

## Assessing Financial Reporting Practices of Small Retailers: A Malaysian Evidence

**Kamaruzzaman Muhammad**

Faculty of Accountancy, Universiti Teknologi MARA Malaysia

**Erlane K. Ghani\***

Faculty of Accountancy Universiti Teknologi MARA, Malaysia

### Abstract

The growth of small retailers in Malaysia has increased substantially over the years. Such growth can contribute to a significant portion of the government's income via tax revenue that can reduce if they do not practice financial reporting. This study examines the financial reporting practices of the small retailers in Malaysia. Specifically, this study examines whether the small retailers prepare financial statements, whether they keep accounting records and their motivation for doing so and the reasons for not keeping accounting records. Using a questionnaire survey on 150 small retailers, this study shows that the financial reporting practices among the small retailers are satisfactory. This study shows that the important motivations for them to practice financial reporting are performance evaluation and income distribution. In addition, time consuming and difficulty in maintaining system are the two main reasons for their failure in preparing financial reports. However, this study shows that sales generated by the small retailers are an important predictor to them practicing financial reporting. This study suggests the provision of financial reporting awareness and training programs to the small retailers so that they can appreciate the importance of financial reporting, and inculcate such practice in their business. The findings in this study can assist the interested parties particularly the Inland Revenue Board in understanding the challenges faced by the small retailers in practicing accountability to the government.

**Keywords:** Financial reporting; Small retailers; Accountability; Malaysia.



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### 1. Introduction

Small-medium Enterprises (SMEs) play a vital role in the Malaysian economy. As one of the industries categorised under the SMEs in Malaysia is the small retailers. The small retailers have evolved to become one of the income generators for the country (Mittal and Batra, 2004). The number of small retailers has increased over the years which are more than 50,000 small retailers registered in Malaysia (SMEE Corp, 2016). No doubt, the Malaysian government treats small retailers as a major priority of the economy development. Of consequence, the government has provided a large budget for the SMEs to grow. Thus, it is important to accelerate the growth of the SMEs particularly the small retailers in order to achieve sustainable development.

One of the important elements in improving the growth of small retailers is preparing financial statement. Financial statement acts as a medium for the internal and external stakeholders in obtaining information on the financial position and results of the business entity. Financial statement is prepared based on a sequential manner by first organising and then analysing the numbers of business activities (Ghani *et al.*, 2018). It is important for the small retailers to understanding the financial statement in order to become successful. Often, it serves as a roadmap to direct the business in the right direction and helps avoid costly breakdowns. According to Mirza and Halt (2011), the financial statement includes a complete set of financial report namely, Statement of Financial Position, Statement of Profit and Loss, Statement of Cash Flows, Statement of Changes in Owner's Equity and Notes to the Financial Statements.

Small retailers businesses that practice timely financial reporting would be able to know their performance on an on-going basis. As for the external stakeholders such as the Inland Revenue Board (IRB), they would be able to determine the tax payable by the small retailers businesses. However, studies have shown that the level of financial reporting practices among this form of businesses is low (Asaduzzaman, 2016; Franco and Lucas, 2016; McMahan, 1999; Ofonagoro, 1983). These studies suggested that the low financial reporting practises subsequently led to high rate of failure among the small businesses. However, these studies were conducted in a non-Malaysian setting which raises doubts whether similar scenario exists.

This study aims to examine this issue. Specifically, this study examines the financial reporting practices of the small retailers. This study also examines the challenges faced by them in preparing financial reports. Using sample in the area of Kuala Selangor, the findings in this study would assist the accounting profession, IRB, Register of Business (ROB), policy makers, business owner and other users of financial information in understanding the value and constraints of financial reporting practices among small retailers. The remainder of this paper is structured as follows. The next section, Section 2 provides the literature review. Section 3 outlines the research design. The results of the data analyses and discussions are shown in Section 4. The last section, Section 5 concludes this study.

