

Household Accounting: Road to Economic Resilience

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Abstract: Household debt has increased among Malaysian citizen due to the increasing in cost of living. With the global economic crisis at present, the situation will become worsen. As a result, government's agenda of having a high income nation by year 2020 seems impossible. However, with the appropriate elucidation provided by the responsible parties to combat the economic crisis, hopefully the household income can be increased. Thus, this study aims to conceptualize the household accounting education for Malaysian citizen to enhance their economic resilience despite the economic crisis. The paper will explain the household accounting concepts that consist of the budgeting process, financial planning and its usage and the interpretation of primary financial statements towards household. Further discussion will be made on the impact of obtaining comprehensive knowledge and applying the household accounting techniques. Utilizations of proper household accounting techniques may enhance their family relationships and spouse accountability of each household.

Key words: Accounting education, household accounting, household budget process, household financial planning, impact of household accounting

INTRODUCTION

In Malaysia context, managing a household is really challenging in the present economic crisis. One of the challenges the citizens are facing is the increase in household debt due to the increase in the cost of living. The country appears as worrisome states as on average almost half of a Malaysia household's income goes to repaying debts (Sipon *et al.*, 2014). Looking at the problem from the ratio of household debt to disposable income, this ratio is 140.4% for Malaysia, one of the highest in the world; Singapore at 105.3%, USA at 123.3% and Thailand at 52.7% in 2009 (Sipon *et al.*, 2014). Debt has many negative implications on society which include increased the level of stress; one of the principal causes of poverty; it has hampered economic development of indebted countries and therefore should not be encouraged (Sipon *et al.*, 2014) unless if it is necessary. In addition, some companies had announced restructuring and offer voluntary separation scheme to some of its employees.

Deeper hardship will be felt by householder if any of the members is being affected by the risk of unemployment. Existing household debts and commitment need to match with the reduction of the level of income received per household. Therefore, household budgeting

is an important element for people to survive under the strained economics. In fact, the need for domestic budgeting has resurfaced since worldwide economic depression in early 1930's (Carnegie and Walker, 2007). People will able to prioritize their spending based on the budgets prepared and subsequently prevent them to commit into any new unnecessary debts that can risk their social life.

Recently, Malaysian Government has introduced the New Economic Model (NEM) that emphasized on the needed to transform the country into a high-income nation by 2020. Given the current situation, Malaysia citizen must be made aware of that any additional debts taken which is not aligned with the income received could affect the growth negatively. Therefore, several measures have been taken by the government to control this household debt by strengthening credit facilities and established Agensi Kaunseling and Pengurusan Kredit (AKPK) to help citizen dealing with their credit issues. Bank Negara Malaysia (BNM) play their important role in teaching citizen on how to manage their finance and account through "Buku Perancangan dan Penyata Kewangan Keluarga (BPPKK)". At school level, BNM together with Higher Ministry Education and financial institution introduces "Buku Wang Saku" to foster a positive financial management practices among student.

In addition there are many books such as “Rich habits: the daily success habits of wealthy individuals”, “Think and grow rich”, “Debt free by 30: practical advice for the young, broke and upwardly mobile”, “Magnet kejayaan dan kekayaan” or blogs that discuss on about how to generate additional income and manage your finance.

However, none of the measurement taken or the literature looks at the perspectives on how the household accounting can be implemented for Malaysian citizen to enhance their economic resilience despite the economic crisis. Given this, the study aims to conceptualize the household accounting education. This study is structured as follows: a review on the household accounting literature, household accounting concept and the impact of having and applying the household accounting knowledge towards improving Malaysian citizen commitment.

Literature review: Research in household accounting has been seen as an emerging research trends. This is because accounting which is beyond formal work organizations with particularly regard to micro level of social accounting practices such as household accounting remains largely reported in literatures mainly due to its nature of non-profit oriented concept (Walker, 1998). In addition, household accounting to be specific as financial management for household spending and income has been an important uncharted area for research (Walker and Llewellyn, 2000). Previous studies conducted in Australia setting reveals that household accounting pursued by individuals and families varies according to gender and classes (Carnegie and Walker, 2007). Accordingly, no standard format being used by householder to record their consumptions. Components used vary depending on the needs and diverse from one element to comprehensive personal record keeping systems (Carnegie and Walker, 2007). In fact, the study found that household accounting has only been used as instrument for restraining consumption, particularly during times of crisis rather than a formal book of accounts.

