

Usefulness of Accounting Theory and Practice on Small Scale Business in Nigeria

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Abstract

The study was on the usefulness of accounting theory and practice on performance of small scale business in Nigeria. The objective of the study was to examine the usefulness of accounting theory and practice on financial performance of small scale business in Nigeria. The research was carried out, using four SSEs (Kiote Services, Multifocal Limited, Ekoconnect, Magnet Consulting associate) as the study area. Secondary Data was gotten from the company's annual reports on return on equity. Multiple regression analysis is used as a means of testing the impact of accounting theory and practices on small scale business performance in Nigeria. Findings revealed that accounting theory and practice have significant relationship with the financial performance of Small and Medium Enterprises in Nigeria. Thus, it is recommended that SMEs should maintain proper accounting record and not just to maintain accounting records but introduction of financial management into funding activities will go a long way for judicious use of scarce fund and lay a solid ground to obtain finance either at the money or capital markets.

Keywords: Accounting Theory, Accounting Practice, Financial Performance, Financial Reporting, Small Scale Business

1.0 Introduction

The usefulness of accounting theory and practices on small scale business is to adopt proper record keeping. The importance of keeping proper accounts to promote the growth of small businesses has been acknowledged in prior studies on small business growth and development (Abor & Biekpe, 2006). Financial reporting is very critical to ensuring the survival and growth of every business unit. The keeping of proper records and writing of financial statements have enormous benefits for Small Scale Enterprises. They serve as an important management tool for every business because they provide an accurate reflection of financial performance of the business. They also serve as a means to monitor performance and measure the accuracy of income and expenditure (Adjei, Anokye, Mintah, & Offeh, 2014).

The keeping of accounting records involves the documentation of all the transactions of the business entity including its assets and capital (equity and liabilities), and in order to solve business limitations such as, lack of finance, weak institutional capacity, lack of managerial skills and training of small-scale enterprises, there is need for business management expertise to manage properly the finances, purchases, sales, production, and human resources aspect of the business. According to Jones, Simmons, Packham and Beynon,(2012), SMEs are generally regarded as the engine of economic growth in developing economies and developed nations. Specifically, Alese (2017) argues that this argument stems from the realization that almost all countries that have focused on SMEs sector have ended up in the significant reduction in poverty level and its attendant enhancement in the quality and standard of living, reduction in crime rate, increase in per capita income as well as rapid growth in national output among other salutary effects.

2.0 Literature Review

Nigerian businessmen and women are innovative in assessing opportunities and in the ability to nearly as effective in product innovation. They tend to concentrate on the rapid adoption and imitation of foreign innovation and know-how. For example most manufacturers usually make products based on foreign brand label under license. As to technology, most of the machinery used in production are imported from developed economy and developing countries like United State, and Hong Kong respectively. This may explain the difficulty of Nigerian SMEs in the manufacturing to diversify from the traditional methods of production.

In the past, Nigeria concentrated producing a limited range of highly labour intensive goods such as textiles plastic etc. It is quite true that Research and development (R & D) is not common with small size firms. They prefer rapid imitation of new imported technology as a more viable and economic alternative. Thus, many manufacturers prefer to stay in industries where R & D are not important. Moreover, the skills and processes needed to grow a business are different from those needed to start a business. Edward (2012) asserts that many entrepreneurs had poor hiring processes, poor financial management; problems having difficult conversations with employees; underestimated the power of culture; and made many hiring mistakes when trying to build a growth management team.

