

The Impact Of Accounting System On The Performance Of Small And Medium Scale Enterprises In Nigeria – A Survey Of SME’s In Oyo State-Nigeria.

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ABSTRACT : *Small and medium scale enterprises are gaining widespread acceptance as viable drivers of economic growth. However, several of these enterprises demise without fulfilling expectations due to poor management arising from weak accounting structure. It was aimed to examine the impact of sound accounting system on corporate performance of small and medium scale enterprises. This was done by a survey carried out through questionnaire and analysed using the F-Statistic (ANOVA). Results showed that adoption of sound accounting system enhances performance of small and medium scale businesses. It was recommended that accounting professionals should customize accounting system and audits to the need and capacity of these categories of businesses, provide accountancy services or a fee, and adherence of small business operators to internal controls.*

KEYWORDS: *Accounting System, Performance, Small and Medium Scale Enterprises.*

I INTRODUCTION

A. Background Information

An accounting system is an orderly, efficient scheme for providing accurate financial information and controls. Regulatory requirements and internal administration policies are key considerations in the design of an effective accounting system. Thus accounting systems show the books, records, voucher, and files and related supporting data resulting from the application of the accounting process. It involves the design of documents and transactions flow through an organization. The uniqueness of small and medium scale businesses call for careful consideration in the design of accounting systems. Small and medium scale enterprises are a vast majority of businesses found in variety of primary and intermediate production of the economy. These establishments have tremendous impact on the state and well being of the nation in employment generation, as sources of national outputs and revenues, providing feedstock for large corporations They may lack the sophistication to apply the detailed accounting processes, yet the value of accounting systems to these businesses is quite profound.

B. Statement of the Problem

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 incomplete records (Wood, 1979; Onaolapo, et al., 2011). Audits of small and medium 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)

C. Objectives of The Study

The main objective of this study is to assess the impact of accounting system on the performance of small and medium scale enterprises. Specific objectives include, to:

- determine the extent to which sound accounting practice is carried out among these businesses;
- examine the limitations of small and medium enterprises to implementing full accounting systems;
- evaluate the extent of compliance of small and medium enterprises with standard accounting practices.

D. Justification for the Study

The redirection of the economy towards self sufficiency and make it to rank among the twenty largest economies in the world by AD2020 calls for industrialization and growing the economy to meet expectations. This involves grooming the small and medium scale businesses to take the center stage in driving the economy. This effort cannot produce expected result if the targeted businesses lack accountability and thus sustain perpetual losses. Studies have shown that the strength of great nations derives from the small and medium scale enterprises who work tirelessly as backbones to the industrial giants (Arowomole and Oyedokun, 2006; Olatunji, 2000; Iopev and Kwanum, 2012). How prepared are Nigeria entrepreneurs to run organizations with valid and credible financials that could encourage or stimulate investments.

E. Hypothesis for the Study

The following hypothesis is proposed for the study:

Ho: Accounting System has no significant impact on the performance of small and medium scale enterprises in Nigeria.

Hi: Accounting System has significant impact on the performance of small and medium scale enterprises in Nigeria.

II REVIEW OF LITERATURE

A. Nature of Small and Medium Scale Businesses

In recent years, as part of the economic reforms in Nigeria, there has been a switch of emphasis from the grandiose capital intensive, large-scale industrial projects to small/medium scale enterprises with immense potentials for developing domestic capacity for rapid substantial industrial development (Dasanayaka, 2009). 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 ₦5 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)

