Household Accounting: A case study of Johor State

Norhayati Alias ¹, Raziah Bi Mohamed Sadique ², Noraizah Abu Bakar³, Dini Onasis⁴,

¹ Faculty of Accountancy, Universiti Teknologi MARA, Shah Alam Malaysia ² Faculty of Accountancy, Universiti Teknologi MARA, Negeri Sembilan Malaysia, ³ Faculty of Accountancy, Universiti Teknologi MARA, Johor Malaysia, ⁴ Faculty of Commerce, Universiti Lancang Kuning Riau Indonesia.

Email of all Authors: norha927@uitm.edu.my, razia350@uitm.edu.my, norai738@uitm.edu.my, prodiakuntasi@unilak.ac.id
Tel Author1: +60192334546

Abstract

Household accounting is also known as the financial management of household income and consumption were given attention during this pandemic era. The reason is that the pattern of spending among households plays an important role in ensuring the financial stability and sustainability of households, especially during a crisis. During the inflation phenomenon, purchasing power decreases despite the increase or constant in the value of household income. A significant amount of the consumption among households is finances through debt. Malaysia’s household debt to GDP is among the highest in Asia that exceeded several high-income nations, including the United States and Japan. The household-to-GDP ratio was 86.9% in 2015 and increased to 87.5% as of June 2020. The increase especially during the contraction of nominal GDP and economic crisis because of the Covid-19 pandemic is indeed very alarming. Therefore, consumers need to keep track of their income and spending behavior to help them to become more resilient, despite the economic crisis. This study attempts to investigate the pattern of managing household accounting, specifically consumption and income among Johor citizens. For this study, the secondary data was collected through the Report of Statistics Department for the year 2019. Descriptive statistical analysis was carried out to investigate the patterns of consumption among three income groups: B40, M40, and T20. Consumptions were divided into 13 groups of necessities and non-necessities household expenses. The result showed...
that across the three groups, housing and utility expenses are the highest consumptions followed by food and non-alcoholic beverages. Group B40 is the lowest income group among the three consumed more than the other two groups for both types of expenses. One possible explanation could be this group has more members in the household as compared to the other two groups. However, a more detailed analysis of this fact should be carried out in the future to understand why it is so. This study is limited only to Johor state. A future in-depth study could widen the sample to the whole of Malaysia to better understand the general pattern of consumption of Malaysian households. By understanding the pattern of consumption, we could help the household to better manage their spending, prioritize their consumption, and hope to help them to save some for future use.

Keywords: household, household accounting, income, consumption

INTRODUCTION

The importance of household financial management has often been overlooked at the national level. Household accounting to be specific, financial management of household income and spending has been a significant unchartered area of research (Walker and Llewellyn, 2000). It has only been an emerging trend in research to understand the role of the household in national income and spending these few years back. Household accounting concept which includes budgeting process, strategic financial planning, preparation of financial statements accordingly could facilitate users in making a strategic decision for current spending, future planning, and taking necessary actions during the time of economic crisis. This is because, during inflation, purchasing power decreases despite the increase or constant in the value of household income. Therefore, consumers need to keep track of their income and spending behavior to help them to become more resilient, despite the economic crisis. Alias et al (2016) conclude that household accounting is an important element for people to survive under the strained economics. Thus, the objectives of this paper are twofold: First, to investigate the trend knowledge household accounting from the aspects of consumption and income among Johor citizens. Secondly, the study attempts to
investigate the pattern in managing household accounting, specifically consumption and income among Johor citizens.

LITERATURE REVIEW

Malaysia, a federal constitutional monarchy situated in Southeast Asia, consists of 13 states and 3 Federal Territory. Johor is one of Malaysian 13 states and comprises of 10 districts, namely, Johor Bahru, Pontian, Mersing, Kluang, Batu Pahat, Muar, Segamat, Tangkak, Kota Tinggi, and Kulai. It is in the South of Peninsula Malaysia with 3.9 million inhabitants, which represent 11% of Malaysia's population. Johor Sustainable Report 2020 carefully relooked and reevaluated Johor’s progress in ending poverty and other deprivations in line with strategies that improve welfare, reduce inequality, and spur economic growth. Thus, this makes this study valuable in understanding household income and consumption of Johor State.

A household is defined as a person or persons that have the same (one) address, living together in the same residence (primary residence), and sharing the accommodation and meals (Sheykhi, 2010). Households are classified based on the size of the household in terms of several family structures and based on gender and age structure of children, adults, and pensioners in the household. Further, household accounting can be explained concerning how household manages their income and consumption in their daily life. A study conducted in Australia revealed that household accounting pursued by individuals and families varies according to gender and class. Given that, no standard format is being used by the householder to record their consumption. The study found that components used are varies depending on the needs and diverse from one element to comprehensive personal record-keeping systems. The study found that household accounting has only been used as an instrument for restraining consumption, particularly during times of crisis rather than more formal books of accounts (Carnegie and Walker 2007).

