

JABM

**JOURNAL of
ACCOUNTING - BUSINESS & MANAGEMENT**

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The Role of Accounting Services in Small and Medium Scale Businesses in Nigeria

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Abstract

In several countries of the world, the government requires the input of Small and Medium Scale Enterprises (SMEs) for economic growth and job creation. This study examines the approach of small scale entrepreneurs when utilizing accounting services in Nigeria. The aim of this study is to examine the reasons for Small Scale Entrepreneurs (SSEs) employment of accounting services. Secondly, this study seeks to decipher the benefits of SSEs engagement of accounting services from the perspective of the managers of such business enterprises in Nigeria. A survey instrument was administered to one hundred and twenty (120) respondents in Lagos State and Ogun State, Nigeria. The test of reliability of the questionnaire was carried out using Cronbach's alpha, which resulted in a coefficient of 0.773. On the basis of the coefficient, the research instrument is reliable. The study finds that SSEs employ accounting services for better accountability, correct determination of profit, to help management reach set goals and objectives. Some of the benefits of employing accounting services as identified by respondents include increased accountability of business operations, reduced fraud, correct measurement of profit, achievement of managements' set goals. From these findings, we recommend that accountants explore the large market ahead of them in small and medium scale enterprises.

Keywords: small scale, enterprises, professional, accountancy, services, Nigeria.

I. INTRODUCTION

Entrepreneurship through small businesses has the potential to create sustainable development and alleviate poverty in developing countries (Tilley & Parrish, 2006). Small and Medium Scale Enterprises (SMEs) as well as entrepreneurship activities are crucial to the development of any economy (Esuh & Adebayo, 2012). Etuk et al. (2014) sounded that SMEs have the potential to contribute meaningfully to the economy because of the benefits they are associated with. Small businesses are recognized all over the world as crucial contributors to job creation, general health and welfare of economies. In Nigeria, the entrepreneurial sector has been endowed with a lot of investments including the ₦500 billion Small and Medium Scale Enterprises (SMEs) development fund initiated by the Central Bank of Nigeria (CBN) in June 2001. According to Gbandi & 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).

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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, including financing, lack of credit facilities, inadequate demand for their product or services, poor exposure of management, inadequate managerial skills, over-reliance on debt as a source of finance and poor record keeping, combining business funds with personal funds. These challenges may be easily overcome when businesses utilize accounting services in analyzing and monitoring their financial position, preparing documents for tax determination, as well as providing information to support production, marketing, human resources, 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. 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, and other stakeholders.

According to Mohd & Nasir (2009), 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 & 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.

This study is concerned with the small businesses that make up SMEs. According to Holmes & Nicholls (1998), small business remains an important part of the business environment. The study is also particularly interested in small businesses. In the process of determining which business organizations fall within this category, two classes of businesses arise. The first is where an individual discovers, evaluates and exploits opportunities independently. The second is where a business organization is managed by individual owners. This classification was done by Esuh & Adebayo (2012), where a line of distinction was drawn between entrepreneurs and small and medium scale enterprises. This research retrieved the response of small businesses as well as small entrepreneurs. This study also employs the categorical use of SMEs which encompasses small businesses.

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.

II. LITERATURE REVIEW

According to Belal (2013), there are many definitions of SMEs in the literature. These definitions are based on the capital base, number of employees, ownership, management and sales volume. Maseko & Manyani (2011) noted that there is no universally acceptable definition of an SMEs in the literature. This is because businesses differ in many aspects and it will be cumbersome to find all the features of an SMEs in a business. For this reason, most of the definitions of SMEs are based size and number of employees, asset base, quantity and amount of sales. There are definitions of SMEs used by multilateral institutions such as World Bank, Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IADB) and African Development Bank. The definitions of SMEs given by these multilateral institutions are based on number of employees, turnover and assets. The summary of the definitions is shown in the table below.

