MANAGING FINANCIAL RECORD IN SMALL AND MEDIUM BUSINESS ENTERPRISES IN YOLA METROPOLIS, ADAMAWA STATE

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ABSTRACT
Because of their unstructured and independent nature, small businesses usually face growth difficulties which are usually attributed to poor financial record keeping. This paper studies small business within Yola, Adamawa state of Nigeria, the aim of this paper is to investigate if they understand the importance and applications of financial statement. A total of 79 businesses in Yola were sampled and questionnaires were distributed to them at random. The data collected was processed, presented and analyzed using simple percentage and frequency distribution tables in Yola have a vague knowledge of financial statement. They mostly have one-side perspective as to what financial statement is all about majority of the small business in Yola are not affiliated and another findings indicate that businesses are aware that proper financial record helps build an investor's confidence in Business which could be implied that the businesses do not have partners of improper financial record keeping. It was recommended that business owners should employ individuals with moderate academic background who has knowledge accounting or can easily be taught. They should also embark on training so as to know how to keep financial records. It is also recommended that at least yearly or at certain intervals, the business owners should engage the services of auditors to evaluate the business financial records
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Key words: Financial statement, Records, Enterprises, failure, income, cash flow, Balance sheet.

1. Introduction

Small businesses are usually characterized by, among other factors, small numbers of employees as well as low sales. Peculiar characteristics of most small business include independence to make decisions, differing organization structure and varied management techniques. A recent research shows that a steady cause of indigenous business failure in Nigeria is failure to maintain proper financial record. Many businesses operate with mere single entry memorandum record of transactions while others have no records, except for possible pay roll. As a result, business decisions are based on guesses and intuition (Ogechukwu, 2011). For any business to succeed, regardless of size, it must see it as imperative to manage and keep a comprehensive financial record. This allows business owners to evaluate their performance, maximize the current value of the income and plan ahead (Ross, Westerfield & Jordan, 2003: P. 10). It is also important that small scale business owners understand the importance and applications of different areas of financial statement which include income statement, cash flow statement, balance sheet and equity of stockholders statement.

When assessing the importance of a business, an important area of management control is post factor assessment of the financial results of an organization as a whole. This assessment is an examination, in retrospect of the financial effect of earlier management decisions. Organizational management regularly commit resources for both long term and short term purposes, because the commitment will always involves risk, or careful assessment of the anticipated result of any project on the financial position should be made before a decision is taken and before resources are irrevocably committed. Periodic evaluation of a business is needed to report achievements, examine profitability or loss, as well as study its impact on a company's financial statement. Information on all the aspect of the finances of the business is needed to aid management to assist the quality of past decision at strategic level and the effectiveness with which they have been implemented.

Oshorun (2009) states that systems comprise of other sub systems; a problem with one sub system is likely to affect the entire company operations. In a challenging economy such as Nigeria with an inflation rate of about 13.7% (CIA fact book, 2011), financial record though harder to balance also is more important to compile; that way the business owner can keep track of cash flow in the constantly fluctuating market. As important and sensitive as financial statements are, it may drain the entire income of some small business to employ experts to manage their finances hence the need to devise unique ways to keep records. It is still very necessary that people charged with marinating financial records have good understanding of the use of records so kept.

This paper studies small business within Yola, Adamawa state of Nigeria to investigate they understand the importance and applications of financial statements. The general economic status of an area determines what is viewed as a large scale or small-scale business there. Yola is an area dominated mostly by civil servant with few industries but it has considerable number of small scale businesses.

1.1 Statement of the Problem

Because of their unstructured and independent nature, small businesses usually face growth difficulties which are usually attributed to poor financial record keeping. Financial statement are required by banks to assess the viability of loans, by investors to see if the policies (financial executive research foundation, 2006). Presently in Nigeria, most businesses face operational difficulty as a result of the bad state of the nation's economy. Government on its own has been making different efforts aimed at reviving the economy. Among such government efforts are the encouragement of the growth of small and medium term industries and also for people to invest in some of the public enterprises that have been stated.