2.1 Concept of Accounting theory in Small Scale Enterprise

According to Holmes, (1991), accounting theory in Small Scale Enterprises is a continuously evolving subject, and it must adapt to new ways of doing business, new technological standards and gaps that are discovered in reporting mechanisms. Theory accounting can be categorized in different ways: On the shallow, which in theory it is placed (organizational, negotiating and interpretation), by way of reasoning (inductive, deductive) or the accounting position which contains: normative grammar and confident (positive or descriptive) develops. Positive Accounting Theory provides a refreshing, controversial and important contribution to accounting thought. It is important because of its vigorous emphasis on the small scale enterprises actual choice of financial accounting technique or, more broadly, financial reporting activity (Watts, & Zimmerman, 1990)

2.2 Concept of Accounting Practice in Small Scale Enterprise

According to Holmes (1991), most importantly, in the context of SMEs requiring extra capital to grow, regular financial reports can provide indications on their ability to produce steady cash flows and to service debt. It has been established that the use of appropriate financial reporting and management accounting practices could be one of the determinants of company survival particularly SMEs (Gorton, 1999; Holmes, 1991). Despite the importance of financial reporting and analysis, it is unfortunate to find that these practices are often inadequate and lacking among SMEs. This rather limited usage of financial reports could be attributed to SMEs' inability to employ professional managers with functional specialization especially in the financial area due to their limited financial resources. Without adequate, effective and timely financial reports and analysis, the SMEs are losing out on the benefits from those practices such as improved monitoring of financial health and progress, improved ability to anticipate fortunes or failures, better assessments of financial risks and greater ease in financial planning and control.

2.3 Concept of Small Scale Business

According to Ariyo, (2005), since the 1960s to date, small and medium sized enterprises (SMEs) have been given due recognitions especially in the developed nations for playing very important roles towards fostering accelerated economic growth, development and stability within several economies. They make-up the largest proportion of businesses all over the world and play tremendous roles in employment generation, provision of goods and services, creating a better standard of living, as well as immensely contributing to the gross domestic products (GDPs) of many countries (OECD 2000). Over the last few decades, the contributions of the SMEs sector the development of the largest economies in the world have beamed the searchlight on the uniqueness of the SMEs (Ariyo, 2005).

However, according to Onogu (2005), it appears that considering the enormous potentials of the SMEs sector and despite the acknowledgement of its immense contribution to sustainable economic development, its performance still falls below expectation in many developing countries. This is because the sector in these developing countries has been bedevilled by several factors militating against its performance.

2.4 Accounting Performance of Small Scale Enterprises

The performance plays an important role in the development and growth in any company to survive. Traditionally accounting performance has been based on the income statement and Statement of Financial Position(Harash, 2014). Accounting performance is not only necessary for giving reasonably high returns to the organization. Its thus flags up some vital issues for studying and revising budgetary practice that correlate to the higher goals of the organization. It is also the key to avoiding the combination of factors has a negative influence on the efficiency and performance of organizations (Otley, 1999).

Accounting performance is considered a management initiative to upgrade the accuracy and timeliness of financial information and non-financial to meet the required standards while supporting day to day operations (Tarawneh, 2006). The accounting performance refers to the level of companies" financial measures such as earnings and accounting returns and non-financial (drivers of value) such as customer and employee satisfaction, innovation and quality relative to their major competitors over the some years (Harash, 2015).The accounting performance of SMEs represents one of the most problematic aspects of performance; that is why it has gained the attention of many scholars and researchers (Harash, Al-Timimi, Alsaad, Al- Badran, & Ahmed, 2013).

Thus, measuring accounting performance has become a fundamental concern to SMEs managers in the Previous years (Harash, 2015). Such trends encouraged academicians and practitioners to develop and adopt specific approaches and methods for measuring and evaluating the accounting performance of SMEs (Harash, 2015).
Furthermore, the significance of Accounting Information System(AIS) has been raised from the problems that accompanied the measurement of accounting performance of SMEs. Moreover, the significance of AIS has been raised from the problems that accompanied the measurement of accounting performance of SMEs. This difficulty stems from the interrelation between the exerted efforts and the contribution of the groups of people who work on the AIS cannot be determined objectively. Second is the difficulty in quantifying the beneficial contribution of AIS to the enterprises (Fagbemi & Olaoye, 2016). Third is matching the specific inputs of AIS and processing or intermediating the outputs with the final outcomes (including newly improved and developed products and processes.

