



## **An assessment of accounting knowledge of undergraduates of management faculties in Sri Lankan universities**

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### **Abstract**

*This paper investigates the level of accounting knowledge of under graduate students of management faculties. In this study accounting knowledge refers accounting principles, accounting concepts, accounting standards, accounting methods, accounting practices, and accounting practice usage. Company Act no 07 of 2007 requires the legitimate requirement of the accounting function for the business in Sri Lanka. Data were collected from 597 undergraduates studying in five management faculties of newly established universities in Sri Lanka namely Rajarata University of Sri Lanka, Sabaragamuwa University of Sri Lanka, South Eastern University of Sri Lanka, Uwa Wellassa University and Wayamba University of Sri Lanka. Stratified sampling technique was adopted so that 45 percent from first year, 30 percent from second year and 25 percent from third year students are represented in the sample. Results indicate that the academic performances of the undergraduates have significant positive relationship with all the aspect of accounting knowledge. This indicates that Sri Lankan students graduated from management faculties are armed with accounting knowledge which is highly demanded by the field of management. Further, the results seem to suggest that accounting knowledge may be a factor in explaining the student academic performances in management faculties.*

**Keywords:** *Accounting knowledge, Accounting standard, Business function, Company Act, Graduates*

### **1. Introduction**

Few empirical researches exist regarding the accounting knowledge in management students. Accounting is a very important term to our modern society. It is a basic need of every business. None of the business organizations can operate without it. They are there

somewhere in every business. Accounting information allows business owners and other interested parties to assess the efficiency and effectiveness of their business operations.

Prepared financial statements can be compared to industry requirements or to a leading competitor to determine how the business is conducted. However, the manager who is in complex economies and does not have the accounting knowledge could not be able give value addition to the business. Business owners and interested parties may also use financial accounting statements to assess trends for analyzing and forecasting future sales. When considering above factors it is easy to understand the importance of accounting knowledge to the business field (Perks, 1993). Therefore, as the resource persons who are going to step in to the business field, the students of management faculties should have a reasonable knowledge in accounting. Accounting knowledge in the field of management has included the theoretical or practical understanding of accounting principles (AP), accounting concepts (AC), accounting standards (AS), accounting methods (AM), Accounting Practices (AR), and Accounting Usage (AU). This sets the context for this study, by using above six concepts; it provides evidences of the effects of accounting knowledge on student performance in management faculties. The results found in the study reveal that the student with high accounting knowledge shows higher academic performance. This proves that management graduate in Sri Lanka is suitable enough with the business requirements and provides evidences that a graduate with accounting knowledge is essential for the success of businesses.

### **1.1. Problem and objectives**

Accounting plays an important role in today's competitive business world. It has become an essential function in a business. Students of management studies are willing to start their careers in the business field. Therefore, main research question in this study is what is the level of accounting knowledge of management graduates? In addition, following secondary questions are addressed. Do envisioned accounting knowledge show differences between various academic departments functioning under management faculties? Do students' accounting knowledge influence change on student overall performance? How are students' accounting knowledge differ across individual performance?

In designing this study, goal of the researcher was to identify the sub dimensions of fit and determines which of these have the most significant impact on student performance with the accounting knowledge. Further, it was examined whether particular fit dimension could be grouped in logical fashion.

### **2. Review of literature**

Initially, accounting existed in terms of relatively primitive recording and control devices which were used to satisfy the needs of unsophisticated trades and estate owners who were more concerned with keeping of what was owned and owed than with measuring income. Indeed without considerable modification, the ancient accounting systems would not have been capable of use in decision making. Nevertheless, when social and economic conditions were appropriate for the development of a system of accounting which provided not only for totals of what was owned and owed but also for calculating income

and potential income, it was developed out of merchants' double entry bookkeeping. The changed social and economic conditions engendered by the Industrial Revolution 1750 (Alan et al., 2007). The developments of modern accounting systems together with the greater opportunities for accountants in many different fields led eventually to aspirations to professional status (Heeffer, 2009). Student those who follow the management course have just a basic accounting knowledge and skills to perform their complex tasks in turbulent business context. Therefore, they should gain a good knowledge in accounting principles, accounting concepts, accounting standards, accounting methods accounting practices and practical usage of accounting knowledge. The following section discusses those five accounting knowledge related dimensions.

