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## THE PLACE OF EFFECTIVE BOOKKEEPING AND ACCOUNTING PRACTICE IN SMALL AND MEDIUM SCALE ENTERPRISES (SMES) IN NIGERIA: EVIDENCE FROM SOME SELECTED SMES IN ZAMFARA STATE

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### ABSTRACT

*This study examined the impact of effective book keeping practice and accounting system in the operation of small and medium scale enterprises in Nigeria. Research hypotheses were formulated according to the objective of this study. 286 Small and medium business owners and 214 staff from five recognized local government areas in Zamfara state, North Western Nigeria were selected as our respondents via a stratified random sampling technique. Data were collected via a well structured questionnaire. Best linear unbiased estimator (BLUE) was used to analyze the data, hypotheses were tested using t-test and all the hypotheses were retained. The findings of this study revealed that book keeping and accounting plays a significant role in the success of small and medium scale enterprises. The study also affirms that standard accounting practices contribute immensely to the success of small and medium scale enterprises. The study recommends among others that Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) should provide an atmosphere that will facilitate good adoption of effective bookkeeping and accounting practice in small and medium scale enterprises (SMEs) in Nigeria.*

**Keywords:** Accounting Practice, Bookkeeping, Medium Scale, Small Scale

### INTRODUCTION

Small and medium scale enterprises play a crucial role in the economy as they provide employment and taxes in all sectors of the economy including agriculture and mining. Small and, medium enterprises make up the backbone of the world economy (Aremu and Adeyemi, 2011). For example, they account for 67.1% of the European Union non-financial business economy workforce. Hence, in many countries in the world it has been recognized that an SME- friendly business environment is crucial for growth and jobs creation (Kuehl, 2006). In some key industries such as textiles, wood products, metal products, publishing, construction and furniture making, SMEs account for more than 70% of all jobs. Small business enterprises are therefore a part of the informal sector and they bridge the gap of slow growth of the informal sector in the economy.

Book keeping is the recording of all financial transaction in a systematic and logical manner. Transaction includes sales, purchases, income and payments by an individual or organizations. Book keeping is usually performed by a book keeper using common methods of book keeping such as single entry and double entry systems. While these systems may be seen as "real" book keeping, any process that involve recording of financial transactions is a book keeping process (Haber, 2004). Primary book keeping records all business transaction and allocates the income and expenses account in separate account records (Mc carthy, 2000).

The single book keeping can be done with book keeping software to speed up manual calculation (Haber, 2004). Double entry book keeping system involves recording of financial information in a financial accounting system where a financial transaction impacts at least two different accounts. In modern accounting, this is done using debits and credits and serves a kind of error system. If at any point the system of debits doesn't equal to the sum of credits then an error has occurred. In small and medium scale enterprises (SMEs) book keeping vary in size, frequency, sensitivity, maturity and the level of growth of the small and medium scale enterprises (SMEs) including the relative importance of fixed working capital. The system of book keeping depends on the operator of the small and medium scale enterprises (Enon, 2000). SMEs are required to keep proper records of financial data concerning all receipts and payments, all sales and purchases of goods and services and all assets and liabilities from which financial statements are prepared. The financial transaction recorded must be objective, sufficient, relevant and reliable to make informed decisions and judgments by interest groups. Despite the importance of book keeping a number of small and medium scale enterprises (SMEs) in Gusau metropolis have not given much attention to it.

## **STATEMENT OF THE PROBLEM**

A number of small and medium scale enterprises have not given much attention to book keeping in relation to their business transaction, despite its importance in the success of business. 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. Auditing of small and medium scale enterprises have proven to be among the most worrisome for professional accountants because of the inadequacy of the internal controls except for statutory demands, small and medium scale enterprises hardly give serious thoughts to the process of sound accounting, yet

the inadequacy and ineffectiveness of accounting processes have been responsible for untimely collapse of a host of them (Mukaila and Adeyemi, 2011).

## OBJECTIVES

The general objective of this study is to evaluate the impact of book keeping and accounting practices on small and medium scale enterprises in Nigeria using some selected SMEs in Zamfara State as a case study.

The specific objectives are to:

1. Determine if book keeping and accounting practice has any significant impact to small and medium scale enterprises in Nigeria.
2. Evaluate if there is positive relationship between standard accounting practices and small and medium scale enterprises.

## HYPOTHESES

$H_1$ : There is significant relationship between Book keeping and Accounting and Small and Medium Scale Enterprises.

