

FACTORS INFLUENCING UNDER-REPORTING OF FINANCIAL PERFORMANCE AMONG STUDENT LUBS AND ASSOCIATIONS

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Abstract: *This paper aims at understanding factors that contribute to under-reporting of financial performance among student clubs and associations. Accounting information is not important for business only, but it is also essential for clubs and associations to plan and manage their financial matters more effectively. However, most student clubs and associations do not keep a proper book of accounts since there is no legal obligation to do so. Another reason is because they perceive accounting is a very difficult process due to the lack of exposure in providing accounting records particularly for non-accounting students. Using qualitative research design, semi-structured interviews were conducted with 13 students who were the representatives of 13 different clubs and associations from a tertiary institution in Melaka, Malaysia. Results show lack of accounting knowledge, inadequate training and poor source document keeping are the key factors influencing under-reporting of financial performance among these student clubs and associations. Investigating the issues that contribute to under reporting of financial performance by the clubs and associations would be useful for the university Student Affairs Division in designing appropriate training to improve the club treasurers' financial reporting.*

Keywords: *Accounting records, financial reports, clubs and associations, semi-structured interview*

Introduction

Student clubs and associations are predominantly small non-profit organizations that aim to serve the club members without profit motive. The survivability of these clubs and associations in delivering services to its members highly relies on the fund provided by the Student Affairs Division and the annual fee collected from all members. To ensure the continuous approval and support from the fund providers, it is paramount for these clubs and associations to discharge their accountability towards a wide range of stakeholders in managing the received funds (Verbruggen et al., 2011). Moreover, detail disclosure of financial standing and social performance of the clubs and associations can enhance NPOs credibility, build community trust and demonstrate their responsiveness to their stakeholders (Zainon et al., 2014). In fact, issues on transparency and accountability of NPOs have been emphasized continuously as the key requirement for good governance (Burger & Owens, 2010).

Accounting knowledge is essential to plan and manage financial matters effectively. Accounting information is vital for decision making whereby it helps business owners to identify cash flow, cost of production, asset and liabilities (Umeji & Obi, 2014). In relation to club and association, the accounting information will help the top management in managing the club operations to achieve their objectives of establishment. However, most student clubs and associations do not keep a proper book of accounts since there is no legal obligation to do that. Three points of view were defined for looking at financial insight namely, knowledge of financial matters, organizing financial matters and managing and steering the company based on figures (Lentz et al., 2016). The same points of view should be applied for clubs and associations. However, many perceive accounting is a very difficult process due to its complexities. To date, most registered clubs and associations at a tertiary institution in Melaka failed to submit complete financial reports to the Student Affairs Division. Meanwhile, the clubs and associations that submitted their financial reports failed to submit the reports within the given time frame and did not follow the stipulated standards or requirements. This has caused a lot of difficulties for the Student Affairs Division to closely monitor the performance of the registered clubs and associations.

If a club or an association is unable to keep an adequate accounting record, the club or association management will face a major problem due to the inability to monitor the financial status. This could ultimately affect the sustainability of the club or association. Therefore, it is essential for clubs and associations to keep all documents properly and record them so that they would be able to produce a complete financial report. This study aims to investigate the factors that contribute to under reporting of financial performance among student clubs and associations in a selected tertiary institution in Melaka. The rest of this article is arranged as follows. In Section 2, we present the relevant literature. In Section 3, we discuss the findings of the study. Finally, we conclude the paper and give recommendations for future study in Section 4.

Literature Review

Accounting Literacy among Non-Profit Organizations

Preparation of proper accounting records is not only limited to business entities. Organizations that have been set up for other purposes other than making profits (non-profit organization) are also required to present transparently on how they dealt with the organization's money (Dunn, 2015). Financial reporting consists of financial statements which are often used by internal and external users to make important economic decisions (Drexler et al., 2014; Roslan et al., 2018). Complete understanding of the main components of financial statements like Statement of Financial Position and Statement of Profit or Loss provides a better view of an organization's profitability, performance, and financial status which consequently facilitates smarter business decisions (Akhtar & Liu, 2018). According to accounting standard setters and regulators, measurement and disclosure are the main focus for the practitioners to give their attention to (Christie et al., 2010). For profit-orientated organizations, the preparation of financial accounting helps the organization to gain additional capital or additional loan when they wanted to expand their business (Robb & Robinson, 2010; Ajibade & Khayundi, 2017). However, Ajibade & Khayundi (2017) argued that most small profit-oriented organizations have poor accounting practices though their main objective is to maximize their owner's wealth. This is because there is an absence of enforcement for small organizations to submit financial reports. In other words, it is not compulsory for these small organizations to submit financial reports as it is solely based on the entity's own initiative do so. In addition, there is scant awareness, knowledge, and exposure as well as lack of reference to be used as guidance which finally led to this financial invisibility (Ajibade & Khayundi, 2017). This does not apply to only small profit-oriented organizations but also to non-profit-oriented organizations like clubs and associations (Roslan et al., 2018).

