

## **The Relevance of Accounting Records in Small Scale Business: The Nigerian Experience**

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### **Abstract**

This study was carried out to determine the contributions of accounting records in efficient performance of small scale business. Two hypotheses were formulated in line with the objectives of the study. Survey method was adopted and data were collected through the use of questionnaire. Data generated were analyzed with means, standard deviation and weighted value and the hypotheses formulated were tested using Z-test statistical technique. The study found The training of accountants by these institution and the various professional institutes should focus more on practical means of solving accounts reporting needs of small and medium scale enterprises; and that government should provide adequate financial assistance, this is because if there is adequate financial support, more unemployed Nigerians will engage in small scale enterprises thereby gain their means of living easily than looking for unavailable while collar job. The researchers recommend that the training of accountants by these institution and the various professional institutes should focus more on practical means of solving accounts reporting needs of small and medium scale enterprises; and that government should provide adequate financial assistance, this is because if there is adequate financial support, more unemployed Nigerians will engage in small scale enterprises thereby gain their means of living easily than looking for unavailable while collar job.

**Keywords:** Accounting records, small scale business and efficient performance

**Introduction**

Comparatively, most of Small Scale Businesses (SSBs) are not registered as corporate bodies but as sole proprietorship, this makes registration procedures quite simple and a bit easier than the other forms of business registration. Partly due to this phenomenon, SMEs has outnumbered all the other forms of business and could be found almost everywhere across the country. In spite of their numbers, and significance, recent studies show that 60% of the SSBs fail within the first five years of operation (Boachie- Mensah and Marfo-Yiadom 2005). Studies also show that it is hard for the SMEs to access finances from the financial institutions since they lack proper financial records as a requirement (William, 2008). The SMEs inability, many times to live beyond their first few months of existence has been attributed partly to lack of finance. To become successful and be able to contribute meaningfully to the Nigerian economy, SMEs must attract and secure finance all by themselves.(Amoako, 2013).

In most industries, comparability will be affected by size. Larger firms will be able to avail themselves economic and certain sophisticated quantitative management techniques that may not be practicable for small ones. Smaller companies may be able to maintain closer client relation and better customer relation than the larger ones. This difference in operation technique may influence deficit in accounting method employed in generating financial information, (Abdulrasheed, Khadijat and Oyebola, 2012). Among the different principles that firm may employ are different inventory techniques, depreciation method, method of accounting for income taxes and revenue recognition procedures. Pacioli (1494) described in approach developed by Italian merchant to account for their activities as owner and managers of business as the basic accounting model that is used up to this days. As economic activities progressed from the fundable to agriculture continued to adapt to the need of the society. As business unit becomes more complex and broader on scope, accounting evolved in response to the increased planning and control responsibilities of management. As government grows in size and becomes more centralized, accounting was developed to meet the increased accountability. It is often stated that business decisions need to be supported by good and quality financial information which needs to be relevant, user friendly and available in a timely manner, (Abdulrasheed, Khadijat and Oyebola, 2012).Where appropriate accounting should be an active steering tool to run and manage a business instead of representing another administrative burden that the sole proprietor has to comply with. It is important that the accounting systems for one man businesses should fulfill such functions as providing essential financial information for the owners and managers in order for them to be able to manage the business in a competitive environment and to make informed decisions to prevent business failure and to expand the business. However, owners of one man businesses may have particular needs and conditions, so that accounting systems need to be flexible in order not to impose unnecessary operative burdens. (Abdulrasheed, Khadijat and Oyebola, 2012).