$H_2$ : There is significant relationship between standard accounting practices and Small and Medium Scale Enterprises

## LITERATURE REVIEW

The book keeping transactions of an enterprise need to be recorded in the book keeping books. Some form of recording was essential to all businesses for the day-to-day management of their operations and the fulfillment of unavoidable governmental obligations such as taxation. It is well known that inadequate record keeping is frequently associated with failures in small businesses even if it is not actually the direct cause of failure for record keeping purposes the enterprise can use different methods.

Meighs (1981) pointed out that to maintain useful financial information about a firm, some means of keeping track of the daily activities are needed and then writing the results in financial report. This method used by a firm to keep records of its financial activities and to summarize these activities in periodic accounting reports comprises the accounting system.

Ayodele (2002) equally pointed out that the industrial revolution which took place in Nigeria in 1970's brought unique changing in the structure of industries which was made possible only as a result of the effective and widespread of book keeping and accounting. The purpose of book keeping is to keep a record of financial transaction of a firm. The job of these book keepers is to record all transactions in the proper book in order to make available the complete financial position of the firm to these interpreted. All modern firms have to keep records of their financial dealings since

they must always know what they own, what they owe and what the revenue expenses have been. These records of matters are needed for their own benefit and in order to fulfill certain legal requirements.

According to Ayodele (2002) Book keeping and accounting go together since both are complimentary. The author pointed out that in the 20<sup>th</sup> century, international growth of the multinational cooperation was made relatively easy because of the popular use of book keeping and accounting. The number one function of an accounting system is book keeping which is to create a systematic record of the daily firm's transactions in terms of money. The second function is the accounting which deals with transforming the information in monetary terms into useful form. This information is needed as a basis for business decisions. Accounting is viewed as the process of measuring the profitability and solvency of a firm. How do business owners whether they are making profit or incurring losses? How do they know whether the firm is solvent or insolvent? In one word, the answer to these questions is accounting.

### **Need for effective Book Keeping in Small and Medium Scale Enterprises**

Bookkeeping is the first essential step of accounting which as a system provide a source of information to owners and managers of SMEs operating in any industry for use in the measurement of financial performance. The importance of financial performance measurement to any business entity cannot be overemphasized. In this sense, the accounting bases, concepts and principles adopted ought to capture the relevant accounting information to ensure reliability in its measurement. In order to achieve crucial control and success of a business, one has to consider keeping accurate records. This leads one to find out which records must be kept for the purpose of the success of a business. Bookkeeping helps in acquisition of financing from financial institutions. The financial institutions usually require adequate financial statements to provide the loans for expansion purposes. Bookkeeping usually acts as the guide to the preparation of financial reports and banks assess these financial reports before granting loans. They also assists in making inventory decisions like product diversification decisions so as to improve sales and profitability. Businesses must always confirm from the books which goods and services easily sell for them to invest in them. This can be confirmed by checking which goods are easily emptied from the stores. Businesses can easily be monitored with the proper records and this will facilitate sound business decisions being made, for example; by keeping track of debtors and creditors.

Parks (2006) is of the opinion that good book keeping can help to grow a business smoothly with the correct information always at hand to make decision.

Segiel also pointed out that the records you keep serve two functions.

- The first is documenting activities for tax purposes
- The second is to enable you to see the trends in your business and take appropriate action where necessary to improve (or save) it.

He went further to say that without adequate and carefully prepared records, it is impossible for a modern small business to handle buying and selling inventory control, credit and collection, expertise control, personnel product control and most other aspects of business management.

## METHODOLOGY

To achieve the objectives of this study, a descriptive design such as personal interviews and questionnaire were employed as the major techniques for primary data collection. The questionnaire was specifically designed to accomplish the objectives of the study. The questionnaire is divided into two sections. The first section collected information such as age, sex, experience, professional status, marital status and position while the second section contained 10 questions that measure the place of effective bookkeeping and accounting practice on small and medium scale enterprises, using a Likert scale of five points: strongly agree, agree, undecided, disagree and strongly disagree. In addition, information was obtained from books, magazines, journals, research works and even from the internet.

The target population of the study comprises of SMEs' owners and staff in all the 14 Local Government Areas in Zamfara state. A sample of five recognized Local government areas were chosen; they are Gusau, Tsafe, Bungudu, Maru and Kaura Namoda Local government areas in Zamfara State. The study considered Small and Medium business owners and staff in the selected Local Government as the sampling frame from which 500 (100 from each Local Government) respondents were selected via stratified sampling technique. Respondents' age ranges from 24-54, with a mean of 39 years, Also, 286 (57.2%) of the respondents were owners, while 214 (42.8%) were staff; while 307 (61.4%) of the respondents were male; while 193 (34.6%) were females.

