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Household Accounting: A case study of Johor

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Abstract

The pattern of spending among households is vital in ensuring the financial stability of households, especially during a crisis. This study explores the pattern of managing household accounting (consumption and income) among Johor citizens. Secondary data was obtained from the Statistics Department 2019 report. Descriptive statistical analysis was carried out to explore the patterns of 13 groups of consumption among three income groups: B40, M40, and T20. Housing and utility expenses are the highest consumptions, followed by food and non-alcoholic beverages. This study is limited to Johor state. A future study could widen the sample to the whole of Malaysia.

Keywords: household, household accounting, income, consumption

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1.0 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 uncharted area of research (Llewellyn and Walker, 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 economic crisis. Managing one income and spending is beneficial during inflation: purchasing power decreases despite the increase or constant household income value. 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 essential for people to survive under strained economics. Thus, the objectives of this paper are twofold: First, to investigate the pattern of household accounting from the aspects of income and spending among Johor citizens. Secondly, the study explores the pattern in managing household accounting, precisely income, and consumption among Johor citizens.

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2.0 Literature Review

Malaysia, a federal constitutional monarchy situated in Southeast Asia, consists of 13 states and 3 Federal Territories. 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, representing 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). Household income is the total amount of money earned by every member of a single household. Sources of household income include wages, salaries, investment returns, retirement accounts, and welfare payments. Households are classified based on the household size 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 households manage their income and consumption in their daily lives. A study conducted in Australia revealed that household accounting pursued by individuals and families varies according to gender and class. Given that, the householder uses no standard format to record their consumption. The study found that components used vary 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 spending pattern among households plays an essential role in ensuring financial stability and sustainability, 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, and the poverty rate will also increase. The spending pattern 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 consume a large part of the spending. As income increases, spending becomes more diversified to more than 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. However, as the spending pattern diversifies, shifts from one's need to one's want, many households resort to debt financing. According to the report by Agensi Kaunseling and Pengurusan Kredit (AKPK) (2018), 3 out of 10 Malaysian working make a loan to finance their purchases. Moreover, the amount of debt both for property and consumption from 2003 to 2018 has increased, as reported by Bank Negara Malaysia (2019). This is indeed quite worrying. Lee, Charun, and Mohd Zaki (2021) studied the factors in debt accumulation in Malaysia indicated an upward trend in loans in Malaysian households, which sees the negative impacts on household savings.

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" (Kamari 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, 1996). Politics, ethics, religions, and level of education obtained may affect accounting practices by individuals. Carnegie 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.

3.0 Methodology

The study will be quantitative. Data-driven for this study uses secondary data, which is collected from statistical databases residential in Malaysia. Data collected by the Department of Statistics, Malaysia 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 state's economy and development level, Johor state was chosen for our initial study because its primary 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. In addition, 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 household income, expenditure, and consumption patterns. The analysis was categorized based on the household income group that is B40, M40, and T20. This ensures that the income and expenditure among these groups of people can be present evidently. In addition, the consumption for each household group was presented to show the relation between household group and household consumption.

4.0 Analysis and discussion of data

This study focused on the pattern of spending among households in Johor state that plays an essential role in ensuring households' financial stability and sustainability, 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: household consumption expenditure, household non-consumption expenditure, and current expenditure. While determining the 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 Classification of Individual Consumption According to Purpose (COICOP), United Nation. COICOP classified consumption into 13 groups, 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. According to DOSM, household income refers to total income received by members of household both in cash and in kinds that occur repeatedly within the reference period of household income. The primary income distribution group is B40, M40, and T20. B40 refer to lowest income group, M40 refer to middle income group and T20 refer to upper class 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 more than RM10,879. The Malaysian government has provided many incentives and subsidies for the lower income group (B40) which a few of the incentives been extended to the middle-income group (M40). The B40 group is eligible for the Bantuan Sara Hidup (BSH) or Bantuan Prihatin Rakyat (BPR). There are also government housing schemes especially for B40 groups such as the Program Perumahan Rakyat (PPR) and Program Perumahan Rakyat Termiskin (PPRT) for the poorest among B40. Also, the B40 group is automatically eligible for PeKa B40. Like B40 households, M40 households can apply for BSR (for those earning below RM5,000). There are also a few government aids, schemes, and facilities that M40 can leverage, such as government housing schemes, moratorium, and other MCO assistance under the PRIHATIN, PENJANA PEMERKASA, and PEMULIH Packages. This study analyzed each group's consumption amount and ranked it from the highest consumption to the lowest. The ranking is presented first based on overall consumption by all three groups and second based on each income group's consumption pattern.

Table 1: Ranking of income spent by Johor household expenditure items.

