

Maintenance of Accounting Records and Business Growth among Small and Medium Enterprises in North-Central Nigeria

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Abstract

Background

Studies have provided evidence that maintenance of accounting records and business growth of SMEs are related. However, this relationship has not been sufficiently ascertained in North-Central Nigeria.

Objective

This study examines the relationship between maintenance of accounting records and business growth among SMEs.

Methods

A multi-stage sampling procedure was adopted in the study. Using the list of registered SMEs in three randomly selected States and Cochran (1977) sample size determination formula, a sample size of 307 was determined for the study. The study generated primary data through a self-administered questionnaire. The dependent variable of the study is business growth. The independent variables are the type of accounting records maintained by the SMEs. Frequency distribution was used to describe maintenance of accounting records by the SMEs and business growth, while the chi-square test of independence was used to examine the relationship between maintenance of accounting records and business growth.

Results

Findings show that 62.9% of the SMEs have poor maintenance of accounting records, profit determination is the dominant reason for account maintenance, and lack of accounting skill is the dominant reason for non maintenance of accounting records among the SMEs. Result further show that 22.5% of the SMEs experienced increasing profit in the last five years. Maintenance of accounting records and business growth are significantly related ($\chi^2 = 42.44, p < 0.05$).

Conclusion

Maintenance of accounting records influences business growth.

Keywords: Accounting; records, maintenance, business, growth

Introduction

Small and medium-sized enterprises (SMEs) are crucial to economic growth and stability in developing countries particularly in sub-Saharan Africa. They constitute the largest proportion of businesses, generate employment, provide essential goods and services, contribute to the gross domestic products (GDPs), and enhance sustainable development of several countries (Ihua, 2009; Eniola, 2014; Zivanai et al. 2014; Musah and Ibrahim, 2014; Eze and Okpala, 2015). However, studies across sub-Sahara African countries have shown that SMEs business growth and performance has not been optimal (Olatunji, 2013). One reason that could be adduced from the inadequate business growth of SMEs is poor maintenance of accounting records.

In a study by Mensah et al. (2007) it was found that significant number of SMEs do not keep records pertaining to business operations. In another study by Amaoka (2010) conducted in the Kumasi Metropolis of Ghana, it was also found that the SMEs do not maintain proper books of accounts mainly because the proprietors lacked the necessary accounting knowledge and could not afford the cost of hiring accounting professionals. These findings were buttressed by findings in a recent study in Ghana. In the study, Kofi, Adejei, Collins and Christian (2014) found that there was poor financial record keeping and inadequate financial reporting among SMEs in the country. These findings were consistent with findings in studies conducted in Nigeria and other countries.

Maseko and Mayani (2011) in a study conducted in Zimbabwe found that majority of the SMEs in Zimbabwe do not keep complete accounting records due to lack of accounting knowledge consistent with finding in a study conducted in Kwara State, North Central Nigeria by Yahaya, Osemene and Salman (2011) where it was found that majority of proprietors of SMEs do not adopt proper accounting procedures in their day to day business transactions. In another Nigerian study conducted by Olatunji (2013) in Oyo State, Southwest Nigeria, it was found that effective accounting system by SMEs had profound impact on business performance. In a study conducted in Sri Lanka, Karunanada and Jayamaha (2011) assessed the influence of financial practice on business performance amongst SMEs in the country.

The study ascertained that poor record keeping and inefficient use of accounting information to support financial decision-making were part of the main problems of the SMEs. Poor maintenance of accounting records were also identified as a key cause of poor business performance in a study conducted in Kisii Municipality, Kenya. In the study which assessed the effect of proper book keeping practices on the financial performance of SMEs, David, Thomas and Onsong (2011) found that book keeping practice of the SMEs was inadequate and negatively affected the financial performance. Studies have thus provided evidence that maintenance of accounting records and business growth of SMEs are related. However, most of these studies were not conducted in the North-Central geo-political zone of Nigeria. Studies are yet to sufficiently ascertain the relationship among SMEs in the zone. It is against this backdrop that the current study investigates the relationship between maintenance of accounting records and business growth among SMEs.

Methods

Sample procedure

A multi-stage sampling procedure was adopted in the study. In the first stage, three States were randomly selected from the Six States and Federal Capital Territory that comprise the North-Central geo-political zone. The selected States are Kwara, Kogi and Niger. In the second stage, the list of registered SMEs in the selected States was obtained from the respective State Chamber of Commerce and Industry. Using the list as the sampling frame and by applying Cochran (1977) sample size determination formula:

$$n = \frac{Z^2 p (1 - P)}{(D)^2}$$

, where: n = required sample size, Z = confidence level at 95%; P = expected prevalence of SMEs in the zone, and D = relative margin of error (5%), a sample size of 307 was determined for the study. In the final stage, SMEs were selected in the States using systematic random sampling method by first selecting a number between 0 and 9 on the sampling frame and using the selected number as the systematic interval.