***Accounting principles;*** Accounting principles are set of rules, conventions, standards and procedures which are extremely accepted for reporting financial information. Among the accounting discipline accounting principles play a vital role. Without sufficient basic knowledge of accounting principles, students are unable to understand accounting subject. The first accounting principle is economic entity assumption for the accounting purpose, the business and the owner are considered as separate two parties. All the personal transactions of the owner should be kept separately from the business transactions. But for the legal purpose owner and the business is considered to be one entity. The second and important principle is going concern principle describes that a company will not liquidate in the foreseeable future and will have a perpetual existence. This accounting principle allows the company to defer some of its prepaid expenses until future accounting periods (Oldroyd, 1995).

***Accounting concepts;*** Accounting concepts are a set of broad conventions that have been devised to provide a basic framework for financial reporting. As financial reporting involves significant professional judgments by accountants, these accounting concepts ensure that the users of financial information are not misled by the adoption of accounting policies and practices that go against the spirit of the accountancy profession. Accountants must therefore actively consider whether the accounting treatments adopted are consistent with the accounting concepts. In order to ensure application of the accounting concepts, major accounting standard-setting bodies have incorporated them into their reporting frameworks such as the International Accounting Standard setting Board (IASB) framework. One of the important concept is realization concept in accounting; this concept is also known as revenue recognition principle refers to the application of accrual concept towards the recognition of revenue. Under this concept, revenue is recognized by the seller when it is earned irrespective of whether cash from the transaction has been received or not. Concept of accounting is matching concept. It requires that expenses incurred by an organization must be charged to the income statement in the accounting period in which the revenue, to which those expenses relate, is earned. Prior to the application of the matching principle, expenses were charged to the income statement in the accounting period in which they were paid irrespective of whether they relate to the revenue earned during that period. Money measurement concept in accounting is important and this concept is called major concept in the field of accounting. This is also known as measurability concept and means that only transactions and events that are capable of being measured in monetary terms are recognized in the

financial statements. Deprived of this concept basic accounting is anxiety among the management discipline.

**Accounting standards;** Accounting standards work to improve the quality of the accountant works' and unify accounting information. Further, International Accounting Standards Board (IASB) identifies the four objectives such as to develop in the public interest a set of high quality, understandable and enforceable accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help users of the information to make economic decisions. To promote the use and rigorous application of those standards, to take account of, as appropriate, the special needs of small and medium-sized entities, and to bring about convergence of Sri Lanka Accounting Standards (LKAS) and International Financial Reporting Standards (IFRSs) to produce high quality solutions. Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 authorises the IAS to issue Sri Lanka Accounting Standards and requires "specified business enterprises" to prepare and present their financial statements in compliance with LKAS.

**Accounting method;** Accounting methods refer to the basic rules and guidelines under which businesses keep their financial records and prepare their final financial reports. Accounting methods refers two types which show how the company's transactions are recorded in the firm's accounting books such as cash-basis accounting and accrual accounting. The main difference between the two types is how the company records cash inflows into and outflows of the business. In fact, many of the major corporations involved in financial scandals have contracted in trouble because they played games with the nuts and bolts of their accounting method. The results of these two methods are totally different. Hence, benefits of interest parties are differed.

**Accounting practices and usage;** Accounting practices; the routine manner in which the day-to-day financial activities of a business entity are gathered summarized, recorded, analysis, and interpreted. A firm's accounting practice refers to the method by which its accounting policies are implemented and adhered to on a routine basis, typically by an accountant and/or auditor or a team of accounting professionals. In the business context, accounting practice is the system of controls and procedures and that an accounting department in a business unit uses to create and record business transactions. Accounting practice should ideally be extremely consistent, since there are a large number of business transactions that must be dealt with in exactly the same manner in order to produce consistently reliable financial statements. Auditors rely upon consistent accounting practice when examining a company's financial statements. The following benefits are reached to good accounting practices; maintain the proper process flow, ability to devise a system correction to an error, ability to ensure that the change is properly implemented in process on a go forward basis. Accounting is social life subject hence every person can use accounting practice as day to day life. Only few differences what they need and how information is collected.

### 3. Research methods and Analysis

The research instrument was a structured questionnaire which was administered in-class. Students were assured of confidentiality in their responses, and that their responses would have no bias. Five-point Likert scale was used in the questionnaire with the options ranging from strongly agree to strongly disagree in order to measure accounting knowledge and academic performance. The sample size was 597 whereas the population is 3680 which represent four departments in management faculties of selected five national universities in Sri Lanka. Moreover, the year-wise distribution of the sample is 45 percent 30 percent, and 25 percent respectively for first year, second year, and third year.