2.2 Theoretical Framework

2.2.1 Positive and Normative Accounting Theory

According to Schreuder, (1984), Positive Accounting Theory provides a refreshing, controversial and important contribution to accounting thought. It is important because of its vigorous emphasis on the entity's actual choice of financial accounting technique (or, more broadly, financial reporting activity). It is controversial because the theory and empirical techniques it conveys are not fully developed. It is refreshing because it challenges us to expand our thinking about the nature of accounting institutions (Budkov, 2016; Li Manni, 2016). According with the start of the development of PAT test some of the basic models of accounting normative theory during the 1960s. Until the arrival of positive accounting theory, accounting instructions that these studies were regarded as the dominant example. Normative research is of interest to theoreticians of accounting recognition and measurement of specific issues in accounting (Gao, 2015). In positive accounting theory, academics view a company as the total of the contracts they have entered into. The theory posits that, because companies are fundamentally about the contracts that dictate its business, a core driver of company success is efficiency. That means minimizing the costs of its contracts to unlock the most value from them. From that basis, positive accounting examines real life occurrences and seeks to understand and then predict how actual companies address the accounting treatment of those transactions. In other words, positive accounting theory looks at actual real world transactions and events, examines how companies are accounting for those events, and seeks to understand the economic consequences of those accounting decisions. With that knowledge, the theory then tries to predict how companies will account for transactions and events in the future. Secretarial definite questions were asked and answered. Among the theories presented in the accounting area PAT likened to other theories in recent years has been more emphasis in accounting nonfiction (Lowe, 1983; Budkov, 2016).

The disadvantage with positive accounting theory is illustrated in the example of normative accounting above. The banks were accounting for financial securities in a way that hid material changes in their value that was pertinent to the bank's operation. That change in value was germane to the financials of the companies, and the day-to-day practices were no longer presenting an accurate representation of the company's financial position. The challenge for normative followers, on the other hand, is establishing what accounting principal should be applied to each situation. When a contract is signed, should the income and costs from that contract be recognized immediately, incrementally over time, or as a lump sum in the future? Depending on the contract, the company, and the goods or services provided, the answer could be any of the three or any number of combinations of each. In this way, the two theories complement each other, each filling in for the weaknesses of the other (Zimmerman, 1979; Demski, 1988, Watts & Zimmerman, 1990).

2.2.2 Q-Theory Of Investment

There are two fundamental problems with both the accelerator theory and the neo-classical theory of Investment. First, By Implication, both theories hold that the adjustment of the capital stock, to its desired level, is instantaneous and complete for each period of investment.

