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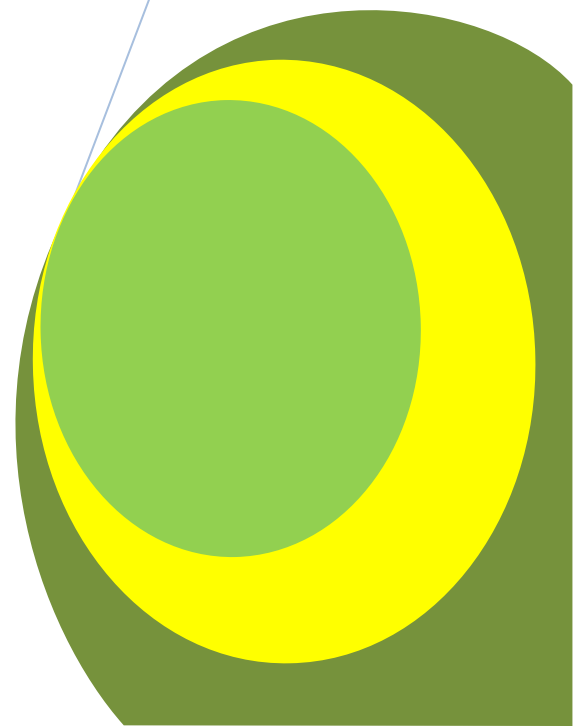
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The Impact of Accounting and Information System on the Performance of Small and Medium Scale Enterprises in Rivers State, Nigeria

By

**Nkwor-Azariah Chioma
Nkwor Friday Azariah**



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The Impact of Accounting and Information System on the Performance of Small and Medium Scale Enterprises in Rivers State, Nigeria

Nkwor-Azariah, Chioma ¹ and Nkwor, Friday Azariah ²

^{1,2} Department of Accounting, University of Port Harcourt, Port Harcourt, Nigeria.

Corresponding Author's Email: omoboriwo.adedayo@fupre.edu.ng

ABSTRACT

Some scholars have expressed opinions pointing to the fact that the failures of the SMEs (Small and Medium Scale Enterprises) in Nigeria may not be unconnected to the fact that proper accounting system, records and practices are not kept nor followed by the SMEs in their operations. This research is therefore carried out to study the significance of accounting records/information on the performance of SMEs in Rivers State. To guide the study, five research questions were generated. Arising from the research questions, two hypotheses were formulated. The population of the study composed of all the Small and Medium Scale Enterprises (SMEs) in Rivers State, from which a sample size of fifty-seven (57) SMEs in Obio-Akpor and Port Harcourt Local Government Areas of Rivers State was drawn, through a stratified sampling method. The data used for this study was collected through the questionnaire technique and personal interview as the primary source of data. Also, data was collected from secondary sources, which include Company annual reports, publications, bulletin of the enterprises studied, journals, textbooks etc.. The summary of the findings of the research is that there is a significant relationship between accounting systems and records/information and the performance of SMEs in Rivers State and the country at large; and the study recommends among others, that directors and managers of SME's in Rivers State and the country at large should ensure that standard accounting records are kept by their organizations and should always analyze and consider their accounting information records elaborately before making short and long-term policies, plans and decisions.

Keywords: Accounting, Performance, Enterprises, Small and Medium Scale, Rivers State, Impact.

INTRODUCTION

Prior to the late 19th century, cottage industries mostly small and medium scale business, controlled the economy of Europe. The industrial revolution changed the status-quo and introduced mass production. The twin oil shocks during the 1970's undermined the mass production model which triggered an unexpected reappraisal of the role and importance of small and medium sized enterprises in the global economy. Findings by economists over the years show that small firms and entrepreneurships play a much more important role in economic growth and development (Ifenacho 2002). Many economies, developed and developing have come to realize the value of small businesses. They are seen to be characterized by dynamism, witty innovations, efficiency and their small size allows for faster decision making process. Governments all over the world have realized the importance of this category of companies and have formulated comprehensive public policies to encourage and support the establishment of Small and Medium Scale Enterprises (SMEs). Development in Small and Medium Scale enterprises are a sine-qua-non for employment generation, solid entrepreneurial base and encouragement for the use of local raw materials and technology.

