Improving the Accounting Practice adopted by Owners of Small and Medium-scale Enterprises in Kwara State, Nigeria

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Abstract
All over the world, one of the ways of alleviating poverty is through the promotion of Small and Medium-scale Enterprises (SMEs). SMEs are non-incorporated organizations that are managed by individuals, group or community with the aim of creating wealth and contributing to national development. They are regarded as vehicles for rapid industrialization, sustainable economic growth, poverty alleviation and employment generation. In Kwara State of Nigeria, reports indicate that owners of SMEs adopt different accounting practices in transacting their businesses with little or no consideration for accounting principles. This study therefore examined the accounting practices adopted by eighty selected SMEs across the three Senatorial districts in Kwara State. The study indicated that 70% of the selected SMEs adopted non-standardized accounting practice, 15% adopted semi-standardized accounting practices while 15% adopted standardized accounting practices. Based on the findings of the study, standard accounting formats were recommended to the owners of SMEs in Kwara State. It is viewed that if SMEs are effectively managed the rate of unemployment and poverty will be reduced in Kwara State in particular and Nigeria in general.

Keywords: Improving, Accounting, Practice, Small and Medium-scale Enterprises

Introduction
The Nigerian business environment comprises small, medium and large scale enterprises, which contribute to the socio-economic development of the nation. Specifically, the Small and Medium Scale Enterprises (SMEs) play significant roles in the development and growth of the economy because they serve as feeders to the large scale enterprises. Utomi (2008) posited that SMEs are the growth driver that can make the dream of any nation a reality. Similarly, Ekezie (2008) described SMEs as the engine of growth and catalysts of socio-economic transformation of any country. He added further that SMEs are a veritable vehicle for the achievement of national economic objectives of employment generation and poverty reduction at low investment cost as well as the development of entrepreneurial capabilities including indigenous technology. SMEs bring about several benefits to the inhabitants of the areas where they are located and
these include infrastructural facilities, improvement in the standard of living and stimulation of economic activities.

Literature Review

Definition of Small and Medium-scale Enterprises

Starkey (1998) reported that the European Union (EU) defined an SME as an enterprise which has less than two hundred and fifty (250) employees; has either an annual turnover not exceeding ECU 40 million, or annual balance sheet total not exceeding ECU 27 million; is less than 25% owned by non-SME. A small enterprise is one which has less than fifty (50) employees; has either an annual turnover not exceeding ECU 7 million or an annual balance sheet total not exceeding ECU 5 million; is less than 25% owned by a company falling outside the definition of small. A micro-enterprise is one with less than ten (10) employees (Starkey, 1998). Gerstenfeld and Roberts (2000) noted that EU defined the SME sector in terms of number of employees as:

<table>
<thead>
<tr>
<th>Types of Enterprise</th>
<th>Size of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>1 to 9</td>
</tr>
<tr>
<td>Small</td>
<td>10 to 49</td>
</tr>
<tr>
<td>Medium</td>
<td>50 to 249</td>
</tr>
</tbody>
</table>

SMEs are heterogeneous in nature and they include variety of firms such as Restaurants, Pure-water making factories, Soap and Detergents, Wood works, Leather products, Textiles, Computer software firms, Tailoring and Fashion designing outfits, Printing press, Fabrication outfits, Cassava processing, Block making factories and Consultancy services. These firms possess different sophistications, skills and operate in different markets and social environment.

Hallberg (1999) observed that SMEs statistical definition varies by countries as it is usually based on the number of employees or the value of assets. Due to the variations in definition, it is difficult to compare size distribution across countries. The lower limit for small scale enterprises according to Hallberg (1999) is set at five (5) to ten (10) workers, the upper limit at fifty (50) to hundred (100) workers; while the upper limit for medium scale enterprises is set at between hundred (100) to two hundred and fifty (250) employees.

In Nigeria, the National Economic Reconstruction Fund (NERFUND) set a maximum limit for Small scale industries at 10 million Naira, while Section 37b(2) of the Companies and Allied Matters Decree (CAMD, 1990) defined a small scale company as one with an annual turnover of not more than 1 million Naira only. Ekpeyong and Nyong (1992) described SMEs in Nigeria as business organizations with investments in machinery and equipment not exceeding 5000 Naira and 2 million Naira respectively and not more than 50 and 100 paid employees respectively.