B. Accounting Systems: Concepts, Uses and Principles

Accounting has been describe it as the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by the users of the information. It is characterized as the language of business. (Niswonger and Fess, 1969) Several concepts, theories and principle under grid the practice of accounting. Prominent among them are *Going Concern, Consistency, Accrual, Business Entity, Money Measurement, Prudence and the Double Entry*. (Rawat, 2004; Dyson, 2004) Accounting manifests in several ways such as financial, cost, management and tax accounting. An accounting system is an orderly, efficient scheme for providing accurate information and controls. Regulatory requirements and internal administration polies must be considered in designing an effective accounting system. Accounting system should show the books, records, vouchers, and files and related supporting data resulting from the application of

the accounting process. (Oyewole, 2008). It comprises of steps, procedures, documentation and devices needed to implement a flow of transaction processing. The non-existence or inadequacy of internal of internal controls is an avenue for wastes, fraud and defalcation. The existence of sound system guarantees prompt action and customer satisfaction, thus increasing potentials for greater incomes and growth in real termed. (Robert et. al. 1998) states that measuring a company’s financial performance and final position requires establishing a distinct accounting period (Warson, 1981; Shukla et al. 2006). According to Wariboko (1993), “Income statement shows the earnings of the firm between two balance sheet dates”. First, locate net earnings; second, locate earnings per share (EPS) and note whether this is primary of fully diluted. To achieve this the trading profit and loss account and a balance sheet is prepared (Meshack, 1999; Shukla et al. 2006; Babatunde 2003; Nagarajan et al. 2006).

C. The Challenges of Small and Medium Scale Businesses

As observed by Wood (1979), many small businesses can have all the information they want by merely keeping a cashbook and having some form of records, not necessarily in double entry system. (Vickery and Mendes, 1973; Olaoye, 2012). This is an aberration and requires a conversion to double entry system for meaningful reporting (Adebisi and Azeez, 1999; Olatunji, 1995; Onaolapo, et al. 2011). The mechanics of the conversion involve the preparation of a statement of affairs and estimation certain data for the updates of full set of ledgers and henceforth a complete double entry system is installed. (Pickles and Lafferty, 1974) The challenge is amplified by the audit requirements for small companies (Millichamp, 1984) observed that in most small companies accounting and financial management are carried out by just one person, making segregation of duties impracticable or irrelevant. Controls may have to depend on the close involvement of the owners in the management of the business and to extent of their integrity. This calls for an adaptation of accounting systems to need of these businesses (Abeygunasekera and Fonseka, 2013).

D. Towards Adaptive Model For Small and Medium Scale Businesses

The small businesses may not even have kept any records at all but for tax purposes. It should be remembered that accounting is aid to management and not an end in itself. It is therefore only fair to expect that the small and medium scale businesses would not incur costs above justified limits. (Wood, 1979; Iopev and Kwanum, 2012; Bamiduro, 2003). Niswonger and Fess (1969) insists “each system must be designed to fit the nature of the individual enterprise, the volume of transactions of various types, and the number and the capacities of the personnel. Internal control in small and medium scale enterprises may not be as detailed as those of large companies but it should comprehensively cater to the needs of the enterprises and users of its reports such that it provides reasonable assurance of truth and fairness (Mbroh, 2013).

III RESEARCH METHODS

This is an exploratory research seeking to determine the state of accountancy among small and medium scale enterprises. The primary source of data was the questionnaire for data gathering. Results were presented using percentages, averages, standard deviation and coefficient of variation. These were analyzed using the One-way ANOVA technique. The test of significance is performed using n-1 degree of freedom @ 0.05 level of significance. Ho is upheld where F-observed is less than the F-table showing hat differences in mean scores are not significant and vice versa.

IV RESULTS

A. Presentation of Data

Table 1 Distribution of Responses on the Impact of Accounting Systems On SMEs.

	H	5	4	3	2	1
	Accounting Systems Facility Performance of Small and Scale Enterprises	%	%	%	%	%
A	SMEs always keep required books for accountability	26.09	60.87	6.52	6.52	0.00
B	Inadequate Skilled Personnel Limits SMEs Accountability	47.83	17.39	17.39	8.70	8.70
C	Good Financial Reporting Enhance Business Performance	60.87	13.04	8.70	13.04	4.35
D	Audit Problems of SMEs Has Affected Credibility of Account	45.65	30.43	21.74	0.00	2.17
E	Excessive Costs of Implementing Accounting System Prevents Adoption of Accounting Systems	39.13	32.61	21.74	4.35	2.17
F	Sound Accounting Records Facilitate Decision Making	65.22	21.74	4.35	2.17	6.52

Source: Survey

Opinions on the impact of good financial reporting on performance of SMEs showed that about seventy-four percent of respondents recognize the positive influence of adopting sound accounting systems on business performance. Similarly, about eighty-seven percent of respondents agree that sound accounting records facilitate decision-making.