\*Corresponding Author

## 2. Literature Review

### 2.1. Financial Reporting Practices

The inception of business and commerce have led to the evolution of financial reporting (Sharma, 2016). The financial reporting practices appear to change as a result of experiencing rapid growth. Financial statement acts as a financial reporting medium for the external and internal stakeholders in obtaining information on the financial and operating performance of a company. The primary purpose of the financial reporting is the collection and recording of data and information regarding events that have an economic impact upon a business and communicating such information to the internal and external stockholders (Stefanou, 2006). The information flow between the preparers and the stakeholders depends highly on the market efficiency of which failure to obtain correct information would lead to failure of the stakeholders in determining a company’s actual performance. Thus, financial reporting practices are important and a necessity for all businesses.

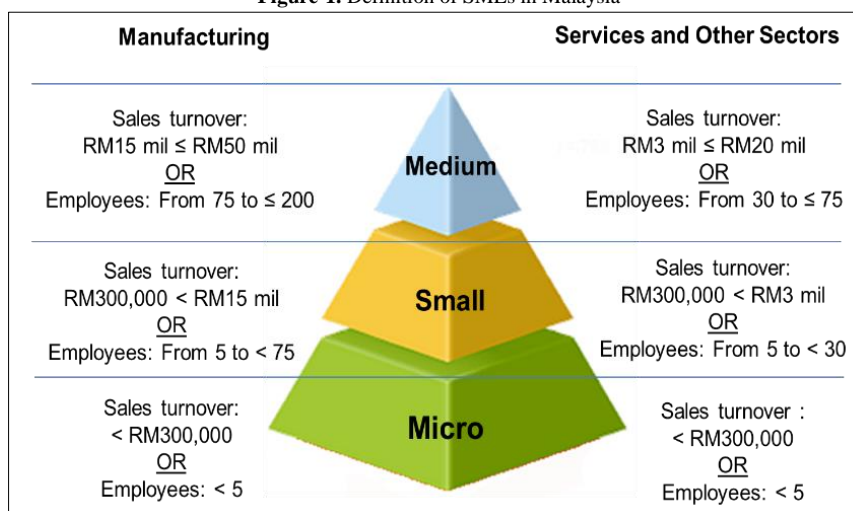
A body of the literature has examined the importance of financial reporting to the stakeholders attributed by its application in evaluating business performance (Asaduzzaman, 2016; Kinney, 2001; Muinde, 2013). These studies argued that such examination were caused by the significance of keeping proper accounting records so that the businesses can make good decision. For many stakeholders, financial reporting practices are seen to be just the preparation of financial reports namely, the statement of profit and loss, statement of financial position and the statement of cash flow. However, the reality is financial reporting practices encompass more than that. It includes analysis and interpretation of the historical financial statements, undertaking of audit and the system used to prepare the financial statements. The primary concern on the preparation of the accounting records which eventuate to the preparation and use of the financial reports that use by many stakeholders including the SMEs.

### 2.2. Small Medium Enterprises (SMEs)

The Malaysian economic growth is driven by many industries. One of the industries is the SMEs. The Small and Medium Industries Development Cooperation (SMIDEC) defines a SME as a small and medium size business. SME can be categorised into two main sectors namely, the service industry and the manufacturing industry as shown in Figure 1. SMIDEC defines manufacturing industry as “physical or chemical transformation of materials or components into new products and services refer to all services including distributive trade; hotels and restaurants; business, professional and ICT services; private education and health; entertainment; financial intermediation; and manufacturing-related services such as research and development (R&D), logistics, warehouse, engineering etc.” (SMECorp, 2015).

The size of a SME in Malaysia is determined by the number of its employees and its annual sales turnover (SMECorp, 2016). It is divided into two main categories namely, manufacturing, and services and other sectors. For manufacturing, small-sized SME is defined as those that have annual sales turnover of more than RM300,000 but less than RM15 million and have full-time employees ranging from 5 to 75 employees. On the other hand, medium-sized SMEs are those that have an annual sales turnover from RM15 million but not exceeding RM50 million with full-time employees of more than 75 but not exceeding 200 employees. For SMEs under the services and other sectors, small-sized SMEs are those that have annual sales turnover from RM300,000 but less than RM3 million and full-time employees from 5 to 30, whilst for medium-sized SMEs, the sales turnover must be from RM3 million but not exceeding RM20 million and have full-time employees from 30 to 75 employees. Small retailers are classified under the services and other services industry (SMECorp, 2016).

