

# Role of Accounting Firm in Management Accounting for SMEs in Lower Northern Region

## บทบาทของสำนักงานบัญชีในด้านการบัญชีบริหาร สำหรับวิสาหกิจขนาดกลางและ ขนาดย่อมในเขตภาคเหนือตอนล่าง

Kanoporn Suranatthakul

กนกพร สุรนัฐกุล

Faculty of Business, Economics and Communications, Naresuan University, Phitsanulok 65000

คณะบริหารธุรกิจ เศรษฐศาสตร์และการสื่อสาร มหาวิทยาลัยนเรศวร พิษณุโลก 65000

E-mail address: kanoporns@nu.ac.th

### บทคัดย่อ

วิสาหกิจขนาดกลางและขนาดย่อม (SMEs) มีบทบาทที่สำคัญต่อการพัฒนาเศรษฐกิจของประเทศไทย และการมีข้อมูลทางบัญชีที่ดีก็มีความสำคัญต่อความสำเร็จของ SMEs ซึ่งโดยความจริงแล้ว SMEs ควรต้องเป็นผู้จัดทำข้อมูลงบการเงินและวิเคราะห์ข้อมูลทางบัญชีด้วยตัวเอง แต่ SMEs ส่วนใหญ่ก็ยังจ้างสำนักงานบัญชีเพียงเพื่อจัดทำงบการเงินและภาษี ดังนั้น SMEs จึงมีข้อมูลทางบัญชีไม่เพียงพอที่จะสามารถนำมาใช้ในการตัดสินใจเพื่อปรับปรุงการบริหารงานของตนเอง วัตถุประสงค์ของการศึกษาค้นคว้าครั้งนี้ เพื่อศึกษาความเป็นไปได้ของสำนักงานบัญชีที่จะเป็นที่ปรึกษาด้านบัญชีให้กับ SMEs มากกว่าที่จะเป็นเพียงผู้จัดทำบัญชีและงบการเงินเบื้องต้นเท่านั้น ซึ่งวิธีการศึกษาคือ การใช้แบบสอบถามและสัมภาษณ์เชิงลึกกับเจ้าของสำนักงานบัญชีจำนวนทั้งสิ้น 50 สำนักงานในเขตภาคเหนือตอนล่าง ผลการศึกษพบว่า สำนักงานบัญชีส่วนใหญ่มีความพร้อมที่จะเป็นที่ปรึกษาให้กับ SMEs ในการจัดทำและวิเคราะห์ข้อมูลทางบัญชีและงบการเงิน เพื่อให้ SMEs มีความมั่นใจในการจัดทำบัญชีและงบการเงิน รวมถึงการนำความรู้ด้านบัญชีบริหารที่ SMEs มีอยู่มาใช้ในการตัดสินใจ ซึ่งทำให้สำนักงานบัญชีสามารถให้บริการแก่ SMEs ทั้งในด้านบัญชีการเงินและบัญชีบริหารมากกว่าที่จะรับจ้างเป็นผู้จัดทำข้อมูลทางบัญชีและงบการเงิน ซึ่งเป็นการให้บริการในด้านบัญชีการเงินเท่านั้น อย่างไรก็ตาม สำนักงานบัญชีที่มีความพร้อมที่จะเปลี่ยนบทบาทมาเป็นที่ปรึกษา เพื่อให้คำปรึกษาในด้านบัญชีบริหารแก่ SMEs ในการนำข้อมูลไปใช้ในการตัดสินใจเพิ่มขึ้นนั้น ก็ยังต้องมีการพัฒนาทักษะและความรู้ด้านต่างๆ ของบุคลากร ดังนั้นการที่สำนักงานบัญชีเป็นผู้ให้คำปรึกษานั้น จะเป็นอีกบทบาทหนึ่งของสำนักงานบัญชีที่จะช่วยสนับสนุน SMEs ให้สามารถปรับปรุงการดำเนินงานให้ดียิ่งขึ้น และเป็นการสร้างมูลค่าเพิ่มของการให้บริการของสำนักงานบัญชี ที่ไม่ใช่มีบทบาทเพียงเพื่อนำส่งข้อมูลทางบัญชีและงบการเงินให้กับ SMEs เพียงอย่างเดียว