However, many new business owners are daunted by the mere idea of bookkeeping and accounting. But in reality, both are pretty simple. Keep in mind that bookkeeping and accounting share two basic goals: to keep track of income and expenses, which improves chances of making a profit, and to collect the financial information necessary for filing various tax returns. There is no requirement that records be kept in any particular way. As long as records accurately reflect the business's income and expenses, there is a requirement, however, that some businesses use a certain method of crediting their accounts: the cash method or accrual method. Depending on the size of the business and amount of sales, one can create own ledgers and reports, or rely on accounting (Williams, Haka, Bettner, and Carcello, 2008). An accounting system records, retains and reproduces financial information relating to financial transaction flows and financial position. Financial transaction flows encompass primarily inflows on account of incomes and outflows on account of expenses. Elements of financial position, including property, money received, or money spent, are assigned to one of the primary groups, that is, assets, liabilities, and equity. Within these primary groups each distinctive asset, liability, income and expense is represented by respective "account". An account is simply a record of financial inflows and outflows in relation to the respective asset, liability, income or expense. Income and expense accounts are considered temporary accounts, since they represent only the inflows and outflows absorbed in the financial-position elements on completion of the time period (Williams, Haka, Bettner, and Carcello, 2008). The impact of accounting is a function of the benefit that are derived by the members of the society who had bind themselves into the social organization of their survival and want satisfaction quest (Anyigbo 1999). Business benefit from availability of accounting information, equality important is the availability of accounting that facilitates the solution or resolution of business planning, organization and control function of the enterprises as a social organization. Most small scale firm owners prefer to recruit unskilled personnel especially clerical and accounting staff. The product of these unskilled accounting (clerical staff) has only succeeded in helping the small scale firms to stagnate; some firms have even wound up. This was because unskilled accounting staff could not keep reliable accounting records that would stand the test of time statutory; such staff could not correctly determined the profit or loss of the firm preparing profit and loss account. (Onaolapo and Adegbite, 2014).

The place of sound accounting and internal control systems in any business, irrespective of its scale, cannot be overemphasized. A vast majority of small-scale businesses cannot afford the complexity of a detailed accounting system even if they would have. Hence, the existence of single entries in their books and in some cases on incomplete records (Wood, 1979; Onaolapo, et al., 2011). Audits of small scale enterprises have proven to be among the most worrisome for professional accountants because of the inadequacy of the internal controls. Except for statutory demands, small and medium scale enterprises hardly give serious thoughts to the process of sound accounting, yet the inadequacy and ineffectiveness of accounting processes have been responsible for untimely collapse of a host of them (Mukaila and Adeyemi, 2011). The level of book keeping and accounting in one man businesses have created many problems against the effective operation and accountability of a sole proprietorship. One man business suffers disproportionately from the regulatory burden compared to large companies, since the smaller enterprises often do not have sufficient financial and human resources to manage their obligations in the most efficient way. (Abdulrasheed, Khadijat and Oyebola, 2012).

Meanwhile, a number of Small Scale Enterprises have not given much attention to book keeping in relation to their business transaction, despite its importance in the success of businesses. This could be lack of sound knowledge in book keeping practices by owners or respective managers. Also, there was difficulty in ascertaining whether there is a comprehensive accounting record that satisfied the laws under which it was incorporation. (Onaolapo and Adegbite, 2014).

It was hard to determine to what extent no adherence to laid – down accounting procedure and constituted in the wheel of implementation of good accounting system. Difficult exist in ascertaining how far non – recognition of the necessity of accounting to continued existence and growth, low educational background of owners and the employment of unskilled accounting staff had affected the production of unreliable accounting or financial statement. Because of the importance of appropriate accounting information for owners and managers of one man businesses and their different stakeholders, it is therefore important to this study to assess the impact of accounting systems applied in small scale businesses in Nigeria.

This study therefore seeks to assess the essence of keeping accounts in Small Scale Business in Nigeria. Specifically, the followings will achieve;

1. *To ascertain the extent to which small scale business keep accounts of their financial transactions.*
2. *To ascertain the extent accounting records keeping contributes in efficient performance of small scale business.*

### **Theoretical Framework**

Some aspects of the existing research delve into the relationship between record keeping and performance of firms. Tanwongsva and Pinvanichkul (2008) comment on the reasons why SMEs prepare financial statements, and argue that on the list, SMEs rank assessing profitability second to the purpose of tax returns. According to Cooley and Edwards (1983), owners of SMEs consider profit maximization as the most important financial objective. This has led to the argument that SME owners pay attention to profitability and measurement of net profit when are evaluate their firms performance. Holmes and Nicholls (1998) concludes that the extent of accounting practices in SMEs depend on a number of factors such as age of business, size of the business, and the nature of the industry. They further point out that most SME owners and managers engage public accountants to prepare required information.

According to Ismail and King (2007), the development of a sound accounting system in SMEs hinge on owners level of accounting knowledge and skills. Some authors have argued that small businesses use professional accounting firms for preparation of annual reports and for other accounting needs (Keasy & Short, 1990; Bohman & Boter, 1984). Lalin and Sabir (2010), reports that the main drivers why SMEs prepare financial statements is pressure from regulatory authorities.

