

The Use of Accounting Information by Small and Medium Enterprises in South District of Jordan,(An empirical study)

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Abstract

Small and Medium Enterprises (SMEs) have been very important in many countries including Jordan , because of its role for the country's economic growth. This paper explores the level of awareness towards the importance of financial management from the preparation of accounting reports and its information usage in the business. The research design is based on a survey methodology using a sample of systematically selected SMEs throughout the south of country.

The target population comprised of 136SMEs operating retail shops, manufacturing firms and suppliers of various services in south districts of Jordan. It was concluded that significant number of small scale enterprises use the single entry accounting system because of its simplicity. This study recommended that good accounting practices will improve the effective operations of small and medium scale enterprises and even sole proprietors.

Keywords: accounting information, small and medium enterprise, south districts of Jordan.

1. Introduction

Accounting plays a critical role in the success or failure of contemporary business institutions. Accounting systems are responsible 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 cashflow, by providing information to support monitoring and control (Mitchell et al., 2000; Son et al., 2006).

Small companies are often established from family business. Mostly, in family business, the management is among the family members. However, the workforce can be from non-family members. Therefore, the business environment is different according to the style of management as well as the culture that the family inherited from generations to generations (Peter and Buhalis 2004).

Small business enterprises (SMEs) have an important role to play Jordan development. The extent of contribution these business units can make towards the growth and development of Jordan 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.(Mbroh et al., 2011).

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 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 performance in SMEs .The study aimed at achieving the following objectives:

1. To investigate the types of accounting records being kept and maintained by SMEs.
2. To investigate the extent to which accounting information is being used in measuring financial performance by SMEs.
3. To analyze the completeness of accounting records being kept by SMEs as a source of information for economic decision making.

2. Literature Review

2.1 Small And Medium Business Defined

Small and Medium Enterprises have been defined in various ways according to the capital of the enterprise, size, the number of people employed by the enterprises, the ownership and management of the enterprises and sales volume, all the definitions agree on the common views that small or medium businesses employ few people and are characterized by a relatively small amount of capital and turnover. According to the International Labor Organization (ILO, 1997), no single definition can capture all the dimensions of “micro”, “small”, “medium” or

“large”. Nor can it expect to reflect the differences between firms, sectors or countries at different levels of development.

The International Accounting Standards Committee Foundation (IASCF) (2007) defines an SME as an entity that does not have public accountability and thus , publishes general purpose financial statements for external users.

2.2 Small And Medium Business in Jordan

In Jordan, the Ministry of Planning and International Cooperation (2011), define small enterprises as those with less than 20 employees, and medium enterprises as those with between 20 to 99 employees. However, to bring greater precision to the analysis these numbers were further broken down into brackets.

The brackets are: 1-4, 5-19, 20-49, 50-99 which are in compliance with the Department of Statistics classifications. The private sector in Jordan is made up of large firms with 196,945 employees, and SMEs represent 60% of the total private sector and 37% of total employed in Jordan. Most Jordanian SMEs work within the formal sector and are registered, as specified by law. Formal SMEs play a vital role in job generation . A sizeable percentage of self-employed firms are in the unregistered (informal) sector (that is, firms that deliver lawfully permitted services and products without being legally registered). There are 146,707 SMEs registered enterprises in the Kingdom. Deprivation at in least one aspect of education, health or living standards amounts to 10.6%, 11.9%, and 0.2% respectively. Overall, 2.7% of the population suffers from multidimensional poverty, at an intensity of 35.5%.(Jordan Human Development Report, 2011).

According to the Council of Ministers Decision on 20/9/2005, Micro Enterprises are defined as those with 1-9 employees, or a registered capital of less than JD 30,000; Small Enterprises have 10-49 employees and a registered capital that is greater than JD 30,000; Medium Enterprises are those with 50-249 employees and a registered capital of more

than JD 30,000; and Large Enterprises have 250 plus employees and a registered capital of more than JD 30,000.

2.3 Accounting and Financial Information

The Financial Management of the Small Enterprise conducted by Ismail (2009) emphasized the common belief that better financial information means better control and higher chance of success.

Accounting information is information provided by accountants and accounting systems. This information is usually presented in financial statements such as the income statement and the balance sheet. It also includes any financial ratios extracted from these financial statements. Accounting systems are responsible for analyzing and monitoring the financial condition of firms, preparation of documents necessary for tax purposes, providing information to support the many other organizational functions such as production, marketing, human resource management, and strategic planning. Without such a system it will be very difficult for SMEs to determine performance, identify customer and supplier account balances and forecast future performance of the organization. The primary purpose of an accounting information system (AIS) is the collection and recording of data and information regarding events that have an economic impact upon organizations and the maintenance, processing and communication of such information to internal and external stakeholders (Stefanou, 2006).

2.4 Accounting practices and financial reporting of SMEs

The changes that occurred in business environment have led to an increasing number of information to be processed, generated and delivered. Thus, the critical part is the quality of information produced by the business itself which will be used in making business decisions (Mukherji, 2002).