There is no mandatory requirement for non-profit organizations, clubs, and associations in Malaysia to prepare and report their accounts. The clubs and associations normally prepare their accounts voluntarily and as an additional initiative to keep track of money inflows and outflows to avoid any budget surplus. Financial literacy training program might be a tremendous help to those in charge of club or association accounting record. A good and transparent financial disclosure might also reduce the tendency of fictitious debts to arise (Dimitropoulos, 2014). As pointed out by Joseph (2016), there is a need for non-profit organizations to send their staff for financial literacy training as those involved in clubs and associations comparatively are from various backgrounds and have inadequate knowledge on accounting. Accounting records and disclosure for club and association are slightly different from the normal profit-oriented organization. For example, income and expenditures account differ from statement of receipts and payments, and the terms 'surplus or deficit' are used compared to 'profit or loss' which are essentially the same but without the emphasis of 'profit' (Dunn, 2015).

The sequel of financial accounting disclosure on club and association reputation

Hofmann & McSwain (2013) examined non-governmental nonprofit managers' behavior on financial reporting disclosures. The researchers found managers have a lot of motives to report financial status to the extent that they altered spending decisions, selected the best accounting methods, and modified the allocation of budget to meet certain performance indicator of their organizations. According to Morrow (2013), the focal point of financial disclosure of a football club is the economic events, transactions and future projections of financial impacts. This information was prepared specifically for the stakeholders more than for the shareholders resulted in different pictures to be provided of the club's performance. A research done on the

financial management of a motor sport club found the accounting records and management were managed by unskilled club members who did not have any education background related to record management which landed them in difficulties in managing their asset information (Joseph, 2016). The motor sport club members should be equipped with relevant knowledge, training or assistance in maintaining proper club financial records (Joseph, 2016). As underscored by Drexler et al. (2014), there is a positive relationship between financial literacy training program and range of measures of financial well-being.

Hofmann & McSwain (2013) stated that regulation and taxation imposed by the government create incentives for non-profit organization such as hospital for financial disclosure management. These can be seen and measured through their utilization of funds in providing the ultimate services and sufficient level of charity care for the citizens. A research done by Ng (2021) that examined financial performance of a non-profit organization in the context of university's survivability looked specifically into the university's performance and viability through its Statement of Cash Flows pattern. Based on the findings, Ng (2021) concluded it is important to have a good financial disclosure to help the decision makers make the best economic decision on whether to continue the university operation or halt its operation. Even though the university is not a profit-oriented organization, it still handled a large amount of money from various sources like contribution from its members through monthly or annual fee as well as grant, subsidy, sponsor or donation from other parties to support its activities. A research done by Bachmaier et al. (2018) revealed that financial assessment and monitoring process are ineffective among football clubs in Germany which endangered the clubs' financial stability for securing the league competition. Additionally, corporate governance can be a useful weapon to lower the risk of financial instability (Dimitropoulos, 2014). Regulatory procedures on financial reporting disclosure for clubs should be strengthened to help reduce internal control issues and increase the monitoring of procedure weaknesses (Bachmaier et al., 2018; Dimitropoulos, 2014). Proper financial reporting disclosures might improve the reliability of financial statements and consequently help the users in making economic decision (Roslan et al., 2018).

Accountability is one of the elements that can be highlighted by any non-profit organization or club or society which can be achieved by appropriate accounting records. The aspect of 'accountability' or the so-called stewardship role of the management of these nonprofit-organizations should be the main objective of financial reporting: the financial statements must also record the results of the management's stewardship. Grumet (2004:7) emphasized the importance of accountability with the contention that the audit of non-profit organizations should not only focus on whether the organizations are indeed 'doing ... things right', such as correctly recording all income and expenditure, but also on whether these non-profit organizations are indeed 'doing the right thing' in realizing their stated mission, and are not misappropriating their funds. He further argued that '(d)oining the right thing is more important than maintaining an appearance of doing things right'. As emphasized by Charles (2019), users are interested in the ongoing viability of an organization, as well as how efficiently it is meeting its mission and objectives. Parsons (2003) posited that an important function of accounting and financial reporting is to assist the analysis and evaluation of organizations.