The pattern of spending among households plays an important role in ensuring the financial stability and sustainability of households, especially during a crisis. The pandemic crisis, without a doubt, has a severe impact on the household economy (Bottan et al, 2020). Their study on the impact of the pandemic on the household’s economy of 17 developing countries in Latin America and the Caribbean shows that the impact is severe and unequal. Unemployment and the closing of small
businesses are the most devastating impact of the pandemic. The pandemic also has an impact on food security and public health. This will directly impact the national economy when unemployment increases and the business closes, the poverty rate will increase as well. The pattern of spending among households varies in terms of range and amount and from foods and services. As their income increases, the household spending become wider. With a lower income, spending is fixed to necessity where foods consumed a large part of the spending. As income increases, spending becomes more diversified to more than what is needed (Chai et al., 2015). A working paper by Chai (2018) on the changes in the industrial composition of growing economies and changes in the household demand found that as income increases and spending pattern diversifies, the demand for other than necessities will increase resulting in the growth in manufacturing and services industries. This positive relationship increases the GDP and the country’s economy.

The significance of household accounting has been recognized by the Japanese Government ever since 1954 and has continued ever since by promoting household accounting practiced as a part of the national “Saving Promotion Movement” (Komori and Humphrey, 2000). Similarly, accounting was a central feature of daily existence among the middle classes in Britain during the late seventeenth and eighteenth centuries (Hunt, 1996). Politics, ethics, religions, and level of educations obtained may have some effects on accounting practices by individuals. Carneige and Walker (2007) in a more detailed study conducted, it is found that Australian household accountants were most likely to be found among the educated middle and landed classes with Anglo-Saxon. 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 women and men.

METHODOLOGY

The study will be quantitative. Data-driven for this study is using a secondary type of data which the data collected from statistical databases residential in Malaysia. Data collected by the department is comprehensive and covers the vast majority of respondents in Malaysia. Due to the different socio-economy in a different state in Malaysia from the level of the state’s economy and development, Johor state
was chosen for our initial study for its major household income falls in second place after Wilayah Persekutuan Labuan at RM2,505 per month.

The basis of data collection by the department referred to the System of National Account, United Nations; Framework for Statistics on the Distribution of Household Income, Consumption and Wealth (2013), Organization for Economic Co-operation and Development; and the Classification of Individual Consumption According to Purpose (COICOP), United Nations. Data for income and consumption for Johor State were collected from a report compiled by the Statistic Department of Malaysia for the year 2019. Descriptive analysis as a mean was used to determine the pattern for household income and consumption.

**ANALYSIS AND DISCUSSION OF DATA**

This study focused on the pattern of spending among households in Johor state that plays an important role in ensuring the financial stability and sustainability of households, especially during a crisis. Thus, an essential function of consumption becomes the main issue that needs to be focused on. The consumption is based on three basic expenditure concepts namely household consumption expenditure, household non-consumption expenditure, and current expenditure. While the determination of cost of goods and services, the approaches used are acquisition, consumption, and payment. The classification of expenditure items is based on the thirteen expenditure groups following the guidance of COICOP with the thirteenth expenditure group being a non-consumption expenditure while the other twelve are consumption expenditure items. The thirteen expenditure groups are as follows.

1. Food & non-alcoholic beverages
2. Alcoholic beverages and tobacco
3. Clothing and footwear
4. Housing, water, electricity, gas, and other fuel
5. Furnishing, household equipment, and routine household maintenance
6. Health
7. Transport
8. Communication
9. Recreation services and culture
10. Education
11. Restaurants and hotels
12. Miscellaneous goods & services
13. Miscellaneous expenses and financial expenses

The income is represented by the income group defined by the Department of Statistics of Malaysia. The basic income distribution group is B40, M40, and T20. B40 represents those with a household income of less than RM5400 while M40 represents household income between RM5400 - RM10,879. T20 is the upper group of income representing a household with an income of more than RM10,879.

This study attempts to look at the pattern of spending between the three groups of income to understand how households in Johor manage their spending within their income received. The data is shown in table 1. The highest average spending is for housing, water, electricity, gas, and other fuels that showed the expenditure group of number 4 (housing, water, electricity, fuel) becomes the first precedence spending among households in Johor state at the number of RM1092. The data shows that the B40 group spend 5% more on expenditure group number 4 compared to group T20. The second biggest spending is on food and non-alcoholic beverages at the amount of RM812 on average. Again, B40 spend more than M40 and T20, more by 3.9% and 8.7% respectively. In general, group T20 would spend more on expenditure group number 1 (food and non-alcoholic beverages), for normal spending habits, when income earned is higher, the cost of houses incurred will also be higher. However, the data shows the other way round, the lowest income group spends more for expenditure group (food and non-alcoholic beverages). A possibility of having more members staying in one household for B40 resulted in the cost of water and electricity being higher even though the cost for housing is low. Transportation expenses come at third rank and the fourth is restaurant and hotels expenditure. For these two types of consumption, B40 spend less than T20 but M40 spend more than T20 on restaurants and hotel. One would assume that T20 would spend more or the highest spender on restaurants and hotels as they earn more, therefore have more money to spend on non-essential items. For transportation it seems fair for higher-income earners to spend more with the notion that they have more to spend, they can afford to.

