	103	100	103	100

Table 4, highlighted that 56.3% of the respondents agreed that lack of information on credit facilities is the main challenge for them to get approval for loan application. Information provided by micro financing institution is less likely to be successfully communicated to micro-entrepreneur. Furthermore, 55.3% of respondents agreed that the small business size as second barrier made it difficult for them to get approval for loan applications.

This study also provides an open-ended question on the challenges to micro business owners in obtaining external capital. Among the responses were: *it is difficult to get approval; competition with other entrepreneurs; eligibility for a loan based on the strength of financial statements; possibly not having sufficient assets and capital to make a loan application at the bank; lack of trust from the bank and Movement Control Order (MCO)*. In brief, the feedback explains that the procedures, business size and pandemics constrain micro-businesses to seek external capital assistance.

**Table 5: Frequency analysis of awareness on micro financing resources**

Times	Micro Financing Agency		Auditor		Website		Physical assistance	
	Freq	%	Freq	%	Freq	%	Freq	%
0	0	47	44	42.7	39	37.9	47	45.6
1	1	47	45	43.7	49	47.6	47	45.6
2	2	7	13	12.6	12	11.7	7	6.9
3	3	2	1	1	3	2.9	2	1.9
4	0	0	0	0	0	0	0	0
Total	103	100	103	100	103	100	103	100

Note: 0= Never 1= 1-10 times 2= 11-15 3= 16-20 times 4= more than 20 times

Table 5 concluded that respondents have less experience and knowledge on micro financing resources. There should be a strategy to be further intensified to create awareness among micro business owner about assistance information and training programs for them. The possibility of micro business owners do not access the website because they are still at a less familiar level with the digital world, so the information channelled or programs designed are less reachable to the targeted participants (micro-business).

Overall, this study provides a significant contribution to micro-business include leading them to a clearer path to seize the vast opportunities provided by agencies such as Bank Negara and even SME Corp. Malaysia. This study proposes a simple accounting template, attached to the questionnaire. The study also encourages any micro-business owners for an accounting literacy consultation. It is expected that this may assist the micro business owners to start their first move to be account literate and become stronger to compete in the market while successfully change the status of their business to a better category.

Among the limitation, this study identifies the issue based on descriptive method. Therefore, future research may examine the issue based on the relationship between the factors and challenges to micro business, consider the factor of technology and pandemic as challenges to micro business, conduct face to face interviews with micro financing institution and examine from both perspective of micro financing institution and micro-entrepreneur.

## 5.0 CONCLUSION

Good accounting practice can help micro business to reduce the challenges in accessing the credit facilities. In addition, micro business with good accounting practice can help the stability cycle of financial institution credit scheme by financial institutions. At the same time the regulatory body or policy maker such as Bank Negara, SME Corp, Inland Revenue Board (LHDN) and Securities Commission can strategize many more policies and frameworks for SME specifically for Micro-enterprise as well. Support and guidance from practitioners and academic experts to the micro business are important so that the existing and upcoming framework proposed by respective body can be practiced well.

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