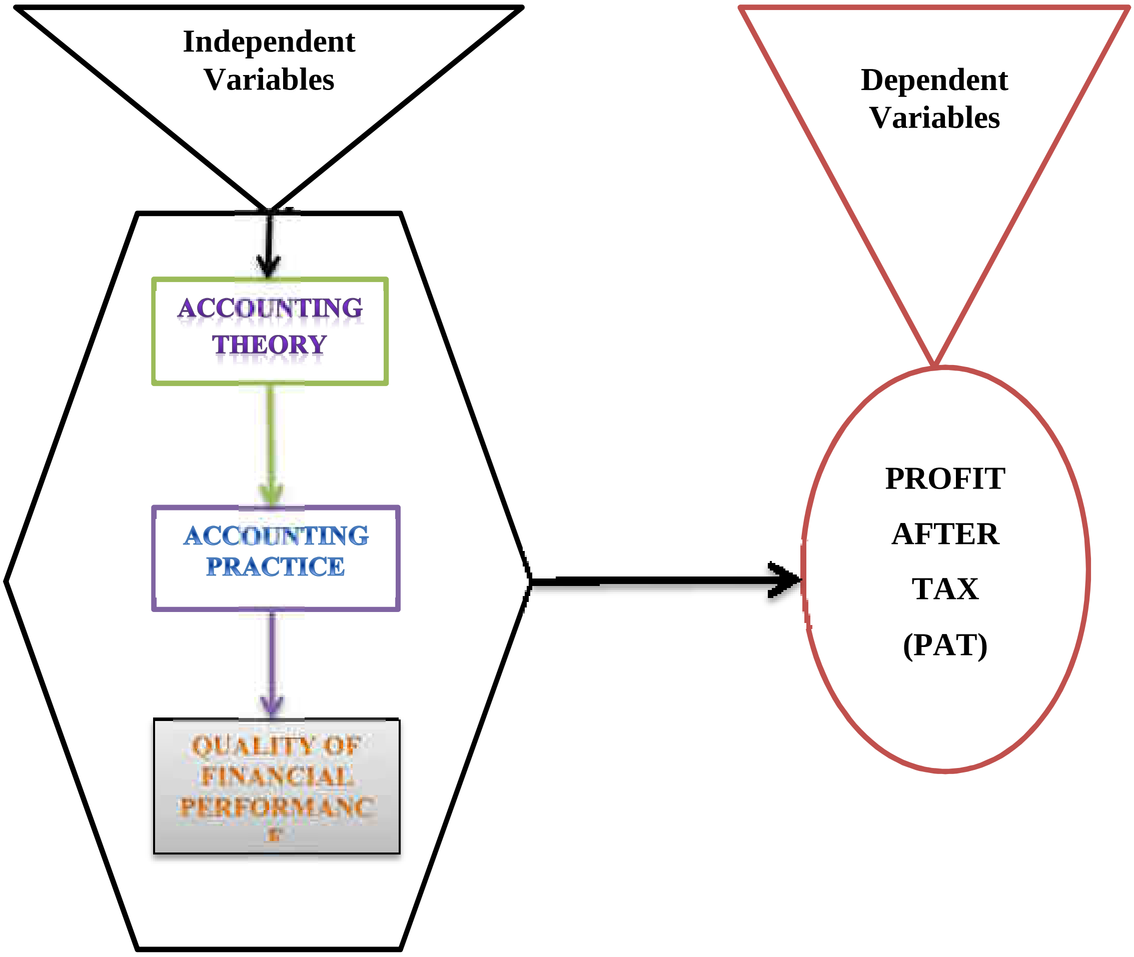
The solution to this is to add an adjustment cost function to the optimization problem. The second problem is that expectations play no role in the neo classical and accelerator theories. A solution to this problem was offered by Brainard and Toblin (1968): Investment is made until the market value of assets is equal to the replacement cost of assets. Furthermore, by adding a marginal adjustment cost function to the profit function, the neoclassical theory becomes logically equivalent to the Q-theory.

2.2.3 The Random Walk Theory

According to Ahmadi, (2011), random walk theory states that both fundamental analysis and technical analysis are wastes of time, as securities behave randomly. Thus, the theory holds that it is impossible to outperform the market by choosing the correct securities. It is only possible to outperform the market by taking on additional risk. The random walk theory holds that it is futile to try to predict changes in stock prices. Critics of random walk theory contend that empirical evidence shows that security prices do intend to follow particular trends that can be predicted with a fair degree of accuracy.

2.2.4 Stakeholder's Theory

The importance of stakeholders from a strategy development and service planning perspective is well acknowledged (Ackermann & Eden, 2001). The issue of who is seen as the end user of the performance measurement information generated has received little attention and yet, particularly in the public sector, is of critical importance. Applying a stakeholder conception of organizations as opposed to the more traditional input-output perspective implies adhering to a belief where all actors are involved with an organization in order to obtain benefits. This differs from the input-output model that illustrates how certain factors contribute input which the black box of an organization converts to benefits for its customers (Donaldson & Preston, 1995).



Source: Researchers' Accounting Theory and Practice on Small Scale Business in Nigeria Model.