Figure-1. Definition of SMEs in Malaysia



Sources: (SMECorp, 2015)

SME constitutes the bulk of enterprise in all economies in the world and thus, contribute a large portion of the government’s income (Rossi, 2014). For example: In Malaysia, 98.5% of the business establishments comprising of 907,065 SMEs. Most SMEs are registered as sole proprietorship that makes the registration procedures simpler compared to other form of business registration (Asaduzzaman, 2016). SME contributes 36.6% of the Malaysia’s

GDP in 2016. Similarly, in Bangladesh, the SMEs contributed up to 25 per cent of GDP including about 40 per cent of gross manufacturing output and around 25 per cent of the total labour force (Mintoo, 2007). Prasad *et al.* (2001) noted that the growing SMEs contribute in expanding the size of the directly productive sector in economy; generating tax revenue for the government and facilitating poverty reduction through fiscal transfers and income from employment and firm ownership. However, despite their numbers and significance to the economic growth, recent studies have shown that 60% of the SMEs fail within the first five years of operation (Asaduzzaman, 2016; Boachie-Mensah and Marfo-Yiadom, 2005).

### 2.3. Small Medium Enterprises and Financial Reporting Practices

A body of the literature has noted that financial reporting is a major challenge for the SMEs. The studies in the literature have shown that the quality of accounting information in the SMEs has a positive relationship within an entity's performance and survival (Kinney, 2001). However, there are studies that have suggested the need for financial information for the SMEs due to volatility often associated with their situation. These studies showed that it is hard for the SMEs to access finances support from the financial institutions since they lack proper financial records and bookkeeping as a requirement (Williams *et al.*, 2008). This is consistent with studies that found the quality of accounting information practices within the SMEs has a positive relationship with the performance of a business and sustainability (Asaduzzaman, 2016; Kinney, 2001). Other studies such as Mitchell *et al.* (2000), and Perren and Grant (2000) argued that accounting information helps SMEs to manage short-term problems by providing information to support monitoring and control. Similarly, Kinney (2001) posited that accounting is an important type of information for decision-making.

Studies have shown however, that there is a high rate of failure of SMEs particularly in developing countries. Such failure has generally been traced to poor management and accounting systems employed by these enterprises (Giacorsa *et al.*, 2016; Giacosa and Mazzoleni, 2016; McChlery *et al.*, 2005; Ofonagoro, 1983). The existence of practical problems in deriving records and figures that makes up the statements. One reason for that is because for almost all enterprises the owners keep all the records in memory and hence the lack of records of all kinds sales, marketing, accounting, credit borrowing from lending institutions, staff costs, owner's emoluments, etc. Owners of SMEs do not keep proper records and thus, they are not able to provide data about their entities (McMahon, 1999). Maintaining a proper system and efficiently handling it is always a major challenge (Amaoke, 2013). The SMEs might not keep the accounting records as it is time consuming and expensive. The enterprises might feel that spending much time and expenses in keeping the records are not that beneficial for them. Another reason for not keeping the record is it requires technical skills and knowledge which is not available for certain causes and if it is available it will involve more expenses because they need to hire more efficient staffs that will have the proper skill and knowledge for maintaining the records. As the proper records will be kept it will definitely expose the financial position of the firm and if it tends to be profitable the enterprise might need to pay more tax. The SMEs might feel there is no need to keep the records for the above reasons and find it difficult to maintain the system (Amaoke, 2013).

A body of the literature have examined financial reporting practices among SMEs (Asaduzzaman, 2016; Ezeagba, 2017; Kofi *et al.*, 2014; Muinde, 2013). These studies examined the reasons as to why the SMEs prepare financial statements. These studies found evidences that the SMEs practice financial reporting for the purpose of tax returns (Tanwongsva and Pinvanichkul, 2008) and assessing and maximisation of profitability (Cooley and Edwards, 1983). Other studies provided evidence that business size and age and, the nature of the industry are among the reasons on why SMEs practice financial reporting (Holmes and Nicholls, 1988).