Table 1

SME Definitions by Multilateral Institutions

Institution	Max. Number of Employees	Max. Revenues or Turnover (\$)	Maximum Assets (\$)
World Bank	300	15,000,000	15,000,000
MIF-IADB	100	3,000,000	None
African Development Bank	50	None	None

Source: Adopted from Gibson & Vaart (2008)

Specifically, the World Bank recognizes three categories of SMEs namely: micro, small and medium-sized enterprise. The table below summarizes the definition of SMEs based on these 3 categories.

Table 2

Definition of SMEs

Category	Number of Employees (maximum)	Total Assets (\$)	Turnover (\$)	Tangible Assets (\$)
Micro-Enterprise	10	100,000	400,000	200,000
Small Enterprise	10-50	100,000-3,000,000	100,000-3,000,000	None
Medium-Sized Enterprises	50-300	3,000,000-15,000,000	3,000,000-15,000,000	None

Source: World Bank Group

Lawal & Ijaiya (2007) stated two definitions of SMEs by the Central Bank of Nigeria (CBN) and Small and Medium Industries Equity Investment Scheme (SMIEIS). CBN defined SME as an outfit with a total capacity outlay (excluding land) of between ₦2 million and ₦5 million. SMIEIS defined SME as any industry with a maximum asset base of ₦200 million, excluding land and working capital, and with the number of staff employed by the enterprises not less than 10 and not more than 300.

The World Bank & the International Finance Corporation (2013) pointed out that Nigeria is on 147th position out of the 189 countries surveyed in the 2014 Doing Business Report. This report examines the difficulty 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 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) sub-sector 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 ₦220 billion, and with the objectives to enhance access by MSMEs to financial services, increase productivity and output of microenterprises, increase employment and create wealth and engender inclusive growth.

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 & Schaper, 2003). According to Ismail & 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 mask what the real posting should be. Also, separation of accounting functions from management can help to reduce fraud.

III. METHODOLOGY

The population of this study includes the owners of the small businesses located in South-West of Nigeria. The South-West of Nigeria is made up of six states namely Lagos, Ekiti, Ondo, Oyo, Osun and Ogun States. Of all these states, Lagos state and Ogun state were selected for the purpose of this study because of their proximity to the researcher. A major reason for limiting the research to only two states was because of the impracticability to collect data from the entire population of the study.

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

A hundred and twenty (120) copies of questionnaire were administered to respondents by the researcher using face-to-face approach. The respondents for this study include small businesses located in Lagos State and Ogun State, both located in South-West Nigeria. The questionnaires were completed by either the owner or a manager representing him/her. The purpose of limiting the administration of questionnaires to these two categories of people in the small business was to get the correct information that will enable the researcher come to an unbiased conclusion.

The reliability of the questionnaire was tested using Cronbach's alpha, which resulted in a coefficient of 0.773. This implies that the instrument is reliable to measure the constructs in this study.

IV. RESULTS

A total of ninety four (94) respondents completed the survey instruments given to them. This yielded a response rate of 78.3%. The remaining twenty six (26) administered copies of questionnaire were either not completely filled or returned. Based on gender, the respondents in this study included 58 males and 36 females, implying that 61.7% and 38.3% of the respondents are male and female respectively. The analysis of educational qualification of respondents showed that 16 of them have HND, 32 of them have B.Sc., 15 have MBA and the remaining 31 have other qualifications including Diploma and M.Sc.

Thirty four (34) of the respondents have been in business for less than 3 years, fifty (50) of them have been in business for 4 to 8 years and 10 of them have been in business above 9 years. This resulted in 36.2%, 53% and 10.6% respectively.

Other descriptive statistics are presented in the tables below.

Table 3
Number of Employees

Number of Employees	Frequency	Percentage
1-30	33	35.1
31-60	51	54.3
Above 60	10	10.6
Total	94	100

Source: Field survey (2012)

From the data in Table 1 above, 33, 51 and 10 SMEs operated an employee size of 1-30 people, 31-60 and above 60 respectively.

