

CHAPTER ONE INTRODUCTION

1.1.BACKGROUND TO THE STUDY

Accounting information is a part and parcel of today's life which is necessary to understand the accurate financial situation of the organization and used as the basis of making strategic decisions. Accounting plays a critical role in the success or failure of contemporary business institutions.

Accounting information serves as a critical tool for recording, analyzing, monitoring and evaluating the financial condition of companies, preparation of documents necessary for tax purposes, providing information support to many other organizational functions, (Amidu et al., 2011). In the context of SMEs, accounting information is important as it can help the firms manage their short-term problems in critical areas like costing, expenditure and cash flow, by providing information to support monitoring and control.

The range of accounting information users is a broad one, and it has different information needs, but the same quality requirements in terms of accounting information contained in the financial statements. Even if a number of criticisms and limitations can be brought and attributed to accounting information, it remains the most important substantiation source of financial decisions for most small and medium scale business.

According to Ademola et al (2012), accounting information is essential to business management. It involves identification, classification, storage and protection, receipt and transmission, retention and disposal of records for preparation of financial statements.

Within contemporary economic conditions, a successful small scale business owner needs a lot of reliable accounting information in order to be able to make quality business decisions (Miko, 1998). Economical information especially financial and accounting ones are the information which always small scale business owners use in short term and strategic decisions and they may have most application among different variables effective in decision-making and in all types of decisions, thereby boosting productivity and profitability of the business.

As a result of the increasingly important role that the financial-accounting information plays today in small and medium scale business as “social good”, accounting has consolidated its central place within the information system of any enterprises, be it public or private, clearly bringing its “contribution in an area of complex social, multilateral and multidimensional relations.

The impact of accounting information is a function of the benefit that are derived by the members of the society who had bind themselves into the social organization of their survival and wantsatisfaction quest (Anyigbo 1999).

Business benefit from availability of accounting information, equally important is the availability of accounting information which facilitates the solution or resolution of business planning, organization and control function of the enterprises as a social organization. The numbers of Small and medium scale enterprises in Nigeria tend to increase continuously, they are the largest business cluster in Nigeria, yet with little or no criticisms they are regarded as the primary business organisms that could help enhance and sustain wealth of an economy in the long run.

Small and Medium Enterprises (SMEs) have been very important in many countries, because of its role for the country's economic growth. This contribution is judged from providing employment to skilled and unskilled workers, enhancing national Gross Domestic Products, and providing support to other small and large business small scale business enterprise (Heenetigala & Armstrong, 2009). Recognition of small business contribution motivates public and private organizations to support the small business sector by providing them with a diverse range of services. They are also important to the development of trades and job market, moreover some Small and Medium Enterprises have high potential to expand their enterprises to a larger scale, despite challenges especially in financial and accounting systems.

Small business small scale business enterprise are organized, operated, managed and controlled by a small business owner.

The term small business owner is being used throughout this study replacing other titles such as operator, manager, self-employed, sole-trader, and entrepreneur.

Small business enterprises (SMEs) have an important role to play Nigeria development. The

extent of contribution these business units can make towards the growth and development of Nigeria is dependent on the level of success attained by their operations. The fact is that, underlying the success of a business enterprise is the establishment and application of controls by the owners or management in addition to the systematic record keeping of business transactions, which, at the end of the period, keeps the owner well-informed about the performance of the business.

Furthermore, accounting information are needed so that financial statements will be fairly and consistently describe as a financial performance. Without information and standards, users of financial statements would need to learn the accounting rules of each business, and comparisons between firm would be difficult. While keeping track of your business's finances may seem overwhelming, it's not that hard when you know the bases of accounting and bookkeeping.

It has been recognized that appropriate accounting information is important for a successful management of any business entity, whether large or small (European Commission (EC), 2008).

This research; therefore, focuses on investigating the roles accounting information plays on small and medium scale business in Nigeria, types of accounting records being kept and maintained by SMEs, their completeness and the availability of accounting skills and knowledge to capture and process accounting information which can be used to measure productivity and performance in SMEs.

1.2.STATEMENT OF PROBLEM

A number of Small Scale Enterprises have not given much attention to accounting information and book keeping in relation to their business transaction, despite its importance in the success of small scale business enterprise. This could be lack of sound knowledge in book keeping practices by owners or respective managers.