**คำสำคัญ:** สำนักงานบัญชี บัญชีบริหาร วิสาหกิจขนาดกลางและขนาดย่อม

### Abstract

Small and Medium-sized Enterprises (SMEs) play an important role in the economic status of Thailand. Good accounting information is essential to the success of SMEs. Ideally, SMEs should prepare and analyze their own accounting information. However, the majority of SMEs outsources accounting firms to prepare financial statements and taxation. Hence, the SMEs themselves have limited accounting information for making decision in order to improve the management of their businesses. The objective of this work is to study the possibility of accounting firms to act as accounting consultants for SMEs, rather than relying primarily on outside firms. A descriptive study was performed in 50 accounting firms in the lower northern. Structured questionnaires and in-depth qualitative interviews with accounting firm owners show that most accounting firms are ready to act as consultants to ensure preparation financial statement and contribution the existing knowledge of management accounting practices in SMEs. Therefore, accounting firms can serve as financial and management accounting instead of preparation financial statement that serve as financial accounting only. However, accounting firms that ready to act as consultants in order to emphasis on management accounting, employees of accounting firms need to develop knowledge



and skills. To act as consultants and provide effective support to SMEs to improve their business performance, accounting firms can also provide value added services not merely delivering financial statement.

**Keywords:** Accounting Firm, Management Accounting, Small and Medium-sized Enterprises

**Paper Type:** Research

## 1. Introduction

Small and Medium-sized Enterprises (SMEs) are important for the social and economic development in developing countries including Thailand. SMEs comprise 99.6 percent of the total registered business establishments and contribute to 77.9 percent employment. However, they only contribute to 42.4 percent gross domestic product (GDP) and 28.4 percent total export (OSMEP, 2011). Success or failure of SMEs depends on several reasons; however, financial management is one of the critical reasons for the survival and growth of SMEs (Jindrichovska, 2013).

The perceptions of accounting information are different between SME owners / managers and accounting firms. Moreover, accounting firms mainly focus on financial accounting rather than management accounting discussed by Fleischman et al., (2010). In addition, relationships between accounting firms and SME staffs may be limited, resulting in miscommunications between the two sectors (Walker et al., 2011). Although, accounting information within an organization provides much more data than that from accounting services, Smirat (2013) found that the level of awareness on the importance of this data was still very low in SMEs. Even though accounting information from accounting services is financial, it can be used for management activities. Banham and He (2014) suggested that SMEs should use a combination of insourcing and outsourcing to meet their accounting needs for decision-making issue.

In many countries such as United Kingdom and Norway, accounting firms serve as financial and management accountants (Gooderham et al., 2004; Anthony et al., 2006). In contrast, the majority of Thai SMEs frequently rely on external accountants. Accounting firms act as financial accountants, which only prepare financial information and taxation. This information is then sent to local authorities such as Department of Business Development and Revenue Department. SMEs owners /

managers do not properly keep the financial data and report. They are hardly in possession of any accounting information for decision-making process which is extremely important for their business. If SMEs can prepare accounting information by themselves, with help from accounting firm, they will have adequate accounting information to efficiently improve and aid decision-making processes of their business.

Accounting firms should change the role from only financial accountants to both financial and management accountants. Instead of preparation of financial statements for SMEs, accounting firms should act as consultants by providing training programs, mentoring, and accounting software to help SMEs staffs reach their maximum potentials. In addition, accounting firms will be able to provide wide ranges of services such as finance, marketing and human resources management (Banham and He, 2014). Hence, SMEs will be able to prepare and analyze accounting information by themselves. In this case, SMEs could have reliable accounting information for making decision to improve their performance.

