

IMPACT ASSESSMENT OF ACCOUNTING SYSTEM ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMES) IN BAUCHI METROPOLIS, NIGERIA

MOHAMMED IBRAHIM

Department of Accounting, Gombe State University, P.M.B. 127, Gombe,
Gombe State, Nigeria
E-mail: mifili77@yahoo.co.uk

Abstract- This paper is aimed at assessing the impact of accounting system on the performance of small and medium enterprises (SMEs) in Bauchi Metropolis, Nigeria. This paper used a survey method of data collection. The population of the study consists of all the existing sixty six (66) Small and Medium Enterprises listed on the list of registered SMEs with the SMEs Directorate of Bauchi State Ministry of Commerce and Industry as at December, 2014 that engaged in manufacturing/production activities only. The stratified random sampling technique was employed to arrive at the sample size of sixty (60) SMEs from six groups (Food and Beverages, Printing/Paper Product, Metal and Aluminum Products, Non Metallic Products, Wood and Wood Products and Farm Products). The 4 point Likert Scale ranging from 4 (Strongly Agreed) to 1 (Strongly Disagreed) was used. The cut-off point of 2.5 was used (i.e $4+3+2+1/4$), any mean above this indicates agreement with the statement and vice-versa. The data collected were analyzed using descriptive statistics where mean rating was used as appropriate. It was established that even though proper accounting system enhances the level of profitability and financial strength of SMEs in Bauchi Metropolis, most of them do not keep proper accounting record. The paper recommends that to ensure a sound accounting system, SMEs operators should compelled themselves, to employ qualified accounting personnel, that will lead to growth and profitability of their enterprises.

Keywords- Accounting System, Financial Information, Performance, Record Keeping, Small and Medium Enterprises, Nigeria.

I. INTRODUCTION

Accounting system has been recognized in most countries of the world as a means of meeting economic growth. For a business to survive, grow and achieve prestige, it should have a dynamic purposeful and efficient accounting system. For centuries, accounting had been generally confined to the financial record keeping functions of the accountant. (15) stated that the economy has changed such that competition has become intense and there is a great change in consumers taste due to technological developments in the business world. The role of an accountant has gradually changed from that of the mere recorder of transactions to that of the member providing relevant information to the decision-making team. Accounting is now regarded as an information system and forms integral part of management information system. As an information system, it collects data and communicates economic information about a business enterprise or other entity to a wide variety of persons whose decisions and actions are related to the activity.

According to (9) accounting system is defined as “the system designed to record the accounting transactions and events of a business and account for them in a way that complies with its policies and procedures. The basic elements of the accounting system are concerned with collecting, recording, evaluation, and reporting transactions and events”.

The economic activity in most nations is based upon the existence of small and medium scale enterprises (SMEs). (6) defined small scale industry as an

industry with total capital employed of over ₦1.50 million but not more than ₦50.00 million, including working capital but excluding cost of land, and/or a labour size of 11 to 100 workers. While it defines as medium scale industry as an industry with a total capital employed of over ₦50.00 million but not more than ₦200.00 million, including working capital but excluding cost of land and/or labour size of 101 to 300 workers.

The existence of small and medium enterprises (SMEs) is so unique to the nation and that is why sometimes, they are described as engine of growth of most economies of the world. Furthermore, Sule (1986) and World Bank (1995) in (12) stated that evidence around the world indicates that small scale enterprises (SSEs) provide an effective means of stimulating indigenous entrepreneurship, enhancing greater employment opportunities per unit of capital invested and aiding the development of local technology. In contrast, Small-Scale Industries (SSIs) were seen as belonging to the past, out-model and a sign of technological backwardness. Indeed, their rapid decline became an index of industrial progress (Owualah (2001) in (4)).

