Evaluation of the Accounting Systems Used by Small and Medium Scale Enterprises in Yenagoa Metropolis, Bayelsa State, Nigeria, Nigeria

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Abstract

The study evaluated the accounting systems in use by small and medium scale enterprises operating in Bayelsa State, Nigeria. The study was necessitated due to high rate of small scale enterprises failure. The population of the study consists of 500 accounting officers and proprietors of registered small and medium scale enterprises operating in Yenagoa the capital of Bayelsa State. 250 respondents were selected through a simple random sampling technique representing 50% of the population. The instrument employed for the study was a structured questionnaire. Data were analyzed using mean and standard deviation. Summary of the results revealed that seven accounting systems were available for use to small scale enterprises operating in Yenagoa Metropolis, significant number of small and medium scale enterprises uses the single entry system of accounting and that keeping of proper accounting records enhances profitability. It was concluded that significant number of small and medium scale enterprises in Yenagoa Metropolis use the single entry accounting system because of its simplicity and that there was correlation between proper record keeping and profitability of small and medium scale enterprises. It was recommended among other things that the Ministry of Commerce and Industry should help the small business owners to avail themselves the opportunity to use the accounting systems that are relevant for the day to day reporting of their business transactions.

Keywords: *Accounting systems, Evaluation, Small and medium scale enterprises, Profitability*

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Background to the Study

Accounting is the language of business that can tell with reasonable accuracy the degree of success an organization has achieved in approaching its financial goal of profit. Accounting system can be defined as records, procedures, and equipment that routinely deal with the events affecting the financial performance and position of the organization (Horngren and Foster, 1975).

The accounting system entails repetitive voluminous transactions which generally fall into cash disbursement, cash receipts, purchases and sales, services including employee payroll. The purpose of accounting systems is to provide an orderly method for gathering and organizing information about the various business transactions so that it may be used as an aid to management in operating the business (Copeland and Dascher, 1978).

Small and medium scale enterprises have been defined in various ways according to the capital of the enterprise, size, the number of people employed by the enterprises, the ownership and management of the enterprises and sales volume. Small scale enterprises according to Omorodion (1989) are very important to nations. They are catalysts for industrialization. This is because they provide raw materials for medium and large scale enterprises. They also provide employment opportunities for large segments of the population.

For the small and medium scale enterprises to efficiently play the mentioned roles there should be an orderly method for gathering and organizing information about the various business transactions. This can only be done by the use of adequate accounting system.

Basically, there are two types of accounting systems commonly in use, namely, single entry and double entry system. These could be operated manually or computerized (Baumback, 1983). The single entry accounting system according to (Osuala, 1993) is the easiest accounting system to operate. The system records the flow of income and expenses through the business on daily summary of cash receipts, a monthly summary of cash disbursements. In single entry book-keeping there might be single aspects of certain transactions and no record at all of some.

Generally, there are rough records of cash received and paid, and of sundry debtors and creditors. Transactions are exchange of values. For every value received, there is an equal value parted with. It is obvious, therefore, that a transaction has a double effect-receiving of value and giving out value. This method is known as double entry book-keeping method. Double entry bookkeeping according to Passion (1989), does not mean recording twice but instead, it means that every entry or recording of transaction has two parts- a left side and a right side. The left side in the accountant's language is debit and the right side, a credit when applied to transaction, the value received is a debit and the value parted with a credit. Whereas considerable amount of studies have been conducted on financial and management of small enterprises, there are relatively fewer investigations on the accounting systems in use by these enterprises.

(Osuala, 1993) reported that generally many of these enterprises recorded their transactions randomly without adherence to any established systems of accounting, hence, there is difficulty in keeping track of the cash flows in the enterprises. (Mitchel, *et al*. 2000) argued that accounting information could help the small scale enterprises manage short term problems in such areas as costing, expenditure and cash flow by providing information to support monitoring and control.

Knowledge of cash-flows according to (Pandey, 1991) is very important because cash-flows are inseparable parts of the business operations of all firms. (Peren and Grant 2000) noted that decision making processes in small and medium scale enterprises are more sophisticated than anticipated but they lacked effective accounting information and control system to support their decisions. Furthermore, International Federation of Accountants (2006) reported that there is evidence to suggest that small firms are aware of the importance of accounting information. Inspite of this awareness, most proprietors of small and medium scale enterprises in Nigeria most times are not too keen to use standard accounting systems to run the day to day activities of their enterprises. The high rate of failure of small scale enterprises in developing countries like Nigeria, has generally been traced to poor management and accounting systems employed by these enterprises (Ofonagoro,1983). The purpose of this study therefore was to identify the accounting systems in use in small and medium scale enterprises in Yenagoa Metropolis, Bayelsa State, Nigeria with a view to determine adequacy of such system(s) and recommend remedies needed for enhancement of accounting information system in optimization of the operation of these enterprises.