Rank at number 5, is miscellaneous goods and services with the average spending per month amounted to RM385. This spending increases constantly with the
income level of the three groups. The trend is the same with Communication expenditure group and recreation services and culture which rank at number 6 (health) and 7 (transport) respectively. Ranking number 8 is expenditure for furnishing, household equipment, and routine household maintenance. The entire three groups seem to be spending almost the same average amount of RM185 for this group of expenditure. Health expenditure falls at number 9 and Education at number 12. T20 spending for these two groups of expenditure is the highest among the three groups. Being at the almost bottom ranking shows that the importance of spending on health and education is quite low for the respondents. Two possibilities that contribute to this are a low sense of awareness of the importance of health and education or the free education and health services provided by the government causes the people not to consider spending more on health and education.

Ranking at numbers 10 and 11 is expenditure on alcoholic beverages and tobacco and clothing and footwear. For alcoholic beverages and tobacco, the M40 group spends the highest. It would be interesting to know if the spending is more on alcoholic beverages or tobacco. As both items do have a significant impact on physical and mental health, understanding in depth the pattern of spending on these two items would benefit all. Again, group B40 spend more on clothing and footwear. This is consistent with expenditures number one and two. One apparent possibility to this trend is many in group B40 are those who just started working and family. So, household income for this group mainly comes from both parents (dual-income earners) only and the numbers of dependents are more compared to the other two groups of income.
Table 1: Ranking of spending by consumption expenditure by a group of income

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Rank</th>
<th>Average (RM)</th>
<th>%</th>
<th>B40</th>
<th>M40</th>
<th>T20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing, water, electricity, gas &amp; other fuels</td>
<td>1</td>
<td>1092</td>
<td>22.8</td>
<td>25.8</td>
<td>21.8</td>
<td>20.8</td>
</tr>
<tr>
<td>Food &amp; non-alcoholic beverages</td>
<td>2</td>
<td>812</td>
<td>16.9</td>
<td>21.6</td>
<td>17.7</td>
<td>12.9</td>
</tr>
<tr>
<td>Transport</td>
<td>3</td>
<td>670</td>
<td>14</td>
<td>10.9</td>
<td>14.3</td>
<td>16.6</td>
</tr>
<tr>
<td>Restaurants &amp; Hotels</td>
<td>4</td>
<td>637</td>
<td>13.3</td>
<td>12.5</td>
<td>14.1</td>
<td>12.7</td>
</tr>
<tr>
<td>Miscellaneous good &amp; services</td>
<td>5</td>
<td>385</td>
<td>8</td>
<td>6.7</td>
<td>7.6</td>
<td>9.6</td>
</tr>
<tr>
<td>Communication</td>
<td>6</td>
<td>263</td>
<td>5.5</td>
<td>4.1</td>
<td>4.6</td>
<td>7.4</td>
</tr>
<tr>
<td>Recreation services &amp; culture</td>
<td>7</td>
<td>217</td>
<td>4.5</td>
<td>3.9</td>
<td>4.6</td>
<td>5.4</td>
</tr>
<tr>
<td>Furnishing, household equipment &amp; routine maintenance</td>
<td>8</td>
<td>185</td>
<td>3.9</td>
<td>3.9</td>
<td>4.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Health</td>
<td>9</td>
<td>150</td>
<td>3.1</td>
<td>3.1</td>
<td>3.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Alcoholic beverages &amp; tobacco</td>
<td>10</td>
<td>149</td>
<td>3.1</td>
<td>2.8</td>
<td>3.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Clothing &amp; Footwear</td>
<td>11</td>
<td>146</td>
<td>3.1</td>
<td>3.5</td>
<td>3.2</td>
<td>2.6</td>
</tr>
<tr>
<td>Education</td>
<td>12</td>
<td>87</td>
<td>1.8</td>
<td>1.2</td>
<td>4.6</td>
<td>2.0</td>
</tr>
</tbody>
</table>

CONCLUSION

The result showed that across the three groups, housing and utility expenses are the highest consumptions followed by food and non-alcoholic beverages. Group B40 is the lowest income group among the three consumed more than the other two groups for both types of expenses. This is an alarm finding that detailed analysis into this fact should be carried out in the future to have a further understanding of the phenomenon that occurred. This study is limited only to analyzing household income and consumption for Johor State and only used secondary data. Therefore, future research can be extended to analyze general patterns across states in Malaysia. In addition, it is also important to study factors that contribute to the income and consumption pattern. The purpose is to formulate a strategy that can help the household to better manage their spending, prioritize
their consumption, and hopes to help them in saving for future use that can increase household healthy lifestyle.

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