However, the take off and efficient performance of any industrial enterprise, be it small or large, will require a sound accounting system. The importance of accounting records and information to the survival of these businesses cannot be overstressed. (13) in this regard wrote that for an entrepreneur, the most important aspect of his information comes from financial accounting. This in brief is the score card that consists of statement of financial position,

statement of profit or loss and other supporting documents. They are indicators of growth potentials, earning ability, liquidity and stability. A high degree of uncertainty surrounds SMEs operation in Nigeria, largely due to the problem of keeping and maintaining proper books of accounts and standard accounting system, the problem of recruiting unqualified accountant to head accounting departments and how to face the problem of meeting the goal of profitability. Recruiting unqualified accountants can bring about inaccurate posting of cash in the books of all transactions and thereby hindering the goal of profitability.

There is scanty literature on the accounting system of SMEs in Nigeria and thus, the enthusiasm to protect them and float their expansion to the benefit of not only the investors but also for the economic growth and development of Nigeria remains a task that must be fulfilled. Most business organizations in Nigeria have collapsed or at the brink of collapse due to their inability to keep adequate accounting record or records of their operations (22). The failure to produce accurate and timely information through the accounting process has brought about wrong decisions and thus, failure in SMEs. It is, therefore, against this background that this study tries to examine the impact of proper accounting system on the performance of SMEs with particular reference to SMEs in Bauchi Metropolis. To achieve this objective, the researcher hypothesized that proper accounting system will bring about better service, high profitability, financial strength and growth and survival of SMEs.

II. LITERATURE REVIEW

2.1. The Concept of SMEs

Generally speaking, there is no consensus on the definition or nature of SMEs worldwide. According to (17) globally, the definition of SMEs varies from country to country, depending on the parameters considered best suitable to promote the sub-sector in each country. Different countries, institutions and individuals have put forwards various descriptions of a small business based on some parameters. (16) argued that; the main criteria used throughout the world to describe small-scale enterprise include: number of employees, sales volume, financial strength, relative size, initial capital outlay, and independent ownership.

Furthermore, (2) highlighted the definitions of small and medium scale industries by different institutions in Nigeria as follows: The Federal Ministry of Industry defines medium enterprise as the one having asset value of not more than ₦200million with not more than 300 workers, while it defines small-scale enterprise as the one having asset value of not more than ₦50million, with not more than 100 workers. The Central Bank of Nigeria defines medium scale enterprise as the one having asset value of not more

than ₦150million, and with not more than 100 workers, while it defines small-scale enterprise as the one having asset value of not more than ₦2million, with not more than 50 workers. The Association of Small and Medium Enterprises defines medium scale enterprise as the one with asset value of not more than ₦150million, with turnover of not more than ₦150million, and having not more than 100 workers, while it defines small-scale enterprise as the one having asset value of not more than 50million, with turnover of not more than ₦50million, having not more than 50 workers.

From the foregoing discussions, for the purpose of this study, SMEs are defined as the one with asset value of not more than ₦150million, with turnover of not more than ₦150million, and having not more than 100 workers. Also, the researcher is of the view that what is common to the wide range of information available on the features of SMEs is that the operations in the sector are usually in small scale; that production technique is labour intensive and that ownership is usually private. In most cases the workers in this sector are family members, apprentices and few paid employees.

2.2. The Role of SMEs in National Development

The critical importance of programmes in aid of SMEs derives from the fact that their development is what is required to enable country's industrial sector meet the contemporary challenges of globalization, economic reconstruction and poverty eradication. On the role of SMEs, (14) noted that specific attention on SMEs is based on their expected impact and potential contribution on broad and diversified production based as well as their accelerated effect in achieving large objective. However, (11), (4), (2), and (17) analyzed the roles played by SMEs in the development of Nigerian economy as follows: SMEs play a role in expanding and diversifying industrial production and contribute to such basic economic objectives as employment generation or opportunities all over the world, they produce intermediate goods for use in large enterprises, they mitigate rural-urban migration thereby providing a potential tool for achieving the much desired balance development, they promote industrial linkage due to the fact that they possess the potential for the production of less expensive inputs for economic integration of large-scale industries through sub-contracting arrangement among others.

From the foregoing, the researcher is of the opinion that the development of SMEs is seen as an instrument that can be used to generate sustainable economic development and therefore adequate attention on them remain a task that must be done.