To date, there is yet a study that examined the level of financial reporting practices among the small retailers in Malaysia that led to the lack of understanding among the Malaysian small retailers businesses. There is a need to explore the financial reporting practices of the small retailers business and to ascertain whether they are able to meet the expectations of fund providers and other stakeholders. This will improve their access to the financial assistance facility and improve the performance of the general level of economic activity. The proper records of financial information would also help the small retailers in preparing their yearly tax return as their obligation to the country. This study adds to the literature on the financial reporting practices of small retailers, hence adding to the body of knowledge. In addition, this study has important policy implications for the Malaysian government and SMEs in general.

## 3. Research Design

### 3.1. Sample Selection

The small retailers located in Kuala Selangor are chosen as the sample study based on convenience sampling. Each small retailer is represented with one respondent only. The small retailers are chosen because the SMIDEC Annual Report 2016 has reported that the SMEs in Malaysia contribute 36.6% of GDP, 65.5% of employment and 17.6% on trade export. SMEs contribute a significant amount of revenue to the country because they are the largest business population in Malaysia representing 98.5% out of 907,065 businesses. The 98.5% can be divided into 3 groups. The first group represents 496,458 micro businesses with the percentage of 77%, followed by the second group representing 128,787 small businesses with the percentage of 20% and the remaining group 19,891 small businesses with the percentage of 13% (SMECorp, 2016). Therefore, since Selangor is the largest state in Malaysia, it is most likely that the small retailers in this state contribute the most income to the country, in proportion to the small retailers in the other states in Malaysia.

### 3.2. Research Instrument

This study uses the questionnaire as the research instrument. A self-designed questionnaire is developed based on reviewing previous literature. The questionnaire is divided into five sections. The first section comprises of demographic profile information of the respondents and the small retailers businesses. This section is used to measure the owner and small retailer's business characteristics. Specifically, this section seeks to obtain information such as gender, age, educational level, ownership structure, accounting background and experience.

The second section determines whether proper books of accounts is maintained in the small retailers businesses and if the answer is yes, what is their level of financial reporting practices. This section includes questions such as preparation of financial statements, keeping of any form of records, officer in charge, literacy in financial record keeping and types of financial records.

The third section requests the respondents to provide their response on the motivation of maintaining accounting records. The respondents who would answer "Yes" are also asked on their motivation/purpose for keeping the accounting records. Among the reasons for keeping the accounting records provided for the respondents include taxation purpose, income distribution purpose, accessing credit or finance and tracking of receivables and payables. The respondents who would answer "No" is asked whether they maintain any form of records and the reasons and challenges for not keeping the accounting records. This study uses a five-point Likert scale to measure the extent of agreement or otherwise which has 5 as "strongly agree", 4 as "agree", 3 as "uncertain", 2 as "disagree" and 1 as "strongly disagree".

In the fourth section, the respondents are requested to provide the challenges that they faced in practicing financial reporting. The questions include their knowledge on financial reporting and their ability to pay trained accountants. This section also requests the respondents to response on the consequences of not preparing financial reports such as on the financial performance.

The last section gathers information from the respondents in relation to suggestions for improving their accounting practices. The respondents are requested to this section using a four-point scale from 1 as "very high" to 4 as "Low".

### 3.3. Data Collection

The data for this study were collected using questionnaire. The data were collected in during a course of 3 months starting from Mac 2018 to June 2018. The questionnaires were self-collected by the researchers. The researchers met the small retailers at their retail shop and assisted the retail owners to complete the questionnaire. This way assists the researchers to complete the questionnaire without much confusion and hesitation from the small retailers. No identifiers were to be put on the questionnaire so that the respondents remained anonymous. Respondents were requested to click (or tick) the relevant response options, type responses to open ended options. Within the three months' period, 150 completed questionnaires were received.

## 4. Results and Discussion

### 4.1. Demographic Profile

Table 1 presents the descriptive statistics for the respondents' demographic profile. Table 1 shows the demographic profile for 150 respondents consist of the small retailers. The results in panel A, Table 1 show that 86 respondents are male (57.3%) whilst 64 respondents are female (42.7%). The results also show that slightly more than half of the respondents are Malay (52%), followed by Chinese (34.7%) and Indian (14%). The remaining 6 or 4% respondents consists of other races such as Indonesian and Bangladeshi as shown in panel B, Table 1. Panel C, Table 1 presents the age of the respondents.