Hussein (1983) notes that, a good accounting system is not only judged by how well records are kept but by how well it is able to meet the information needs of both internal and external decision-makers. Clute and Gitman (1980) uphold that it is common for qualified accountants to do a good job of keeping records up to date but they fail to provide information needed by decision-makers. Interestingly, however, others argue that the high cost of contracting professional accountants has left SME owners with no better option but to relegate management of accounting information (Evaraert et al., 2006; Jayabalan & Dorasamy, 2009). Zhou (2010) has proposed the use of accounting software to improve accounting practices, albeit he laments the unavailability of medium-sized software for SMEs.

Accounting procedure is specific method of account.

Fitzgerald et al 2006 argue further that business enterprises must improve production if they are to effectively compete in this era of rapid economic and technical change. Improved productivity requires both capital investment as well as a work force that has the flexibility to acquire new skills for newly created jobs resulting from structural changes in the economy. Bititei et al (2001) asserts that performance is a result of workers because they provide the strongest linkage to strategic goals of the business enterprise, Customer satisfaction and economic contribution that affects the business, hence it addresses the mode in which an activity is accomplished in particular and the level of standards to which a task is carried out within the working environment. According to Ikechukwu (1993), keeping records is crucial for the successful performance of a business. A comprehensive record keeping system makes it possible for entrepreneurs to develop accurate and timely financial reports that show the progress and current condition of the business. With the financial report generated from a good recordkeeping system, performance during one period of time (month, quarter or year) with another period can be compared. An accurate record of the business' financial performance is vehicle to monitor performance in specific areas. Accounting records provide a basis for complete and accurate income tax computation, a basis for sound planning for the future and basis for discussion with partners, potential investors, and lenders all these are important aspects which enhance performance of the business. Business also depends on correct accounting records to make good decisions about the firm. Decision such as expansion, drop or maintain decisions of product lines, make or buy decisions, about size of debtors. Therefore if proper records are kept they will facilitate efficient, proper timely decision making and enhance performance in small scale industry. Accounting procedure is programmatic, more numeral than principle and more susceptible to change, they often represent alternative way of applying the same principle (Zoubi & Al-Khazali 2011).

Determining the scale of operations and structure of small or medium scale enterprises is crucial. Among the notable indicators are independent management (independent of any other party, except from the owners) mostly dominated by the sole proprietorships, partnerships and private limited company. But Nigerians favour "one-man" business for lack of trust. Most small/medium scale enterprises are located in the interiors of the nation. Flexibility of administration is another important feature of small/medium scale enterprise. This has greatly enhanced their productivity and profitability because administrative bottlenecks are totally absent. Adaptability to customers' needs enhances competitiveness. (Olatunji, 2000; Aremu and Adeyemi, 2011) Other considerations include organizational manpower, limit on capital investment, annual turnover, management structure, as well as the assessment of size of particular enterprises. (Olatunji, 1995; Safiriyu, 2012) explains the relativity of such descriptions. Section 351 (1) of CAMA 1990 describes the small company as "a private company having a share capital; the amount of its turnover for the year in question should be a maximum of #2 million, or such amount as may be fixed by the commission; the net assets value is not more than #1 million; none of its members is alien, government or a government corporation; the directors should hold at least 5% of its equity shares capital. The National Economic Reconstruction fund (1989) defined small scale enterprises are those with fixed asset other than land but inclusive of the cost new investment not exceeding #10 million. The Central Bank of Nigeria (2004), defined a small scale enterprises "as one whose capital investment does not exceeding N5 million (including land and working capital) or whose turnover is not more than #25 million annually. In the bid to increase its share of world's industrial production (about 25%) by the year 2000 and (about 40%) by the year 2010 as recent world industrial production statistics show, developing economies are increasingly focusing small and medium scale businesses

(Okafor,1999; Akwaese, 1987) the united Nations industrial development organization (UNIDO, 1980).It has been discovered that lots of small and medium scale enterprises shut down before they can achieve their goals a result of poor management arising from inadequate weak and undependable accounting and financial information. (Olatunji 2000; Safiriyu, 2012).