2.3. The Concept of Accounting System

Accounting is now regarded as an information system and forms integral part of management information system. As an information system, it collects data and

communicates economic information about a business enterprise or other entity to a wide variety of persons whose decisions and actions are related to the activity. (1) opined that a system is said to be the composition of various components, while procedure is an order of doing things. For instance books of original entries cannot be entered unless source documents such as vouchers, cheque, receipts (received or issued) statement from invoices are firstly acquired. So also ledger cannot be opened without the books of original entries such as revenue books, expenditures books among others.

An accounting system is an embodiment of the general payroll, purchasing, sales, and costing and credit control systems. An accounting system is a formal means of gathering and communicating data to aid and coordinate collective decisions in the light of overall goals or objectives of an organization. The accounting system is the major quantitative information system in almost every organization (8). Moreover, (3) pointed out that an accounting system is part of management information system established in an organization to enable management obtain an accurate and timely information for the purposes of decision-making, controlling and planning. Furthermore, (7) in his definition sees accounting system as a set of records (Journals, ledger, working sheets, trial balances and reports) plus procedures and equipments regularly used to process business transactions. According to him, for the accounting system to be effective, the following should be put in to consideration: provide for efficient processing of data at the least possible cost, ensure a high degree of accuracy, and provide for internal control to prevent theft or fraud among others. Considering the views expressed above, the researcher is of the view that accounting system can be seen as the various components that make of the procedures or methods that produce the financial statement of an organization.

Regarding the above discussions, the researcher is of the opinion that for an accounting system to serve its purpose, it must incorporate all the aspects of accounting field which comprises of financial accounting, management accounting, auditing, taxation and cost accounting among others.

2.4. Accounting System of SMEs in Nigeria

The take off and efficient performance of any industrial enterprise, be it small or large, will require sound accounting system. The importance of accounting records and information to the survival of these business organizations cannot be overstressed. (13) in this regard wrote that for an entrepreneur, the most important aspect of his information comes from financial accounting. This in brief is the score card that consists of balance sheet, income statement and other supporting documents. They are indicators of growth potentials, earning ability, liquidity and stability. Recording of business transactions is of

paramount importance to any business. (21) noted that without recording these transactions, it would be difficult for organization to find out the profit it has made or loss suffered. This view was supported by (18), and (10). However, (19, 22) and (20) all agreed that failure in many small scale businesses in Nigeria is as a result of inadequate record keeping. (22), further states that, many of the businesses use notebooks and clerical staff in recording their transactions and that many of the people involved in record management are not trained and as such has serious consequences on record management.

From the foregoing discussions, it can be deduced that even though proper accounting system is of paramount importance to the survival of SMEs but available evidence shows that most of them in Nigeria do not keep adequate accounting record.

III. METHODOLOGY

This paper used a survey method of data collection. The population of the study consists of all the existing sixty six (66) Small and Medium Enterprises listed on the list of registered SMEs with the SMEs Directorate of Bauchi State Ministry of Commerce and Industry as at December, 2014 that engaged in manufacturing/production activities only (see Appendix B). This is because; these enterprises are the ones that usually keep records of their financial transactions and contribute significantly to national development (5). The stratified random sampling technique was employed to arrive at the sample size from six groups (Food and Beverages, Printing/Paper Product, Metal and Aluminum Products, Non Metallic Products, Wood and Wood Products and Farm Products). A total of sixty (60) copies of questionnaire were directly administered by the researcher to the staff (Managers/Accounts staff) of the sampled SMEs. It is believed that these categories of staff are the ones that have good understanding of the accounting system of the organizations. The 4 point Likert Scale ranging from 4 (Strongly Agreed) to 1 (Strongly Disagreed) was used. The cut-off point of 2.5 was used (i.e $4+3+2+1/4$), any mean above this indicates agreement with the statement and vice-versa. The data collected were analyzed using descriptive statistics where mean rating was used as appropriate.

IV. RESULTS AND DISCUSSION

Interestingly, fifty (50) copies of the questionnaire distributed were correctly completed and returned representing 83 percent response rate. Hence the analysis was based on fifty (50) respondents. The information gathered from the questionnaire was presented and analysed concurrently for clear scrutiny.