Also, there was difficulty in ascertaining whether comprehensive accounting records that satisfied the laws under which it was incorporation had been kept. It was hard to determine to what extent no adherence to laid – down accounting procedure and constituted in the wheel of implementation of good accounting system.

Most small scale firm owners prefer to recruit unskilled personnel especially clerical and

accounting staff. The product of these unskilled accounting (clerical staff) has only succeeded in helping the small scale firms to stagnate; some firms have even wound up. This was because unskilled accounting staff could not keep reliable accounting records that would stand the test of time statutory; such staff could not correctly determine the profit or loss of the firm preparing profit and loss account.

Difficult exist in ascertaining how far non – recognition of the necessity of accounting information to continued existence and growth, low educational background of owners and the employment of unskilled accounting staff had affected the production of unreliable accounting or financial statement.

It has also been ascertained that most small-scale enterprises fail to keep proper books of account and also fail to observe basic accounting procedures. As a result, they are not able to portray the exact financial position of their business small scale business enterprise. This tends to impede the ability of the enterprise to obtain the much needed loans from the financial institutions and other sources for expansion and diversification. The financial statements, such as the profit and loss accounts, the balance sheet and the cash flow statement of small-scale enterprises cannot easily be prepared. Under such circumstances, annual profits cannot readily be determined.

Small and medium scale enterprises in Nigeria are however, often encountered with accounting and financial management challenges. Poor record keeping, inefficient use of accounting information to support their financial decision-making and the low quality and reliability of financial data are part of the main problems in financial management concerns of Small and medium scale enterprises in Nigeria.

(Adeboye 2005) While proper accounting is a useful system for making sound economic decisions, The misuse, untimely, poor record keeping, and inaccuracy of accounting information also causes Small and medium scale business in Nigeria to inaccurately a small scale business enterprises their financial situation, and make poor financial decisions.

These shortcomings might be the cause of difficulties to succeed and to raise fund or borrow money during the later stage. In the worst case, might face with the failure and perhaps bankruptcy in the end.

It is also important to state that the absence of proper accounting information does not only impair the growth of the small-scale enterprise but also, as stated earlier, reduces their chances of obtaining credit facilities from the financial institutions and other fundlenders. It is obvious that a cash starved small-scale enterprise is bound to encounter difficulties in its attempt to expand and/or diversify its operation.

Based on the fact that the financial accounting is one of the social sciences which aim to serve various needs of the private and public business facilities, it is affected by the changes of the general economic, social, legal and political and political conditions prevailing in each country or certain environment at each period. The accounting information is resulted by certain requirements which change due to various environmental factors within the economic, social, legal and political environments in which the accountancy works.

1.3.OBJECTIVES OF THE STUDY

The major objective aim is to examine the role of accounting information on small scale business productivity and performance.

Other specific objectives aimed to be achieved are:

1. To examine the importance of accounting information and basic accounting procedures in small-and medium scale enterprises.
2. To determine the extent to which accounting information and basic accounting procedures have been implemented and applied in small-and medium scale enterprises.
3. To investigate the types of accounting records being kept and maintained by small-and medium scale enterprises.
4. To ascertain the extent to which accounting information is being used as a financial tool for measuring financial performance of SMEs.
5. Analyze the relationship between accounting information & small scale firm performance.
6. To analyze the completeness of accounting records being kept by SMEs as a source of information for economic and financial decision making.
7. Determine the major barriers to accessing to efficient accounting information.

1.4.RESEARCH QUESTION

The research question provides a framework and guidelines through which substantial knowledge of the research study can be understood.

The research question asked includes:

1. What are the importance of accounting information and basic accounting procedures in small-and medium scale enterprises?
2. To what extent is accounting information and basic accounting procedures implemented and applied in SMEs?
3. What are the types of accounting records being kept and maintained by small-and medium scale enterprises?
4. To what extent is the accounting information is being used as a financial tool for measuring financial performance of SMEs?
5. Is there any relationship between accounting information & small scale firm performance?
6. How efficient is the completeness of accounting records being kept by SMEs as a source of information for economic and financial decision making.
7. Are there any barriers to accessing to efficient accounting information by SMEs?

1.5. STATEMENT OF HYPOTHESIS

The hypotheses are stated in the null form for testing:

HYPOTHESIS ONE

Ho1 - There is no significant relationship between accounting information and small scale enterprises performance.