The first step of analysis is to test the validity and reliability and the Cronbach's alpha test was executed while confirming the internal consistency of the measurement scale.

Table 1

Reliability statistics for the variables

Variable Name	No. of Items	Cronbach's Alpha
Accounting Principles (AP)	2	0.950
Accounting Concepts(AC)	3	0.819
Accounting Standards(AS)	5	0.908
Accounting Practice(AR)	2	0.900
Accounting Methods(AM)	4	0.486
Practical Usage of Accounting(PU)	4	0.903

Table 2

Descriptive statistics

	GPA	AP	AC	AS	AM	AR	PU
Mean	1.980	2.420	2.550	2.330	1.519	2.400	1.515
Std. Dev.	0.570	0.940	0.420	0.630	1.132	0.517	0.892

The average GPA value is close to 2 which is not acceptable in an academic program. Highest mean value is accounting knowledge of concept and lowest is practical usage that is very clear during studentship they may not concerned about practical usage of accounting. Highest standard deviation represents the accounting method and lowest is accounting concept. University undergraduate course mainly designed to study the accounting concept and it is not much varies between the individuals. There is no unique understand about the accounting principles. Table 3 exhibits the correlation matrix of the concepts studied.

Table 3

Correlation matrix

Variable	GPA	AP	AC	AS	AM	AR	PU
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GPA						
AP	0.477**					
AC	0.406**	0.902**				
AS	0.406**	0.902**	1.000**			
AM	0.480**	<b>0.983**</b>	0.835**	0.835**		
AR	0.466**	0.991**	0.951**	0.951**	0.959**	
PU	0.396**	0.317**	0.484**	0.484**	0.320**	0.375**

All correlation coefficients are statistically positively significant and among the variables accounting concepts and standards exhibits highest positive value, theoretically this implication is valid hence most of the concepts practically represent the standard and, therefore, the students those who are perfect in their accounting concept demonstrated better accounting standard understanding.

*Models*

The study developed a system of model to simultaneously test the association between student performances (GPA) to build an accounting knowledge related skills related student who study in the faculty of management studies. Table 4 exhibits, results in the proportion of Student GPA lead to a negative and significant impact ( $b_1=-3.043$  and  $b_2=0.808$ ,  $p<0.05$ ) on changes in knowledge of accounting concept (AC), and accounting method (AM) respectively. The accounting principle, accounting standard and practical usage has positive and significant impact on student GPA ( $b_3=3.3658$ ,  $b_4= 0.9947$ ,  $b_5= 0.3437$ ). Moreover, the impact to change accounting principle on GPA is substantially higher positive coefficient exists. In relation to the accounting subject and university education system course of the curriculum mainly focuses to enhance the theoretical aspect hence, student performance mainly depend on the theoretical aspect of the subject.

Table 4  
Multiple regressions

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AC	-3.0430	0.6322	-4.8132	0.0000
AM	-0.8086	0.1467	-5.5096	0.0000
AP	3.3658	0.4445	7.5707	0.0000
AS	0.9947	0.3276	3.0363	0.0025
PU	0.3437	0.0303	11.320	0.0000
R-squared	0.368	Mean dependent var		1.9798
Adjusted R-squared	0.364	S.D. dependent var		0.5701
S.E. of regression	0.454	Akaike info criterion		1.2700
Sum squared resid	122.40	Schwarz criterion		1.3067
<u>Log likelihood</u>	<u>-374.09</u>	<u>Durbin-Watson stat</u>		<u>1.0094</u>

The representative value of the model fitness  $R^2$  is 36.4 percent indicates that 36 percent of the variance of the dependent variable can be explained by independent variables concerned. The regression model equation is expressed as follows.

$$\text{GPA} = -3.0430*\text{AC} - 0.8086*\text{AM} + 3.3658*\text{AP} + 0.9947*\text{AS} + 0.3437*\text{PU}$$

The model shows that the most influencing factors are accounting concept and accounting principles effect on two directions to the student GPA.

#### 4. Conclusion

The results of the analysis show that students of management faculties have a good knowledge at accounting, except accounting methods. Therefore, accounting methods should be more focused and the scope on accounting methods should be improved. Finally, it can describe that second year students have better accounting knowledge than first year students. A study should be performed to identify the reasons for the lack of accounting knowledge of first year students as they should have proper basic accounting knowledge. Moreover, this study provides some ideas regarding the influence of student's accounting knowledge within the management faculties' connections among the component of subject and all the aspect of that important to overall student performance. Further studies should be needed to derive more generalize conclusions.

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