Research on Usage and Usefulness Perception of Financial Accounting Practices in a Less Developing Country: A Case of SMEs in Cambodia

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Abstract   Small and Medium Enterprises (SMEs) dominate the economic activities of Cambodia which is eager to achieve the higher economic growth rate in order to reduce poverty. Increasingly, SMEs make up approximately 99 percent of all enterprises and absorb almost half of the total employment. By carrying out a survey, this research paper aims to find and analyze what kinds of accounting information do SMEs in Cambodia consider useful, and what do they actually use. The findings reveal that, the regulations are the main drives why SMEs prepare financial statements. Moreover, there are some SMEs called "Non-preparers" who prepare nothing, not even Balance Sheet and Income Statement. This is because of their business size, or they are in the business sectors such as handicraft, repairing service, tourism service and so on which do not require doing so. Taking care of their customers, and predicting their sale activities are actually the major reasons why their businesses still operate and run successfully.
Key words   Small and Medium Enterprises (SME); Accounting information; Economic growth

1 Introduction

To fight against poverty, the Cambodian government recognizes that Small and Medium Enterprises (SMEs) play a significant role in promoting economic development and creating sustainable employment and income. That is why the SME Development Framework has been developed to improve and coordinate the government's efforts in promoting SME activity in a market economy.

Each country often uses specific definition of SMEs for administrative or legal purposes. Those definitions are based on the dimension of enterprises. Yet, Cambodia does not have a legal definition of what constitutes an SME. However, according to Ministry of Industry, Mine and Energy, one workable definition could be based on employment and the size of capital in real terms (Table 1).

Table 1   Workable Definition for SMEs

	By Size of Employment	By Fixed Assets Value*
Micro Enterprise	Less than 10 employees	Less than US$ 50,000
Small Enterprise	Between 11–50 employees	Between US$ 50 – 250,000
Medium Enterprise	Between 51–100 employees	Between US$ 250 – 500,000
Large Enterprise	Over 100 employees	More than US$ 500,000

* By fixed assets value excluding land
Source: Ministry of Industry, Mines and Energy, October 2004

The important roles of SMEs are (a) to generate employment opportunities which help to reduce the unemployment rate and improve the living standards of population, and (b) to promote the entrepreneur class which is very necessary for industrial development as well as the increase of economic activities. Given that the economy is dominated by SMEs, the future development strategy of the country must take into account the SME sector so that its rapid growth will result in increased productive employment and reductions in poverty. A key factor in strengthening the SME sector is to reduce the cost of doing business. Cambodia is facing tough competition from neighboring countries, which have lower cost business environments as a result of better infrastructure, a better trained labor force and lower costs related to bureaucratic red tape.

This research paper has gathered and analyzed the issues related to financial accounting information that SMEs in Cambodia are using, and provide the reasons why they are using those kinds of financial accounting. As Cambodia becomes more integrated with international markets through its membership in the World Trade Organization, the accounting system of SMEs must be improved.

2 Related Literature Review

Businesses are created with a view toward financial success. Due to lack of necessary planning and know-how, many fail to survive their first year. Perhaps the most important element of success is the ability to plan a change plans with conditions.

Accounting is a systematic process of measuring the economic activity of a business to provide useful information to those who make economic decisions. In addition, accounting information systems provide the means of collecting, organizing, and summarizing the economic transactions which is then transformed into accounting information by accounting judgments, practices and application of rules.

Financial Accounting is the face a business shows to the outside world through the financial statements that are prepared for banks, stockholders, investors, and government agencies. These financial statements are basically historical records that cover a particular time period, including balance sheet, income statement, statement of cash flow, and statement of shareholders' equity. Moreover, financial accounting information is the product of corporate accounting and external reporting systems that measure and publicly disclose audited, quantitative data concerning the financial position and performance of publicly held firms.

In Cambodia, the financial statements have to be prepared, by state-owned enterprises and private companies, in accordance with the Cambodian Accounting Standards (CAS) issued by National Accounting Council (NAC). NAC has issued fifteen CAS and ten Cambodian Standards on Auditing (CSA). In accordance with the CAS-1, as developed from IAS-1 [paragraph 7 of IAS 1 (IASB, 2002)], a complete set of financial statements includes the following components; (a) Balance sheet, (b) Income statement, (c) Statement showing either all changes in equity or changes in equity other than those arising from capital transactions with owners and distributions to owners, (d) Cash flow statement, and (e) Accounting policies and explanatory notes.