HYPOTHESIS TWO

Ho2 - Accounting information and procedure do not increase the chances of the business operating and achieving success.

1.6. SIGNIFICANCE OF THE STUDY

Though, this study was initiated to evaluate the importance of accounting information in small and medium scale business, no gain saying that, accounting information plays a positive role in the integrity of the decisions as well as the success of the small scale business.

The significance of this study was to create through documentation, an awareness of the importance of accounting information and basic accounting procedures to small-scale enterprises.

In addition it will be a source of knowledge to small-scale enterprises (SSE) on how to maintain proper accounting records and standards. The result will greatly facilitate the work of

the Internal Revenue Services and the Value Added Tax officials in developing strategies to extend the tax net to cover such enterprises which form significant proportion of the Nigerian business community.

This study will also be of great significance to policy analysts since it will assist in analyzing the effectiveness and success of the work of the Small Scale Agency Board in Nigeria.

It will therefore equally be of immense help to the National Board for Small-Scale Industries, in evaluating the success of its activities with specific reference to the problem of poor accounting information initialization and basic accounting procedures in such industries. It would also assist the boards in determining or formulating their future plans.

It will also be of use to the student, researchers for further research study, the existing and prospective entrepreneur as well as any interested party. It will assist students in their knowledge build-up and appreciation of the practical accounting situation of the small scale business.

1.7. SCOPE OF THE STUDY

Conceptually the study hovers around the implicit role proper accounting information and accounting procedures play as far as small and medium scale business were concerned in Nigeria. (by making use of the accounting records, budgets and loss account and other accounting information produced by them).

The activities of the regulating body National Board for Small Scale Industries were also put into consideration. However, The research was limited to small and medium scale enterprises operator in Lagos metropolis due to the schedule of the researcher.

1.8. LIMITATIONS OF THE STUDY

As with all studies, limitations exist and must be acknowledged. Moreover, the outcomes were based on the information solicited from the respondents and such might be subjected to human errors, omissions and possible mis-statements.

The limitations of the study are as given below:

- a) First of all time did not allow the researcher to glean information from all the Small scale business enterprises and all institutions under NBSSI
- b) The study could not show the whole scenario of the all small scale business in Nigeria.
- c) Because the sample is chosen from the one state Of Nigeria. That's why the findings

and analysis is varying slightly in organization to organization.

d) The questionnaire was not understood by some respondent.

e) Some respondent did not give enough concentration to understand the significant of analysis.

f) The time was not enough to collect the data from the respondent.

1.9. DEFINITION OF TERMS

Management accounting

Management accounting or managerial accounting is concerned with the provisions and use of accounting information to managers within organizations, to provide them with the basis to make informed business decisions that will allow them to be better equipped in their management and control functions.

Small and medium enterprises

Small and medium enterprise or small and medium-sized enterprise (SMEs, small and medium-sized business, small scale business enterprise, SMBs and variations thereof) are companies whose personnel numbers fall below certain limits.

Financial statement

A financial statement (or financial report) is a formal record of the financial activities of a business, person, or other entity. **It also** provide information regarding the position and performance of a business, such as its assets, liabilities, equity, income, expenses and cash flow.

Accountancy

Accountancy is the process of communicating financial information about a business entity to users such as shareholders and managers. The communication is generally in the form of financial statements that show in money terms the economic resources under the control of management; the art lies in selecting the information that is relevant to the user and is reliable.

Consistency

In order for accounting information to be useful in decision making, it must be recorded consistently, meaning the same accounting treatment must be applied at all times to a given type of accounting data.

SMALLSCALE BUSINESS

It is defined as any business undertaken, owned, managed and controlled by not more than two entrepreneurs, has no more than twenty employees, has no definite organizational structure (i.e. all employees report to the owners) and has relatively small shares of its market.

Accounting Information System

An accounting information system (AIS) is a system of collecting, storing and processing financial and accounting data that is used by decision makers. An accounting information system is generally a computer-based method for tracking accounting activity in conjunction with information technology resources.

Faithful Representation

Faithful representation requires that transactions and events should be accounted for in a manner that represents their true economic substance rather than the mere legal form. This concept is known as Substance Over Form.

Accountant: An accountant is any person who possesses a professional license to practice accountancy from a recognized professional body and has legal capacity and authority to carry out the duties of accountants in taxation and audit practice.

The role of accounting information on small and medium scale enterprises in Nigeria

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