Accounting systems provide a source of information to owners and managers of SMEs operating in any industry for use in the measurement of financial performance.

In any sense, profit can analogously be viewed as the life-blood of a business and hence the accounting bases, concepts and principles adopted ought to capture and report all the relevant accounting information to ensure reliability in its measurement.

Reported profits reflect changes in wealth of owners and this can explain why major economic decisions in business are centered on financial performance as measured by profitability (Maseko&Manyani, 2011).

3. Research Methodology

To understand how the South District of Jordan SMEs prepare and utilize financial information for their corporate management, the research was conducted by gathering data from both primary and secondary sources. Based on the literature review and the theoretical framework, a survey questionnaire was developed to be the major instrument of this study.

There are about 431,609 retail firms, employing 100 or less employees in the South District of Jordan. Considering the topic for the study, all the firms constitute the population for the study.

This study relied on a sample of systematically selected SMEs throughout the south of the country. The sample was selected from small and medium retailers in the following towns in South District: 40 from Karak, 30 from Teafale, 36 from Mean, , and 30 from AL-Aquba.

Table 1. Size Characteristics (Number of employees).

Number of employees	Number of firms	Percentage (%)
1-30	84	63
31-60	37	27
61-100	11	10
Total	136	100

Table1 reports the size distribution of the sample responding firms in terms of the number of employees. 84 firms had between 1 and 30 employees. None of them had more than 100 employees. Thus, the study's definition of small and medium firm being those that employ less than 100 employees was achieved.

4. Results and Discussion

a. Profile of Responding Firms and Respondents

The results from our questionnaires analysis are given in this section. Table 2 shows that

Table 2. Legal ownership of SMEs

Industrial sector	Family business	Sole proprietor	Partnership	Limited company	total
Retail (shops)	28	11	5	2	46
Manufacturing	9	6	3	12	30
Other services	14	19	14	13	60
Total	51	36	22	27	136
Percentage (%)	38	26	16	20	100

the largest number of SMEs (38%) is family businesses, followed by sole traders (26%) and limited companies (20%) respectively, with partnerships comprising the smallest number (16%) of SME businesses.

Appendix 2. Chart (normal distribution) for Independent Variable

Table 3. Incorporation of companies.

Number of years	Number of firms	Percentage (%)
Less than one year	22	16
1-5	37	28
6-10	63	46
11-25	14	10
Total	136	100

The study found that 46% of the firms have been in existence between six and fifteen years. Most small firms collapse within the first five years of incorporation. Thus it is significant to note that 46% of respondent firms have existed over more than five years.

Table 4. Number of employees at the finance department

Number of employees	Number of firms	Percentage (%)
1	107	79
2	29	21
Total	136	100

Table 4 shows that majority of respondents, 79% have only one employee in charge of the finance department and none of them had more than 2 employees. All the employees were family members. In an attempt to learn about respondents' level of knowledge in finance and accounting, they were asked to state the educational level of employees in charge of their finances.

Table 5. Educational background of owner/manager

Level of education	Number of firms	Percentage (%)
No formal education	10	40
Middle school form 4	7	28
Commercial school	3	12
Secondary school form 5	2	8
Teacher training	1	4
University/professional	2	8
Total	136	100

Table 5 shows that 40% of the owner/managers of the respondents have no formal education. Only eight percentage of respondents are university graduates.

b. Accounting and Financial Information

Efficient financial managers dwell on the past and present in order to predict the future and for proper evaluation and comparison of financial activities. To achieve this aim, proper book-keeping remains integral. It is equally acknowledged by their nature, the SMEs relevant academic and accounting backgrounds are expected to influence the success or otherwise of this critical function.

Table 6. Factors inhibiting the preparation of monthly management accounts.

Inhibiting factors	Frequency	Percentage (%)
Lack of internal accounting staff	78	57
Accounting reports too difficult to understand	95	70
Qualified accountants too expensive to maintain	115	85
The business is too small	57	42
Accounting reports do not add any value	43	32
To avoid paying taxes	69	51

Table 6 shows factors that may prevent the preparation of monthly management accounts:

1. Qualified accountants too expensive to maintain (85%). To these respondents they are scared by the consultancy fees qualified accountants charge their clients. The qualified accountants also complain that these small and medium firms have poor payment culture, despite the fact that they spend a lot of time when it comes to the auditing of small companies.
2. Accounting record too difficult to understand (70%). The lack of accounting knowledge on the part of owner/managers account for this situation.
3. Lack of internal accounting staff (57%). The inability of these small and medium firms to pay good salaries to their employees makes it very difficult to attract qualified accounting staff. The lack of internal accounting staff as an inhibiting factor for the practice of sound financial management system collaborates with the findings of Agyei-Mensah, (2011).

c. Accounting Knowledge and Usage

Table 7 Accounting records kept by SMEs

Industrial sector	Purchases day (order) book	Sales day (receipt) book	Expenditure (bills) book	Payroll records	Asset register
Retail (shops)	41	46	19	37	18
Manufacturing	23	41	23	12	25
Other services	29	10	17	13	8
Total	93	97	59	62	51
Percentage(%)	68	71	43	46	38
Ranking	2	1	4	3	5

Table 7 shows that the sales day (receipt) book ranked highest with 71% and the purchases day (order) book ranked second with 68%. The payroll records book ranked third with 45%, the expenditure (bills) book ranked fourth and the asset register book ranking last (fifth) with 38 %. All of the SMEs in the retail shops business kept sales day (receipts) books and most of the SMEs in the manufacturing sector (25 out of 30) kept asset registers.