The significant of household accounting has been recognized by the Japanese Government ever since in 1954 and has continued ever since by promoting household accounting practiced as a part of the national “Saving Promotion Movement” (Komori and Humprey, 2000). They have identified 3 different stages of household accounting development in Japan and the changes are much affected with the changing nature, positions and expectations. Household accounting has moved from a principal focus on highly detailed,

short-term budgetary cost control to a long-term, family life planning approach and ultimately to a less exact form of accounting but one which was concerned with and sought to influence broader social issues outside the traditional remit of the Japanese family (Komori and Humprey, 2000). The study also found that the use of accounting among the contents home in Japan has provided an opportunity to overcome their financial problem such as deficit. Furthermore, evolution of household accounting practices varies according to the unique features of individuals’ traits and countries. For instance at the early stage of Japanese community, the used of household accounting practiced is more related to a better living, and gradually the concepts evolved to a stage where people made control on spending and minimized wast (Komori and Humprey, 2000). Subsequently, the household accounting practices has expanded by taking into account other element which include possible investment domains, budgeted spending, future events provisions and address environmental issues such as pollution and overconsumptions (Komori and Humprey, 2000).

Similarly, accounting was a central feature of daily existence among the middle classes in Britain during the late seventeenth and eighteenth centuries (Hunt, 199). Politics, ethics, religions and level of educations obtained may have some effects towards accounting practices by individuals. In a more details study conducted, it is found that Australian household accountants were most likely to be found among the educated middle classes with Anglo-Saxon backgrounds (Carnegie and Walker, 2007). Interestingly, household accounting in Australia appears to define and reflect a commitment to thrift and prudence as a means of financial management and wealth accumulation by the women and the men (Carnegie and Walker, 2007).

In addition, accounting concept could give various benefits to the users which include increase or sustained level of performance and profitability in this challenging economy. The concept has becomes more influential in everyday affairs and by understanding the process and techniques available may benefit the users in which the techniques could influenced how the performance is sustained and created (Hopwood, 1994). The identified accounting tools not only can be used as a mechanism for tracking household consumptions but as an accountability to manage and control the spending (Walker and Llewellyn, 2000).

In Malaysia, Bank Negara Malaysia (Bank Negara Malaysia) has played their role in raising awareness on the importance of personal finances and financial planning’s for individuals and families. At school level,

BNM, Ministry of Higher Education together with several financial institutions introduces “Program Sekolah Angkat” with the objective to encourage positive financial management practices among students. Under this program, students were given “Buku Wang Saku (BWS)” to record their daily financial activities such as cash receipts, expenditures and savings. In addition, “Kelab Kewangan Pelajar” was also introduced as part of co-curricular activities for students outside the classroom. In addition, BNM in collaboration with the Ministry of Education has launched a web site to provide support for students to gain knowledge about financial education through interactive learning methods. For adults, the BNM has introduced “Buku Perancangan dan Penyata Kewangan Keluarga (BPPKK)” to stimulate the management of household income, expenses, savings and investments.

Household accounting concepts: Based on the literature discussed above, at present, there is no standardised format of household accounting that being used by householders. The methods used has been varies across individuals and families where as some may prepare on minimal basis and some may prepare in details depending on each needs and purposes. For example, in Japan, the concept of household accounting starts with the use of envelopes (Komori and Humprey, 2000). Different colour of envelopes were used to differentiate them. Each time money was spent out of an envelope, the date and amount of expenditure began to be recorded in a household accounting book. This is an exclusive evidence on how the old timer already perceived the importance of controlling their income and expenses to manage household expenses.

Figure 1 depicts suggested household accounting concept which include budgeting process, strategic financial planning, preparation of financial statements that could facilitate users in making strategic decision for current spending, future planning and also take necessary actions during the time of economic crisis. During inflation, purchasing power decrease despite the increase or remain constant in the value of household income. Therefore, it is important for consumers to keep track of their income and spending behaviour to be able them to become more economic resilience, despite the economic crisis.