In 1990 budget, the Federal Government of Nigeria defined small scale enterprises for the purpose of commercial loan as those enterprises with annual turnover not exceeding N500, 000 and for merchant loan as those for the purpose of commercial loan as those enterprises with capital investment not exceeding N 2 million (excluding cost of land or a maximum of N5 million).

According to Umar (1997) the concept of the small size firm is a relative one and it depends mainly on both the geographical location and the nature of economy activity being performed. According to LeGrand et al (1992) and Schubert (1994) they perceive poverty as either absolute or relative or both. Absolute poverty being that which could be applied at all time in all societies, while relative poverty relates to the living standards of the poor to the standards that prevail elsewhere in the society in which they live. Englama et al (1977) also defined poverty in both absolute and relative terms as a state where an individual is not able to cater adequately for their basic needs of food, clothing and shelter. Lacks gainful employment, skills, assets and economic infrastructures such as education, health, potable water, and sanitation, and as a result has limited chance of advancing his/her welfare to the limit of his/her capabilities.

World development Report (1990) used an upper poverty line US \$ 370 income per capital as a cut off for absolute poverty. People whose consumption level falls below that level are considered poor and those below US \$ 275 as very poor. Obadan (1997) sees poverty as a situation of low income or low consumption. Some researchers also defined it as inability to meet basic material needs encompassing food, water, clothing, shelter, education, health as well as basic non-material needs including participation, identity, dignity, etc. (Blackwood and Lynch 1979).

As a result of flexibility nature of small –scale enterprises, they are able to withstand adverse economic role since they are more of labour intensive. Therefore, they have lower capital costs that are associated with job creating (Anheier and Seibel, 1987; Schmitz, 1995).

Small scale enterprises has been defined variously by many individuals and institution using various yardsticks such as numbers of employees, volume of sales, value of assets, or the volume of deposit in banks (Ademola et al 2012). The National Economic Reconstruction Fund (NERF) defined small and medium enterprises with a criterion that projects to be financed by the firm should have a total fixed asset cost (including land) of not more than N10million. The Federal Ministry of Industry (in respect of the small scale industries credit scheme) sees small scale industry as any manufacturing, processing or service industry with capital investment not exceeding N150,000 in machinery and equipment alone. According to Atijosan (1998), a small business is any manufacturing, processing or servicing industry that satisfies any or all of the following conditions:

-Capital, but excluding cost of land and not excluding N750,000

-Staff strength not exceeding 50 persons and wholly Nigerian owned.

-A manufacturing, processing or servicing industry, exceeding the units of investment stated is relatively small compared to prevalent size of plant and the technology is fairly labour intensive.

According to Ademola et al (2012),Small scale enterprises are catalysts for world's economic growth and development which have dominated the industrial sector of both developed

and underdeveloped countries. Aruwa (2006) believed that Nigeria's industrial sector is dominated by small and medium scale enterprises (SMEs) which accounts for 90% in terms of number of enterprises, as compared with other developed countries where more than 98% of all their enterprises belong to SME sector, about 80% of the total industrial labour force in Japan is SME, 50% in Germany, 46% in USA are employed in smaller firms. Central Bank of Nigeria defined small scale enterprises as all businesses with a total assets investment of less than one million, an annual turnover of less than one million and with a total number of employees of less than fifty (World Bank Mapping 2001). In addition, the International Finance Corporation (IFC) and Corporate Affairs Commission in 2001 further justified that Nigeria's industrial sector is dominated by SMEs, estimated to be about 90% of the sector employing less than 50% of the people (HPACI 2002). Given the place occupied by the SMEs in Nigeria's industrial sector, it is expected that the success of the Nigerian economy would be partly dependent on the success of the SMEs. Nwoye (1991) pointed out clearly that SMEs are catalysts for Nigeria's economic growth and development. He believe that through so many SMEs, Nigeria has great potentials for success and growth, sales of large volume of goods etc. Even though, some of them have adequate capital, many of them fail due to poor financial management operations.

Duranti and Thibodeau, (2001), Business performance refers to an ongoing process that involves managing the criteria for which an institution, agency or project can be held accountable. Typically, these criteria are represented as component parts of an internal system and cover the institution's ability to; control financial expenses, satisfy staff, deliver timely interventions and respond to target group reactions to interventions.