Respondents were also asked to select from a given list of financial statements those that they prepared for SMEs .

Table 8. Financial statements prepared by SMEs

Industrial sector	Statement of income	Statement of financial position	Statement of cash flows	Statement of changes in equity	None
Retail (shops)	16	7	4	9	36
Manufacturing	15	8	3	7	8
Other services	11	5	2	6	14
Total	42	20	9	22	58
Percentage (%)	31	15	7	16	43
frequency	2	4	5	3	1

Table 8 shows that the statement of income ranked highest with thirty percent and the statement of changes in equity ranked second with 31%. And 43 percent of the SMEs did not prepare any financial statement or account.

The statement of financial Position ranked fourth with 15 percent and the statement of cash flows ranked fifth with 7%.

Table 9. Reasons given for calculating profit

Reasons	Percentage responses
Tax purposes	33
Profit sharing	27
Financial reporting	28
Other	22
Total	100

According to the questions on the reasons why SMEs prepared the financial information. Table 9 shows that the most important reason for preparing financial information is for the sole purpose of tax.

Table 10 Responses to calculation of profits

Responses	Respondents		Total
	Yes	No	
SMEs (%)	31	69	100

Table 10 shows that 69% of the SMEs did not calculate profit while only 31% responded to have calculated profit.

Table 11. Accounting bases adopted

Accounting basis	Responses (%)
Cash basis accounting	73
Accrual basis accounting	27
Total	100

The results also reveal that the accounting basis adopted by an entity has a bearing on the accounting records kept. The study reveals that SMEs are more comfortable with the cash basis, supporting the propositions of Nelson & Onias (2011) for the adoption of cash basis accounting in SMEs. Cash accounting is easy and straight forward as compared to the accruals accounting, which is complex, as it requires understanding of double entry bookkeeping and accounting processes. Accruals basis accounting requires the recording of revenue and expenses for all transactions regardless of whether cash is received or not. Estimation and apportionment of revenue and expenses is also needed under the accruals basis in order to apply the matching concept in reporting period performance and this requires accounting skills which are lacking in SMEs.

Table 12 Challenges faced by SMEs.

Challenges	Percentage responses
Lack of accounting knowledge	61
Cost and time constraints	29
Lack of guiding accounting rules	22
Other	12
Total	100

Table 12 shows that the majority of SMEs (61 %) attributed the challenges they faced in keeping proper accounting records to lack of accounting knowledge, 29% of SMEs indicated cost and time constraints as challenges while 22 % cited lack of guidelines or specific accounting regulations for SMEs as contributing to challenges they faced in keeping proper accounting records. 12 % of the SMEs cited other challenges.

The above findings were partly in line with Omran (2010) and Ben Kwame.(2011) who noted that small scale business owners regard financial records as necessary evil with no tangible benefit, demanded by government for purposes of extracting tax. Consequently, these enterprises see keeping of financial records as waste of time. This probably accounts for the general tendency by these enterprises to use the single entry system of accounting.

The finding also is in line with Baumbach (1983) who attributed the failure to use accounting records by small scale enterprises due to their beliefs that record keeping takes time, their dislike for figures and lack of knowledge as the type of information needed and how to collect them.

5. Conclusion And Recommendation:

This paper examines the profiles of accounting information usage among south districts of Jordan. From the results, we have found that there are several notable observations regarding the utilization of financial information.

This study found that the level of awareness on the importance of financial management is still very low in small and medium firms. Most of the managers do not aware the importance of keeping a good accounting records. This record must be in an orderly manner and complete with all the important data regarding their business transactions.

Armed with complete data, the managers will produce a good quality and reliable financial records that will assist and equip them with accurate accounting information. Thus, this will guide them to make a quick and precise decision.

For example, only about 31 percent of the firms prepare income statement , 40 percent prepare cash flows, and 15 percent prepare balance sheet.

Important report such as income statement is only prepared on an annual basis. While about half of the firms sought advice from accounting firms, more than 60 percent of them visited accounting firms only once a year. Furthermore, only 14 percent of responding firms that prepared accounting information internally use accounting software.

The results of the study also revealed that majority of the SMEs encounter problems of Lack of accounting knowledge..

The research has provided some valuable insight and knowledge to how SMEs in south district of Jordan view and utilize financial information. It recommends that Future researchers could also consider an area such as; the relationship between firm size, finance and financial management practices and the relationship between these factors and firm performance. Therefore, case studies or in depth interview with an appropriate number of respondents may be extended. This is critical to further enhance the understanding of SMEs and utilization of financial information.

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