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ACCOUNTING INFORMATION AND THE SURVIVAL OF SMALL SCALE BUSINESSES IN NIGERIA: THE NEXUS OF NECESSITY

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ABSTRACT

The importance of small businesses in employment creation and sustainable economic development of Nigeria has necessitated the need for empirical inquest into the nature of their financial challenges. In Nigeria, the management of these enterprises have been constrained by lack of accounting knowledge by the stakeholders. The objective of this paper is to evaluate the extent to which accounting information can be used to ameliorate the financial challenges of small business enterprises in Nigeria. A survey method of research was adopted. Structured questionnaire was administered on one hundred and fifty (150) small scale business owners carefully selected across Ondo State, Nigeria to elicit first-hand information from them. Chi-square statistical technique was used to test the validity of the result. The result reveals among others that the success of small scale enterprise in Nigeria depends largely but not limited to accounting information which most small scale enterprises lack due to ignorance. It also reveals that most small scale enterprises access to finance depends largely on the quality of accounting information which is determined by the accounting practices in place. The study is concluded by recommending that managers of small scale businesses should employ and utilise the services of professional accountants and that accountants should encourage small businesses owners to access their services by making their professional fees afforded to them.

Keywords: Accounting information, small scale enterprises, accounting services, professional fees, stakeholders.

INTRODUCTION

According to Okoh and Uzoka (2012), Small scale businesses are of great importance to the survival of an economy. They are to an extent an index of measuring development and the well being of the masses. Administrative and financial management is very vital for the survival of any business. It is even more with small businesses since the normal organizational structures are not

very visible in small businesses. Management of personnel, use of accounting information and financing options are areas that must be taken seriously for effective management and survival of small businesses. The small scale business entrepreneurs find it extremely difficult to carry on business for certain number of factors ranging from lack of adequate capital to lack of management expertise. In order to solve these problems, both the Federal and the State Governments decided to come to the aid of the small scale business entrepreneurs by way of providing loans to them at very low rates of interest and also providing the management with consultancy services on several occasions. Despite these incentives, there were still frequent business failures among small scale enterprises in Nigeria. In the recent past, a lot of innovative policies have been initiated and implemented by the Federal Government. The first was the policy of channeling 10 percent of banks' profits before tax into equity investment in small and medium industries. The bankers' committee launched the approved operational guidelines for Small and Medium Industries Equity Investment Scheme (SMIEIS) on August 1, 2001, under the scheme, banks are required to invest 10 percent of their profit before tax in small and medium scale industries of their choice in a partnership effort aimed at improving the flow of funds to revitalize the real sector of the economy (CBN, 2014). Despite these efforts, most small scale enterprises in Nigeria still fail mostly because of lack of adequate administrative management expertise. Some small scale enterprises could not boast of adequate accounting standard that is capable of providing information on the activities and decision process of the enterprise. Without proper knowledge of accounting, one will find it difficult to provide adequate administrative management that will ensure the survival of small scale enterprises in Nigeria. Some of the causes of failure have been traced to lack of knowledge of proper accounting system. It is at this backdrop that the study was designed fundamentally to address.

- (a) the relevance of accounting information in the survival of a small scale firm,
- (b) the extent to which managers of small scale enterprises rely on accounting information in taking decisions that affect their enterprises;
- (c) the importance of small scale industries on the development of an economy;
- (d) problems that pose threat to the survival of small scale businesses.

According to Gbandi and Amissah (2014), SMEs contribute up to 90% of manufacturing / industrial sector activities in Nigeria, yet they contribute about 1% to the Gross Domestic Product (GDP). This low contribution in economic

terms to the country may not be unconnected with the extent to which SMEs utilize accounting services. Accountants provide advisory and technical support on issues pertaining to regulation, business performance and compliance. SMEs often encounter a number of challenges which include financing, lack of access to credit facilities, inadequate demand for their product or services, ineptitudeness of management, poor managerial skills, over-reliance on debt as a source of finance and poor record keeping, non-drawing a line between business funds and personal funds. These challenges may be easily overcome when businesses utilize accounting services in analysing and monitoring their financial position, preparing documents for tax determination, as well as providing information to support production, marketing, human resources, management and planning. A number of accounting services exist namely: budgeting, audit, taxation, management accounting, management consultancy and financial accounting/reporting. Budgeting helps to forecast revenues and expenditures. It also enables the business to know the actual revenues and expenditures, and eventually the differences between the forecast and actual as a control measure. Internal and external audits are performed on business operations and financial statements. Tax determination entails computing the profit correctly to ascertain the tax payable. Management accounting is concerned with the provision of accounting information to managers of business enterprises. Financial accounting / reporting deals with the preparation of financial statements for shareholders, creditors, employees, government, trade unions and other stakeholders.