3 Research Methodology

This research was carried out by gathering data from both secondary and primary data that enable to achieve the research objectives. With relevant collected data, analyses were conducted based on theoretical framework and then conclusion drawn thereof. 250 questionnaires were distributed, by emails and networks such as friends and relatives, to the accounting department, finance department, and/or management team of each company. 103 of them were collected and accepted as completed questionnaires. In addition, data from previous papers and existing documents in research centers, NGOs, and Government Ministries also contributed to write this paper.

3.1 Variable measurement

The study of Holmes and Nicholls indicated the significant influences on the information acquisition or preparation in the company based on four variables: (a) business size; (b) the number of years the business had been operating under existing management; (c) industrial sector; and (d) the education of a business' owner/manager. Therefore, using these variables as the guideline, this research indicates three independent variables which are business size (categorized by registered capital, fixed asset excluding land, number of employees and annual revenue), business age, and industrial sector to study the use and usefulness of financial and management accounting practices.

In order to appraise variables, Likert scale was provided in the questionnaire for rating the level of respondents' attitude towards the given statements. The statements were specified mainly on the usage rate and perceived merit of the studied topic. The Likert scale provided was ranged from "1" (strongly disagree) to "4" (strongly agree). Moreover, for all the questions, respondents could also indicate "do not know" if they do not know whether the proposed statement is applied to the accounting practices in their organization. Using five scales from strongly disagree to do not know might not be usual; however, the aim was to avoid the respondents that are reluctant to give extreme judgments thus causing ambiguousness in data analyses.

3.2 Data analyses methods

Statistics and descriptive analyses have been applied in order to capture and explain the survey phenomena. Most of the results have been analyzed by frequency, percentages, means and standard deviation. Paired t-Test would have been used for measurement relationship of use and usefulness of each variable, mainly on financial indicators and variance analysis. Moreover, one-way ANOVA and independent sample T-test were employed to compare any differences among given variables. Spearman's Rank Correlation had been used to calculate the degree of correlation between the Usage and Usefulness of both Financial Accounting Indicators and Management Accounting Practices. The

formula for Spearman's Rank Correlation is:

$$r_s = 1 - \frac{6\sum d^2}{n(n^2 - 1)}$$

The hypotheses t-test and Rank Correlation had been applied to test the significance of r_s with the formula:

$$t = r_s \sqrt{\frac{n-2}{1-r_s^2}}$$ With degree of freedom = (n-2) and 0.05 significance level.

The results of analysis have been presented in table 2.

Table 2   The Interpretation of Computed Mean Value

Scale	Level of Mean Value		
	(1)	(2)	(3)
1.00 – 1.75	Unimportant	Low	Strongly Disagree
1.76 – 2.50	Moderate	Moderate	Disagree
2.51 – 3.25	Important	High	Agree
3.26 – 4.00	Most Important	Highest	Strongly Disagree

The relationship between one variable and others would be tested quantitatively by complying with hypotheses testing at the 95% confidence interval (α=0.05). The hypotheses are following:

H_0: Given variable is not related to other given variable

H_1: Given variable is related to other given variable

Besides, the differences would be tested under hypotheses testing at the same confidence interval. The hypotheses are following:

$$H_0 : \mu_1 = \mu_2 = ... = \mu_k \text{ (for more than two groups) or } \mu_1 = \mu_2 \text{ (for two groups)}$$

$$H_1 : \mu_i \neq \mu_j \text{ at least one pair; } i \neq j \text{ (for more than two groups) or } \mu_1 \neq \mu_2 \text{ (for two groups)}$$

4 Usage and Usefulness Perception of Financial Accounting Practices

Table 3 presents the Usage and Usefulness of Financial Accounting Indicators. Generally the investigated companies highly employed the financial accounting indicators to evaluate the company performance and they consider its usefulness in the important level for their enterprises (mean = 3.08 and 3.12 respectively)

Among these indicators, the most important financial assessment is sales and the least important one is return on assets (ROA). It might be inferred from the survey that most of the investigated firms were sale-oriented since they greatly consider their profit and loss. On the other hand, they ignore Balance Sheet statement to analyze resources used in the organization. Apparently from next three important indicators, they are net profit, growth rate of sales, and net profit.

In view of their usefulness, the investigated enterprises also take into account the sales. In contrast, most firms are likely to pay less attention to inventory level, return on equity (ROE) and return on assets (ROA).