Expenditure	Rank	Average (RM)	%
Housing, water, electricity, gas & other fuels	1	1092	22.8
Food & non-alcoholic beverages	2	812	16.9
Transport	3	670	14
Restaurants & Hotels	4	637	13.3
Miscellaneous goods & services	5	385	8
Communication	6	263	5.5
Recreation services & culture	7	217	4.5
Furnishing, household equipment & routine household maintenance	8	185	3.9
Health	9	150	3.1
Alcoholic beverages & tobacco	10	149	3.1
Clothing & Footwear	11	146	3.1
Education	12	87	1.8

Source: Department of Statistics, Malaysia

Table 1 represents the household group's income spending about the consumption expenditure items. All households spend more money on housing, water, electricity, and fuels. These are the essential elements necessities for all households regardless of the differences in the income earned. As shown in Table 1, on average, the household's highest percentage spent on necessities such as housing, water, electricity, and fuels was 22.8%. The second ranking for income spending was on food and beverages, which in average income was 16.9%. The third-ranking spending income showed on the transport with the average income at 14%. The fourth-ranking until

the twelfth ranking showed the income spending by households were on the necessities as restaurants and hotels, miscellaneous goods & services, communication, recreation services & culture, furnishing, household equipment & routine household maintenance, health, alcohol beverages, clothes, and footwear and education with 13.3%, 8%, 5.5%, 4.5%, 3.9%, 3.1%, 3.1%, and 1.8% respectively. Among all the spending pattern income of household groups, the education components showed the lowest spending among other components. This showed that the most spending income was on the necessities' focused on housing and food during the pandemic.

Table 2: Ranking of spending by consumption expenditure by a group of income

Expenditure	B40		M40		T20	
	%(RM)	Rank	%(RM)	Rank	%(RM)	Rank
Housing, water, electricity, gas & other fuels	25.8	1	21.8	1	20.8	1
Food & non-alcoholic beverages	21.6	2	17.7	2	12.9	3
Transport	10.9	4	14.3	3	16.6	2
Restaurants & Hotels	12.5	3	14.1	4	12.7	4
Miscellaneous goods & services	6.7	5	7.6	5	9.6	5
Communication	4.1	6	4.6	6	7.4	6
Recreation services & culture	3.9	7	4.6	7	5.4	7
Furnishing, household equipment & routine household maintenance	3.9	8	4.0	9	3.9	8
Health	3.1	10	3.0	12	3.5	9
Alcoholic beverages & tobacco	2.8	11	3.5	10	2.6	10
Clothing & Footwear	3.5	9	3.2	11	2.6	11
Education	1.2	12	4.6	8	2.0	12

Source: Department of Statistics, Malaysia

Besides the ranking of income spent by the household groups towards the expenditure, this study attempts to look at the pattern of spending between the three income groups in detail to understand how households in Johor manage their spending within their income received. The data is shown in table 2. 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 spent 5% more on expenditure group number 4 than group T20. The second biggest spending is on food and non-alcoholic beverages at RM812 on average. Again, B40 spends more than M40 and T20, 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 regular 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 housing is low. Transportation expenses come at the third rank, and the fourth is restaurant and hotel expenditures. For these two types of consumption, B40 spends less than T20, but M40 spends more than T20 on restaurants and hotels. One would assume that T20 would spend more or the highest spender on restaurants and hotels as they earn more, therefore spending more money 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 constantly increases 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 is the highest among the three groups. Being at the almost bottom ranking shows that the importance of spending on health and education is relatively low for the respondents. Two possibilities that contribute to this are a shared sense of awareness of the importance of health and education or the Government's free education and health services, causing the people not to consider spending more on health and education.

Ranking at numbers 10 and 11 is expenditure on alcoholic beverages, tobacco, 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 have a significant impact on physical and mental health, understanding 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 of this trend is that many in group B40 have just started working and families. So, household income for this group mainly comes from both parents (dual-income earners) only, and the numbers of dependents are more than the other two groups of income.

5.0 Conclusion

The result showed that housing and utility expenses are the highest consumptions across the three groups, followed by food and non-alcoholic beverages. Group B40 which is the lowest income group among the three consumed more than the other two groups for both types of expenses. This is an alarming finding that detailed analysis into this fact should be carried out in the future to understand further the phenomenon that occurred. This study only analyzes household income and consumption for Johor State and uses secondary data. Therefore, future research can be extended to analyze general patterns across states in Malaysia. In addition, it is also essential to study

factors that contribute to the income and consumption pattern. The purpose is to formulate a strategy that can help the household manage their spending better, prioritize their consumption, and hope to help them save for future use that can increase healthy household lifestyle.

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Paper Contribution to Related Field of Study

This paper will contribute to the knowledge of managing household income and expenditure and further could help the government in formulating incentives and subsidies to reduce poverty and increase quality of life.

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