The challenges facing SMEs in many developing countries are monumental. The most worrying among these challenges is funding. Most new small business enterprises are not attractive prospects for banks, as they want to minimize their risk profile. In Nigeria, the situation is not different. Most SMEs operate without a good accounting record that could motivate the banking sector to come to their funding aids. The importance of proper accounting system in any organization irrespective of its size cannot be overemphasized in the sense that the organization's worth can be determined from the accounting records being kept. Therefore it makes sense that proper accounting system should be put in place to enable SMEs become attractive prospects for banks.

Accounting systems have to do with the method used by an organization to keep records of its financial activities in periodic accounting report. An efficient and effective accounting system provides a measurement and communicating device which can assist in improving the quality of decisions and actions which affect wealth or the optimization of it and which can influence the extent to which an organization is able to run the business with available scarce resources in its disposal.

More so, a proper keeping of accounting record, according to Lean (1980) helps in the administration of small business resources to the end of producing maximum benefits from the services rendered. In addition, it assists business enterprises in the compliance with the laws and regulations as regards the use of money and other assets and provides board of directors with adequate information for full and accurate reporting of their stewardship of the business.

Consequently, a lot of academic studies have been carried out on this subject, but not much of these studies have addressed the importance of standard accounting systems and proper accounting records as a panacea to this economic emergency. It is on this ground that this research is set to study the impact of accounting systems and records on the performance of SMEs in Rivers State; PHALGA and Obio/Akpor Local Government Areas in particular.

AIM OF THE STUDY

This study is very relevant to all and sundry, being a current issue in the sense that the nation is interested in promoting measures that could boost the operations and performance of SME's in the economy. The study is set out to examine the extent to which SME's comply with the law of record keeping and how it affects their performance. The specific purpose of this study is therefore as follows:

- To find out if Small and Medium scale enterprises (SME's) have good accounting systems and keep accounting information.
- To determine the impact of accounting information on managerial decision-making of SMEs in Rivers State. To determine the impact of accounting information on strategic marketing decisions of SMEs in Rivers State.
- To find out if SMEs in Rivers State find their operating ratios or profit and loss ratios and their financial ratios or Balance sheet ratios as reliable and confident platforms for forecasting and planning .
- To find out if the accounting statements of SMEs in Rivers State easily and clearly communicate their operations and performance.-
- To determine the impact of accounting information on the overall performance of SME's in Rivers State.

(a) Research Questions

Based on the above stated purpose of the research, the following questions shall guide this study:

- (1) Do small and medium size enterprises (SME's) in Rivers State have functional accounting systems and keep accounting records?
- (2) Do accounting information in Small and Medium size enterprises (SME's) in Rivers State comply with SSAP?
- (3) Does accounting information affect marketing and managerial decisions of SME's in Rivers State?
- (4) Are the financial information/statements of SMEs in Rivers State reliable enough for forecasting and planning?
- (5) Do the accounting statements of SMEs in Rivers State give enough information on their operations and performance?

(b) Hypotheses

Accounting records/information has no significant effect on decision-making in SMEs. Accounting information has no significant effect on the performance of SMEs.

(c) Review of literature

The Nigerian economy is dominated largely by Small and Medium Scale Enterprises (SMEs). They represent about 90 percent of the industrial sector in terms of number of enterprises but contribute a meager 1% (percent) of national GDP. This is insignificant when compared to countries like Indonesia, Thailand and India where SMEs contribute almost 40% (percent) of GDP. The corporate Affairs commission in Nigeria estimates that about 90% (percent) of all

Nigerian businesses in 2001 employed less than 50 people. Similarly, a study conducted by the International Finance Corporation (IFC) during the same period estimated that 96% (percent) of all businesses in Nigeria are SMEs (Compared to 53% (percent) in USA and 65% (percent) in the European Union (EU) with SMEs in both places accounting for over 50% (percent) of their respective country's GDP. The significance of Small and Medium Scale Enterprises (SMEs) in the market economics is global. In the European Economic Area and Switzerland out of 19 million enterprises, SMEs account for 998% (percent). Two thirds of all jobs in the region are in SMEs. The strong performance of the United States' economy in recent years has been driven largely by the creation of SMEs, which accounted for 43% (percent) of net job creations between 1990 and 1997.