## 2. Research Objectives and Methodology

This research was conducted to evaluate the role of accounting firms in SMEs management in lower northern region. Samujh and Devi (2010) found that the use of accounting information in management accounting is different. SMEs with internally organised accounting use information to make decision more than SMEs using outsourced accounting firms. Thus, SMEs should internally manage and contribute the existing knowledge of management accounting practices such as break-even point, budgeting, relevant cost for decision making, capital budgeting and financial ratio analysis. Accounting firms have their role as one assisting empowerment for SMEs. Characteristics of the effective business consulting firm consist of years of operations, number of staff, experience



and knowledge of staff, communication and technology (Banai and Tulimieri, 2013). Specific objectives were to investigate the possibility of accounting firms to act as consultant for both financial and management accountings, to evaluate the use of accounting information prepared by accounting firms and to identify advantages and disadvantages of accounting information prepared by accounting firms and SMEs.

In order to achieve the research objectives, the study was carried out by gathering data from primary sources by using structured questionnaire in an in-depth qualitative interview with accounting firm owners. In lower northern region, there were 100 registered accounting firms by the time the study was conducted. In this study, the primary data was collected from a group of 50 accounting firms. The sample size is a fairly representative. The respondents are from different provinces in northern region and different size of accounting firms. About two thirds of them run the business more than 10 years. Therefore, the quality of the responses should have high levels of validity. Descriptive statistics were used to analyze these data.

The structured questionnaires were developed based on research objectives and divided into three topics: accounting firm profiles, the use of accounting information made by accounting firms for SMEs to make decisions in management accounting perspective and the advantages and disadvantages for preparation of accounting information by SMEs and accounting firms.

### 3. Results and Analysis

#### 3.1 Accounting firm profiles

Accounting firm profiles were collected to gain a broad overview of firms participated in this study. Five questions consist of years of operations, number of employee, average years of employee experience, number of customers/SMEs and type of accounting software were asked. The gathered information is useful to understand the background of accounting firms. The results are shown in Table 1. Approximately 60 % of accounting firms have been in business for more than 10 years with the number of employee of less than 5. The majority of employees have less than 5 years of experience (84 %). Half of the accounting firms (52 %) offer services to 50-100 SMEs.

Express accounting software is the most popular software used to record accounting transactions for accounting firms.

**Table 1:** Accounting Firm Profiles Participated in This Study

Profiles of firms	Frequency	Percent
<b>Years of operations</b>		
5-10 years	8	16
Less than 5 years	12	24
More than 10 years	30	60
Total	50	100
<b>Number of employees</b>		
Less than 5	32	64
5 – 10	18	36
Total	50	100
<b>Average years of employee experience</b>		
Less than 5 years	42	84
5 – 10 years	8	16
Total	50	100
<b>Number of customer/SMEs</b>		
Less than 50		
50-100	3	6
100-200	26	52
More than 200	19	38
Total	2	4
	50	100
<b>Accounting software</b>		
Express	20	40
EASY-ACC	14	28
All in one	6	12
other	10	20
Total	50	100

**Table 2:** Readiness of Accounting Firms to Serve as Consultant

Readiness	Number of accounting firms	Percent
Yes	30	60
No	20	40
Total	50	100

Profiles of accounting firm participating in this study show that they have operations and experience management to continuously assist SMEs in financial advisory services. In addition, results from the extensive interview with the accounting firm owners show that 60 % of accounting firms were willing to act as consultant for preparation and analysis of financial data (Table 2). This is because they are knowledgeable and experienced staffs equipped with accounting software which is easy to use and facilitate accounting transactions. However, some accounting firms (40 %) are not ready to serve as consultant. As a result, they have limited number of employees and/or their employees have less experience to provide proper training and supervision that affect the ability to cope with workload and to spend time with SME clients (Samujh and Devi, 2010).

The recent study in Malaysia revealed that performance of SMEs was closely related to the service quality of accounting firms, such as technical competency, delivery system and experience specification (Husin and Ibrahim, 2014). In Thailand however, the relationship between SMEs and accounting firms is distantly related. In the view of the Thai accounting firms, they are employed by SMEs only to prepare financial statements and taxation although they have potential to serve as both financial and management accountants. Thus, SME owners have inadequate accounting information to improve their financial status and continuous management.

### *3.2 The use of financial information made by accounting firms for decision making of Thai SMEs*

Most SMEs employ accounting firms to prepare accounting information for monthly tax and annual financial statements. It is compulsory that the financial statements are sent to authorities annually. Furthermore, SME owners may use this information to improve their business performance.

