



## The Role of Financial Accounting in Enhancing The Corporate Financial Performance of Small and Medium Enterprises

Nael Jaafar Ali Alqudhayeb

*Department of Petroleum Project Management, College of Industrial Management for Oil and Gas, Basrah University for Oil and Gas, Basrah, Iraq.*

**Email:** nael.ali@oubasrah.edu.iq

**Received:** 9<sup>th</sup> June 2025

**Accepted:** 17<sup>th</sup> August 2025

**Published:** 5<sup>th</sup> October 2025

### ABSTRACT

This research aims to examine the relationship between financial accounting and the corporate financial performance (CFP) of Malaysian small and medium-sized enterprises (SMEs). The study employed a sample of 120 SMEs spanning the years 2018 to 2024, utilizing secondary data from annual reports and database by using OLS to test the regression analysis. The study found a positive and strong relationship between financial accounting and CFP. The research highlights the essential role that transparent financial accounting and accurate plays in supporting administrative decision-making and financial within firms, contributing to enhanced performance. It also proved that implementing current accounting standards improves the consistency of financial information, which enhances stakeholder and investor confidence and positively influence financial sustainability and growth. The research recommends that firms adhere to financial accounting by accounting standards, improve internal control systems for the financial information, and support the effectiveness of accounting personnel to guarantee transparent financial performance and sustainable.

**Keywords:** financial accounting, corporate financial performance, small and medium enterprises

## INTRODUCTION

Financial accounting is essential pillar of several economic system, representative the instrument utilized to document provide accurate financial information to decision-makers and firms economic activities and. Through financial statements, lenders, investors, regulatory authorities, and management, can evaluate make decisions depend on reliable data and firm's financial position. In light of the fast changes in the increased competitiveness and business environment, it has become imperative to study the association among the quality of CFP and accounting information (Kenneth et al., 2018 & Bayar et al., 2023). Financial accounting plays essential role in revealing the true results findings of economic activity, which is directly revealed in CFP indicators for example, operational efficiency, profitability, return on investment, and liquidity. This paper aims to highlight the extent to which financial accounting, disclosures, and including its financial principles impacts CFP and shows how accuracy in accounting data and transparency contribute to increasing achieving growth, investor confidence and financial sustainability (Suriyankietkaew, & Avery, 2016 & Musuhuke et al., 2024).

One of the most essential issues influencing CFP is weak financial administration, i.e., the lack of accurate budgets or future plans and the absence of complete financial planning (Musuhuke et al., 2024). The lowly cash flow administration, several firms suffer from an imbalance among expenses, and revenues important to a liquidity crisis. Few of financial analysis implements is poor utilize of financial data to create strategic decisions and accounting and weak oversight and absence of reliance on manual or disorganized records, the lack of periodic financial reports and accounting systems, creating it testing to analyze financial changes and track performance. Market issues, a narrow customer base, competition, and a lack of different income sources create firms vulnerable to some change in demand. Strong competition from puts weight on prices and longer firms reduces market share. Issues linked to the economic environment and inflation and increasing costs lead to decrease weakens customers' purchasing power and benefits limits. Varying tax policies impact growth plans and business stability. Reduced both human and material, operational effectiveness wasted resources; finding from mismanagement or absence of training.

Failure to inform technology creates less effective and operations slower associated to competitors. Financial accounting issued includes the absence reliance on unspecialized individuals, qualified or professional accountants, and the utilize of traditional accounting

techniques (Paul, 2018). Weak capability to make correct the weakness of an organized accounting system (either manual or electronic) and financial reports (Gyamera et al., 2023). Weak utilize of current accounting software. Failure to firm accounts and separate personal, additionally underestimating the significance of accounting. The business owner's concentration more on day-to-day processes than on the financial as (Lavia Lopez, & Hiebl, 2020 & Lavia Lopez Bayar et al., 2023).