Table 4.1: Descriptive Statistics on Accounting System and Performance of SMEs

S / N	ISSUES	AGGREGATE SAMPLE		Food & Beverages		Metal & Aluminium		Non Metallic Products		Wood Products		Printing & Paper		Farm Product s	
		F	Mean	F	Mean	F	Mean	F	Mean	F	Mean	F	Mean	F	Mean
1	Keeping Acct Record.	50	2.10	16	2.06	6	2.50	12	2.25	7	2.00	4	2.00	5	1.60
2	Owners Support of Acct System.	50	2.10	16	2.06	6	1.50	12	2.42	7	2.00	4	2.00	5	2.40
3	Separating Acct Dept from Others	50	1.87	16	1.75	6	1.83	12	1.83	7	1.86	4	2.50	5	1.80
4	Inadequate Capital, etc.	50	3.40	16	3.94	6	3.83	12	2.75	7	3.14	4	3.25	5	3.20
5	Acct Systems brings better Service, etc.	50	3.66	16	4.00	6	3.83	12	3.83	7	3.00	4	2.50		3.80

Source: Field Survey, 2014

F = Frequency

Looking at individual industries, Table 4.1 shows that almost all the business categories did not agree with the statement because all have the mean score of less than the cut-off point of 2.50, with the exception of those engaged in Metal and Aluminium which has 2.50. In aggregate, it shows that all the respondents agreed that the business enterprises do not keep accounting record. This is so because it has a mean score of 2.10 which is lower than the cut-off point of 2.50. On whether SMEs owners support a well designed accounting system, Table 4.1 indicates that all the respondents do not agree with the statement. This is evidence by their mean rating which are lower than the cut-off point of 2.5. On the aggregate Table 4.1 reveals the aggregate mean rating of 2.10. Going by the mean, this implies that SMEs owners do not support a well designed accounting system because it is lower than the cut-off point of 2.5.

On the issue of separating accounting department from other departments, paper product industry was ranked the highest with the mean rating of 2.5. However, those engaged in other industries have mean ratings lower than the cut-off point of 2.5 which indicates low inclination to the statement. Looking at Table 4.1 and in aggregate, mean rating of 1.87 indicates that SMEs do not separate accounting department from other departments. On whether inadequate capital, lack of basic knowledge and high income demanded by accounting personnel are the problems affecting the accounting system of SMEs, Table 4.1 shows that all the mean ratings are above the cut-off point of 2.50 which indicates that they all agreed with the statement. In aggregate, the mean rating of 3.40 shows that inadequate capital, lack of basic knowledge and high income demanded by accounting personnel are the problems affecting the accounting system of SMEs.

On whether proper accounting systems will bring better service, high profitability, financial strength and growth and survival of SMEs, Table 4.1 shows that the mean rating of all the industries are above the

cut-off point of 2.50 which shows their strong support to the statement. Table 4.1 also shows the aggregate mean rating of 3.66 which is higher than the cut-off point of 2.50, which concludes that proper accounting systems will bring better service, high profitability, financial strength and growth and survival of SMEs. On the final note, going by the analysis and interpretation above, it finally reveals that SMEs do not keep proper accounting record and their owners do not support a well designed accounting system even though they know that proper accounting systems will bring better service, high profitability, financial strength and growth and survival of SMEs.

CONCLUSIONS

In this paper an attempt was made at assessing the impact of accounting system on the performance of SMEs in Bauchi Metropolis, the concepts of both SMEs and accounting system have been discussed. Based on the analysis and interpretation of data, there is enough evidence to conclude that even though proper accounting system enhanced the level of profitability and financial strength of SMEs in Bauchi Metropolis, most of them do not keep proper accounting record. Also, proper accounting system brings about better service, high profitability, financial strength and growth and survival of SMEs. However, to ensure that SMEs keep proper accounting record, government should promulgate and enforce simple and clear laws that will make it mandatory for SMEs to keep proper accounting records. Also, to ensure a sound accounting system, SMEs operators should make it mandatory upon themselves to employ qualified accounting personnel, that will lead to growth and profitability of their enterprises.

REFERENCES

- [1] Abolarin, O. P. (2006). *Accounting System in the Public Sector*, Ile-Ife, Nigeria, OAU Printing Press.