According to Mohd and Nasir (2009), cited in Obiamaka, Samuel and Anthony (2015) accountants are professionals who handle the financial information of a business. They record transactions and keep relevant books of accounts. Stone (1998) noted that accountants can specialize in tax and consulting. These responsibilities require that accountants possess up-to-date skills and knowledge to stay relevant in society. Drucker (1998) affirmed that since accountants are exposed to issues bothering on business and economics in their education, they can supply business organizations with value added services. This opinion is consistent with that of Lehmann and Freedenberg (2000) who noted that in order to survive, SMEs owners need updated, accurate and timely accounting services. Also, Evaert et al. (2006) stated that accountants have the expertise needed to apply financial reporting and tax rules to a particular business environment.

Statement of the Problem

It is an axiomatic fact that the efforts of governments at various levels, federal, state and local government ranging from fiscal incentives, tax relieves, specialised financial institutions funding schemes, among others which are aimed at revitalising the small and medium scale enterprises have not yielded the desired result as statistics show that the small and medium enterprises contribute only 1% to the Gross Domestic Product (GDP) in Nigeria Abandi and Amissah (2014). One of the major identified factors which have contributed to the failure of small scale businesses in Nigeria is lack of accounting Information. It is in the light of the above that I have taken interest to highlight the significance of accounting information in the survival of small scale businesses in Nigeria.

Objective of the Study

This paper seeks to highlight some of the challenges associated with small businesses in Nigeria. By examining the challenges that SMEs face, this paper seeks to present a position on the role of accounting services and the reason why businesses take advantage of the services. The study also examines the perceptions of the various owners of SMEs about the benefits of employing accounting services. The need to carry out this study arose because of the assertion of Okafor (2012) that most owner-managers in Nigeria perceive their businesses as their private affairs and hence, do not accept any responsibility to be accountable and transparent to anyone. More so, for many small firms it is expensive to obtain the services of accountants to provide accounting information and perform other accounting related functions.

Research Hypothesis

Ho: There is no significance relationship between reliance on accounting information and survival of small scale businesses in Nigeria.

H₁: There is significant relationship between reliance on accounting information and survival of small scale businesses in Nigeria.

Theoretical Framework

Baridam (2004) is of the views that a small scale business as one which possess at least two of the following characteristics:

- (a) management, usually the managers are also the owners,
- (b) capital is supplied and the ownership is held by an individual or small group;
- (c) the area of operation is mainly local,

(d) the relative size of the firm within its industry must be small when compared with the bigger units in its field.

Aborode (2005) defines small scale enterprises as an enterprise with a labour size of 11 - 100 workers or a total cost of not more than N50 million, including working capital but excluding cost of land. Nwoye (2004) sees it as an enterprise employing between 1 - 35 people. They utilize by-products or intermediate products from larger firms. They also utilize local raw materials.

The importance of small scale enterprises can be seen in the vital role, which they play in the development of the economy. According to (Aborode, 2005) the role which they play include:

(i) Source of employment, over 70% of employed people in Nigeria are in small businesses.

ii) Utilization of local raw materials, the raw materials used in production in small businesses are obtained easily within the country. Money is not spent on the importation of raw materials into the country thereby reducing the amount of foreign exchange paid to foreigners.

(iii) They provide an effective means of stimulating indigenous entrepreneurship.

(iv) Through their wide dispersal, they provide an effective means of mitigating rural/ urban migration and resource utilization.

(v) By producing intermediate products for use in large-scale enterprises, they contribute to the strengthening of industrial inter-linkages.

(vi) They also retain a competitive advantage over larger enterprises by serving dispersed local markets and produce various goods with low scale economies for niche markets.

The relevance of accounting information and the operation of a business organization and society can be established by looking at the ways accounting information has helped small scale firms to improve on their performance. The role of accounting information on the improvement of the performance of small scale firms are:

(i) As a tool for control. It was probably the control aspect of book-keeping which helps to guard against the petty dishonesty and incompetence commonly displayed by employees of small scale enterprises. Business organizations normally have numerous assets, for example, cash, stock of goods, furniture,

buildings, machinery etc. It is imperative in all that a proper accounting system should be installed to ensure that each and every item is accounted for with a view to reducing opportunities for theft and mis-appropriation and to ensure economic expenses as the employees knowing that every item has being accounted for, will be careful in handling all business properties;

(ii) Assistance in credit dealings. Most of today's businesses are conducted on credit basis. A trader, more often than not finds himself with two alternatives either to extend credit facilities to his customers;

(iii) Assisting in taxation matters. The government charges taxes of various types e.g. sales tax, local tax, custom duty, excise duty, etc., to be able to calculate and pay the correct amount of tax due, an entrepreneur must know his exact sales figure hence the need for accurate accounts. Absence of proper accounts can easily lead to over taxation, a situation which can be very unpleasant; and

(iv) Assistance in determination of profit. The ultimate objective of all business undertakings is to make profit. It would be difficult to ascertain whether a business is making profit or loss without the help of complete up-to-date final accounts.