Accounting is viewed as an "extra cost" rather than an instrument for tax compliance issues and strategic decision-making. Financial accounting is an important pillar of any economic system, representative the instrument utilized to provides correct financial information and document companies economic activities to decision-makers. Through financial statements, management, regulatory authorities, lenders, and investors can evaluate firms to create decisions and financial position depends on consistent data. In light of the rapid variations in the increased competitiveness and business environment, it has become authoritative to study the association among the quality of accounting information and CFP (Kenneth et al., 2018). Financial accounting shows a vital role in revealing the true findings of economic activity, which is directly imitated in CFP indicators for example profitability, liquidity, return on investment, and efficiency. This paper purposes to focus the extent to which including its financial principles, financial accounting, and disclosures, impacts CFP and demonstrates how accuracy and transparency and in accounting data add to growing achieving growth, investor confidence, and financial sustainability.

The theories utilized in the study, for example, agency theory, focuses on the association between agents (management) and owners (shareholders), and clarifies how financial accounting decreases engagements of interest by transparency, disclosure, and the association to CFP. Making reliable financial reports decreases opportunistic administration behavior. It enhances trust among management and investors, which positively effects CFP. Similarly, positive accounting theory tries to clarify and predict administration's actual accounting behavior, not what it must be. Association to CFP which shows that accounting policies are selected in the better interests of administration (For example enhancing profits). Administration can utilize this policy to enhance the CFP image for the investors. Disclosure theory discuss which is interest with how mandatory or voluntary disclosure in the financial statements influence investors' financial decisions. Association to CFP of the clear and full disclosure improves market confidence and a firm's reputation. Develops reduces the cost of

capital and financing opportunities and, which increases CFP. Stakeholder theory discuss of the concentrations on the circumstance that a firm should serve the benefits of all stakeholders, for example employees, and society, and customers. Association to CFP which is the financial accounting assistances evaluates a firm's performance relative to the benefits of many stakeholders. CFP is measured not only by revenue, but too by the economic value and social the company makes. So, this study sheds light on bridging the gap among financial accounting and CFP.

## LITERATURE REVIEW

Financial accounting is a part of accounting that concentrates in summarizing, recording, and classifying and the financial contacts that ensue within an organization above a particular period of time. This is complete with the purpose of making financial statements (e.g., balance sheet, income statement, and cash flow statement). It delivers correct financial information to stakeholders for example investors, creditors, and shareholders. It also measures CFP and government agencies, ensures the reliability of the organization's financial situation. Purposes of financial accounting of correctly as per financial contacts, organizing accounting data, making financial reports, and supporting in decision-making. CFP reveals an organization's capacity to attain its financial purposes over a detailed period and is characteristically measured by the effectiveness, is it making benefits (e.g., profit margin, net profit). Financial accounting purposes to classify, best, and summarize financial contacts to deliver correct financial information to stakeholders (regulatory authorities, management, and investors). CFP is typically measured through indicators for example profitability, return on assets (ROA), return on equity (ROE), operational efficiency, liquidity ratio, and others. Prominent earlier studies by Jones & Smith (2018) the Methodology used in the study which analysis of financial data for 200 US firms over a five-year period. The findings found a positive association exists among the quality of financial reporting (e.g., disclosure and transparency) and CFP. The study conclude that the firms that relate accurate accounting principles attain best CFP. Al-Tamimi and Jabbar (2020) study the role of accounting information in enhancing the CFP in Iraqi industrial firms and the study utilised the financial analysis and questionnaires 50 firms. The findings found there is a straight association among the correctness of financial decision-making and accounting data and weak accounting systems main to decreasing profitability. And a study by Ohlson (1995) the study used mathematical model relating net income, company valuation, and book value. The findings

found the accounting information has important predictive influence for forthcoming CFP. The study by Bushman & Smith (2001) investigates the association among governance practices and accounting transparency and found the best financial reporting increases administration oversight, reduces financial corruption, and improves efficiency, which in turn increases performance. Al-Dmour et al. (2017) found in the study examination of financial reports of firms listed on the Amman stock exchange. The findings found there is an important association among the use of current financial accounting systems and enhanced performance indicators for example growth rate and net profit. The overall assumption of the studies is that there is a close and positively association among the and transparency of financial accounting quality and better CFP of firms. Correct accounting systems assistance to make sound of reduce financial risks, investment decisions, and growth the effectiveness of resource utilize.