The Role of SMEs in Sustainable Development

SMEs are popular among policy-makers, support organizations, governments and researchers (Hillary, 2000). There are quite a large number of literatures on SMEs written in different languages and by different authors. This is probably due to the importance and relevance of the sector which is regarded as the “engine of growth” and catalyst for development in any economy. Ekezie (2008) observed that SMEs can be seen as a high potential or a problem depending on the political perspective and theoretical positions. Most of the developed countries that gave prime attention to the SMEs have been experiencing significant reduction in unemployment, increase in standard of living, reduction in crime rate, increase per capital income, rapid

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growth in GDP, substantial local capital formation, high levels of productivity and equitable and sustainable industrial diversion and dispersal (Asaolu, 2004; Khoa, 2006).

Though SMEs play a major role in both economic and industrial development, they face a lot of challenges due to their limited size thus, making innovation and access to finance difficult. They equally encounter problems in areas such as management, appropriate technological skill acquisition, access to resources and knowledge, harsh policy environment and gender bias (Khoa, 2006; Asaolu, 2004; Sanusi, 2002; Hillary, 2000; Olowu, 1993, Oresotu 1995 and Lewis 1995). However, these challenges can be handled if the owners of SMEs have the required management skills and keep adequate record of transactions.

Khoa (2006) observed that the sustainable development role of SMEs can be categorized into five. These are:
a. Production of several goods for domestic consumption, as well as capital goods such as machinery, equipment, tools and component parts needed by industries for the production of consumer goods and handicrafts and creation of jobs for a large number of labourers.
b. SMEs sector contributes greatly to the generation of employment and income, thus; reducing poverty significantly. Asaolu (2004) added that SMEs provide a means of creating more employment at a lower cost than large sized firms.
c. SMEs help significantly in developing and utilizing domestically mobilized funds and raw materials available domestically or intermediate inputs. They help in spreading industrial development into the rural areas, thereby assisting in the reduction of development gaps between different areas and stimulating a balanced development in the different regions.
d. SMEs complement large industries with the provision of inputs and the competition needed to speed up the development process in order to improve overall competitiveness.
e. SMEs assist in sustaining and developing traditional handicraft occupations and production of goods associated with the national culture.

**Historical Background of Accounting Double - Entry Principle**

The recording of transaction in books of account i.e. bookkeeping in line with double entry principle dated back to the 14th century when Italian merchants began to use the double entry system to record their transaction. In 1494, Luca Pacioli published the first known text on double entry accounting in his book “Summa Di Aritmetica Geomentria Proportioni Est Proportionalita” meaning “Everything about Arithmetic, Geometry and Proportion”

Transactions are recorded to the ledger in line with double entry principle. This principle requires that the dual (i.e Double) effect of every transaction should be recorded by posting a debit entry to one account and a corresponding credit entry to another account. The principle goes thus “For every debit entry there is a corresponding credit entry and vice versa”. According to Robert (2007), accounts can be broadly classified into two namely Personal Account and Impersonal Accounts.

The classification of accounts can be diagrammatically represented as follows:
In a trading organization, proper record keeping is needed and the required account records include:
i. Cash Book;
ii. Income Statement and

It is important for every SME to keep the above mentioned accounts in order to promote accountability and achieve organizational objectives. These account records are further described in details as follows:

**a. Cash Book**

In a business organization, the function of receiving and paying out money either in the form of cash or cheques requires a considerable number of entries. The objective of decongesting the ledger is carried out a step further by taking the bank account out of the ledger and combining both in one subsidiary book called Cash Book. Cash Book shows both the receipt and payment of money at any particular period. Shown below is the format of a typical 2-column Cash Book
b. Income Statement

This type of account record shows the revenue/income and expenses incurred by a business organization during a period of transaction. The income statement is one of the major financial statements used by accountants and business owners. The income statement is sometimes referred to as the profit and loss statement (P&L), statement of operations, or statement of income. The income statement assists the organization to determine the Profit earned during a period. The income statement is important because it shows the profitability of a company during the time interval specified in its heading. The period of time that the statement covers is chosen by the business and will vary.