### **Empirical Framework**

According to Morries (2007) Small businesses have some inherent disadvantageous characteristics that will require that they be provided with public supports. Such characteristics, apart from limited managerial capabilities, include lack of economies of scale, lack of collective voice and influence on policy, frequent cases of market failures and/or biases against small businesses, weak financial capacity to undertake R&D or the costly support services such as Business Development Service (BDS), and huge knowledge gaps (most small business promoters don't know what they need to know but which they don't know). When these public supports are not available, chances of failure can be very strong.

According to Oladejo (2008), the achievement of the firm's objectives is greatly influenced by the application of accounting records. Most businesses in Nigeria still are not aware of the importance and benefits of accounting records. It is found that accounting records are faced with some challenges which are inadequate infrastructural facilities, inability of most business firms to demand accounting systems adequate to them for their needs, lack of standardized professional body in accounting records and also local firms are been threatened by developed countries that are enjoying the full benefits of accounting records. He concluded that accounting records has contributed immensely to the unprecedented rate in the growth of small businesses in identifying the expenses, income, and profit and loss of a firm at the end of an accounting year.

In a study of 148 respondents in Nigeria (Enugu), Okoli (2011) links proper record keeping and profitability of small scale enterprises and assert that due to inadequate record keeping, the small scale operators could not assess their performances effectively. He argues that in order to enhance the profitability of small scale enterprises and their continuity, there is need for adequate record keeping which will help the proprietors to keep track of the performance of these enterprises.

Mensah et al. (2007) states that a significant number of enterprises in their survey kept no records pertaining to operations, finance, audited accounts, tax returns, and so on. Until recently, all the micro and small enterprise could not receive credit from the banks and promotional institutions on grounds that the formal banking sector considered them a high risk area, and hence charged them high cost for borrowed funds from the banks.

In assessing the financial statements of micro and small enterprises, Aryeetey et al. (1994) claims the existence of practical problems in deriving records and figures that make up the statements. One reason for that is because for almost all enterprises the owners keep all the records in memory and hence the lack of records of all kinds –sales, marketing, accounting, credit borrowing from lending institutions, staff costs, owners emoluments, etc. Owners of SMEs do not keep proper records and thus, they are not able to provide data about their entities.

Also Sege (2010) said small businesses fail because those who start them fail to carry out market research to find out if there is any genuine market for their products and/or services; Bother to get money sorted out before they start the business; Choose a feasibility business model; and Plan for growth or what happens if the business is a success; and plan an exit strategy.

**Hypotheses**

1. *H<sub>0</sub>: Small scale business do not kept proper accounting records of their financial transactions.*
2. *H<sub>0</sub>: Accounting records keeping does not contributes in efficient performance of small scale business.*

**Methodology**

The population for the study consists of twenty eight (48) selected small scale businesses in Anambra state. The researchers used judgmental sampling technique to select as a representative to other small scale businesses in the area.

Data collected for the study were analyzed by the researchers using frequency counts, mean score. The hypotheses were tested using Z-test. This was done to test significance different in mean between the two population mean when the sample size is large. The hypotheses were tested at 5% level of significance.

Using z-test

$$Z = \frac{x - \mu}{\frac{\sigma}{\sqrt{n}}}$$

Where x = sample mean

- $\mu$  = Population mean
- $\sigma$  = Standard deviation
- n = Sample size

**Data Analysis**

**Summary of responses using five point Likert’s scale**

S/N	QUESTIONNAIRE	SA	A	U	SD	D	Total
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1	Small scale business keeps the records in order to access the profitability of their transactions.	11 (55)	21 (84)	3 (9)	0 (0)	6 (6)	41 (154)
2	Some of SSB owners are has skill in accounting system.	9 (45)	17 (68)	2 (6)	4 (8)	9 (9)	41 (136)
3	Small scale business is engaged accountants to keep records of their financial transactions.	15 (75)	20 (80)	1 (3)	0 (0)	5 (5)	41 (163)
4	There is internal system to cover the business ability to control financial expenses.	13 (65)	22 (88)	0 (0)	2 (4)	4 (4)	41 (161)
5	A number of small scale business keeps records pertaining to operations, finance, etc.	18 (90)	23 (92)	0 (0)	0 (0)	0 (0)	41 (182)
6	Accounting records have contributed immensely to the growth of small scale business.	14 (70)	20 (80)	3 (9)	0 (0)	4 (4)	41 (163)
7	There is a relationship between accounting records keeping and performance of small scale business.	10 (50)	28 (112)	0 (0)	0 (0)	3 (3)	41 (165)
8	Some SME engaged professional accountants to determine the level of their profits.	12 (60)	27 (108)	0 (0)	2 (4)	0 (0)	41 (172)
9	Keeping adequate records is crucial for the successful performance of a business.	10 (50)	24 (96)	1 (3)	1 (2)	5 (5)	41 (156)
10	If proper records are kept, they will facilitate efficient, proper timely decision making and enhance performance in small business.	9 (45)	26 (104)	2 (6)	0 (0)	4 (4)	41 (159)