METHODOLOGY

(A) Research Design

The researcher adopted the quasi-experimental research design. This is necessitated by the fact that the study is descriptive. Specifically, the cross-sectional design was used. This is because the study involves field and sample study, which employed cross-sectional survey of the study elements. A sample of the elements of study was taken and analyzed in detail.

(B) Population For The Study

The population for this study includes all Small and Medium Scale Enterprises in Rivers State. However, owing to the constraints earlier highlighted, and in order to properly carry out the study, the researcher limited the scope to all Small and Medium Scale Enterprises in Obio-Akpor and Port Harcourt Local Government Areas of Rivers State. It was from the accessible population that the sample of the study was drawn.

(C) Sampling

The sample of the study consists of a total of fifty-seven (57) Respondents from the studied SMEs in Obio-Akpor and Port Harcourt Local Government Areas of Rivers State. The sample drawn for this study represents the SMEs in Rivers State.

(D) Data Collection Techniques

The data used for this study was collected through the questionnaire technique and personal interview from the primary source of data. These techniques were used to collect data from primary sources because the researcher wants to find out from the respondents their knowledge, attitude, beliefs, future and past behaviour towards the subject of the study. In order to reconcile conflicting views that would possibly have been expressed by the respondents through the use of questionnaires, personal interview was however employed. Also, data was collected from secondary sources — various relevant annual reports, publications, bulletin of the enterprises studied were referred to.

In addition, textbooks and journals relevant to the study were useful in this regard. These provided almost all the data needed to test the hypotheses put forward in this study.

(E) Questionnaire Design

The research questionnaire contained questions structured to produce "Yes" or "No" responses from respondents as well as optional questions. Besides, provisions for comments were also made for subjective questions. The use of questionnaires in this work helped to eliminate to a great extent interview bias and promotes the freedom of respondents and also saved time and money. It also provided ample time for the respondents to think and ascertain responses.

(F) Operational Measures of the Variables

(i) **Accounting System:** This is the understanding of organizational setting and the flow of authority and responsibilities at different levels of management as well as adherence to standard Accounting Practice to ensure the "going concern" and the profitability of the Enterprise. Comparing the profit performance of the SME with adherence to standard accounting practice and operating with adherence to proper accounting practice of measuring it.

(ii) **Performance of SMEs:** This is measured by the achievement of set objectives of profit maximization as well as the “going concern” of the Enterprise.

(G) Tamys Techniques

The data collected for this study was analysed using chi-square. The chi-square technique is a non-parametric statistics used for testing two or more variables. The purpose of the test is to determine how well an observed set of data fits an expected set. Specifically it was used to establish the relationship between the variables in this study. It is calculated using the formula:

$$\text{Chi-Square } (X^2) = \sum \frac{(f_o - f_e)^2}{f_e}$$

Where X^2 = Chi Square
 f_e = Expected frequency
 f_o = Observed frequency
 Σ = Summation

The Chi-square technique was used to test the two hypotheses stated in this study.

PRESENTATION AND ANALYSIS OF DATA

This Section analyzes the data collected from the field survey. The data generated were from primary and secondary sources, which comprised the administration of questionnaires, interview; field survey observation and relevant publications. In all a total of 57 small and medium scale enterprises were selected through stratified sampling and 57 questionnaires were therefore administered (27 in Port Harcourt Local government Area and 30 in Obio/Akpor Local government Area.

For the purpose of achieving our objectives the responses from the questionnaire survey were tabulated, coded and expressed as percentages. The results were then interpreted and used in evaluating the research hypothesis. Equally, the information we gathered from the interviews and observations were also interpreted along the same line. Furthermore, relevant supportive materials from secondary sources were also used to interpret and analyze our data. The data is presented and analysed below in the following order:

- (1) Whether Small and Medium size enterprises (SME's) in Rivers State have good accounting systems and keep accounting records.
- (2) Impact of accounting information on managerial decision- making of SME's in Rivers State.
- (3) Impact of accounting information on strategic marketing decision- making of SME's in Rivers State.
- (4) Whether SME's in Rivers State find their operating ratios or profit and loss ratios and their financial ratios or Balance sheet ratios as reliable and confident platforms for forecasting and planning.
- (5) Whether the accounting records of SMEs in Rivers State easily and clearly communicate their operations and performance.
- (6) Impact of accounting information on the overall performance of SME's in Rivers State.