Instrumentation

The study generated primary data to provide information sufficient to achieve the study objective. A questionnaire was designed for the study and used as data collection instrument. The questionnaire was divided into sections that include background characteristics of the business owners, business characteristics, and maintenance of accounting records. The questionnaire was pre-tested on 10 purposively selected SMEs in Minna, Niger State. Result of the pre-test confirmed the adequacy of the research instrument.

Research Variables

The dependent variable of the study is business growth. This was measured by the business performance in the last five years and categorized into increasing profit, decreasing profit, and break-even only. The independent variables are the type of accounting records maintained by the SMEs. The lists of accounting records expected to be maintained are Sales day book (Sales journal), Purchases day book (Purchases journal), Cash receipt book, Cheque payment book, Petty cash book, General journal, Nominal ledger, Debtors ledger and Creditors ledger. Based on the specific accounting records kept by the SMEs, the independent variables was categorized into three, namely poor (if the SME do not maintain any accounting record or kept only non basic records), average (if the SME maintain only basic records such as sales day book, purchase day book, cash receipt book and cheque payment book) and good (if the SME maintain complete accounting records).

Data Analysis

The Epidata computer software was used for data entry which commenced after manual sorting and editing of the responses. The data were exported to Stata version 12 for statistical analyses. The analyses were performed at two levels, namely, univariate and bivariate levels. At the univariate level, frequency distribution was used to describe responses on maintenance of accounting records by the SMEs and business growth. At the bivariate level, the chi-square test of independence was used to examine the relationship between maintenance of accounting records and business growth. The chi-square test of independence is appropriate for the study because it is usually used to indicate whether the frequencies associated with two variables are statistically independent of or dependent upon one another (Gbadegesin, Olopoenia and Jerome, 2005; Gupta, 2011). The chi-square test was used to test the null hypothesis that maintenance of accounting records and business growth are not related. The level of significance for the test was set at 5%.

Results

(a) *Maintenance of Accounting Records*

Table 1 presents description of the accounting record practice of SMEs in the study area. As shown in the table, nearly two-thirds of the SMEs have poor accounting record practice compared with slightly more than one-quarter of the SMEs whose accounting record maintenance practice are average. Slightly more than one-tenth of the SMEs have good accounting record practice. In spite of the poor practice of accounting records maintenance among the SMEs, majority believed that maintenance of accounting records affect business growth. Nearly one-third of the SMEs prepared financial statement yearly, while 11.1% of the SMEs prepared financial statement quarterly.

Table 1: Description of accounting record practice of SMEs in the Study area

Variable	Frequency	Percentage
Description of accounting records maintained		
Poor	193	62.9
Average	81	26.4

Good	33	10.7
Does maintenance of accounting records by SMEs affect business growth?		
Yes	181	59.0
No	126	41.0
How often do you prepare financial statement?		
Yearly	97	31.6
Quarterly	34	11.1
Monthly	108	35.2
Occasionally	55	17.9
Never	13	4.2
Reasons for maintaining accounting records		
Tax purpose	26	8.5
Profit determination	153	49.8
Financial control	65	21.2
Bank loan requirement	51	16.6
Others	12	3.9
Reasons for not maintaining accounting records		
Lack of accounting skill	168	54.7
Privacy	33	10.7
No need	93	30.3
Others	13	4.2
Improving competence in maintaining accounting records		
Training of book-keepers	244	79.5
Using accounting software	43	14.0
Don't know	20	6.5
Total	307	100.0

Source: Fieldwork, 2015

However, slightly more than one-third of the SMEs prepared financial statement on monthly basis. Results also reveal that 4.2% of the SMEs have never prepared any financial statement. Almost half of the SMEs maintained accounting records for the purpose of profit determination. Taxation purpose is the least known purpose of maintaining accounting records among the SMEs. Though 30.3% of the SMEs do not see the need for maintaining accounting records, lack of accounting skill is the dominant reason why the SMEs do not maintained accounting records. Majority of the SMEs however believed that training of book-keepers is the best way of improving SMEs competence in accounting records.

