

CHAPTER ONE
INTRODUCTION
1.0 BACKGROUND

Small and Medium-sized Enterprises (SMEs) play a major role in economic development through employment creation and income generation. SMEs are sometimes referred to as Micro, Small and Medium Enterprises (MSMEs). They cover non farm activities such as manufacturing, mining, commerce and services. There are different criteria for categorizing SMEs. Commonly used criteria are total number of employees, total investment and sales turnover (Burns & Dewhurst 1996; Bushong 1995; Holmes et al. 2003).

In the context of Nigeria, SMEs are those enterprises engaging up to 29 employees, in most cases family members, with capital amounting up to N100,000. Majority of SMEs fall under the informal sector. SMEs are formalized undertakings engaging between 1 and 29 employees, with capital investment from N100,000.

According to World Bank (2006); Nigeria is characterized by low capital formation, SMEs are the best option to address this problem. SMEs tend to be more effective in utilization of local resources using simple affordable technology. SMEs play a fundamental role in utilizing and adding value to local resources. In addition, development of SMEs facilitates distribution of economic activities within the economy

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and foster equitable income distribution. Other relevance of SMEs to the socio-economic development of Nigeria includes innovation, contribution to the growth of GDP, job creation and many others. Bookkeeping or financial record keeping therefore is an essential ingredient for the success or failure of SMEs in developing countries.

In spite of the significant gains from the growth of SMEs to the Nigerian economy, there are a number of challenges facing the sub-sector. Among many of these challenges in Nigeria is lack of access to finance and these has been largely due to lack of business records to enable them access credit from banks. It is estimated that 25 to 30% of SMEs under 5 years collapse every year (Ministry of Trade and Industry 2004).

To address the challenge of lack of access to finance among SMEs, they must address the problem of bookkeeping. In Nigeria, credit facilities to SMEs are in the form of loans or debt financing offered by banks, which provide growth capital for SMEs. However, there are numerous obstacles to these SMEs in accessing credit facilities hence, the difficulty of access to capital, high interest rates charges are partially the result of incomplete (or no) accounting records, and the inefficient use of accounting information. Poor record keeping and accounting information also made it difficult for financial institutions to evaluate potential risks and returns (World Bank 1978), making the banks unwilling to lend to SMEs. As a result, SMEs pay high interest rates or fall back on

the middlemen or money lenders, whose loans are costly and often restrictive.

Modern bookkeeping when practiced would provide the necessary information that will critically affect major business decisions and also facilitates effective monitoring of the financial development or failure of the business.

For instance, the evaluation of financial

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consequences takes a big part in every decision that the owner will make. Without reliable financial information and accurate records, it will be intricate to project the impacts of a certain course of action. It must be noted that, profitability is revealed only with accurate records.

According to Stephen Thompson (2004), "proper bookkeeping business needs. He also indicated that, a basic bookkeeping report, when done correctly, should be able to answer these questions".

1. How much income are you generating every month, and how much will you be expecting in the future?
2. How much cash is under your list of receivables and when will they turn to actual cash?
3. Which of your product lines or services are bringing in the most amount of profit, break-even, end/or draining your resources?
4. How does the data compare with last year or the last quarter?
5. How does the data compare with projections?
6. How does all this information compare with the competition? Are you leading or falling behind?

It is thus, the objective of this study to analyse the significance of bookkeeping and its effects to the growth of SMEs in Nigeria.

1.1 STATEMENT OF THE PROBLEM

Even though SMEs are the base of the country on their mode of recordkeeping in Nigeria.

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(BAC) of the NBSSI has shown that, recordkeeping is a major problem facing the country. Their figures as at March 2004 suggest that, 264 small and medium enterprises were contacted by their outfit in the Uyo. Out of these figures, only 145 were identified to be practicing basic bookkeeping and according to this report, the manner in which it is done could not support any effective financial management of these businesses (2004 NBSSI/ BAC, annual report).