Most new traders depend on their businesses for their livelihood. As a result, drawings from the enterprise for their personal use should depend almost entirely on the profit of the business. An entrepreneur who is unable to ascertain the profitability of his enterprise is likely to make excess drawings and this would make it difficult for him to meet his business commitments. According to Isimoya (2005), the following problems pose a threat to the survival of small scale businesses in Nigeria:

(i) limited access to capital, through organized capital and money markets like the stock exchange, commercial and merchant banks;

(ii) lack of managerial ability, because of lack of formal education,

(iii) inability to attract qualified and skilled personnel;

(iv) poor financial control Inability to maintain proper accounting records and control may result in fraudulent practices, which may affect the survival of the business;

(v) lack of business connection Inability of an entrepreneur to foster good relationship with customers and creditors may lead to the collapse of a business;

(vi) lack of employees' satisfaction Even, where small-scale businesses are fortunate to employ qualified manpower, the general working conditions are very poor; and

(vii) government policy and economic condition Government policies and economic conditions via fiscal policies affect the operations of small scale businesses. A good example of this is the Structural Adjustment Programme (SAP) of the Gen. Ibrahim Babangida's government in 1986.

According to Obiamaka, Samuel and Anthony (2015), the World Bank and the International Finance Corporation (2013) pointed out that Nigeria is on 147th position out of the 189 countries surveyed in the 2014 Done Business Report. This report examines the difficulties of establishing and running SMEs while abiding to local laws and regulations in selected countries of the world. Doing Business measures and tracks changes in the regulations applying to domestic SMEs that operate in the largest business city of each economy in 10 areas of their life cycle namely: *starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency*. Most of the areas of business life cycle mentioned above require the input of professionals and more specifically, accountants. Some measures have been taken to ensure the development of SMEs in Nigeria. These measures include fiscal incentives, specialized financial institutions' funding schemes, amongst others. It is worrisome that despite the incentives, support and programs targeted at promoting SMEs in Nigeria, they still perform below expectations. According to Organization for Economic Cooperation & Development (2007), fiscal incentives can be defined as those special exclusions, exemptions, deductions or credits that provide special credits, a preferential tax treatment, or deferral of tax liability. These incentives may also come in form of tax holidays, reduced corporate income tax rates, exemption from company income tax for export companies, accelerated capital allowances, investment tax credits, location based incentives, reduced taxes on dividends and interests, preferential treatment of long-term capital gains, deduction for qualifying expenses, exemptions from indirect taxes, free trade zones and special economic zones. The Central Bank of Nigeria (CBN) (2014) stated that in a bid to recognize the significant contributions of the Micro, Small and Medium Enterprises (MSME) subsector to the Nigerian economy, the Micro, Small and Medium Enterprises Development Fund (MSMEDF) was launched in 2013. The fund was made up of seed capital of N220 billion, and with the

objectives to enhance access by MSMEs to financial services, increase productivity and output of microenterprises, increase employment and create wealth as well as engender inclusive growth.

Challenges of small scale Businesses in Nigeria

Overtime, the challenges of SMEs have been identified as poor access to capital market and low propensity to access financing through debt, lack of access to relevant information for decision-making and strategic planning, financial indiscipline and shortage of skilled manpower, inadequate training for staff to meet the demands of operating a business in present day society, inadequate infrastructure, poor implementation of government policies and programs targeted towards the success of SMEs, volatile exchange rate, high rate of interest on borrowing from financial institutions. These challenges make it difficult for SMEs to thrive. There are professionals that can provide advisory services to SMEs in spite of these challenges. Accountants are one of such professionals and providers of professional support of businesses (Jay and Schaper, 2003). According to Ismail and King (2005), accounting services can provide SMEs with the professional support needed to manage their costing, expenditure, cash flow, and provide information that can support monitoring and control functions of businesses. For example, financial accounting and reporting is a crucial issue for SMEs because they are required to submit financial statements to financial institutions for loan consideration. This is also one of the reasons for the International Financial Reporting Standards (IFRS) for SMEs. The IFRS for SMEs is a financial reporting standard that can be used for preparation of financial statements for SMEs. These financial statements include the income statement and statement of financial position. These standards need to be applied by an accountant. Accountability is a crucial issue for SMEs. It is the obligation of businesses to account for their operations, and disclose their results to stakeholders. By disclosing financial results, businesses are accountable to the persons who have contributed to the capital. Accounting services also help in proper record keeping. One of the requirements of business for obtaining credit facilities is the existence of financial statements. In most cases, the presence of proper records as the transactions arise reduces fraud. When transactions are not recorded as and when they arise, there is tendency to unmask what the real posting should be. Also, separation of accounting functions from management can help to reduce fraud.