Best linear unbiased estimator (BLUE) was used to analyze the data to determine diagnostic test such as t-test,  $R^2$  and  $R^2$  adjusted

## HYPOTHESES TESTING

$H_1$ : There is significant relationship between Book keeping and Accounting and Small and Medium Scale Enterprises.

Table 1.

Summary of regression analysis on relationship between Book keeping and Small and Medium Scale Enterprises

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Dependent Variable is Book keeping and Accounting (Bk & Acc)  
 Independent Variable is Small and Medium Scale Enterprises (SMEs)  
 Therefore: **Bk & Acc = f(SMEs)**

Dependent variable Bk & Acc	Coefficient	t-Value	Standard Error	R <sup>2</sup>	R <sup>2</sup> Adjusted	F Ratio	Sig.
Constant SMEs	13.431	6.800	0.028	0.680	0.614	22.711	0.000
	(2.430)	(4.904)					

**Source: Author's computation (2018)**

The results in table I shows the relationships between book keeping and Small and Medium Scale Enterprises, judging from the coefficient of R<sup>2</sup> known as the coefficient of determination which simply indicates that 68% variations in Small and Medium Scale Enterprises is accounted for by efficient Book keeping and accounting practice. The adjusted R<sup>2</sup> value of 0.614 indicates that model after taking care of the degree of freedom shows that the actual variations in Small and Medium Scale Enterprises is attributable to the variations in book keeping and accounting reveals the actual variation of 0.614 percent as against the 0.68 suggested by R<sup>2</sup>. The t-test of significance of (4.904) shows that existing relationship between book keeping and Small and Medium scale Enterprises is a true reflection of each other. We therefore accept the alternative hypothesis.

**H<sub>2</sub>:** There is significant relationship between standard accounting practices and Small and Medium Scale Enterprises

Table II.

**Summary of regression analysis on relationship between standard accounting practices and Small and Medium Scale Enterprises**

Dependent Variable is Standard Accounting Practice (Std. Acc. Pr)  
 Independent Variable is Small and Medium Scale Enterprises (SMEs)  
 Therefore: **Std. Acc. Pr = f(SMEs)**

Dependent variable Std. Acc Pr	Coefficient	t-Value	Standard Error	R <sup>2</sup>	R <sup>2</sup> Adjusted	F Ratio	Sig.
Constant SMEs	8.311	6.430	0.014	0.678	0.613	19.401	0.000
	(2.011)	(5.867)					

**Source: Author's computation (2018)**

The result in table II above shows the relationships between standard accounting practice and Small and Medium Scale Enterprises. The coefficient of R<sup>2</sup> known as the coefficient of determination which shows that 67.8% variations in Small and

Medium Scale Enterprises is accounted for by efficient Book keeping and accounting. The relationship is significant, given the value of the coefficient of determination and the t-statistics of 5.867. The adjusted  $R^2$  of 0.613 also shows that the huge success of small and medium scale enterprises in Zamfara state is attributable to standard accounting practice being employed by the owners of the enterprise. We therefore accept the alternative hypothesis.

## CONCLUSION

Bookkeeping and accounting may look like a great time waster to most small business owners but it is a silent factor that can either make or break your business. The findings of this research work evidently shows that effective bookkeeping and accounting practice is a lubricant to the success of any small and medium scale business. Bookkeeping and accounting will help you plan ahead for your business. You can call it budgeting; it is all the same. Planning for purchases and other business miscellaneous will become easier with bookkeeping. Bookkeeping and accounting will help your small business meet deadlines and help you make timely payments of loans, rents, bills, taxes and so on. Cash flow management will never be possible without proper bookkeeping and no business can stand the test of time without effective cash flow management.

## RECOMMENDATION

Based on the findings and conclusion drawn from this study, the following recommendations were given:-

- i. Experts should be hired by owners of small and medium scale enterprises to foster efficient usage of standard accounting practice in SMEs' operation.
- ii. *Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)* should provide an atmosphere that will facilitate good adoption of effective bookkeeping and accounting practice in small and medium scale enterprise (SMEs) in Nigeria.
- iii. Efficient and easy credit scheme should be provided for Small and Medium Scale Enterprise (SMEs) to enable them expand, Also Small and Medium Scale Enterprise (SMEs) should be made to make available their financial position at the end of every accounting period.

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