Table 4
Reason for Employing Accounting Services

Reason	Frequency	Percentage
Better Accountability	31	33
Correct Determination of Profit	12	12.8
Helps Business Actualize Set Goals and Objectives	1	1.1
Taxation Demands	24	25.5
Budgeting	21	22.3
Management Efficiency	5	5.3
Total	94	100

Source: Field survey (2012)

Interpretation: from the table above, respondents constituting 33% concur that SMEs employ accounting services for better business accountability. Respondents that make up 12.8% employ accounting services for correct determination of profit, 1.1% employ accounting services to gain relevance in a changing business environment, 25.5% do so due to taxation demands, 22.3% do so for budgeting issues, and 5.3% employ accounting services for management efficiency.

The study sought to ascertain the response of the various small businesses towards statements on the benefits of accounting services. The descriptive statistics of each statement is presented in the tables below.

Table 5
Accounting Services Have Increased SMEs Accountability

Response	Frequency	Percentage
Strongly Disagree	2	2.1
Disagree	2	2.1
Not Sure	5	5.3
Agree	41	43.6
Strongly Agree	44	46.8
Total	94	100

Source: Field survey (2012)

Interpretation: from the table above, 90.4% of the respondents concur that accounting services help to increase SMEs accountability. 9.5%, an insignificant portion of the respondents disagreed to the statement that accounting services have increased SMEs accountability.

Table 6
Accounting Services Help to Correctly Determine Profit

Response	Frequency	Percentage
Strongly Disagree	0	0
Disagree	1	1.1
Not Sure	29	30.9
Agree	41	43.6
Strongly Agree	23	24.5
Total	94	100

Source: Field survey (2012)

Interpretation: from the table above, 68.1% of the respondents agreed that accounting services help in the correct determination of profit. However, 30.9% of the respondents were not sure of the answer to give. Only 1.1% of the respondents disagreed to the statement that accounting services help to correctly determine profit.

Table 7**Accounting Services Help the Business Actualize Set Goals and Objectives**

Response	Frequency	Percentage
Strongly Disagree	0	0
Disagree	6	6.4
Not Sure	17	18.1
Agree	52	55.3
Strongly Agree	19	20.2
Total	94	100

Source: Field survey (2012)

Interpretation: from the table above, 75.5% of the respondents agreed that accounting services help the business actualize set goals and objectives. 18.1% of the respondents were unsure of the answer to give. Only 6.4% of the respondents disagreed to the statement.

Table 8**SMEs Do Not Require Accounting Services in their Business Operations**

Response	Frequency	Percentage
Strongly Disagree	20	21.3
Disagree	39	41.5
Not Sure	16	17
Agree	18	19.1
Strongly Agree	1	1.1
Total	94	100

Source: Field survey (2012)

Interpretation: from the table above, 62.8% of the respondents disagreed to the statement that SMEs do not require accounting services in their business operations. 17% of the respondents were unsure of the answer to give. Only 20.2% agreed to the statement that SMEs do not require accounting services in their business operations.

V. CONCLUSION AND RECOMMENDATION

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. The findings of this study point to a large market of clients for accounting services. Small and Medium Scale Enterprises (SMEs) require professional and technical advice that accountants can give. Therefore, accounting professionals should be encouraged to explore the needs of SMEs as their active involvement in the SMEs operations could help reduce the high mortality rate of SMEs. Based on the findings of this study, accountants may also get involved in seminars and workshops to enable them understand the requirements of successful SMEs especially when it comes to the financial aspects. Further research can examine the extent to which owners of SMEs employ accountants as part of their business or outsource accountants. By outsourcing accountants, this study means employing accountants when the need arises only. In such scenario,

the accountant only works for the business when the need arises after which the contract is terminated. A major limitation of this study was that the entire South-Western part of Nigeria could not be sampled. Future researchers can explore this area.

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