Table 3   Use and Usefulness of Financial Accounting Indicators

Financial Indicators	Usage			Usefulness			t-Test*
	Mean	SD	Level	Mean	SD	Level	
Cash flow	3.17	0.718	High	3.25	0.729	Important	-1.59
Gross profit	3.13	0.649	High	3.23	0.688	Important	-1.45
Growth rate of sales	3.28	0.575	Highest	3.23	0.571	Important	0.84
Inventory levels	2.99	0.809	High	2.94	0.725	Important	0.65
Net profit	3.26	0.641	Highest	3.20	0.738	Important	0.66
Operating profit	3.10	0.700	High	3.11	0.706	Important	-0.44
ROA	2.80	0.833	High	2.86	0.812	Important	-0.16
ROE	2.82	0.813	High	2.90	0.775	Important	-0.84
ROI	2.93	0.737	High	3.05	0.775	Important	-0.87
Sales	3.35	0.630	Highest	3.38	0.689	Most Important	-0.39
Average	**3.08**	**0.192**	**High**	**3.12**	**0.173**	**Important**	**-1.515**

Note: Higher the standard deviation value, wider distribution of group samples. The minor value of standard deviation could be interpreted that the data analysis is reliable and valid.
* No Significant difference had been observed at 0.05 significance level.

By applying Spearman's Rank Correlation (r_s) test, a very high degree of positive correlation (r_s = 0.912) has been obtained between the ranks in usage and usefulness of the financial accounting indicators and it indicates a very strong relationship between the usage and their usefulness. There are 10-pairs of ranks; the significance of r_s has been testes here by applying hypotheses t-test, Rank Correlation, with [(n-2) = (10-2)] 8 degree of freedom (*df)*, with the following hypothesis:

$$H_0 : \rho = 0 \text{ (The rank correlation in the population is zero)}$$

$$H_1 : \rho > 0 \text{ (The rank correlation in the population is positive among the rank)}$$

The computed value of t = 6.29; therefore, null hypothesis (H0) is rejected because the computed t (t = 6.29) is greater than 1.833 (from Student's t Distribution Table with 0.05 significance level, One-Tailed test and 9 df). The alternative hypothesis is accepted and it can be concluded that the rank correlation in the population is different from zero, or there is a positive correlation between the ranks in using and in usefulness of financial accounting indicators. Considering the overall mean in using $(\overline{X}_{UR} = 3.08)$ and usefulness $(\overline{X}_{PU} = 3.12)$, it can be inferred that despite their understanding about the usefulness, financial accounting indicators are not used as wide as their usefulness among the surveyed enterprises. It might be because of many reasons such as lack of skilled people and maybe for additional costs.

For all the financial accounting indicators, the ideal mean are expected to be 4 (the highest rank). Therefore, following two types of difference or gap can be observed from table 4.3.2.

Gap to Ideal = (Ideal Mean – Mean in Usefulness)
Aspiration Gap = (Mean in Usefulness – Mean in Using)

One sample-t test has been applied against the expected mean value of 4 to check the validity of the "gap to ideal". The result of t value = -16.210, which is lower than -2.262. [From Student's t Distribution Table with 0.05 significance level, two tailed-test, and (10-1) = 9 df]. Therefore, it can be concluded that the mean values of usefulness of Financial Accounting Indicators are significantly lower than the ideal mean. That implies that the gap to ideal is statistically significant.

In order to check the "aspiration gap", paired-t test has been applied. The paired-t test can be applied for mean value in using and in usefulness of 10 financial indicators to test the significance of the aspiration gap. Hence, the following null and alternative hypotheses (considering two variables are dependent) have been tested:

$$H_0 : \mu = 0 \text{ (The difference of the population mean is zero)}$$

$$H_1 : \mu \neq 0 \text{ (The difference of the population mean is not zero)}$$

The computed value of t is -1.515, which is greater than -2.262 [from Student's t Distribution Table with 0.05 significance level, two tailed-test, and (10-1) = 9 df]. Therefore, null hypothesis (H0) has been accepted. Thus, it can be said that two population means are equal, and it can be concluded that the usage and usefulness of the financial accounting indicators are the same. In other words, the aspiration gap has no statistically significant difference.

5 Conclusion

Economic activity in Cambodia is dominated by Small and Medium Enterprises (SMEs), which are seen as playing a major role in economic growth and poverty reduction. However, Small and Medium Enterprises (SMEs) in Cambodia is now facing a weak legal and regulatory environment which creates uncertainties and increases the risk of doing business. These uncertainties and risks result in high transaction costs and the high costs of doing business in general. That is one of the reasons why most of SMEs are not registered in the Ministry of Commerce. Besides these issues, SMEs still have other difficulties which do not facilitate their businesses to run and operate successfully such as lacking the financial accounting knowledge.

Most of the SMEs in Cambodia ignore the usefulness of financial accounting even if it is very crucial for the company, both internal and external use, in helping the entrepreneurs to plan and manage their operation toward the companies' goals. In their perception, the operation activities which generate profits for the company such as sales and marketing are very useful.

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