According to Etuk et al (2011) cited in Ohachosim, Onwuchekwa and Ifeanyi (2012), pointed out that in the bid to enhance the development of SME, the government has established several micro-lending institutions. The

government has tried to achieve the above assistance to SMEs through the following agencies and schemes.

- The Nigeria Industrial Development Bank Ltd (NIDB) (1962)
- The Nigeria Bank for Commerce and Industry (NBCI) (1973)
- Rural Banking Scheme (1977)
- Agricultural Credit Guarantee Scheme Fund (1978)
- World Bank Assisted SME Loan Project (1987)
- Peoples Bank of Nigeria (1989)
- The National Economic Reconstruction Fund (NERFUND) (1990)
- Community Bank (1991)
- Nigeria Export Import Bank (1991)
- The Bank of Industry (2000)
- Nigeria Agricultural, Corporative and Rural Development Bank (NACRDB) (2000)
- The Small and Medium Industries Equity Investment Scheme (SMIEIS) (2001)
- Refining and Rediscounting Facilities (2002)
- Microfinance Banking (2005)

Methodology and Procedure

This study employed a survey research method. According to Ojo (2003), survey research is the type of research that involves collecting data by asking people questions by either administering questionnaires or conducting interviews. The instrument for data collection employed in this study is the questionnaire.

Structured research questionnaire was designed and administered on 150 randomly selected respondents from twenty small-scale enterprises stakeholders in Ondo State, Nigeria. However, only 120 questionnaires out of the 150 distributed were duly completed and returned. The methods of data analysis included frequency tables, simple percentage and chi-square statistical technique to test the validity of the result.

Results and Discussion

The tables presented below contain the analytical details relating to findings from the respondents. The result shows that a substantial proportion of the respondents are of the view that the survival of small-scale enterprises in Nigeria depends on the reliance on accounting information. Similarly, it reveals

that a significant fraction of the respondents agreed that failure of small-scale businesses is because of non-compliance with accounting standard in financial reporting. This implies that there is significant relationship between the survival of small-scale business enterprises in Nigeria and the reliance on accounting information. Managers of small businesses need to acquire or use the services of someone who could keep proper simple accounting records to assist them in the day-to-day running of their businesses. Most small businesses in Nigeria do not have accounting system and do not keep accounting records due to ignorance.

Test of Hypothesis

Table 1:

There is significance relationship between reliance on accounting information and the survival of small scale businesses in Nigeria.

Variable	No of Respondents	Percentage of Response(%)
Strongly Agree	45	37.50
Agree	41	34.17
Neutral	13	10.83
Disagree	10	8.33
Strongly Agree	11	9.17
Total	120	100.00

Source: Field survey, 2019

Test the hypothesis using chi-square statistical technique with 5% level of significance

$$X^2 \text{ calculated} = \frac{(o-e)^2}{e}$$

O	e	o-e	(o-e) ²	$\frac{(o-e)^2}{e}$
45	24	21	441	18.375
41	24	17	289	12.042
13	24	-11	121	5.042
10	24	-14	196	8.166

11	24	-13	169	7.042
			X ² Cal=	50.667

Degree of freedom (df) = 5-1 = 4

X² critical value at %5 level of significance = 9.49

Decision Rule (i) Reject Ho if X² cal > X² critical value

(ii) Otherwise accept Ho

Decision: Since the X² calculated (50.667) is greater than X² critical value at 5% level of significance (9.49), we reject the null hypothesis, Ho and accept the alternative hypothesis H₁.

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CONCLUSION

Adequate accounting information is necessary for the survival of small businesses in Nigeria and to minimize frequent small businesses failures. The study revealed that there is significant relationship between the survival of small-scale businesses in Nigeria and their reliance on accounting information and failure of small-scale businesses in Nigeria depends on non-compliance with accounting standards in financial reporting.

Accounting services provide small businesses with the relevant advisory, technical and professional support. Business owners require accountants to advise and guide them in the correct determination of profit, for better accountability and to help management achieve set goals and objectives.

RECOMMENDATIONS

Based on the result obtained in this paper, the following recommendations are made:

- SMEs should improve their accounting system to be able to generate quality accounting information.
- SMEs should endeavour to consult accountants regularly to be able to maintain high and generally accepted accounting practices.
- SMEs should utilise accounting information in the management of their finances.
- The accounting bodies in Nigeria, the Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN), should wear global outfit and train their members to serve SMEs accounting need due to their relevance in the economy.
- Accountants should be able to encourage SMEs to access their services. They should avoid scaring them away by quoting very high professional fees.
- Government should stipulate minimum standard number of books to be kept by all SMEs that meet certain criteria which certifies them to operate in Nigeria. This dimension will be in line with international best practices that have designed financial reporting standard for SMEs.

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