However, following the interview with accounting firms, most SME owners do not use financial statements for management activities although it is one of the most valuable information for SMEs continuity (Smirat, 2013). As a consequence, financial information prepared by accounting firms has little use for SMEs.

Some SMEs partially record their accounting information such as sales, account receivable and expenses, however this accounting information is inadequate for decision-making process. These results agree with the studies in Ghana and Zimbabwe which demonstrate that SMEs do not maintain proper accounting record because owners did not appreciate the need to keep accounting records, lack the necessary accounting knowledge and avoid the cost of hiring accounting professionals. Consequently, the application of accounting information to support management accounting by SMEs is less effective (Maseko and Manyani 2011; Amoako, 2013). In contrast, a higher usage of management accounting practices has been used in Malaysian SMEs, especially medium sized enterprises such as costing and budgeting system (Ahmad, 2014).

Although, it has been shown that management accounting capabilities of owners/managers have a strong, positive and significant influence on the decision-making process and consequently they are critical for the success, growth and survival of SMEs (Mbogo, 2011). Managements of Thai SMEs depend primarily on the owner's foresight and judgment, using available financial information which is inadequate for controlling and decision-making purposes.

### *3.3 Advantages and disadvantages for preparation of financial information between SMEs and accounting firms*

Preparation of financial information either by SMEs or accounting firms provides both advantages and disadvantage (Table 3). There were many advantages, if SMEs prepare financial information by themselves.

**Table 3:** Advantages and Disadvantages for Preparation of Accounting Information

<b>Preparation by</b>	<b>Advantages</b>	<b>Disadvantages</b>
SMEs	<ul style="list-style-type: none"> <li>- timeliness and reliability of accounting information</li> <li>- adequate accounting information for effective decision making process</li> </ul>	<ul style="list-style-type: none"> <li>- high investment costs, i.e. people equipment and accounting software</li> <li>- difficulties in doing business such as limited time, lack of accounting knowledge</li> </ul>
accounting firm	<ul style="list-style-type: none"> <li>- knowledgeable and experienced staffs</li> <li>- suitable accounting software</li> </ul>	<ul style="list-style-type: none"> <li>- inadequate information for decision-making process</li> <li>- leakage of confidential information</li> <li>- incomplete information sent resulting in inaccurate accounting information</li> </ul>

According to the interview with accounting firms, SMEs aware that adequate and accurate accounting information is useful for decision-making efficiency. They realize that there are many advantages of preparing accounting information by themselves; however, they are unable to carry out the accounting function within the organization. The reason for this is that they do not want to face many difficulties such as staff turnover, wage and salary, cost of equipment and time (Banham and He, 2014). Furthermore, they believe that external accounting firms have more experience and expertise that could overcome the other disadvantages (Everaert et al., 2007). Eventually, they prefer to employ outside firms for the preparation of accounting information. Continuous hiring of accounting firms may result in incomplete financial information for SME management. Eventually, SME owners may be unable to carry on their business due to the lack of good decision-making process.

Therefore, local authorities should be involved in strengthening internal preparation accounting information and contribution the existing knowledge of management accounting practices for better management control and perceived opportunity in order to access new markets and maximize their profits (Jayabalan et al., 2009; Nandan, 2010). Competency of manager in management accounting

perspective results in an important effect on decision-making process. This competency is an indicator for continuous growth of SMEs (Mbogo, 2011). Furthermore, the use of management accounting information by SME owners/managers leads to flexible operations in the organization. Employee participation can be easily achieved and managements occur positively in the organization (Agbejule, 2011). This would lead to the sustainable growth and increase the performance of SMEs.

#### **4. Conclusion**

It is important that SMEs should prepare financial information by themselves instead of hiring outside firms. If SMEs want to hire accounting firms, they should hire them as consultants. In this case, accounting firms will play roles as financial and management accountings. In this study, the majority of accounting firms are ready to act as consultant for SMEs to ensure preparation financial statement and contribution the existing knowledge of management accounting practices in SMEs. However, accounting firms that ready to act as consultants in order to emphasis on management accounting, employees of accounting firms need to develop knowledge and skills. To act as consultants and provide effective support to SMEs, accounting firms show their potentials as one assisting empowerment that

makes SMEs could provide information on business opportunities and risks for the sustainable growth, not merely delivering financial statement.