- [2] Akinyande, S. O. (2004). Funds to Small and Medium Enterprises: Panacea to Poverty Alleviation. *The Certified National Accountant (ANAN)* Vol. 12, No. 1, pp 120-200.
- [3] Alabede J. O. (2004). *Financial Accounting for Nigerian Students, (1st ed.)*. Bauchi, Nigeria, Alpha Graphics Publication.
- [4] Anyanwu, C. M (2001): Financing and Promoting Small Scale Industries: Concepts, Issues and Prospects. *Bullion* Vol. 25, No. 3, pp 120-126, Central Bank of Nigeria.
- [5] Ayozie, D. O. (2008). The Role of Small Scale Industry in National Development in Nigeria. *ICAN Students' Journal*, Vol. 12 (1):10-16.
- [6] Essien, O. E. (2001). The Role of Development Finance Institutions in the Financing of Small Scale Industries. *Bullion* Vol. 25, No. 3, pp 140-147. Central Bank of Nigeria.
- [7] Harmernson, R. H. (1980). *Accounting Principles*. USA: Richard D. Urwin Inc.
- [8] Horngren, C. T. and Sundem, G. L. (1987). *Introduction to Management Accounting, (7th ed.)*, Prentice.
- [9] Hussy, R. (1999). *Oxford Dictionary of Accounting, (2nd ed.)*, London, Oxford University Press. pp 9.
- [10] Igboke, S. A. (2002). *Fundamentals of Financial Accounting*, Enugu, Nigeria, Cheston Ltd.
- [11] Inang, E. E. & Ukpang G. E. (1993). The Role of Small and Medium Enterprises in Nigeria. *Economic and Financial Report Books*, Vol. 30, No. 4, pp 200-340, Central Bank of Nigeria.
- [12] Nnanna, O. J. (2001). Financing Small Scale Businesses under the new Central Bank of Nigeria Directive and its likely impact on Industrial Growth of the Nigerian Economy. *Bullion* Vol. 25, No.3, pp 200-206. Central Bank of Nigeria.
- [13] Nwachukwu, C.C. (1990). *The Practice of Entrepreneurship in Nigeria*, Onisha, Nigeria, Africana FEP Publisher Ltd.
- [14] Obitayo, K. M. (1991). Financing Small and Medium Manufacturing Firms in Nigeria. *Bullion* Vol. 15, No. 3, pp 130-138. Central Bank of Nigeria.
- [15] Olumba, M. (2009). Saving Nigerian from the Global Economic Crises: The G-20 meeting, Bank Regulation, Supervision, Illiquidity-Insolvency and Fiscal Policy Drama. *The Fronteira Post*, April 6.
- [16] Oshogbemi, T. A. (1985). *Small Scale Management in Nigeria*, Lagos, Nigeria, Longman Nigeria Limited.
- [17] Salako, M. O. (2004). Financing Micro, Small and Medium Enterprises in Nigeria: The Small and Medium Industries Equity Investment Scheme Experience. *Union Digest*, Vol. 8, NO. 1, pp 140-146. Union Bank of Nigeria Plc.
- [18] Shukla, M. C. And Grewal, T. S. (1987). *Advanced Accounting*, New Delhi, Chand and Co. Ltd.
- [19] Udoh, C. M. (2003). Sustaining Small-Scale Business: Using Single Entry Bookkeeping System of Recording. *Nigerian Accounting Association. New Bulletin*, Zaria.
- [20] Udoh, C. M. and Jaja, S. A. (2002). Managerial Problems of Small-Scale Business in Nigeria: A focus on Capital Acquisition and Performance. *International Journal of Economics and development Issues*, Vol. 1, No. 2, pp 212-300.
- [21] Udoh, C. M. (2004). *Elements of Accounting, Book 1*. Enugu, Nigeria, Sonic Printing Co.
- [22] Udoh, C. M. (2005). Causes and Effect of Poor Accounting Records Management in Vegetable Oil and Associated Industries, South-Eastern Nigeria. *Bayero International Journal of Accounting Research*, Vol. 2, No. 1, 240-150.

★ ★ ★