

# The Role of Accounting Information in the Survival of Small Scale Businesses in Warri, Delta State, Nigeria

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## ABSTRACT

*Small scale enterprises play a vital role in the economic development of any country. In Nigeria, the management of these enterprises have been constrained by lack of knowledge of accounting by the stakeholders. This study aimed at examining the roles of accounting information in the survival of small businesses in Warri, Delta State, Nigeria. The study spotlighted the importance of small scale enterprises in the development of Nigerian economy, problems that pose a threat to the survival of small scale businesses and the relevance of accounting information to the operations of a business/organization. Structured questionnaire was employed in the course of gathering relevant data for the study. 100 employees from twenty small scale enterprises in Warri, Delta State were randomly selected for the study. While chi-square statistical technique was used in data analysis. The results indicated among others that the success of small scale business enterprises in Nigeria depends greatly but not solely in accounting information; that most small scale businesses do not keep accounting records due to ignorance about accounting information. The study therefore concluded that for small scale businesses to function successfully, adequate accounting information is necessary therefore managers of small businesses should employ and utilize the services of professional accountants who perform expert and useful accounting services to small scale firms in order to improve on their operational performance.*

**Keywords:** *Accounting information, small scale business, management, survival*

## INTRODUCTION

Small scale businesses are of great importance to the survival of an economy. They are to an extent an index of development and the well being of the masses. Administrative 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, 2002). Despite these efforts, most small scale enterprises in Nigeria still fail mostly because 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. In order to achieve the above objective, two null hypotheses were formulated thus:

H<sub>0</sub> 1: There is no significant relationship between the survival of small scale enterprises and their reliance on accounting information

H<sub>0</sub> 2: There is no significant relationship between failure of small scale business enterprises in Nigeria and their compliance with accounting standards in financial reporting.

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 biggest 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) observes it as enterprises 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 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 affect the operations of small businesses. A good example of this is the Structural Adjustment Programme (SAP) of the Gen. Ibrahim Babangida's government.

## PARTICIPANTS AND PROCEDURES

Structured research questionnaire was designed and administered on 100 randomly selected respondents from twenty small scale enterprises in Warri, Delta State, Nigeria. The methods of data analysis included tables, simple percentage and chi-square statistical technique.

## RESULTS AND DISCUSSION

The tables presented below contain the analytical details relating to findings from the respondents. Table 1 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 of accounting information. Similar to what was obtained on table 1, table 2 reveals that a significant fraction of the respondents agreed that failure of small scale business is as a result 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 of 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. Failure of small scale businesses in Nigeria depends on non-compliance with accounting standards in financial reporting. Lack of knowledge on proper basis of accounting reporting is the main reason for failure of most small business in Nigeria. This is because revenue or incomes are not related to the period they were carried and expenses are not related to the period they were incurred. As a consequence, income is overstated, provision for depreciation are not provided for in the management of small businesses which makes it difficult for replacement of the assets especially during period of high inflation.

**Table 1:** Accounting information and the survival of small scale enterprises

<b>Responses</b>	<b>Frequency of Occurrence</b>	<b>Percentage</b>
Yes	94	94
No	6	6
<b>Total</b>	<b>100</b>	<b>100</b>

**Source:** Survey, 2012

**Table 2:** Failure of small scale business and compliance with accounting standard in financial reporting.

<b>Responses</b>	<b>Frequency of Occurrence</b>	<b>Percentage</b>
Yes	95	95
No	5	5
<b>Total</b>	<b>100</b>	<b>100</b>

*Source:* Survey, 2012

**Table 3:** Chi-square data and statistical computation

<b>Response</b>	<b>Observed Frequency (fo)</b>	<b>Expected Frequency (fe)</b>	<b>fo - fe</b>	<b>(fo - fe)<sup>2</sup> fe</b>
Yes	94	50	44	38.72
No	6	50	-44	38.72
<b>Total</b>	<b>100</b>	<b>100</b>	<b>-</b>	<b>77.44</b>

*Source:* Research Data, 2012 (drawn from table 1)

**Table 4:** Chi-square data and statistical computation

<b>Response</b>	<b>Observed Frequency (fo)</b>	<b>Expected Frequency (fe)</b>	<b>fo - fe</b>	<b>(fo - fe)<sup>2</sup> fe</b>
Yes	95	50	45	40.55
No	5	50	-45	40.55
<b>Total</b>	<b>100</b>	<b>100</b>	<b>-</b>	<b>81.10</b>

*Source:* Research Data, 2012 (drawn from table 2)

## CONCLUDING REMARKS

Adequate accounting information is necessary for the survival of small businesses in Nigeria and also to minimize frequent small business failures. The study revealed that there is significant relationship between the survival of small scale businesses in Nigeria and their relevance on accounting information and failure of small scale businesses in Nigeria depends on non-compliance with accounting standards in financial reporting. In view of the findings, the following recommendations are imperative. Entrepreneurs and managers of small businesses should try as much as possible to understand the principles of book-keeping and accounting system in order to provide the basis for sound decision making, utilization of the services of professional accountants who perform expert and useful accounting services to small scale firms for optimal performance. Management of small businesses should embrace the use of proper information on staff, assets, liabilities and customers for effective decision making to avoid business failure and government should provide free vocational training for entrepreneurs of small scale firms on management and accounting practices to supplement the effort of Small and Medium Industries Equity Scheme (SMIES).

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