INDUSTRY

Financial Record Management in a Machinery Trading Business: A Conceptual Study of Worldwide Machines Impex

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Abstract

Financial record management is concerned with producing, categorising, storing and maintaining a firm's financial records. Businesses which trade in expensive goods (such as machinery, and lifts and access equipment) often experience a complex sequence of records throughout a transaction. Records may include quotes, orders, supplier invoices and import and customs documentation. Customers can also be invoiced and payments received, and there may also be service charges. Poorly managed records can therefore impact upon a firm's ability to collect payments. They can also limit an understanding of cash flow, and potentially lead to non-compliance. Drawing upon theories around agency and accountability, alongside academic work on accounting information systems (AIS) and records management, this paper (i) develops a lifecycle based framework of the financial records relevant to a machinery trading business, (ii) identifies common poor record management issues, (iii) formulates five testable propositions relating record management to business and financial outcomes, and (iv) introduces a maturity model which can be applied to improve a firm's record management. This is a conceptual paper and does not involve confidential business information. No empirical results are presented. Suggestions for further research and a design for such research are also included.

Keywords: financial record management; accounting records; accounting information systems; accounts receivable; machinery trading; SMEs; India

1 Introduction

Business decisions relating to money (for instance, granting credit, reordering and quotation setting) are informed by a firm's records. Where these are accurate, complete and easily accessible, managers can understand what is owed, when it is due and the revenue generated by a transaction. However, if this is not the case then decisions may be based upon recollection, assumption and/or partial spreadsheet information.

Machinery and equipment trading businesses face additional record related challenges. Compared to traders of fast moving consumer goods, such businesses tend to experience fewer, although higher value, transactions. Sales periods are usually also extended. Payments are frequently made in stages. There may also be sourced to order and/or imported goods together with installation and service provision and warranty and service commitments. Absence of key records, including delivery confirmation, customs documentation and supplier credit notes, can therefore affect high value accounts receivable and/or tax compliance.

Whilst previous academic work has investigated record management within micro and small businesses (Khadim & Choudhury, 2019; Mintah et al., 2022) or developed record systems (Yin et al., 2017), comparatively little has explored variations in record requirements according to business model. Here, I seek to address this by developing a conceptual framework of financial record management for machinery trading.

Three key contributions are made. Firstly, a framework is developed of the financial records relevant to machinery trading. Secondly, propositions are formulated which relate record management to business and financial outcomes – these can be explored further in future research. Finally, a maturity model is introduced which can be applied by businesses to evaluate and enhance their record management.

1.1 Research questions

- **RQ1.** What are the key financial records for a machinery trading business throughout its business lifecycle?
- **RQ2.** What are common sources of poor record management within a machinery trading business?
- **RQ3.** By what means can effective record management contribute to enhanced business and financial outcomes?
- **RQ4.** How can a business incrementally enhance its record management?

2 Worldwide Machines Impex

Worldwide Machines Impex is marketed as a business involved in machinery and lifts/access equipment (company website, n.d.). Again, this is for illustrative purposes only. Neither do we assert access to this business' actual records, accounts or business processes. Nothing in this paper should therefore be interpreted as reflective of Worldwide Machines Impex' practices. General reference to record types and risks is in a machinery trading context, and is relevant given Worldwide Machines Impex' business context.

A four-stage business process is a suitable way to characterise a machinery trading business. These are: sourcing (including importation where appropriate), stock and logistics, sales (quote to invoice) and service (installation, service and spares). Financial record requirements are incurred at each of these stages.

3 Literature review

Literature is grouped thematically below.

3.1 Record management and business performance

Across academic work, good record management is recognised as important for business planning, control and expansion. Again, records must be both accurate and complete and also available when required. Khadim and Choudhury (2019) explore record management in relation to the expansion of micro and small businesses. Similarly, Mintah et al. (2022) investigate the effect of business record management upon business expansion. As with the aforementioned studies, records are emphasised as a business management tool. Nonetheless, whilst generally considering record management as a

holistic issue, none of this work explores record management in relation to different business models and/or record types.

3.2 Financial record management

Yin et al. (2017) consider financial record management for micro businesses. They advocate the use of formal digital record management in preference to informal paper-based systems. Although this work highlights the benefits of digital record management, it centres around system design. It makes no reference to organisational suitability or industry specific business processes.

3.3 Record management: skills, location and duration

Taharudin and Tengku Izhar (2018) explore record management in the private sector. Particular attention is given to personnel skills, together with the location and duration of record storage. Given that machinery trading businesses may need to refer to records relating to a transaction many months or even years later (for example, in relation to a disagreement, warranty issue and/or tax investigation), this work is highly pertinent.