One of the most essential issues influencing CFP is weak financial administration, i.e., the absence of the lack of accurate budgets or future plans and sound financial planning. Market issues, a narrow customer base, and competition; and absence of varied income sources create firms exposed to any shift in demand. Financial accounting problems consist the lack of professional or qualified accountants, reliance on unspecialized individuals, or the utilize of traditional accounting techniques. The lack of accurate financial data prevents firms from attaining financing or loans. Weak financial statements and preparation of budgets required by presenters. Random self-financing, there are no clear policies for managing cash flow. Withdrawals or deposits from firm accounts occur without documentation, which clarifies the accounts.

“The significant of this research is therefore the evident from a company’s perspective, which current a limited about financial accounting and CFP”. So, this research explain this effect by examination this association by expected:

H1. The financial accounting is strong and positive link with CFP of small and medium firms in Malaysia.

## **RESEARCH METHODS**

The research and procedures and methodology this paper relied on the practical analysis. It dealt with the financial accounting, and the CFP. The study sample includes 120 small and medium firms in Malaysia. This research utilises the OLS regression to examination the

model by using statistical software STATA to test the relation between variables. The variables measurements present in Table 1.

**Table 1:** *Measures of Variables*

Terms of Variable	Terms Measures
Corporate financial performance	ROA= net income / total assets* 100
Financial accounting	Statement of Changes in Equity: Shows changes in ownership interest
Control Variables	
Board size	Total number of directors at the IPO date.
Board independence	Percentage of independent non-executive directors serving on the board to total directors on the board at the IPO date.
Company size	The natural logarithm of the total assets at the date of the private placements firms.

This research presents the model which is with the linking between two main variables in order to show the impact of the first variable is the financial accounting and CFP in the small and medium firms in Malaysia. The regression of this model below explains the relation.

$$CFP_{it} = \beta_0 + \beta_1 FA_{it} + \beta_2 BSIZE_{it} + \beta_3 BIND_{it} + \beta_5 CSIZE_{it} + \varepsilon$$

## RESULTS

### Descriptive statistics test

This study shows in Table 1 the descriptive statistics of the “sample” of 120 in small and medium firms in Malaysia’s annual reports from 2018 to 2024. The CFP shows a mean of 11.698, and the financial accounting presents 60.652.

**Table 2:** *Descriptive statistics*

Variables	Obs	Mean	Std. Dev.	Min	Max
CFP	120	11.698	3.120	-28628	20.269
FA	120	60.652	63.743	7.000	27.700
BRDSIZE	120	7.365	1.916	4.000	13.000
BINDP	120	0.394	0.122	0.111	0.800
COSIZE	120	12.264	1.698	8.614	17.432

### Correlation test

This paper explained in Table 3, the, financial accounting, board size and company size is positively and significantly correlated with CFP and the industry shows a negatively link with CFP. There is no multicollinearity problem in all variables all the values less than 0.80 (Hair et al., 2010).

**Table 3:** *Correlation test*

ROA	CFP	FA	BRDSIZE	BIND	COSIZE
CFP	1.000				
FA	0.410***	1.000			
BRDSIZE	0.374***	0.023	1.000		
BINDP	-0.077	0.064	-0.264**	1.000	
COSIZE	0.679***	0.094	0.407***	-0.155	1.000

The consequences of this paper for the model shows in the Table 4 disclose the findings relating to financial accounting which displays that has positively related with CFP ( $t=0.370$ ,  $p\text{-value}=0.071$ ). The board size, board independence and company size are a positive and strong relation with CFP. As a result, “hypothesis” H1 which forecasts that financial accounting is positively linked to CFP. Asian regulators in small and medium firms sector could enhance from these findings in their attempt to attain expansion process on. Furthermore, the results of this research can also be employed to define current financial accounting.