Neville, Sauerwald and Wright (2001:28) hold the view that the reporting needs of stakeholders may differ, but one should not forget about the accountability to be shown to the providers of funds and donors. One question arises whether the providers of funds and donors should receive detailed accounting reports or not. The reality is that there is an increasing pressure on

organizations to make such information available. Thus, it is clear that accountability is an extremely important matter to donors. Donors want to know the funds that they have donated to non-profit organizations have indeed been used as the donors requested (Cairnes, 2002:21; Carswell, 2003:34-35; Keating, 2003:28-30).

Therefore, non-profit organizations have a responsibility to ensure that they adhere to the wishes of donors, and comply with any restrictions placed on the spending of the funds. It was a clear indication that donors want financial reports which show the funds have indeed been spent as they should have been (Rossouw, 2006).

Research Methodology

A qualitative research design was used to obtain information on the current practice of student clubs and associations provision of their accounting records and financial reports. The collected data also provide information on the student clubs and associations' awareness on the importance of accounting. Semi-structured interviews were conducted with thirteen student club and association treasurers of one faculty at a higher learning institution in Melaka, Malaysia. The table below shows the participants' profiles.

Table 1: Profiles of the Interviewees involved in the Semi-Structured Interviews

No	Gender	Positions in the club	Duration of the interview session (minutes)
1	Female	Treasurer	20
2	Male	Treasurer	23
3	Female	Treasurer	21
4	Male	Treasurer	22
5	Male	Treasurer	24
6	Female	Treasurer	25
7	Female	Treasurer	20
8	Female	Treasurer	21
9	Female	Treasurer	23
10	Female	Treasurer	24
11	Female	Treasurer	25
12	Female	Treasurer	23
13	Female	Treasurer	22

The participants were chosen for two reasons. Firstly, they were the ones who manage the financial matters of the clubs and associations including keeping all the documents related to financial matter related to the club and associations' activities. Secondly, as treasurers they were responsible in preparing the financial statements of the clubs and associations for each accounting period.

The researchers pre-arranged the interview meetings via personal communication with the interview participants. All of them were given a short briefing on the purpose of the research prior to the interview sessions. The interview sessions were conducted through Google-Meet platform in which they were asked on bookkeeping. The participants were required to give their answer or opinion on twenty open ended questions regarding financial report for student clubs and associations. The questions were divided into four sections. The first section focused

on the record keeping. The participants were asked on their level of knowledge on preparing financial statements for clubs and associations. The second section focused on the source document. They were asked on the type of source document they kept and how did they keep the club and association source documents. The third section emphasized on the preparation of financial statement. The participants were asked whether the financial statements prepared follow the accounting standards and principles. Finally, the fourth section zeroed in on other matters related to the clubs and associations. The interview sessions lasted from 20 to 25 minutes for each participant. All sessions were recorded and transcribed by the researchers for further analyses.

Findings and Discussion

There were four main findings derived from the interview data. The first finding was on the participants' practice in maintaining proper accounting records and preparation of their club and association financial reports. 77 percent of the interviewees said they did not maintain proper accounting records. Most of them were not able to maintain proper accounting records because they did not have accounting knowledge and they were never exposed to accounting for club and association. However, they were willing to attend any accounting training course as it would be very beneficial to them.

As reported by the participants, they had no prior accounting knowledge:

"I don't know because I'm not from accounting background during my SPM, so I don't know anything. But I'm trying to learn it"

"I do not know how to record it"

"I have not yet been involved in recording the club's accounting record. I am still in learning to record from the former treasurer"

However, 23 percent of the participants admitted they maintained accounting records, but only focused on recording the cash inflow and outflow. Thus, it could be said that they had little accounting knowledge.

"I record in Microsoft Word. I just made a table to record cash inflow and outflow"

"I records using a logbook, I create our own format and record money for each event held"

"I recorded all the transactions that had financial implication from working paper"

With regard to the preparation of financial reports for the clubs and associations, 92 percent of the participants said they prepared some form of final report.

"I have never prepared financial report for club"

"I don't know how to prepare it".

It is clear that most of them did not know how to prepare financial report and were never exposed to the standard format of financial reports for club and association. Only 1 participant

took the effort to prepare financial report even though he did not follow the proper format of financial reports,

“I don’t know how to prepare right financial report, but I just Provide simple financial report, for example funds approved by faculty then minus expenses”.

