

**ACCOUNTING INFORMATION, PROFITABILITY AND SUSTAINABILITY OF
SMALL SCALE BUSINESSES IN OSUN STATE**

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ADP 12/13/H/2270

**A THESIS SUBMITTED TO THE DEPARTMENT OF MANAGEMENT AND
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UNIVERSITY, ILE-IFE, NIGERIA, IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF MASTERS OF SCIENCE DEGREE
(M.Sc.) IN ACCOUNTING**

2016

CERTIFICATION

This is to certify that this research work is original and was carried out by OlaniyiOlowuAjewole as a requirement for the award of Master of Science degree in Accounting in the Department of Management and Accounting, Obafemi Awolowo University, Ile – Ife, under my supervision.

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Supervisor

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OF SMALL SCALE BUSINESSES IN OSUN STATE

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This research work is dedicated to God, the giver of knowledge and also to mankind in furtherance of knowledge.

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ABSTRACT

This study identified accounting records and practices by small scale businesses in Osun State, examined the effect of accounting record keeping on the profitability on the of small scale businesses and investigated challenges confronting small scale business accounting practices in the state.

The study sampled a total number of 400 small scale businesses in four major towns of the state namely: Ilesa, Osogbo, Iwo and Ikirun using questionnaire as research instrument. These were with a view of providing information on the effect of accounting record keeping on the profitability of small scale businesses in Osun state. Data collated were analyzed using percentage and frequency analysis, chart analysis and ANOVA multiple regression analysis. From the results of analyses conducted, it was discovered that the sampled small scale businesses keep records such as sales day book (often-64.5%), sales ledger (often-48.3%) and cash book (often-54%) while they seldom keep records such as purchases day book (seldom-51.5%), purchases ledger (seldom-46%) and debtors ledger (seldom-60%).

The result showed that accounting record keeping ($t=25.863$, $p=0.000$), accounting framework ($t=6.474$, $p=0.000$), level of adoption of accounting principles ($t=3.550$, $p=0.000$) and availability of functional accounting department ($t=5.145$, $p=0.000$) exert significant positive impact of the profitability and of small scale businesses in Osun state.

Also result revealed that accounting practices of small scale businesses in Osun State is been confronted by challenges such as lack of knowledge of accounting record keeping (56.8%)

, cost of setting up accounting system (50.3%), low level of trust and honesty in the society (64.8%) and low working capital (45.8%).

The study concluded that accounting record keeping and practices has significant impact on both the profitability and sustainability of small scale businesses in Osun State.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Small scale businesses play a vital role in the development of the economy of a nation and can be used as one of the barometers for measuring economic growth. They contribute to the process of industrialization, sustainable economic growth (Ariyo 2005); encouragement of entrepreneurship, employment generation, (Oguijuba et al, 2004); reduction of poverty and contribution to gross domestic products (GDP) of many nations (Taiwo & Yussuf 2012, and Audrech 2010). They perform such vital roles through innovations and production of various goods and services which improve the process of economic development. To perform these roles, small scale businesses need adequate bookkeeping and accounting. Most of the small scale businesses cannot boast of having accounting records in place, not to talk of their adequacy. Without an accounting system in place in an organization, one will find it difficult to provide relevant accounting information which will assist in measuring the performance of the business and this is measured in terms of profitability.

The major reason why some of the small scale businesses do not bother to maintain accounting records can be adduced to the fact that preparation of financial statements is not a matter of compulsion for them as it is the case for incorporated entities.

Preparation of accounts and audit of financial statements are two important requirements placed on limited liability companies in Companies and Allied Matters Act 1990 as amended to date, section 331 states that every company should cause accounting records to be kept and the

accounting records shall be sufficient to show and explain the transactions of the company. Section 334, states further that the directors of the company shall in respect of each year of the company; prepare financial statements for the year.

However, small scale businesses are not required to comply with these provisions.

Most small scale businesses are not registered and those registered are not registered as corporate bodies but as sole proprietorships and partnerships. As a result of this, they do not attach much importance to keeping and preparation of accounts. Small scale businesses have outnumbered all other forms of businesses and could be found everywhere across the nation. Despite this phenomenon increase in their number and significance, recent studies revealed that sixty percent of small scale business fail within the first five years of operations (Boachie and Morfo, 2005) and absence or improper accounting system was one of the reasons adduced to the failure of these small scale businesses. Business is the general term applied to the activities in the production and distribution of goods and services. Accounting is used to record and report the financial effects of business activities. Thus accounting is called language of business. It provides the means of recording and communicating the success and failures of business organizations.

Accounting provides information which is vital to the economic decisions that have to be made by individuals, companies and Government, (Soyode 2006). Large companies require services of accountants to understand what goes on in remote branches, to evaluate the effectiveness of company policies on operations and the impact of government fiscal and monetary instruments. It is not possible for any chief executive of an organization to personally appraise and monitor the operations of subordinates without accounting reports. This becomes

even more imperative with the increased complexity of the economy and the massive growth of individual organizations.

The necessity of accounting is underlined by the existence of an accounting department in any major organization. Most small enterprises often complain of the cost of having an accounting department: they seem to imply that they cannot afford one; but it quickly becomes obvious that even a small enterprise cannot afford to ignore accounting services.

At the state, local and federal level of government, each ministry and department is provided with accounting outfit. Also it will also be impossible to find a large business enterprise without a well-staffed accounting department. Accounting safeguards and controls the funds of an organization and provides necessary information.

One of the most important roles of the information superhighway is the reporting of business activities. Providing information about what businesses own, what they owe and how they perform is the aim of accounting. Accounting is an information and measurement system that identifies records and communicates relevant, reliable, and comparable information about an organization's economic activities, (Kermil et al, 1999). It helps people make better decisions, including assessing opportunities, products, investments, and social and community responsibilities.

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