Fig iii. Format of Income Statement

For the Six Months Ended June 30, 2011

\[
\begin{array}{ll}
\text{N} & \text{N} \\
\text{Revenues and Gains:} & \\
\text{Sales Revenues} & xxxx \\
\text{Interest Revenues} & xxxx \\
\text{Gain on Sales of Assets} & xxxx \\
\text{Total Revenue & Gains} & xxxx \\
\hline\text{Expenses & Losses:} & \\
\text{Cost of Goods sold} & xxxx \\
\text{Commissions Expense} & xxxx \\
\text{Office Supplies Expense} & xxxx \\
\text{Interest Expense} & xxxx \\
\text{Loss from lawsuit} & xxxx \\
\text{Advertising Expense} & xxxx \\
\text{Total Expenses & Losses} & xxxxx \\
\text{Net Income} & xxxxx \\
\end{array}
\]

Source: Barry J. E & Jermakowicz, E. K. 2007

c. Balance Sheet
It is a statement that shows the assets and liabilities of a business organization. Assets are resources owned and used by a business organization for the purpose of generating income. Assets may be fixed or current. Fixed Assets include building, shop, motor vehicles, and furniture etc while current assets are stocks, debtors etc. Liabilities on the other hand are the amounts owed by the business. It represents the claim by outsiders over the assets of the organization. Liabilities are sub-divided into long term and current liabilities. Long term liabilities include bank loan and debentures, while current liabilities are trade creditors, bank overdraft and accrued expenses.

Fig iv. Format of Balance Sheet

<table>
<thead>
<tr>
<th>Owner’s Equity:</th>
<th>Non-Current Asset</th>
<th>Current Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital at 1/1/2008</td>
<td>Land and Building</td>
<td>Stock</td>
</tr>
<tr>
<td>Additional Cap. Introduce</td>
<td>Plant and Machinery</td>
<td>Trade Debtors</td>
</tr>
<tr>
<td>Net Profit</td>
<td>Furniture and Fittings</td>
<td>Less Prov. For Bad Debt</td>
</tr>
<tr>
<td>Less drawing</td>
<td></td>
<td>Prepayment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bank</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cash</td>
</tr>
</tbody>
</table>

Source: Igben, 2007

Statement of the problem

Lal (2001) noted that SMEs in Nigeria have been performing below expectation towards economic growth and development when compared with SMEs in the developed and some developing countries. Also, although several studies (Olowu, 2003; Adelegan, 2000 & Ashaolu, 2004) have been conducted on accounting practices in Nigeria but little or no focus has been given to accounting practices at SMEs level. In Kwara state of Nigeria in particular, reports indicate that owners of SMEs adopt different accounting procedures in transacting their businesses with little or no consideration for the basic principles of accounting (Idowu, 2004). This study is therefore designed to provide information on standard accounting practice as well as bridge the existing gap in literature.

Objective of the Study

Adelegan (2000) noted that in the present competitive and ever-changing world, all organizations require effective accounting management practice in order to survive. The main objective of this study therefore is to obtain a broad view of the accounting practices being employed by SMEs across the three senatorial districts in Kwara State, Nigeria with a view of guiding the owners or operators of SMEs to adopt
standard accounting *practice* in their business transactions. This is to promote accountability, enhance the achievement of organizational objectives and promote sustainable development.

**Research Questions**

Based on the objective of study, the following research questions have been raised:

1. Do SMEs in Kwara state adopt standardized accounting procedure?
2. Is there any difference in the accounting practices adopted by owners of Small and Medium-scale Enterprises in Kwara State based on location?
3. Is there any difference in the accounting practices adopted by owners of Small and Medium-scale Enterprises in Kwara State based on investment capital?

**Research Hypotheses**

Ho1: *There is no significant difference in the accounting practices adopted by owners of SMEs in Kwara State based on location.*

Ho2: *There is no significant difference in the accounting practices adopted by owners of SMEs in Kwara State based on investment capital.*

Ho3: *There is no significant difference in the accounting practices adopted by owners of SMEs in Kwara State based on*

**Methodology**

The descriptive survey design was adopted for the study. Thus, in order to determine the accounting practices employed by owners of SMEs in Kwara State, data were obtained from primary and secondary sources. These involve the review of the existing relevant literature as well as the use of a questionnaire designed by the researchers titled “Accounting Practices Adopted by Owners of SMEs” (APAOS) to obtain information from the target group. Survey method was chosen because of its inherent advantages over other research methods. For instance, Adewumi (1981) observed that survey method appears more useful because it allows for the usage of questionnaires to obtain data from respondents within a short period of time, focuses on people, their beliefs, opinions, attitudes and behaviours. The questionnaire adopted for the study consists of two sections. Section A contains items on demographic characteristics of the respondents’ enterprises while Section B has ten items related to accounting practices.