Further studies in 2006 reveals similar trend and the problem is peculiar with small businesses which constitute about 90% of the informal sector in the Nigerian economy. The concern has risen as to why such a significant number of SMEs fail to keep proper records of the various activities within their business. As indicated, records must be kept in such a manner that would enable the business assessable income and allowable deductions to be readily ascertained. Proper recordkeeping will enable tax officials assess correctly the profit of the business to enable them perform proper tax assessment of these businesses.

Generally, a business needs to keep sufficient records in order to run the business efficiently and effectively. Lack of proper recordkeeping system in Nigeria is affecting industrial statistics compilation for the country and this does not assist the government in planning for the sector.

It does not also support businesses to access loans from financial institutions because track record reveals the viability and profitability, hence the ability for repayment of the loans granted to these SMEs.

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In spite of all these problems associated with lack of bookkeeping, many businesses still fail to keep proper records leading to high failure rate of about 30% of businesses annually in Nigeria (Nigeria Bureau of Statistics report, 2003-2004).

In situation where they even survive, inaccurate records normally have an impact on businesses negatively and do not reveal the true stance of business.

In view of the above challenges faced by both the SMEs and the Government, and also having recognized the fact that SMEs remain, it is the need to do a thorough study to discover some of the reasons for lack of proper or no recordkeeping in the country. This project therefore, is an effort to do an in-depth study and analysis of various known and unknown reasons for lack of proper recordkeeping and the advantages in using modern systems in bookkeeping like computer support systems by SMEs in the Uyo.

1.2 Objectives of the Study

A. General Objective

This study aims at assessing the significance of bookkeeping practices to the development of SMEs in the Uyo?

B. Specific Objectives

1. To assess whether SMEs in the Local Government Area were practicing bookkeeping.
2. To examine methods of recordkeeping by SMEs.

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3. To determine how recordkeeping enhances the development of SMEs.

4. To examine the challenges to proper record keeping.

1.3 Research Questions

1. Do businesses in the Local Government Area practice bookkeeping?
2. What methods were used in bookkeeping by SMEs?
3. Does recordkeeping enhance the development of SMEs?
4. Are there challenges facing SMEs in recordkeeping?

1.4 Significance of the Study

The significance of the study is to draw awareness on the importance of recordkeeping in businesses. Lack of data hampers a comprehensive analysis, and would subject businesses to the risk of hitting cash flow crisis, misappropriation of funds and businesses may slip off many opportunities to grow and expand.

The significance of the study seeks to highlight on such benefits as to:

1. help businesses improve bookkeeping practices and to enable the Internal Revenue Service to evaluate their business activities
2. help businesses keep accurate and updated records and financial activities

3.help simplify records andsummarized financial transactions into a usable form. That would provide thebase for data compilation for the country.

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To fill the existing gap in knowledge and act as a stepping stone for future researchers who would like to conduct studies on the same topic or similar topics.

Furthermore, the study will also enable researcher to fulfill partial requirements for the award of Master Degree in Business Administration from Kwame Nkrumah University of Science and Technology (KNUST), where the researcher studies.

1.5 Limitations of The Study

The main limitation of the study was, the Small and Medium Scale Business Development Agency of Nigeria and the Ministry of Trade and Industry found it difficult to provide all the needed information for the study, because there was no adequate information on records aspect on SMEs in the Local Government Area as well as the regional offices.

Again, inadequate finance and time to move round the Local Government Area to gather data and also to deal with the entire population were some of the challenges.

Also 136 questionnaires were administered but only 126 were retrieved for the study. This was due to the fact that most of the respondents fail to return the questionnaire.

1.6 The Scope of Study

The scope of the study is to look at the general effects of proper bookkeeping how it can support the growth of SMEs and also the reasons for their failure to maintain good record keeping, in the Uyo.

1.7 The Methodology

Among the data the research employed include both primary and secondary data.

ASSESSING BOOK-KEEPING PRACTICES OF SMALL AND MEDIUM SCALE ENTERPRISES IN UYO LOCAL GOVERNMENT AREA

The complete project material is available and ready for download. All what you need to do is to order for the complete material. The price for the material is NGN 3,000.00.

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