To analyze the responses to some of the questions that relate to performance, we had to carry out performance analysis using finance romance measures on the SMEs concerned. The financial performance measures used are the profitability ratios, which include:

- 1) Gross profit margin
 - 2) Net profit margin
 - 3) Return on capital employed
- To use these ratios, the following were assumed:

$$\text{Gross profit margin} = \frac{\text{Gross Profit}}{\text{sales}}$$

$$\text{Net Profit Margin} = \frac{\text{Net Profit after tax}}{\text{sales}}$$

$$\text{Return on capital employed} = \frac{\text{Earning before interest, tax and extra ordinary items}}{\text{total tangible assets-current liabilities}}$$

Table 1: Whether Small and Medium size enterprises (SME's) in Rivers State have good accounting systems and keep elaborate accounting information.

Nos	Response alternative	Number of respondents	%
1	Had neither accounting system nor accounting information	10	17.54
2	Substandard accounting system and unelaborated accounting information	17	29.82
3	Standard accounting system and elaborate accounting information	37	64.91
	Total	57	100

Source: Field work

From the above table 1, we can see that in answer to the question of whether SMEs in Rivers State have accounting systems and keep accounting information in their enterprises, 10 (17.54 %) of the 57 responding SME's indicated that they had neither accounting system nor keep accounting records. Again, a population of 17 responding SME's (29.82%) responded that they have only a quasi accounting system and keep unelaborated accounting information; while 30 (52.63%) indicated that they have standard accounting system and as well keep elaborate accounting information.

Table 2- Accounting systems information on managerial decision making in SME's in Rivers State.

Nos	Response alternatives	Number of respondents	Outcome of decision weighed by performance	%
1	Based managerial decisions on intuition	17	Average	29.82
2	Based managerial decisions on volition	10	Poor	17.54
3	Based managerial decisions on accounting information	30	Good	52.63
	Total	57		100

Source: Field work

From the above table, we can see that 17 (29.82) of the SME's sampled based their managerial decision making on intuition and consequently their performance in the last two years was only average. A population of 10 responding SME's indicated that they based their managerial decision making on volition, and from the data collected their performance was poor. Lastly, 30 (52.63%) of the 57 SME's studied based their managerial decisions on accounting information generated by their accounting systems, and as the collected data shows, their performance was good.

The implication of the data presented in the table 2 above is that SME's who based their managerial decisions on accounting records perform better than SME's that base their managerial decisions on volition and or intuition.

Table 3: Impact of accounting systems and records strategic marketing decisions of SME's in Rivers State.

Nos	Response alternative	Number of respondents	Outcome of decision weighed by performance	%
1	Based strategic marketing decisions on intuition	8	Poor	14.03
2	Based strategic marketing decisions on volition	12	Average	21.05
3	Based strategic marketing decisions on accounting information	37	Good	64.91
	Total	57		100

Source: Field work

The data given in the table above indicates that SME's that indicated that they based their strategic marketing decisions on intuition had a population of 8 (14.03%) of the sample population and their performance was poor within the last two years. Again, the table also shows that 12 (21.05%) of the study population responded that they based their strategic marketing decisions on volition, and their performance was merely average. Lastly, 37 (64.91%) of the studied SMEs based their strategic marketing decisions on accounting records and according to the available data, their performance in the last two accounting years is good enough.

The implication of the data presented in the Table 3 above is that SME's that based their marketing decisions on accounting records performed better than SME's that based their strategic marketing decisions on mere intuition and or volition.

Table 4: Whether SME's find their operating ratios or profit and loss ratios and their financial ratios or Balance sheet ratios as reliable and confident platforms for forecasting and planning.

Nos	Response alternative	No. of respondents	%
1	Reliable and confident platforms	23	76.7
2	Not reliable and confident	7	23.3
	Total	30	100

To obtain answer to the question on whether SME's find their operating ratios or profit and loss ratios and their financial ratios or Balance sheet ratios as reliable and confident platforms for forecasting and planning; the average of 30 SME's that indicated that they keep comprehensive accounting information were further requested to answer this question in the questionnaire.