B. Analysis of Data

Table 2 Analysis of Responses on the Impact of Accounting Systems on SMEs.

	Accounting System Facilitate Performance of SMEs	Mean	Std. Dev.	Coeff. of Var
A	SMEs Always Keep Required Books For Accountability	27.102	23.396	0.861
B	Inadequate Skilled Personnel Limit SMEs Accountability	25.799	14.798	0.574
C	Good Financial Reporting Enhances Business Performance	27.536	22.017	0.812
D	Audit Problems of SMEs Has Affected Credibility of Account	27.824	18.941	0.681
E	Excessive Cost of Implementing Accounting System Prevents Adoption of Accounting Systems	23.713	15.230	0.642
F	Sound Accounting Records Will Facilitate Decision Making	29.131	25.335	0.870

Source: Survey

C. Tests of Hypothesis

TABLE 4 Accounting Systems and Performance of Smes
ANOVA: Single Factor

Groups	Count	Sum	Average	Variance
Count 1	6	284.79	47.465	204.9449
Count 2	6	176.08	29.34667	294.4548
Count 3	6	80.44	13.40667	61.2719
Count 4	6	34.78	5.796667	22.05307
Count 5	6	23.91	3.985	10.25187

Sources of variation	SS	df	MS	F	P-Value	F crit
Between Groups	8060.24	4	2015.06	16.99107	7.52E-07	2.75871
Within Groups	2964.881	25	118.5952			
Totals	11025.12	29				

HYPOTHESIS

Ho: Sound Accounting system will not significantly improve the performance of small scale and medium scale enterprises in Nigeria.

Hi: Sound Accounting system will significantly improve the performance of small and medium scale enterprises in Nigeria.

This hypothesis is tested at alpha of 5% and (n-1) degree of freedom. Findings show that F observed is 16.99 while F-table is 2.759. since F-observed is > F-table the null hypothesis is hereby rejected. Thus Sound accounting system will significantly improve the performance of small and medium scale enterprises in Nigeria.

V SUMMARY, CONCLUSION AND RECOMMENDATION

The need for an effective accounting system in promoting good performance in small and medium scale enterprises in Nigeria has been successfully studied in this research work. The problems militating against the operation of such system despite its apparent values were examined. It was observed that although small and medium scale enterprises may not be able to adopt elaborate systems, they could be encouraged by customized adaptive systems. Questionnaires were administered in the course of data collection; hypothesis was formulated and tested using the One-Way ANOVA. Findings show that an effective accounting system in small and medium scale enterprises has profound impact on their corporate performances. It was recommended that to encourage the adoption of sound accounting system in small and medium scale enterprises the cost of installing and operating such systems should be minimized. Accounting systems should bear relevance to the size and needs of small and medium scale enterprises. Accountants involved in the audit of small and medium scale enterprises should adopt methodologies that adequately capture the accounting and reporting needs of the

enterprises and comment on their peculiarities, if necessary, in the audit report. Also, institutions of higher learning such as universities, polytechnics and technical colleges should encourage collaborative studies to unravel the specialty of products to fit into small and medium scale enterprises constraints. The training of accountants by these institutions and the various professional institutes should focus more on practical means of solving accountancy and reporting needs of small and medium scale enterprises.

Adherence to internal controls as laid down by management (even if guidance is obtained from professional accountants) is crucial to maintaining integrity of records. The roles of the professional accountant as consultants/part-time accountants are of immense value to entrepreneurs on how best to manage their business organizations for great results. Regular audit of the financial statements of various organizations will also be of great help in line with provision of Company and Allied Matters Act (CAMA, 1990). It was concluded that the adoption of sound accounting system would significantly enhance the performance of small and medium scale enterprises in Nigeria.

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