To elaborate further the household concept, the authors will explained via the example provided. Ali earned RM2500 a month and Ali has a wife (unemployed) and two children. He allocates his income for the following expenses: RM600 for rent, RM 600 for car and fuel, Utilities RM250, Foods RM 500, Investment RM300



Fig. 1: Suggested conceptual framework

and miscellaneous expenses RM250. This is known as allocation of expenses or budgeting process which will be discussed further as. By doing this, Ali will be able to determine his actual consumption pattern if he use to keep tracks his monthly expenses daily and consistently. At the end of the month, Ali will be able to compare the budgeted expenses with actual expenses and allow him to make modification in the following month. In fact, with this track of expenses, Ali will be able to do understand his spending behaviour, therefore he can easily detected any leakages in his spending. Ali will also be able to determine his ability to make new commitment in future.

On another aspects, take a look at Ali’s monthly consumption. These consumption can be classified to fixed cost and variable cost. Fixed cost are cost that remain constant despite the change in consumption behaviour such as rent and investment. Therefore, nothing much can be done on this fixed costs. The other cost of Ali, can be classified as variable cost. In this context of household accounting, utilities and food are classified as variable cost because increase in electricity tariff and fuel can lead to increase in the amount of variable cost. Eventhough, the kilowatt used for electricity remain constant but the electricity cost will increase if the electricity tariff increase. The same thing will happened for food consumption. In this situation, for Ali to maintain same allocation of amount of expenses without affected his consumption, Ali need to be more wiser in terms of where he bought his groceries. If he feels going to hypermarket will lead to leakages of his expenses, he should start buying groceries at mini market that might offer the same brand at cheaper price. Thus, the information on the household consumption can help users to be wiser in their household management to be more economic resilience despite economic crisis.

Based on the above example, that is clear whereby certain level of accounting knowledge need to be known by householder in ensuring they will be able to utilize the available techniques that is budgeting and financial planning in the context of household. The following section will elaborate the two components of household accounting concepts which include budgeting and financial planning.

Budgeting process: Budgeting process is one of the key element in household accounting. Budgeting can be used to track resource consumption and as a form of rationalization in the way money is being spend (Llewellyn and Walker, 2000). It is necessary to avoid waste, to track savings and to give early warning signals to the housholder. All members of the family should be welcomed to join the budget planning (Komori and Humprey, 2000) in the hopes that the agreed information will be made known, understand and complied by the members. Note that, household budget should not be limited to the allocation of husband's salary but should comprise of budget necessary for the household spending and income (Komori and Humprey, 2000).

Budget is prepared based on previous records of accounting books and used to control everyday spending (Komori and Humprey, 2000)). Any variances ocured must be justified for better improvement in the future. If necessary, solutions must be highlighted to ensure the unneeded variances will not be ocured in the future. Different types of detailed expenditure related to the daily household affairs could be metaculosly included in the budgeting process (Carnegie and Walker, 2007). Money recieved and money spent will be better track if all information is being recorded in details. Commonly, household budgets were made on a short term basis to align with monthly incomed recieved by the household. However, it would be beneficial if the process can include any information that necessary for each member of the family which can be estimated in accordance with their expected life-pattern, incorporating things such as education, special family events such as marriage and savings for retirement (Komori and Humprey, 2000).

However, it was found that, a little evidence appear in the preparation and used of formal budget in the household management where the budget is applicable for purchase of large scale item and particularly during the economic crisis (Carnegie and Walker, 2007). Despite this, informal budgeting could still be common where they are occupied with many other arrangement that would not allow the time to formally plan ahead (Carnegie and Walker, 2007). It could still be argued that, formal budgeted planning will be well communicated across family members and encouraged more effective way of spendings.

In budgeting process, two basic things that need to be identified is in flow and out flow of money. Money in refer to income or salary and money out refer to expenses or consumption. In order to prepare the budget, householder also needs to understand the conservatism concept in accounting. Conservatism principle means the concept of recognizing expenses and liabilities as soon as possible when there is uncertainty about the outcome, but only recognizes revenues and assets when they are assured of being received. To apply this concept in budgeting process, the housholder should be more realistic and careful in determining their expenses and committment. They have to be alerts whether the financial resources available are sufficient to cope with any possibility of contingent liability. Therefore, it is crucial to also list out all financial resources besides our fixed income for us to analyse our financial strength. In addition, applying the conservatism concept in the budget is also an exercise to discipline ourselves to follow accordingly with the plans that have been made.