**Table-1.** Demographic Profile Panel A: Gender

Gender	N	%
Male	86	57.3
Female	64	42.7
Total	150	100

**Panel-B.** Race

Race	N	%
Malay	78	52
Chinese	52	34.7
Indian	14	9.3
Others	6	4.0
Total	150	100

Panel-C. Age

Age	N	%
Below 30 years old	42	28.0
31 to 40 years old	59	39.3
41 to 50 years old	32	21.3
Above 50 years old	17	11.3
Total	150	100

Panel-D. Education Level

Education Level	N	%
Secondary	70	46.7
Diploma	42	28.0
Bachelor degree	26	17.3
Master degree	1	0.7
PhD	2	1.3
Others	9	6.0
Total	150	100

Panel-E. Accounting Background

Accounting background	N	%
Yes	40	26.7
No	110	73.3
Total	150	100

Fifty-nine respondents are between 31 to 40 years' old which is 39.3%. This is followed by respondents who are below 30 years old. Only about 21.3% of the respondents are between 41 to 50 years old and the remaining 17 respondents are above 50 years old. This result indicates that most of the small retailers are below 40 years old. The respondents were also asked on their education level. The result is shown in panel D, Table 1. Seventy respondents have secondary education level representing 46.7%. This is followed by respondents having a diploma which is 28% and bachelor degree (17.3%). There are also respondents who are having postgraduate qualification with 1 having a Master degree and 2 with a PhD. Nine respondents have other qualifications such as primary school level or other type of qualifications possessed by the Indonesian or Bangladeshi. Finally, panel E of Table 1 shows that most of the respondents do not have accounting background representing 110 respondents (73.3%), leaving the remaining 26.7% of the respondents do not have accounting background.

## 4.2. Nature of Business

This section presents the descriptive statistics on the nature of the business of the small retailers. Panel A, Table 2 shows that more than half of the small retailers are sole proprietors consisting of 66%. Twenty-three of the small retailers are in the form of partnership which is 15.3%. The remaining 18.6% consists of small retailers that are a private limited company or a family business. Slightly less than half of the small retailers are managed by the owners (49.3%). This is followed by family members (22.7%) and employees (28%) as shown in panel B, Table 2.

Table-2. Panel A: Ownership Structure

Type of Business	N	%
Sole proprietor	99	66.0
Partnership	23	15.3
Private Ltd company	14	9.3
Family business	14	9.3
Total	150	100

Panel-B. Type of Management

Type of Management	N	%
Owner	74	49.3
Family members	34	22.7
Employees	42	28.0
Total	150	100

Panel-C. Location

Location	N	%
Kuala Selangor	51	34.0
Puncak Alam	49	32.7
Meru	50	33.3
Total	150	100

Panel C of Table 2 shows that the small retailers are generally located in the state of Selangor. Specifically, 34% of the respondents are located in Kuala Selangor (34%) whilst 32.7% are located in Puncak Alam and 33.3% respondents are located in Meru.

### 4.3. Financial Performance

Table 3 presents the financial performance of the small retailers. In terms of the average monthly sales, the results in panel A, Table 3 shows that more than half of the small retailers generally earned an average monthly sales of less than RM30,000 (58.7%). This is followed by those small retailers that earned an average monthly sales between RM30,001 to RM60,000 (37.3%), those that earned an average monthly sales of between RM60,001 to RM90,000 (3.3%) and those that earned an average monthly sales of more than RM90,001 (0.7%).

Table-3. Panel A: Average Sales

b	N	%
Less than RM30,000	88	58.7
Between RM30,001 to RM60,000	56	37.3
Between RM60,001 to RM90,000	5	3.3
More than RM90,001	1	0.7
Total	150	100

Panel-B. Average Profit Margin

Average profit margin	N	%
Less than 10%	74	49.3
Range between 11 to 20%	54	36.0
Range between 21 to 30%	12	8.0
More than 31%	10	6.7
Total	150	100

Panel B of Table 3 shows that the average profit margin of the small retailers is generally less than 10% with 74 respondents representing 49.3%. Small retailers with an average profit margin between 11 to 20% are 36% whilst the small retailers with an average profit margin between 21 to 30% are 8%. The remaining 6.7% represents the small retailers with an average profit margin of more than 31%.