The second part of the interview was meant to find out whether the student club and association treasurers kept all the source documents such as official receipt, invoices, payment vouchers, cash bills and so on properly. Source document is the original document that contain the details of the club and association transactions. Every club and association treasurer must keep the source document properly as key information about transactions and as evidence to prove the occurred transactions. 62 percent of the participants admitted they did not keep source documents and some of them thought the event treasurer was the one responsible to keep the source documents not the honorary treasurer.

“I’m not keeping any source document, all the source documents are kept by event’s treasurer and not by honorary treasurer”

The remaining 38 percent said they only kept the original source documents and did not make any copy as backup if the original source document was lost, and most of them kept the documents in the form of softcopies.

“Yes, I keep it in a file and I just keep the original copy only”

“Yes, we were keep the source documents. After we receive money, we issued a receipt and we keep it in form of softcopy in PDF format”

“Yes we keep all the purchase receipt by pasting it on A4 paper and keep it in a file. We have the carbon receipt for a copy, and some do not have a copy.

The third section of the interview looked at the level of accounting literacy among the treasurers. They were asked basic accounting terminologies such as ‘financial report’ ‘sales’ and ‘surplus’. 54 percent of the participants answered “I don’t know” while 46 percent of them were able to give some kind of explanations of the terminologies even though they were not sure whether they were right or not. This shows the club treasurers had very little knowledge, skill and experience on accounting and needed training.

“I don't know much. From my understanding, financial report is an annual report to show the club's income, expenses, how much money the club has spent during the year, and we can know how much money we have left over the year”

“From my opinion the financial report is to providing the details of the event that has financial implications (money in and out). It shows how much the final balance is in the club's account”

“From my opinion, financial report is used to record event's transaction, for example how much money was used for the event”

“Personally, I don’t have much knowledge about it, from my understanding it relates to identify total expenses, and to record amount spent by club”

The final part of the interview was to determine the level of the treasurers’ awareness of the importance of accounting for their clubs and associations. They were asked to share their thoughts about the importance of proper accounting records and source documents. All the participants agreed every club must have proper accounting records and student clubs and associations must keep all the source documents well for audit purpose. It indicated that they realized the importance of doing proper accounting and keeping the source documents.

“For me it is important, so we can know how much money goes in and out, and we are able to know the current financial balance of the club. Besides, we can know how much money that we spent and we can avoid from over-spending”

“For me it is important. Because we can keep track of the club's finances and we can detect the error”

“For me it is important, because from proper accounting records we can share to all members how much money the club has left, and can avoid embezzlement”

“I think it's important, especially if the club receives fund from the faculty, because the faculty wants to see how and where the money is spent”

“Yes, for me it is very important, especially for the purpose of claims. There are certain things we need to buy with our own money, and during we make a claim to Bursary, they need all the original official receipts”

Conclusion

This study investigated the factors that contribute to under-reporting of financial performance among student clubs and associations. Findings from this study indicate the lack of accounting knowledge is the main factor contributing to the under-reporting of financial performance. The lack of accounting knowledge among the treasurers will lead to misleading financial reports. Accounting knowledge is essential to plan and manage financial matters effectively and will help the top management in managing the club operations to achieve their objectives of establishment. 77 percent of the participants did not maintain proper accounting records due to their lack of accounting knowledge, and 54 percent of the interviewees did not know accounting terminologies.

This study also found inadequate training was also one of the factors causing the treasurers failed to provide proper accounting records. This was supported with 92 percent of the participants’ admission that they did not know how to prepare financial report and were never exposed on how to prepare financial reports for club and association. 62 percent of the participants also admitted that they did not keep the source documents which was another factor why the treasurers failed to provide proper financial reports. Source documents are very important to capture the key information about transactions such as the name of parties involved, amount paid, the date, and the approval by authorized person. If a club or association treasurer did not keep proper source document, they would be unable to provide proper accounting records.

Identifying factors that could influence under-reporting of financial performance among student club and association treasurers is vital as it could offer some insight into the club and association's management. The findings of this study could be used to help them plan and manage financial matters effectively. Overall, the Student Affairs Division is recommended to provide accounting training course to all club and association treasurers to improve their financial reporting. In return, club treasurers could increase their accounting knowledge and skills and be more committed in preparing proper financial reports. This study also contributes to the literature of employing semi-structured interviews in under-reporting financial performance of club and association studies.

This study was conducted with some identified limitation. Following limitation is the recommended for future study which could be carried out as to improve the mentioned limitation. This study is limited to thirteen club treasurers under one of the faculty of the higher learning institutions in Melaka only. Future research should include more public and private universities as well as more club treasurer from various clubs.

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