Statement of Problem
The essence of setting up a business organization is to make profit. Goods and services are normally the means of making profits. Without profit, a business is bound to fail. In the process of planning for profit, financial data are assembled in away that can help make informed judgment and take decisions concerning the organization. An accounting system is one of the most effective decision making tools of management. It provides an orderly method of gathering and organizing information about the various business transactions so that it may be used as an aid to management in operating the business (Copeland and Dascher, 1978).The high incidence of failure among the small and medium scale enterprises in Nigeria necessitated the study. The failures are attributed to the poor accounting systems used by these enterprises (Ofonagoro, 1983). Since, accounting system used by an enterprises is one of the key things that determine business growth and profitability, there is need to evaluate the accounting systems used by small and medium scale enterprises in Yenagoa Metropolis, Nigeria. This is important because for optimum business growth, small and medium scale enterprises must make use of a system of accounting which will enable them determine the volume of sales, profits/losses, assets and liabilities at any given time.

Objectives of the Study
The major objective of the study is to evaluate the accounting systems in use by small and medium scale enterprises operating in Bayelsa State.
Specifically, the study seeks to:
i.   Ascertain the types of accounting systems available to small and medium scale enterprises in Yenagoa, Bayelsa State, Nigeria.
ii.   Ascertain the type of accounting systems used by small and medium scale enterprises operating in Yenagoa, Bayelsa State, Nigeria.
iii.   Determine the extent the accounting system enhance small and medium scale enterprises profitability in Yenagoa, Bayelsa State, Nigeria.
iv.   Ascertain the problems that hinder the utilization of accounting systems by small and medium scale enterprises operating in Yenagoa, Bayelsa State, Nigeria.

Research Questions

The following research questions guided the study:

i.   What are the types of accounting systems available to small and medium scale enterprises in Yenagoa, Bayelsa State, Nigeria?

ii.   What are the types of accounting systems used by small and medium scale enterprises in Yenagoa, Bayelsa State, Nigeria?

iii.   To what extent does the use of accounting systems enhance the profitability of the small and medium scale enterprises in Yenagoa, Bayelsa State, Nigeria?

iv.   What are the problems that hinder the utilization of the accounting systems by small and medium scale enterprises in Yenagoa, Bayelsa State, Nigeria?

Methodology

The study was carried out in Yenagoa, the capital of Bayelsa State which is situated between latitude 4.30°N in the Equator and Longitude 6.00°E of the Greenwich Meridian. The design for the study was a survey research design. The instrument used for data collection was a four point response scale. The population for the study comprises all of 250 proprietors and 250 accountants of small and medium scale enterprises from the registered small and medium scale enterprises in Yenagoa. Simple random sampling technique was used to select 250 respondents which were used for the study. Mean and standard deviation were used to test the research questions while t-test was used to analyze the hypothesis.

Presentation of Results

Research question 1: What are the types of accounting systems available to small and medium scale enterprises in Yenagoa, Bayelsa State, Nigeria?

Table 1: Accounting systems available to small scale enterprises in Yenagoa, Bayelsa State, Nigeria

S. No.	Types of accounting systems	*Mean*	Standard Deviation	Remarks
1.	Single entry system	3.04	1.06	Agreed
2.	Double entry system	2.74	1.08	Agreed
3.	Management accounting system	2.51	1.16	Agreed
4.	Cost accounting system	2.63	1.06	Agreed
5.	Tax accounting system	2.61	1.16	Agreed
6.	Auditing system	3.48	0.72	Agreed
7.	Internal control system	2.99	1.05	Agreed

The result from table above shows that all the seven items had their mean greater than the benchmark. It can be therefore inferred that seven accounting systems available for use by small and medium scale enterprises in Yenagoa, Bayelsa State.

Research Question 2: What are the types of accounting systems used by small and medium scale enterprises in Yenagoa, Bayelsa State, Nigeria?

Table 2: Accounting systems used by small scale enterprises in Yenagoa, Bayelsa State, Nigeria

S. No.	Types of accounting systems	Mean	Standard Deviation	Remarks
1.	Single entry system	3.43	0.77	Agreed
2.	Double entry system	1.94	1.03	Disagreed
3.	Management accounting system	1.91	1.06	Disagreed
4.	Cost accounting system	3.01	1.04	Agreed
5.	Tax accounting system	1.61	0.93	Disagreed
6.	Auditing system	1.95	0.96	Disagreed
7.	Internal control system	3.36	0.63	Agreed

The data presented in Table 2 showed that the respondents agreed that the accounting systems used by small and medium scale enterprises were single entry system, cost accounting system and internal control system. The items had means of 3.43, 3.01, 3.36 and standard deviation of 0.77, 1.04, 0.63 respectively.

Research Question 3: To what extent does the use of accounting records enhance the profitability of the small and medium scale enterprises in Yenagoa, Bayelsa State, Nigeria?