Unfortunately, business cannot grow reasonably under a crude practice as most business men and investors in our society are yet to understand the need for financial statement. This has resulted to business operating without a book keeper, let alone an accountant. Most business operated with poor capital base, which makes growth difficult. Collecting loan from the bank is ideal for increasing capital for the business to grow. Because banks require comprehensive financial records before issuing loans, the loan the efforts of these small scale business are usually desperate and unsuccessfully.

Furthermore, investors would not be comfortable partnering in a business where they feel the proper management and interpretation of financial record is not important. For some business owners to understand the importance of financial records, in many cases they cannot afford to source out the services to finance experts. This resorts the business owner to mere intuition rather than accurate and factual record keeping of financial statements.

2. Literature review

2.1 Conceptual Framework

Small and medium enterprises are pivotal in the growth of developing countries as they employ about 22% of the adult population (Ayanda and Adeyemi, 2011). When a small business thrives, individuals are encouraged to go into business which with time expands into large scale enterprise leading to increased employment and infrastructural development. Sadly, the unstructured nature of many small businesses impedes their growth. Also impeding the growth of small business is the lack of adequate financial record keeping.

2.1.1 Financial Statements: Income statements, cash flow statements, balance sheet and stake holder's equity are closely related and they provide basis for evaluating a business for the business owner, loan provider and shareholders/investors. Small business has no widely acceptable definition. Different countries have adopted different definitions in developed places like North America and United Kingdom, a definition of small-scale business is gotten from the rate of annual turnover and number of employees. According to Fedaccess (2010), the United State Small Business Administration (SBA) determines legal definition of a small business.

In Nigeria, according to Akamiokhor (1983), The central bank of Nigeria, in its monetary policy circular No. 22 of 1988 defines small scale enterprises as having an annual turnover not exceeding ₦500,000.00. According to the budget of the federal government of Nigeria (1990), small-size enterprises for the purpose of commercial bank loans are those with an annual turnover not exceeding ₦500,000.

There are two fundamental characteristics of small businesses which separate them from large companies. One is their smallness and the other is their rate of turnover and failure rate (Peacock 2000). According to Sarapaivaich (2003), small and medium enterprises (SMEs) in Thailand are defined as firms with 15 to 200 employees and 30 to 200 million Balit in fixed assets (depending on the business sector).

In Nigeria the federal government industrial policy of 1989 defined a small business as any businesses that has total investment is between N1600 to 2Million naira exclusive of land but including working capital. The central bank of Nigeria by its credit policy for commercial and merchant bank define whose total worth is above, 1 million naira excluding cost of land but including working capital. The federal ministry by its revised definition according to Ayubu (1989) sees a small business as any investment (excluding cost of land) is up N750,000 and employing up 50 people.

According to Coulter (2003) small businesses are independently owned, operated and financed organization with less than a hundred (100) employees and have relatively little impact on the industry. According to Akinsulire (2006), small businesses are firms whose ownership is restricted to few individuals, but they are not regarded as very small business that act as medium for self-employment of the owners. They have low startup cost, reliance on local materials for production; provides the link between agriculture and industries; mobilized provide savings; and contribution to domestic capital formation.

2.1.2 The Concept of Financial Records

Financial records are information supporting materials, documents and books used by organizations and businesses for preparation of income statements, cash flow statement, balance sheets, as well as financial ratios gotten from the financial statement, tax documents and more. Accountants, accounting systems or accounting departments in organizations and businesses provide these. Organizations and businesses are required to keep such record for a period of seven years to ease information transition, strategic planning, decision-making and determination of strength, inspection and audit.

A financial record shows that decisions are needed and provide information useful to making decisions (Gibson 1963 quoted in Thomas & Evanson 1987) report of the study group on the objectives of financial statements, American Institute of Certified Public Accountants, 1972 quoted in Lothian 1976). According to American Message Therapy Association (2012), in addition to helping you understand and manage your money, your financial records can help you secure loans, attract investment partners and communicate essential financial information to your business partners. According to Wichman (1983), financial records are used

to assess the profitability of alternative courses of action, measure performance and evaluate the position of enterprises in terms of profitability, liquidity activity and leverage. Thus proper accounting is a key to small scale business success. Most financial records required to be kept by an origination and business are: income statement, cash flow, balance sheet, journals, ledgers etc.
According to Longhran (2012) the income statement shows all items of incomes and expenses. The balance sheet shows the health of a business from day one to date on the balance sheet, while the statement of cash flows shows ins and outs of cash during reporting period. According to the European Commission (2008), financial records are documentation and books used during the preparation of financial statements e.g. sales day books, purchase day book, cash receipt book, petty cash book, general journal and debtors ledgers.