Among the thirty (30) SME's that responded to this question, twenty-three (23) (76.7%) answered that their operating ratios or profit and loss ratios and their financial ratios or Balance sheet ratios are reliable and confident platforms for forecasting and planning; while seven (7) (23.3%) indicated that they don't see their profit and loss ratios and their financial ratios reliable enough as platforms to base forecasting and planning.

The implication of the data on the Table 4 is that SME's that have accounting systems and keep accurate and comprehensive accounting records on the average find their operating ratios and Balance sheet ratios as reliable and confident enough for forecasting and planning.

Table 5: Whether the accounting statements of SMEs in Rivers State easily and clearly communicate their operations and performance.

Nos	Response alternative	No. of respondents	%
1	Yes	25	83.3
2	No	5	16.7
	Total	30	100

To obtain answer to the question on whether the accounting statements of SMEs in Rivers State easily and clearly communicate or give information on their operations and performance, the thirty (30) SME's that indicated that they keep elaborate accounting records were also further asked to answer this question. Out of the thirty (30) respondents, twenty five (25) (83.3%) answered yes; while five (5) (16.7%) answered No. This implied that the accounting statements of SME's in Rivers State clearly and easily communicate their operations and performance.

Table 6: Impact of accounting systems and accounting records on the overall performance of SME's in Rivers State.

Nos	Response alternative	No. of respondents	%	Performance decided by financial ratios
1	No accounting information	5	8.78	Poor
2	Keep and employ only minute accounting information	22	38.59	Average
3	Keep and employ elaborate accounting information	30	52.63	Good
	Total	57	100	

Source: Field work

From the table 6, we can observe that SME's that did not keep accounting information nor employ same have a population of 5 (8.78%) of the study population and they performed poorly. SME's that indicated that they keep only a minute or unelaborated accounting information have a population of 22 (38.59) of the entire study population and their performance was only on the average; while those that keep and employ elaborate accounting information have a population of 30 (52.63%) of the entire study population, and their performance, as shown by available data was good.

The implication of the data tabulated above is that SME's that keep and employ accounting records in their different operations perform better than those that do not and those that do so only in a minute degree. Therefore accounting systems and records impact significantly on the overall performance of SME's in Rivers State and Nigeria as a whole.

RESULT AND DISCUSSION

The research hypothesis 1 which states that accounting information has a significant effect on decision-making in SME's was tested using the chi-square technique. The data used to test the above hypothesis was collected from the fieldwork. We rejected the null hypothesis which states that there is no significant relationship between the accounting statements and information of SME's and their decision; and therefore accepted the research hypothesis 1, which states that accounting systems and information has significant effect on decision making in SME's in Rivers State. The first finding of this study is therefore that the more SME's in Rivers State maintain proper accounting system and keep accurate accounting information, the more effective and productive their decision making becomes. Again hypothesis 2 which states that Accounting Information has significant effect on performance of SMEs was also tested using the chi-square technique, with the aid of data collected from the field work. We rejected the null hypothesis which states that accounting systems and information has no significant effect on the performance of SMEs in Rivers State; and therefore accepted the research hypothesis 2, which states that accounting systems and information has significant effect on the performance of SMEs in Rivers State.

The second finding of this study is therefore that the more SMEs in Rivers State maintain proper accounting system and keep accurate accounting information, the better their performance

CONCLUSION

The major revelation of this study is that accounting systems and information assert great influence on the performance of Small and Medium Size Enterprises in Port Harcourt, Rivers State and Nigeria at large. However, the specific discoveries made by the study include: That SMEs that keep accounting information find their operating ratios or profit and loss ratios and their balance ratios or financial ratios reliable and confident platforms for forecasting and planning. That the accounting records/information of SMEs easily and dearly communicates their operations and performance. That accounting systems and information impact greatly on managerial decisions of SMEs. That accounting systems and information impact greatly on strategic marketing decisions of SMEs. That accounting systems and information impact greatly on the performance of SMEs.

Put together, the research concludes that there is a significant relationship between the accounting systems and records/information and the performance of SMEs in Rivers State and the country at large.

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