2.3 Empirical Review

Wallace (1988) is one of the pioneer considers on the Nigerian corporate communication. He researches the degree of Disclosure utilizing statutory and will-ful things. Wallace's decision of information things was important to the client assemble - Accountant, government workers, supervisors, investors and different experts. He utilizes a specimen of 47 organisations, 54percent of the aggregate populace of recorded firms cited at the Nigerian Stock Exchange amid 1982 and 1986. Disclosure is dealt with as a dichotomous thing, for a thing unveiled and zero for those not revealed. The scoring framework is educated by its power. Two sorts of revelation files are built, un-weighted and weighted. The weighted Disclosure file mirrors the inclinations of the six-client gatherings. The after effect of the investigation uncovers that organisations which distribute yearly reports donot sometimes agree with the management view. The general revelation record uncovers the shortcoming in the Disclosure rehearse in Nigeria, extending from 37.55percent to 43.11percent. There is an abnormal state of Disclosure identifying with asset report, historical things and valuation techniques, while there are clear shortcomings in status information, social reporting, pay articulation things and projections.

According to Okike, (2000) most accounting reports have been discovered inadequate as in they need key information. Ofoegbu and Okoye (2006) explore the degree to which Statement of Accounting Standards are consented to in Nigeria. Utilizing a specimen of seven guidelines (SAS 3, 7, 8, 10, 11, 18 and 19) helpfully picked, they broke down the yearly reports of 41 organizations freely cited at the Nigerian Stock Exchange. It is found that there is a blended consequence of consistence with Disclosure necessities. Outstandingly, full consistence (100percent) is recorded for things, for example, bases of deciding book estimation of returns, income introductions, revelation of different types of duty and developments of charges and resources amid the year. Fractional consistence (extending from 2percent to 90percent) is recorded for things, for example, recurrence of revaluation arrangement, measure of remote trade pick up or misfortune, development profile of hazard resource of banks, and commission paid/got. Adeyemi (2006) considers SAS 1 to SAS 21 and utilizing an example of 96 recorded organizations with year-end in the vicinity of 2003 and 2004. Furthermore, he experimentally decided the connection amongst revelation and some organisation qualities. Umoren (2009) considers SAS 1 to SAS 30 and IAS 1 to 41, utilizing a specimen of 90 recorded organisations that cut crosswise over 25 businesses on the NSE. The review attempts a solitary period examination as every one of the organisations utilized were those that distributed their yearly reports amid the period January 31 and December 31, 2006.

According to Otley, (1999) in his basic examination on the level of dependence of the distributed financial proclamations by corporate investors the review overview look into the plan by which information was created by methods for poll directed on one hundred and fifty corporate financial specialists and senior management authorities of the chosen banks. The elucidating insights and rate examination were utilized for the information investigation and the theories were tried utilizing t-test measurement. The outcomes uncover that one of the essential obligation of management to the investors is to give an institutionalized financial related articulation assessed and verified by a qualified examiner or financial specialists. It additionally demonstrated that investors do comprehend the financial related articulation a long time before settling on business choices.

The after effects of the examination additionally demonstrated that investors depend intensely on the validity of evaluators/financial master endorsement of financial related articulation in settling on business choices and thusly distributed financial explanation is essential in the financial specialists' basic leadership. He prescribed that satisfactory care and due constancy ought to be kept up in planning financial explanations to maintain a strategic distance from flawed business choices which could prompt loss of assets and conceivable suits. There is in this way the general conviction that distributed financial articulations have flopped in its duty of give valid information to investors and different customers of financial related explanations (Okike, 2007). As indicated by Ahmadi, (2011), they researched distributed financial proclamation as relate to investment choice among business bank Stakeholders in Nigeria. A connection investigate configuration was utilized as a part of their review. 180 customers of distributed financial explanation were purposively tested from Lagos and Ibadan. Information produced were broke down utilizing Pearson connection and relapse. The discoveries of their review uncovered that, asset report is contrarily related with investment choice, while wage explanation, notes on the record, income articulation, value included proclamation and five-year financial rundown are decidedly related with business basic leadership. Their discoveries additionally uncovered that segments of distributed financial articulation essentially anticipated great business basic leadership for business bank Stakeholders. Also, they suggested that Nigeria banks and expert bodies ought to incite programs that will build the learning of Stakeholders on distributed financial related explanation.