3.4 Research gap

Whilst it is established that records are important and that systems can be beneficial, there remains scope for further development. Specifically, there is a need for (a) a framework of record types which relates to the business process of machinery/equipment trading, (b) clarification of how record management influences outcomes and (c) an incremental approach to enhancing record management which is appropriate for firms with limited resources. These areas are addressed conceptually within this paper.

4 Theoretical background

4.1 Agency and accountability

Agency theory (Jensen & Meckling, 1976) recognises that information asymmetry and supervision costs exist where one party acts on behalf of another. Within machinery trading firms, owners depend upon employees (for example, managers, accountants and sales personnel) and external parties such as customers and suppliers. However, these latter parties' behaviour cannot be directly observed. Financial records are therefore utilised as both a supervisory and bonding mechanism. They enable information relating to business processes to be seen, confirmed and attributed to an individual or date. Poorly managed records therefore increase supervision costs and open up greater potential for error and/or misleading information.

4.2 Accounting information systems

Academic work on accounting information systems (for example, Romney & Steinbart, 2018) considers accounting as an information process. Information is extracted from business events and then analysed, stored and disseminated to inform and control. Consequently, the quality of information outputs is reliant upon that of source records and also the controls in place for information extraction and storage. Thus record management is shown to be upstream of information output quality.

4.3 Record lifecycle

Internationally, records are considered to have a lifecycle. This comprises: record production/ capture, categorisation, storage, consultation and use and then record storage or disposal. Attributes such as authenticity, reliability, integrity and usability are also emphasised. Having adopted this lifecycle concept, below it is applied to a trading firm's financial records.

5 Financial records within a machinery trading business lifecycle

Table 1 sets out, thematically, the sorts of financial records a machinery trading business would typically produce and store. Again, this is for illustration only. A business' precise record requirements will depend upon its goods, contracts and geographical location.

Table 1. Conceptual framework of the financial records necessary for a machinery trading business.

Stage	Typical records	Purpose
Pre sale	Quotes and pricing information	To show agreed prices and terms
Sourcing	Orders, supplier invoices and statements and import/customs documentation (where appropriate). Freight and insurance bills.	To show product cost, supplier indebtedness and landed cost.
Stock and delivery	Goods received note, delivery challan/ note and signed delivery confirmation. Serial and/or model number.	To confirm goods have been both received and delivered and to associate invoices with goods.
Sales	Customer invoices, and credit/debit notes. Early and stage payment information.	To recognise sales revenue and to underpin collections.
Cash	Payment receipts, payment vouchers, bank statements and reconciliation. Cheque and/or transfer information.	To evidence cash inflows and outflows.
Receivables and payables	Customer and supplier ledgers. Ageing analysis and collections information.	To provide clarity over cash flow and to inform collections and payments.
Expenses	Transport, service, rental, utilities, personnel and administration expenses together with associated bills.	To control expenditure.
After sales	Installation, service and spares invoices. Warranty and service agreement documentation.	To recognise service revenue and to assess warranty exposure.
Compliance	Tax documentation and working papers. Statutory registers.	To ensure legal compliance and to provide an audit trail.

Source: author's synthesis.

Good record management enables a trading business to track backwards from a customer's invoice to relevant source records including the order, supplier invoice, delivery confirmation and payment information. It can also trace forwards to both receipt and bank information. Typically, gaps within a record lifecycle are where disagreements occur, collections are affected and audit is complicated.

6 Common poor practice issues

Drawing on the above lifecycle and wider literature, the following issues are likely to commonly affect machinery and equipment trading businesses. Again, these are conceptual and not based on observations from any particular business.

1. Disparate record locations. Records may be stored in hard copy, electronically via email and/or instant messaging and/or in personal spreadsheets. Consequently, no one person can view all relevant aspects of a business process.
2. Lack of delivery and/or confirmation of delivery. Businesses may attempt to invoice without being able to refer to signed delivery confirmation. This weakens their stance when seeking payment.
3. Back-dating. Information is not always entered promptly and may therefore be entered some time after the event. This heightens the likelihood of, and extent of, errors and omissions.
4. Poor receivables management. Without regular ageing and collections information, late payments are often only identified subsequently. This issue is further amplified by the high value of many invoices.
5. Non-uniform labelling and numbering. Records may therefore be difficult to correctly associate.
6. Personalised specialist knowledge. Knowledge which is crucial to a business process is often held by only one member of staff.
7. Ambiguity regarding record storage. There may be uncertainty about what, how and for how long records should be held.
8. Insufficient record back-up and limited access controls. Records may be lost and also inappropriate people could gain access to confidential business and financial information.

7 Conceptual framework and propositions

It is theorised that good record management (including accuracy, completeness, timeliness, structuring, traceability, secure storage and personnel skills) facilitates enhanced information availability, process traceability and accountability and minimises record error. These in turn contribute to improved decision making, together with better control of receivables and cash flow and reduced compliance and disagreement risks. As noted, this conceptual framework has not been statistically analysed.