CFP	Coef.	Std. Err.	t-stat	sig
FA	12.8071	34.462	0.370	0.071*
BRDSIZE	21.488	12.775	1.680	0.095*
BINDP	15.006	18.626	0.810	0.422
COSIZE	11.852	14.148	8.380	0.000***
Constant	-15.439	19.086	-8.090	0.000
Sample size	120			
R-squared (%)	47%			
Adjusted R2 (%)	45%			
F-value	0.000			

The pivotal role of financial accounting in decision-making of senior administration and investors depend on on financial information to create strategic decisions. Quality financial accounting control to an accurate valuation of CFP, which supports profitability and operational efficiency. Compliance with accounting standards improves confidence of adherence to local or international accounting principles adds to obvious financial reporting. This transparency decreases uncertainty and supports investor confidence, which positively influence on CFP. Financial displays reflect actual consequences of financial accounting offers actual data on liquidity, profitability, and risk. These displays are utilized to measure a firm's real performance and enhance its forthcoming strategies and reducing waste and strengthening internal control. The financial accounting systems add to enhancing the efficiency of resource allocation and controlling expenditure. This correction leads to enhanced overall reduced and financial loss CFP and supporting strategic analysis and financial planning of financial accounting offers historical data those assistances in making future forecasts and budgets. These assistances formulate accurate achieve growth objectives and financial plans. The association enhanced by earlier literature of several earlier studies has confirmed a positive association among the quality of CFP and financial disclosure. This enhances the results of the present study and supports its scientific credibility. Enhancing the attracting investment and business environment of transparent financial accounting creates a firm more attractive to investors. This can control to improved capital and enhanced CFP.

## **CONCLUSION AND RECOMMENDATIONS**

The results of this study concluded that the model shows the findings relating to financial accounting which displays that have positively related with CFP. The board size, board independence and company size are a positive and strong relation with CFP. There is a strong positive relationship among the quality of accounting information and enhanced CFP of firms, indicating that enhanced financial accounting directly influence financial consequences. Good financial accounting improves administrative decision-making, which positively influence profitability, return on investment, and operational efficiency. Accounting standards show an essential role in improving creditor confidence, investor, and paying to enhanced access to financing and liquidity.

The consequences presented that firm with organized accounting systems and accurate attain better CFP associated to firms with weak or old accounting systems. Financial analysis depends on consistent accounting data has been revealed to accurately forecast future



variations in firm performance, for example cash flows and profits. In some circumstances, improper accounting performs have negatively affected CFP due to operation or absence of underscoring the importance of governance, oversight, and transparency in accounting. It was experiential that the shift to computerized systems and digital accounting has led to enhanced speed and quality of financial reporting, thereby enhancing decision-making and financial monitoring. This paper recommends that studies increase the quality of “accounting information” providing in financial statements to confirm effective strategic decisions that support CFP. Utilizing accounting indicators as initial warning indicators for example debt ratio, liquidity ratio, and return on assets, and must be utilized as proactive apparatuses to forecast variations in CFP. Adopting international accounting standards of indication that adherence to universal accounting standards growths investor confidence, and transparency which positively affects on CFP. Concentrating on integrated financial analysis and it is suggested to utilize financial statement analysis in combination with non-financial analysis (for example operational efficiency and customer satisfaction) to get a complete valuation of CFP. Adding accounting information systems and emerging present accounting information systems assistances reporting speed and ensure data accuracy, which positively influences CFP.

Practical recommendations for administration of accounting personnel and growing financial the financial managers in advanced financial analysis and train accountants and relating accounting consequences to strategic decisions. Depend on administration accounting for predicting and planning of accounting is not few to historical documentation alone; it should be utilized as a control and planning instrument for CFP. Relating financial rewards to actual performance. Creating an incentive system related to the consequences of financial analysis improves efficiency and commitment. Enhancing communication among departments of consequences of accounting reports should be actionable and understandable by all departments, lacking them to be formulated in simple language and enhanced by analysis. Continuous control of CFP and making internal audit groups that depend on financial accounting data to display performance and confirm deviations are within an acceptable range.

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