Table 3: Extent to which accounting records enhance the profitability of small and scale enterprises in Yenagoa, Bayelsa State, Nigeria

S/No	Item	Mean	Standard Deviation	Remarks
1.	Purchase invoice	2.55	1.16	Great Extent
2.	Sales invoice	2.51	1.16	Great Extent
3.	Cash and debit notes	1.94	1.03	Large Extent
4.	Cash receipts	3.45	0.68	Great Extent
5.	Sales daybook	3.01	1.04	Great Extent
6.	Petty cashbook	2.24	1.10	Large Extent
7.	Cashbook	2.63	1.06	Great Extent
8.	Return inwards book	1.91	1.06	Large Extent
9.	Return outward book	1.96	1.02	Large Extent
10.	Sales ledger	1.72	0.91	Large Extent
11.	General ledger	2.99	1.05	Great Extent
12.	Purchases ledger	2.61	1.16	Great Extent
13.	Trial balance	1.95	0.96	Large Extent

Results of the data analysis presented in Table 3 showed that keeping of purchase invoice, scales invoice, cash receipts, sales daybook, cashbook, general ledger and purchases edger greatly enhance the profitability of small and medium scale enterprises. While the following books-cash and debit notes, petty cashbook, return inward book, return outward book, sales ledger and trial balance to a little extent enhance the profitability of the small scale enterprises.

Research Question 4: What are the problems that hinder the utilization of the accounting systems by small and medium scale enterprises in Yenagoa, Bayelsa State, Nigeria?

Table 4: Problems that hinder utilization of accounting records

S/No	Problem	*Mean*	Standard Deviation	Remarks
1.	Keeping proper accounting record is time consuming.	3.39	0.85	Agreed
2.	Keeping proper accounting record is expensive.	1.64	0.93	Disagreed
3.	Keeping proper accounting record requires technical knowledge.	3.61	0.69	Agreed
4.	Keeping proper accounting record requires more staff.	1.74	0.95	Disagreed
5.	It is difficult to maintain the system	3.39	0.81	Agreed
6.	Keeping proper accounting record exposes your financial position.	3.39	0.81	Agreed
7.	Keeping proper accounting system makes your enterprise to pay more tax.	3.44	0.88	Agreed

The results from the data analysis in Table 4 showed that the respondents agreed that the problems that hinder the utilization of accounting records were as follows- it is time consuming, it requires technical knowledge, it is difficult to maintain the system, keeping of accounting records exposes the financial position of the enterprises and it makes the enterprises to pay more tax.. The respondents disagreed the fact that keeping accounting records is expensive and that it requires more staff.

Discussion of Findings

Results in Table 1 revealed that there are seven accounting systems available for use by small scale enterprises. This finding goes contrary to Passion (1989)who noted that there are basically two types of accounting systems that small scale enterprises are usually conversant with, that is, single entry system and double entry system. In Table 2, the results showed that the types of accounting systems mostly used by small scale enterprises in Yenagoa, Bayelsa State were single entry system, cost accounting system and internal control system. Though, the one mostly in use was single entry system. The result partly agreed with (Ogunlade, 1983) (Baumback, 1983 and Osuala 1993) who noted that most small scale enterprises make use of single entry system of accounting. The reason behind the use of single entry system of accounting is probably due to its simplicity and low level of accounting education among proprietors and accounting officers of those enterprises in the study area as revealed by the data collected.

The summary of results in Table 3 revealed that proper accounting records enhance the profitability of the small and medium scale enterprises. The finding was in line with Millichamp (1987) who noted that the major purpose of any business is to make profit but without effective accounting system, it becomes very difficult to determine the accurate amount of profit or loss made at the end of the financial year. Furthermore, (Ezejelue, 1977) observed that surveys have repeatedly shown that a large percentage of small scale enterprises that fail, have been operated with merely incomplete records.

The data analyzed in Table 4 showed that most of the small and medium scale enterprises in Yenagoa, Bayelsa State are aware that proper keeping of accounting records enhances profitability, though most of them do not keep it. The findings revealed that the problems which hinder the utilization of accounting systems by small scale enterprises in Yenagoa are

due to their belief that it is time consuming, requires technical knowledge, difficult to maintain the system, exposes financial position and that it makes an enterprises to pay more tax.

The above findings were partly in line with (Egbu, 1983 and Ejiofor, 1989) who noted that small scale business owners regard financial records as necessary evil with no tangible benefit, demanded by government for purposes of extracting tax. Consequently, these enterprises see keeping of financial records as waste of time. This probably accounts for the general tendency by these enterprises to use the single entry system of accounting. The finding also is in line with (Baumback 1983) who attributed the failure to use accounting records by small scale enterprises due to their belief that record keeping takes time, their dislike for figures and lack of knowledge as to the type of information needed and how to collect them.

Conclusion

Based on the findings of the study, the following conclusions were made:

i.   As a result of the simplicity of single entry accounting system, small scale enterprises are more inclined to adopt single entry accounting system.

ii.   Due to inadequate record keeping, the small scale operators could not assess their performances effectively.

iii.   There is a correlation between proper record keeping and profitability of small scale enterprises.

iv.   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.

Recommendations

Based on the findings made and conclusions drawn from the study, the following recommendations were made:

1.   Since there were many accounting systems available to small scale enterprises, the ministry of commerce and industries should help the small business owners to avail themselves the opportunity to use the accounting systems that are relevant for the day today reporting of their business transactions.

2.   The use of single entry system has many limitations that outweighs its advantages of simplicity, thus, the small scale enterprises should be encouraged by the ministry of commerce and industries to make use of other accounting systems available in their business.

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