The following five propositions are put forward:

- **P1.** The more traceable a business' record lifecycle is (from quote through to receipt), the fewer payment and delivery disagreements it will experience.
- **P2.** Good record entry timing is positively correlated with the accuracy of a firm's receivables and payables information.
- **P3.** Regular receivables ageing and collections information is positively related to cash flow predictability. This association is further strengthened where average invoice value is high.
- **P4.** Well backed-up, centrally-located records are positively correlated with efficient information access and negatively correlated with record loss.
- **P5.** Personnel record skills moderate the influence of a record system upon record quality.

8 Maturity model

Generally, small and medium sized trading businesses lack the resources to fully implement a record management system immediately. A four level model is therefore suggested which can be sequentially applied.

Table 2. Conceptual four-level record management maturity model.

Level	Description	Usual practice	Progression
1. Informal	Disorganised record management	Hard-copy bills. Individual spreadsheets. Entry occurs when a person remembers.	Establish a standardised list and location for records.
2. Structured	Standardised record location and numbering. Regular updating.	Common filing system. Sequential invoice numbering. Monthly updating. Basic ledger.	Increase the regularity (weekly or in line with business processes) of record updating. Initiate receivables ageing.
3. Controlled	Prompt, checked and supervised records.	Accounting system. Bank reconciliation. Receivables and payables ageing. Scanned source records. Back-up.	Introduce access controls. Formulate a record storage policy. Undertake regular internal review.
4. Integrated	Integrated record, stock, sales and reporting functionality.	Interlinked purchasing, stock, sales and account modules. Dashboard facilities. Formalised record storage and review procedures. Well trained personnel with well defined roles.	Continual enhancement. Audit preparation.

Source: author's suggestion.

Businesses can utilise this model to assess their own record management status and thereafter implement the suggested practices for the next level. Intentionally, the model is uncomplicated and has not been empirically validated.

9 Legal issues specific to India

As the research context is India, machinery and equipment trading businesses are subject to legal record management requirements. Consequently, in this sector, a firm's records have both a business and legal function. For example, the 'Companies Act, 2013', section 128, stipulates that companies must maintain account books. Further, the 'CGST Act, 2017', sections 35 and 36, requires firms to maintain accounts and records and to store these for a defined period. Additional documentation requirements also stem from direct and indirect taxation legislation and import customs regulations. Specific legal record management requirements will vary depending upon a business' legal status, size and nature of activity. Moreover, legal and regulatory requirements and rules are periodically changed. Therefore, businesses should consult a suitably qualified professional to ensure they are fully aware of current legal record requirements. Note that this paper does not provide legal or tax guidance.

10 Design for future empirical work

My propositions can be investigated further. Ideally, this should involve a mixed methods approach to researching several machinery and equipment trading businesses. Structured questionnaire and

interview data could be obtained from members of a business' accounting, finance and operations teams. Purposeful sampling could ensure that those interviewed are involved in record management. Quantitative indicators of record management attributes (for example, timeliness, traceability and quality) could be determined using Likert scale questions. These could then be analysed alongside qualitative data concerning business and financial outcomes (for example, perceived disagreement frequency and collections effectiveness) through descriptive statistical analysis. If an adequate sample size is achieved, correlation and/or regression analyses could also be undertaken. Appropriate permissions and confidentiality measures would need to be in place to enable access to business records.

11 Implications

For practitioners. The framework can act as a guide to the types of records that should be generated at each business stage. The maturity model enables businesses to enhance their record management in a staged manner. Likely initial priority areas for improvement will be to establish a centralised record location, introduce standardised record numbering, obtain signed delivery confirmation and regularly age receivables.

For researchers. My propositions represent testable hypotheses. The framework can also serve as a foundation upon which to develop specific measurement tools for capital goods trading businesses.

For educators. This paper can be employed as a case study to demonstrate application of accounting information systems theory within a specific business model.

12 Limitations

- This is a conceptual paper with no empirical evidence. Neither my propositions nor my maturity model have been tested.
- Worldwide Machines Impex is used for illustrative purposes only. No business confidential information was utilised and thus it is not possible to comment on this business' actual record management.
- My framework and poor record management issues are based upon and synthesize wider literature. These may not, therefore, be wholly applicable to all businesses.
- Furthermore, my discussion of legal issues is general in nature and should not be used in lieu of professional advice.

13 Conclusion

A firm's financial records underpin its financial decision making and commitments. As machinery and equipment trading businesses experience relatively high value, multi-phased and highly documented business processes, poor record management can prove especially detrimental. This paper has introduced a lifecycle framework of financial records, highlighted common poor record management issues and formulated five testable propositions. A four level maturity model for improving record management has also been presented. Ideally, further empirical work involving a number of businesses is required to test my propositions and further develop my maturity model.

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