### 4.4. Record Keeping

This section presents the descriptive statistics of the small retailers' record keeping behaviour. Panel A of Table 4 shows that 86 or 57.3% of the respondents do prepare financial statements whilst 64 or 42.7% of the respondents do not prepare financial statements. Similarly, 74% of the respondents do keep financial records whilst 26% of the respondents do not keep financial records as shown in panel B, Table 4. The respondents were then asked whether they do keep any forms of records. The results in panel C, Table 4 shows 124 respondents or 82.7% do keep some forms of records. The records include bills, invoices and cheque butts. However, 17.4% of the respondents do not keep any forms of records. Panel D, Table 4 then presents the results on who is in charge of the record keeping. The results show that the owners are the one who managed the record keeping with 75.3%. This is followed by 17.4% kept by the accountants and 6.7% kept by the book keeper. Another 4.7% are kept by others such as family member or friends.

Table-4. Panel A: Preparation of Financial Statements

Preparation of financial statements	N	%
Yes	86	57.3
No	64	42.7
Total	150	100

Panel-B. Keeping of Financial Records

Keeping of financial records	N	%
Yes	111	74.0
No	39	26.0
Total	150	100

Panel-C. Keeping of Any Forms of Records

Keeping of any forms of records	N	%
Yes	124	82.7
No	26	17.4
Total	150	100

Panel-D. Person in Charge

Person in charge	N	%
Owner	113	75.3
Book Keeper	10	6.7
Accountant	20	13.3
Others	7	4.7
Total	150	100

Table 5 presents the descriptive statistics on the type of financial records kept by the small retailers. Sixty-four of the respondents do keep sales and purchase books and this represents 42.7%. This is followed by keeping the statement of profit and loss (15.3%), cash book (7.3%) and statement of changes in equity (5.3%). The respondents also keep the cash book with 7.3%, creditor and debtor accounts (4.7%) and the bank book and bank statement with 1% for both respectively. However, this study shows that 30 of the respondents (20.0%) did not keep any of the records shown in Table 5.

Table-5. Type of Financial Records

Type of financial records	N	%
Sales and purchase book	64	42.7
Statement of profit and loss	23	15.3
Cash book	11	7.3
Statement of changes in equity	8	5.3
Creditor and debtor accounts	7	4.7
Statement of financial position	5	3.3
Bank book	1	0.7
Bank statement	1	0.7
No records	30	20
Total	150	100

#### 4.4. Motivation for Accounting Record Keeping

The respondents were also requested to provide their motivation for maintaining accounting records. The results are shown in Table 6 that shows the majority of the respondents strongly agreed that their motivation to keep accounting records is for performance evaluation with a mean score of 2.3867. The second lowest motivation for keeping accounting record is for income distribution (mean score=2.4667), determine business size (mean score=2.6600) and taxation (mean score=2.6733). The respondents provided the least for assessing credit or finance with a mean score of 3.0667, an indication that this motivation does not influence much on their keeping of accounting record.

Table-6. Motivation

Motivation	Very High	High	Medium	Low	Very Low	Mean	Std Dev.
Taxation	33	59	19	17	22	2.6733	1.25049
Income distribution	47	45	20	16	22	2.4667	1.16242
Performance evaluation	47	45	20	16	22	2.3867	1.31989
Tracking receivables and payables	41	20	48	20	21	2.8000	1.34114
Assessing credit/ finance	30	35	41	21	23	3.0667	1.30906
Determine business size	28	35	48	17	22	2.6600	1.27353

#### 4.5. Reasons for Not Keeping Accounting Records

This section presents the reasons for the respondents not to keep accounting records. As shown in Table 7 shows that the lowest mean score for reasons not keeping accounting records is due to the lack of technical skills and knowledge (mean score=2.4733). This result is consistent with the result shown in panel E, Table 1. The second reason for not keeping accounting records is time consuming (mean score=2.5400), followed by difficulty to maintain system (2.6067) and unnecessary cost incurred (mean score=2.6867). The respondents also feel that keeping accounting records is expensive (mean score=2.5733) and more staff would be needed to keep the accounting records (mean score=2.7333). The respondents do not see much that exposing financial position as a reason for them not keeping accounting records with a mean score of 2.8000.