The population of the study comprised all owners of SMEs in the 3 Senatorial Districts of Kwara state. Kwara state has 16 Local Government areas across the 3 Senatorial districts. The researchers randomly selected three Local government areas from each of the Senatorial districts and obtained the list of registered SMEs from the Headquarters of the 9 Local areas. Ten registered SMEs were randomly selected from each of the 9 Local areas, making a total of 90 registered SMEs.

In order to collect the data, the respondents were required to respond to the items contained in the questionnaire by indicating level of relevance. The objectives of the research were explained to the respondents and their cooperation sought before the administration of the instrument. The data generated from the survey through the scale were subjected to descriptive and inferential statistics such as mean, percentage, standard deviation student t-test and Analysis of Variance at 0.05 alpha level. Each of the respondents’ view was assigned with appropriate digit that is 1, 2, 3 and 4 which indicated the degree of agreement of the respondents to the items. The content validity of the Questionnaire was determined by three
Chartered Accountants operating accounting firms in Ilorin metropolis and the reliability of the instrument was established with the use of test-retest procedure.

Ninety questionnaires were distributed to owners of SMEs in the three senatorial districts in Kwara State. That is, North, Central and South senatorial districts. Twenty-six (26), thirty-eight (38) and twenty-six (26) questionnaires were distributed respectively. Kwara Central had thirty-two (32) questionnaires because SMEs are more concentrated in the area due to availability of infrastructural facilities. However, eighty questionnaire forms, which represents ninety percent return rate were adequately completed by the respondents and analyzed for the study.

Results
Demographic Data

Table 1: Distribution of SMEs based on Location and years of establishment

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Location</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural</td>
<td>32</td>
<td>40%</td>
</tr>
<tr>
<td>Urban</td>
<td>48</td>
<td>60%</td>
</tr>
<tr>
<td><strong>Years of Establishment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 10 years</td>
<td>52</td>
<td>65%</td>
</tr>
<tr>
<td>10 years and above</td>
<td>28</td>
<td>35%</td>
</tr>
</tbody>
</table>

Source: Field Survey (2009)

Table 1 shows that majority of the SMEs are located in the urban areas and most of them were established less than 10 years ago.

Table 2: Distribution of SMEs based on Investment Capital and Accounting Practice

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Capital</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than N500,000</td>
<td>56</td>
<td>70%</td>
</tr>
<tr>
<td>Between N500,000 and N1 million</td>
<td>16</td>
<td>20%</td>
</tr>
<tr>
<td>More than N1 million</td>
<td>8</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Accounting Practice</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Standardized</td>
<td>56</td>
<td>70%</td>
</tr>
<tr>
<td>Semi-Standardized</td>
<td>12</td>
<td>15%</td>
</tr>
<tr>
<td>Standardized</td>
<td>12</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: Field Survey (2009)

Table 2 shows that 70% of the selected SMEs has less than N500,000 investment capital, 20% has between N500,000 and N1 million while only 10% has more than N1 million investment capital. This indicates that most of the SMEs have less than one million naria investment capital. The table also shows that 70% of the selected SMEs adopted non-standardized accounting practice, 15% adopted semi-standardized practice while 15% adopted standardized accounting practice. This indicates that most of SMEs do not keep proper accounting records of their day to day activities.
Test of Hypotheses

Table 3: Means, Standard Deviation and t-values comparing the accounting practice adopted by owners of SMEs in Kwara State based on location

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>X</th>
<th>SD</th>
<th>DF</th>
<th>Cal. t-Value</th>
<th>Crit. t-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>32</td>
<td>23.875</td>
<td>3.424</td>
<td>78</td>
<td>1.09</td>
<td>1.96</td>
</tr>
<tr>
<td>Urban</td>
<td>48</td>
<td>22.667</td>
<td>5.601</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey (2009)

The result of the data analysis on table 3 shows a calculated t-value of 1.09 and a critical t-value of 1.96 at 0.05 alpha level. Since the calculated t-value is less than the critical t-value, the null hypothesis is accepted while the alternative hypothesis is rejected. This means that there is no significant difference in the accounting practice adopted by owners of SMEs in Kwara State based on location of enterprises.