2.1.3 Importance of Financial Statement Analysis

According to Ogechukwu (2011), financial analysis services the following purposes and they shall subsequently be discussed in detail.

i. Measuring profitability
ii. Indicating the trend of achievements
iii. Assessing the growth potential of the business
iv. Comparative position in relation to other firms
v. Assess overall financial strength.

2.1.4 Concept of Financial Statement

Financial statement gives complete information about assets, liabilities, equity, reserve, expenses and profit and loss of an enterprise. The information is not readily understandable to interested parties like creditors, shareholders, investors etc. Thus, various techniques are employed for analyzing and interpreting the financial statement. According to Ayanda and Adeyemi (2011), techniques of analysis of financial statements are mainly classified into three categories:

- **Cross-sectional Analysis:** It is also known as inter-firm comparison. This analysis helps in analyzing financial characteristics of an enterprise with financial characteristics of another. Similar enterprise accounting period in that accounting period (Financial Executive Research Foundation, 2006)
- **Time Series Analysis:** it is also called an intra-firm comparison. According to this method, the relationship between different items of financial statements is established, comparisons are made and results obtained. The basis of comparison may be comparison of the financial statement of different years of the same business unit, comparison of financial statement of a particular year of different business unit.
- **Cross Sectional and Time Series Analysis:** This analysis is intends to compare the financial characteristics of two or more enterprises for a defined accounting period. It is possible to extend such a comparison over the year.

Analysis of financial statements have become very significant due to widespread interest of various parties in the financial results of a business unit (Ayanda and Adeyemi, 2011). This various parties interested in the analysis of financial statements are:

a. Investors
b. Management
c. Trade unions
d. Lenders
e. Suppliers and trade creditors

As the research progresses, more details will be provided on income statement, cash flow, balance sheet and stake holders' equity.

2.2 Types of Financial Statement/Financial Records

2.2.1 Income Statement: This is also called a statement of profit and loss which gives a clear representation of income and expenses of an organization at a specific period. If the organization were in good health, the income will exceed the expenses, which leads to a net profit but if the expenses exceed the income it represents a net loss which states that the organization is not in good health items like service fee, income and sales, while expenses could include items like purchases, transportation cost, interest paid on bank loans etc.

2.2.2 Balance Sheet: According to Investopedia, a balance sheet is a financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. The balance sheet gives investors ideas as to what the company owns and owes as well as the amount invested by the shareholders. So, basically both sides have balance out. A simple balance sheet contains assets that include land, equipment, building, loans, account receivable and cash. These could have done from the liabilities which include debt, loans from banks etc., and finally, it contains the shareholders equity. Money remaining after selling assets and paying off liabilities of a business, this is called shareholders equity. It is made up of capital, retained profit or accumulated losses and reserves.

2.2.3 Cash Flow Statement: This contains information that clearly states if a company generated cash. It is divided into three (3) sections which operate activities and it contains the inflow and outflow of cash. The investing activities section contains sales and purchase of non-current assets while the last, which is the financing activities section, contains the financing of the organization. Basically, the statement analyses the organization far beyond that of the balance sheet and profit and loss account.

2.2.4 Statement of Retained Earning: According to Nikol (2012), this links income statements to the balance sheet and reconciles net income or losses and dividends paid.

2.2.5 Statement of Changes in Stock Holders Equity: This discloses changes in the stockholders equity account in a business.

2.2.6 General Journal (Original Book of Entry): it is a book used in making entries and recording all transactions weather cash included or not.

2.2.7 Voucher Book (Receipt/Payments): This is a simple journal that includes cash and non-cash payment and receipts. It contains descriptions, amounts, date and signatures and it has a duplicate.