Table-7. Reasons for Not Keeping Accounting Records

Reason	Very High	High	Medium	Low	Very Low	Mean	Std Dev.
Time consuming	42	43	28	16	21	2.5400	1.36902
Expensive	33	59	19	17	22	2.5733	1.34287
Technical skills and knowledge	47	45	20	16	22	2.4733	1.40801
More staff	41	20	48	20	21	2.7333	1.36429
Expose financial position	30	35	41	21	23	2.8133	1.32800
Pay more tax	28	35	48	17	22	2.8000	1.28492
No need to keep records	37	30	39	21	23	2.7533	1.37542
Unnecessary costs	39	29	43	18	21	2.6867	1.35179
Difficult to maintain system	42	36	32	19	21	2.6067	1.38009

#### 4.6. Factors influencing Financial Reporting Practices

This study also to attempt to identify the factors namely, sales and net profit influencing financial reporting practices among the small retailers in Malaysia. To determine whether these factors influencing the financial reporting practices among the small retailers, this study used the Binary Logistic Regression analysis. Table 8 presents the results of the Binary Logistic Regression analysis. Panel A of Table 8 presents the result of the model summary that shows Cox & Snell R-Square that shows 0.171 and Nagelkerke R-Squares that shows 0.230.

Panel B, Table 8 presents the result of the classification table that measures how well a group membership is predicted and developing a hit ratio, which is the percentage correctly classified. The result shows the percentage of correct classification is 69.3%. Hence, the error rate of the model is 30.7%.

Panel C, Table 8 shows the result of the variables in the equation in this study. Two factors were examined in determining their relationship to financial reporting practices among the small retailers. The result shows that only sales is a significant predictor to influencing the financial reporting practices among the small retailers in Malaysia.

Table-8. Panel-A. Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	176.594	0.171	0.230

Panel-B. Classification Table

Observed			Predicted		
			B1		Percentage Correct
			Yes	No	
Step 1	B1	Yes	54	32	62.8
		No	14	50	78.1
	Overall percentage				69.3

Panel-C. Variables in the Equation

		B	S.E	Wald	df	Sig.	Exp(B)
Step 1	Sales	-1.728	.376	21.084	1	0.000	0.197
	Profit	-0.232	0.217	1.146	1	0.284	0.793
	Constant	2.107	0.526	16.018	1	0.000	8.224

## 5. Conclusion

This study assesses the financial reporting practices of the small retailers located in Malaysia. Specifically, this study examines the level of financial reporting, the types of financial records, motivation of keeping financial accounting records and the reasons for not keeping accounting records. The results show that the respondents do prepare financial statements. Similarly, most of the respondents do keep financial records and keep some forms of records. The accounting records include sales and purchase books, cash book, statement of changes in equity, cash book, creditor and debtor accounts, bank book and the bank statement.

Majority of the respondents strongly agreed that motivation to keep accounting records due to performance evaluation, followed by income distribution, determine business size and taxation. In addition, the reasons not keeping accounting records is due to the lack of technical skills and knowledge, time consuming, difficulty to maintain system (2.6067) and unnecessary cost incurred. This study also found the main reason for the small retailers practice financial reporting is because of sales. That is, the amount of sales obtained by the small retailers influence them to practice financial reporting.

This study is not without limitations. The setting of this study is only on one of the states in Malaysia namely, Selangor. There are other states in Malaysia. Therefore, the findings in this study may not be generalised to the other states. Secondly, the number of respondents participated in this study is small which is only 150. Increasing the sample size may provide more robust finding.

In sum, although the results shown in this study that the number of small retailers on financial reporting practices is satisfactory, the findings in this study indicate that the small retailers need to be provided training programs on preparation of financial statements so that they can appreciate the importance of financial reporting and



inculcate such practice in their business. Since there is a significant number of respondents seem not to support attempts of making it mandatory to maintain proper accounting records and subsequently produce final accounts, this study recommends that accounting record in SMEs become mandatory. Maintaining proper accounting is paramount in any business and that it is crucial in tracking all aspects of the business from the information contained in the books. The findings in this study can assist the interested parties particularly the Inland Revenue Board in understanding the challenges faced by the small retailers in practicing accountability to the government.

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