Table 4: ANOVA comparing the accounting practice adopted by owners of SMEs in Kwara State based on Investment Capital

<table>
<thead>
<tr>
<th>Variables</th>
<th>DF</th>
<th>Sum of Squares</th>
<th>Mean Squares</th>
<th>Cal. F-Value</th>
<th>Crit. F-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>2</td>
<td>785.486</td>
<td>392.742</td>
<td>27.98</td>
<td>3.00</td>
</tr>
<tr>
<td>Within Groups</td>
<td>77</td>
<td>1080.714</td>
<td>14.035</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corrected Total</td>
<td>79</td>
<td>1866.200</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey (2009)

Table 4 shows a calculated F-value of 27.98 and a critical F-value of 3.00 at 0.05 alpha level. Since the calculated F-value is greater than the critical F-value, the null hypothesis is rejected while the alternative hypothesis is accepted. This means that there is a significant difference in accounting practices adopted by owners of SMEs in Kwara based on Investment capital.

Table 5: ANOVA comparing the accounting practice adopted by owners of SMEs in Kwara State based on standardized accounting practice

<table>
<thead>
<tr>
<th>Variables</th>
<th>DF</th>
<th>Sum of Squares</th>
<th>Mean Squares</th>
<th>Cal. F-Value</th>
<th>Crit. F-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>2</td>
<td>583.1524</td>
<td>291.576</td>
<td>17.499</td>
<td>3.00</td>
</tr>
<tr>
<td>Within Groups</td>
<td>77</td>
<td>1283.048</td>
<td>16.663</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corrected Total</td>
<td>79</td>
<td>1866.200</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey (2009)

The table above presents a calculated F-value of 17.499 and a critical F-value of 3.00 at 0.05 alpha level. Since the calculated F-value is greater than the critical F-value, the null hypothesis is rejected while the alternative is accepted. This means that there is a significant difference in the accounting practice adopted by owners of SMEs in Kwara State based on standardized accounting practice.

Conclusion and Recommendations

Based on the findings from the study, majority of owners of SMEs do not follow proper accounting procedures in their day to day transactions. In view of this, owners of SMEs are recommended to always follow proper accounting procedures. Hence, they should prepare the following accounts: Cash Book,
Trading Profit and Loss Account, and Balance Sheet. In addition, a standardized accounting format has been designed. This format can be seen in figures ii to iv.

Mass literacy campaign should be intensified by the Government and other Philanthropic organizations so that among other citizen, SMEs owners could know how to read and write. The programme should include the teaching of elementary book-keeping in order to expose the literate SMEs owners to the rudiments of accounting procedures. With this, the owner of SMEs could have access to loan. If SMEs owners maintain proper book of accounts, and follow the lay down accounting procedures, they would have access to Bank loan, hence increase their capacity to employ more workers and this will lead to reduction of poverty in Kwara State in particular and Nigeria in general.

References

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QUESTIONNAIRE ON ACCOUNTING PRACTICES ADOPTED BY OWNERS OF SMALL AND MEDIUM-SCALE ENTERPRISES (SMEs)

Section A: Demographic Data

a. Name of SME: _____________________________________________________________
   b. Location of SME: _______________________________________________________
   c. Year of Establishment: __________________________________________________
   d. Investment capital (a) 100,000-500,000 (b) 500,001-1,000,000
      (c) Above 1million-2million

Section B
What type of accounting practices do you adopt in your organization?
   (a) None-standardized
   (b) Semi-standardized
   (c) Standardized

Section C

<table>
<thead>
<tr>
<th>S/N</th>
<th>My organization:</th>
<th>Very True</th>
<th>True</th>
<th>Not True</th>
<th>Not Very True</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>employs the services of professional accountants</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>audits its financial statement yearly</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>prepares its daily records of accounting activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>follows double entry principles in its record keeping activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>keeps necessary subsidiary books such as cash book, daily sales register, income and expenditure statement etc</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>employs semi-skilled workers in place of skilled workers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>employs families and friends in its operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>takes into consideration all expenses including overheads before determining the net profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>reconciles its cash at hand with bank balances either on weekly basis or monthly basis</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>remit income to banks on daily basis</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>