3.0 Methodology

This study used secondary source of data. Data were extracted from the annual reports of four (4) small scale enterprise (Kiote Services, Multifocal Limited, Ekoconnect, Magnet Consulting associate) in Nigeria. The researchers' utilized data gotten from relevant journals, articles and seminar papers. Multiple regression analysis was employed as a means of testing the impact of accounting theory and practices on small scale business performance. The independent variables were accounting theory, accounting practice and quality of financial reporting while the dependent variable is profit after tax used as a proxy for performance of SMEs in Nigeria.

4.0 Results

4.1 Test of hypothesis

H_0: Accounting Theory and Practice does not have impact on performance of small scale companies in Nigeria.
H_1: Accounting Theory and Practice have impact on performance of small scale companies in Nigeria.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.943[a]	.889	.888	.53982
a. Predictors: (Constant), Accounting Theory , Accounting Practice, Quality of Financial Reporting				
b. Dependent Variable: Profit after Tax				

Source: Researchers' SPSS Results.

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	36584106092.260	3	12194702030.753	29.220	.003[b]
	Residual	8764273216.159	21	417346343.627		
	Total	45348379308.419	24			
a. Dependent Variable: Profit after Tax						
b. Predictors: (Constant), Accounting Theory , Accounting Practice, Quality of Financial Reporting						

Source: Researchers' SPSS Results.

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	130708.072	32071.721		4.075	.001
	Accounting Theory	.052	.020	.341	2.586	.017
	Accounting Practice	.015	.003	.603	5.082	.000
	Quality of financial Reporting	-962.671	1357.245	-.088	-.709	.486
a. Dependent Variable: Profit after Tax.						

Source: Researchers' SPSS Results.

4.2 Discussion of Findings

The Regression analysis above shows that the Model summary statistics reveals that Pearson correlation coefficient represented by letter **''r''** is 0.943 which indicate that there is strong positive correlation between accounting theory and information contained in the financial statement. Also, the regression analysis result, reveal that the value of the R Squared is 89percent (i.e.0.889) and this implies that 89percent of the variation in the independent variable can be accounted for by the dependent variable, while the remaining 11percent can be accounted for by other factors outside the model. This means that accounting theory and practice have great impact on the performance of small scale enterprises. Also, the result of the analysis of variance statistic (ANOVA) reveals that accounting theory and practice have significant impact on information contained in the financial statement. This is because the P-value obtained (i.e. 0.003) was lower than the significance value of 5percent specified in SPSS for this analysis. Hence, according to the decision rule the null hypothesis will be rejected while the Alternate hypothesis will be accepted. There is statistical significant relationship between accounting theory and practice and performance of small scale enterprises in Nigeria.

5.0 Summary and Conclusion

The study focuses majorly on the usefulness of accounting theory and practice in quoted SMEs in Nigeria. The main objective of the study is determine if there is significant relationship between accounting theory and practice and financial performance in small scale enterprise in Nigeria, while its specific objectives are to examine if there is relationship between quality of financial reporting and profit after tax.

This study concluded that accounting theory and practice play an important role in the development and growth in Small Scale Enterprises to survive. it's not only necessary for giving reasonably high returns to the organizations. its also flags up some vital issues for studying and revising accounting theory and practice that correlate to the higher goals of the SSEs.

Efficient accounting information systems ensures that all levels of management get sufficient, adequate, relevant and true information for planning and increases the control and enhances the accounting performance in SMEs also provide an opportunity to update procedures and align them with perceived examples of best accounting performance and improve strategic effort of SSEs and improve data sharing and integrity.

Therefore, SMEs should maintain proper accounting record and not just to maintain accounting records but introduction of financial management into funding activities will go along way for judicious use of scarce fund and lay a solid ground to obtain finance either at the money or capital markets.

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