## 5. Acknowledgement

This study was supported by Naresuan University. The author would like to thank the staff and all accounting firms who participated in the study.

## 6. References

- Agbejule, A. (2011). Organization culture and performance; the role of management accounting system. **Journal of Applied Accounting Research**, 12(1), 74–89.
- Ahmad, K. (2014). The Adoption of Management Accounting Practices in Malaysian Small and Medium-Sized Enterprises. **Asian Social Science**, 10(2), 236–249.
- Amoako Gi. K. (2013). Accounting Practices of SMEs: A Case Study of Kumasi Metropolis in Ghana. **International Journal of Business and Management**, 8(24), 73–83.
- Anthony J.B., Robert, S. and Jitsuo, G. (2006). The effect of business advisers on the performance of SMEs. **Journal of small business and enterprise development**, 13(1), 33-47.
- Banai, M and Tulimieri, P. (2013). Knowledge, skills and personality of the effective business consultant. **Journal of Management Development**, 32(8), 886 – 900.
- Banham, H. and He, Y. (2014). Exploring The Relationship Between Accounting Professionals And Small And Medium Enterprises (SMEs). **Journal of Business & Economics Research**, 12(3), 209–214.
- Everaert, P., Sarens, G. and Rommel, J. (2007). Sourcing strategy of Belgian SMEs: empirical evidence for the accounting services. **Production Planning & Control**, 18(8), 716–725.
- Fleischman, G., Walker, K. and Johnson, E. (2010). A field study of user versus provider perceptions of management accounting system services. **International Journal of Accounting and Information Management**, 18(3), 252-285.
- Gooderham, P. N., Tobiassen, A. Doving, E. and Nordhaug, O. (2004). Accountants as Sources of Business Advice for Small Firms. **International Small Business Journal**, 22(1), 5–20.
- Husin, M. and Ibrahim, M. (2014). The Role of Accounting Services and Impact on Small Medium Enterprises (SMEs) Performance in Manufacturing Sector from East Coast Region of Malaysia: A Conceptual Paper. **Procedia - Social and Behavioral Sciences**, 115, 54–67.
- Jayabalan, J., Dorasamy, M., Raman, M. and Ching, N. K. C. (2009). Outsourcing of Accounting Functions amongst SME Companies in Malaysia: An Exploratory Study. **Accountancy Business and the Public Interest**, 8(2), 96-114.
- Jindrichovska, I. (2013). Financial Management in SMEs. **European Research Studies**, 16, 79-95.
- Maseko, N. and Manyani, O. (2011). Accounting practices of SMEs in Zimbabwe: An investigative study of record keeping for performance measurement (A case study of Bindura). **Journal of Accounting and Taxation**, 3(8), 171-181.
- Mbogo, M. (2011). Influence of Managerial Accounting Skills on SME's on the Success and Growth of Small and Medium Enterprises in Kenya. **Journal of Language, Technology & Entrepreneurship in Africa**, 3(1), 109–132.
- Nandan, R. (2010). Management Accounting Needs of SMEs and the Role of Professional Accountants: A Renewed Research Agenda. **JAMAR**, 8(1), 65–77.
- OSMEP. (2011). SMEs Master Plan 2012 – 2016, **The Office of SMEs Promotion, Thailand**.
- Samujh, R.H. and Devi, S.S. (2008). Professional accountants enabling SMEs reach their potential. **Paper presented at the International Colloquium on Asian Business, Bangkok, Thailand**, 30 June–3 July, 1-25.
- Smirat, B. (2013). The Use of Accounting Information by Small and Medium Enterprises in South District of Jordan, (An empirical study). **Research Journal of Finance and Accounting**, 4(6), 169-175.



- Walker, K., Fleischman, G. and Johnson, E. (2011).  
Perceptions of Management Accounting services.  
**Global Journal of Business Research**, 5(1), 111–  
123.