S source: field survey, 2014

### Test of Hypotheses

#### Hypothesis one

HO: Small scale business do not kept proper accounting records of their financial transactions.

HI: Small scale business kept proper accounting records of their financial transactions.

$$\text{Population mean } (\mu) = \frac{3 \times 41 \times 5}{5} = 123$$

$$\text{Sample mean } (X) = \frac{\sum x}{n} = \frac{796}{5} = 159$$

$$\text{SD } (\delta) = \sqrt{\frac{\sum (x - \mu)^2}{n}} = \sqrt{\frac{103}{5}} = \sqrt{20.6} = 4.54$$

$$\text{Z-test} = \frac{x - \mu}{\frac{\delta}{\sqrt{n}}} = \frac{159 - 123}{\frac{4.54}{\sqrt{5}}} = \frac{36}{2.02} = 17.82$$

**Decision:**

Since the Z-calculated is higher than the Z- table (5.41>1.96), we reject the null hypothesis and accept alternative hypothesis which uphold that Small scale business kept proper accounting records of their financial transactions.

**Hypothesis Two**

HO: Accounting records keeping does not contributes significantly to the performance of small scale business.

HI: Accounting records keeping contributes significantly to the performance of small scale business.

$$\text{Population mean } (\mu) = \frac{3 \times 41 \times 5}{5} = 123$$

$$\text{Sample mean } (X) = \frac{\sum x}{n} = \frac{815}{5} = 163$$

$$\text{SD } (\sigma) = \sqrt{\frac{\sum (x - \mu)^2}{n}} = \frac{150}{5} \sqrt{\quad} = \sqrt{30} = 5.48$$

$$\text{Z-test} = \frac{\frac{x - \mu}{\sigma}}{\frac{1}{\sqrt{n}}} = \frac{163 - 123}{5.48} = \frac{40}{2.45} = \mathbf{16.33}$$

**Decision:**

Since the Z-calculated is higher than the Z- table (16.33>1.96), we reject the null hypothesis and accept alternative hypothesis which uphold that accounting records keeping contributes significantly to the performance of small scale business.

**Summary of Findings**

Based on the data analyzed and the literature reviewed, the followings findings were drawn;

- i. Small scale business kept proper accounting records of their activities hence the owners employed public accountants to prepare their accounts.
- ii. Accounting records keeping contributes significantly to the performance of small scale business.
- iii. It revealed that if proper records are kept, they will facilitate efficient, proper timely decision making and enhance performance in small business.

**Conclusion and recommendations**

This study has attempted to assess the impact of accounting small scale business. This study reviewed various forms including journal papers, articles and other relevant materials. Based on this, the study discovered that the need for an effective accounting system in promoting good performance in small scale enterprises in Nigeria has been studied in this research work. The problems militating against the operation of such system despite its apparent values were also examined. It was observed that although small scale enterprises may not be able to adopt elaborate systems of accounting, A number of small scale business kept no records pertaining to their financial operations, finance, etc while some employed professional accountants to keep proper accounting records of their business. The accounting records keeping contribute to the performance of small scale business hence small scale business not actually kept proper

accounting records of their activities; they could be encouraged by customized adaptive systems.

Based on this, the researchers made the following recommendations;

The training of accountants by these institution and the various professional institutes should focus more on practical means of solving accounts reporting needs of small and medium scale enterprises; and that government should provide adequate financial assistance, this is because if there is adequate financial support, more unemployed Nigerians will engage in small scale enterprises thereby gain their means of living easily than looking for unavailable while collar job.

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