FINANCIAL PLANNING

Financial planning is an important process that could allowed the users to benefit from multiple perspectives. Guided by a comprehensive budgeting process, proper financial planning will allow users to achieve the optimal desire spending level. Knowledge of financial tools may be beneficial in making strategic decision for the users especially in terms of the ability to control level of cash within the household. Undeniably, the existence of credit cards could waive the problems of level of cash needed by a person. However, improper used of cards may lead to the unnecessary debts. Holders of the credit cards may need to pay on the principal plus the interest charged on the unsettle balanced. The worse situation, once can be declared bankrupt due to overuse of credit cards. Therefore, householder need to learn how to do ideal financial planning for their family.

The householder need to understand and prepare basic simple financial statement to assisst them to assess their financial situation. A financial statement that also known as financial report is a formal record of the financial activities and position of a business, person or other entity. Relevant financial information is presented in a structured manner and in a format that is easy to understand. Financial statements comprise of the position of assets, libilites and equity of one party. To apply the financial assets in household accounting context, the householder must be able to identify their assets and liability. The assets is their financial resources that are available to them besides their monthly income whereas

the liabilities is defining as the household spending. The framework presents the household accounting concept based on the discussion of household accounting literature and household concepts above.

IMPLICATION OF HOUSEHOLD ACCOUNTING

They are several benefits that can be derived for applying household accounting. First, the Malaysian citizens will enhance their family relationships and spouse accountabilities from the household accounting knowledge delivered to them. Given the complex realities of managing a household it is not surprising to discover that the home is a place where we may locate the performance of rational practices such as accounting and where we may identify manifold structures of accountability (Walker and Llewellyn, 2000). Besides, the household accounting can be seen as assisting in the establishment of common values and goals among family members whereas all members in the family have an involvement in preparing and keeping the household accounts so that they could understand and support the practice (Komori and Humphrey, 2000). They further reveal that most housewives will allow their children to keep their own account so that the children will be educated on the importance of money and not to spend them in a selfish manner. Therefore, engaging in the household accounting at the early stage in life will indirectly made people accustomed on the importance of spending wisely, curb unnecessary debts that can harm the society and subsequently increased the surplus income.

Secondly, the household accounting will strengthen the bond amongst family members or individuals users. This is true especially when all members understand the household accounting concept, actively participate in setting up the budget, highly engaged in achieving the targeted spending and finally to reduce any unnecessary variance that can caused stressed to them. The users of household accounting will be trained how important is to be control of their own spending, and subsequently be able to reduce or eliminate stress especially when the inflation is high and the economy is bad. By preparing the comprehensive household accounting it will not only benefit the users in a current period but also will remain positive in the future years.

Thirdly, by applying household accounting will require the householder to do record keeping. This is important because the reparation of income tax assessment required supporting documents for tax relief and rebates. It will also be useful for insurance claims in

case of death, accident, and theft and damages because insurance company needs original documents to settle the claims. Thus, complete record will shorten the time for insurance claims. Furthermore, the record keeping will assist householder to assess the expenditure pattern of the past that will be useful in financial planning. Based on the record, it gives ideas on the pattern of the consumption that will lead to better household management.

CONCLUSION

This study contributes to household accounting field, in particular on the aspect of household accounting concepts. With the understanding of the concepts of household accounting, it is hope that households can prepare a proper account for themselves. Based on the discussion above, aspects of management household finances need to be given serious attention by the head of the family and household. To help the financial aspects of household management, knowledge accounting and the skills to use the tools of accounting is helpful. Three basic concepts in household accounting need to be focused on. That is financial planning, budget process and the financial statement for households.

ACKNOWLEDGEMENTS

The researchers would like to express their gratitude to the Ministry of Education of Malaysia for funding the research project through the RAGS grant (RAGS/2013/UITM/SS05/21). Our appreciation also goes to the Faculty of Accountancy, Universiti Teknologi MARA Selangor, Kampus Puncak Alam, Malaysia for facilitating the research project.

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