(b) Business Growth in the last five years

Table 2 describes business growth in the last five years among the SMEs. As shown in the table, 15.6% of the SMEs have experienced declining profit in the last five years while 22.5% of them have experienced increasing profit over the same period of time. However, majority of the SMEs have only break-even in the last five years indicating that business growth as measured by the trend of profit in the last five years have been less optimal in the study area.

Table 2: SME Business growth in the last five years

Nature of growth	Frequency	Percent
Decreasing profit	48	15.6
Break-even only	190	61.9

Increasing profit	69	22.5
Total	307	100.0

Source: Fieldwork, 2015

(c) Maintenance of Accounting Records and Business growth

Table 3 describes the relationship between account maintenance and business growth. Among SMEs with poor accounting record practice, 14.0% have experienced decreasing profit while 11.9% have experienced increasing profit. Majority of SMEs who have poor accounting record maintenance have break-even in the last five years. Among SMEs with average accounting records maintenance, 14.8% experienced declining profit, 45.7% experienced break-even, while 42.4% experienced increasing profit. Among SMEs with good accounting record maintenance, 27.3% experienced decreasing profits, 30.3% experienced break-even, and 42.4% experienced increasing profit. It is evident from the analysis that maintenance of accounting records affects business growth as the proportion of SMEs experiencing increasing profit steadily increases as maintenance of accounting records improves. For instance, the proportion of firms experiencing increasing profit is 11.9% when maintenance practice is poor; the proportion increased to 39.5% and to 42.4% as record maintenance improves from average to good. It is thus reasonable to assert that maintenance of account records relates positively with SMEs business growth. This assertion is tested by the application of the chi-square test.

Table 3: Cross tabulation of maintenance of accounting records and business growth

Maintenance of accounting record	Business growth (by business profit)			Total
	Decreasing	Break-even	Increasing	
Poor	27 (14.0)	143 (74.1)	23 (11.9)	193 (100.0)
Average	12 (14.8)	37 (45.7)	32 (39.5)	81 (100.0)
Good	9 (27.3)	10 (30.3)	14 (42.4)	33 (100.0)
Total	48 (15.6)	190 (61.9)	69 (22.5)	307 (100.0)
Statistic	Df = 4 $\chi^2 = 42.44$ p < 0.05			

(d) Test of Hypothesis

Null Hypothesis (H₀): There is no relationship between maintenance of accounting records and SMEs business growth

Alternative Hypothesis (H₁): There is relationship between maintenance of accounting records and SMEs business growth

Level of significance: 5%

Reject H₀ if $\chi^2_c > \chi^2_{n-1}$ (9.49)

Test Statistic:

$$\chi^2 = \sum \sum (O_{ij} - E_{ij})^2 / E_{ij} = 42.44$$

Decision: Since χ^2_c (42.44) > χ^2_{n-1} (9.49), we reject H₀

Conclusion: we conclude that maintenance of accounting records of SMEs and business growth are significantly related at 5% level of significance.

Discussion

It was found in the study that more than half of the business entities have poor accounting records maintenance. This is consistent with findings in previous studies (Mensah

et al. 2007; Amaoka, 2010; Maseko and Mayani, 2011; Yahaya et al. 2011; Kofi et al. 2014). The poor maintenance of accounting records of SMEs as found in this study has serious implications for the sustenance and profitability of the business entities in the North-Central geo-political zone of Nigeria. Many small and medium businesses take accounting record keeping for granted and consequently are not able to properly monitor their business growth. A good number of SMEs do not have sufficient accounting records required for the development of a business plan which made it difficult for them to make reliable projections into the future. This problem can be solved to a great extent if small and medium enterprises can afford to purchase and use a good financial software system. The software will sufficiently reduce the stress of maintaining profit and loss statements, balance sheet, actual performance to budget, cash flow generated compared to budget, and historical accounts receivable and payable analysis. The only challenge to the use of the software will be sufficient educational attainment and computer literacy of the entrepreneurs.

Conclusions

This study has examined the relationship between maintenance of accounting records and business growth among SMEs in North-Central Nigeria. Finding from the study indicated that the maintenance of accounting records influence business growth in the zone. The main challenge to the maintenance of accounting records is lack of accounting skill among the entities. SMEs in North-Central Nigeria should be encouraged to purchase for use a good financial software that can help maintain basic accounting records such as profit and loss statements, statement of financial position, actual performance to budget, cashflow generated compared to budget, and historical accounts receivable and payable analysis. The Ministries of Commerce and Industry can help provide public enlightenment in this regard by developing a public education programme that emphasis the nexus between maintenance of accounting records and business profitability.

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