- ❖ General ledger
- ❖ Cash book
- ❖ Petty cash book
- ❖ Purchase day book
- ❖ Sales day book

3. Methodology

This is non-experimental research qualitative and quantitative data are to be collected with the aid of questionnaires which is designed and administered to small-scale business owners in Yola. Interview will be conducted with some business owners who were chosen on availability basis and the pool is expected to compromise illiterate and semi illiterate business owners. The study will be carried out on a minimum of twenty (20) businesses within Yola. Explanation and interpretation of the data collected is by descriptive statistics. The main categories in which the respondents fell will be manufacturers, retailers and service providers.

The data for this study are to be collected both from primary and secondary sources. The primary data were collected through the use of questionnaire and personal interview while the secondary data were also collected through the review of relevant materials on the subject of the study.

The sampling method that are to be used is systematic, in choosing area of administration, large scale businesses are not used for this research and the researcher shall ensure there is even distribution between manufacturers, retailers and service providers. Simple random sampling was used in selecting businesses in those areas where every small business owners had equal chance of being selected. The businesses administered the questionnaires were chosen and distributed at random.

4. Discussion of findings

4.1 Financial statement and growth of businesses

The findings show that financial is used by small business in Yola to evaluate profit over a period of time and it is a tool for assessing necessary variables which are important for growth and expansion, as well as to determine the worth of the business in assets and liabilities. Findings also indicate that performance and productivity status is determined by considering the financial statement of the business. In addition, financial statement helps discover mistakes and /or fraud in business transaction. Finding show that most of the respondents are in retails line of business.

This suggests the underdeveloped stage of business in Yola. The manufacturing and production business are quite few which would have created growth in the number of retailers as Ayanda and Adeyemi, (2011) asserted the creation of business forms the backbone of the fight against poverty and underdevelopment. The researcher is making this deduction after the observation of some of the retail shops are dealers of products of Adama Beverages and Admiral A product which are all indigenous production companies. There might be challenge of diversifying into production for the small business especially as the majority of the business have capital of less than 499,000 which suggest that the business are indeed small scale business in terms of profit margin.

Although earlier report shows that most of the respondents record their financial statement is solely the work of the accountant. Earlier report also indicate that small businesses define financial statement based on the aspect of it that they utilize and this was confirmed by the responses the indicate majority admitting that financial statement is prepared to meet specific needs of their business.

4.2 Interpretation of financial statement by small business owners

Findings show that about 83.5% indicate that they know what financial statement is but it is still disturbing that up to 16.5% of those operating business are not aware of financial statement. On further inquiry, the researcher found out that financial statement meant different things to different respondents. While some see it as the inflow and outflow of cash from a business, others describe it as financial worth of the business and some see it as a record of profit and loss. This shows that the respondents only hold the meaning of financial statement as best fit their business. Only 19 (29.1%) of the 66 that claimed they have full understanding of what a financial statement is.

4.3 Using financial statement to evaluate business performance

The findings show that the respondents are unsure of how the strength and weakness of a business in terms of human and material resources can be reflected on the financial statement. This could be as a result of the inadequate knowledge of financial statement that the respondents have, or it is due to the small sizes of their businesses, which mostly have less than 8 employees. The proper, prompt and adequate keeping of financial record does not depend of the size of the organization because through the record, the business owner can assess its performance as well as maximize the current value and also make future plans (Westerfield &

Jordan, 2003:p.10). owing to the fact that most of the respondents prepare their own financial statement, findings show that majority of the respondents admit to the fact that proper accounting records are poorly kept by small business because they feel accounting principles are not easily applicable to small business. They also feel that the poor accounting record keeping can be attributed to the high level of inflation. It is an indication that most of the respondents strongly agree that inflation/consistent price increase affects the reliability of financial statement in comparing the present value with the previous period.

4.4 General Findings on Small Business in Yola

The findings show that there is almost an even an even distribution among genders in small business in Yola. However, there is the possibility that there could have been more female involvement in business in Yola but as it is with most northern states, women are significantly resigned to the position of full time housewives. Also, most of the respondents are within the range of 36-45. the researcher observe that 7 out the 11 respondents that fall within the age ranges of 18-25 are acquiring on form of formal education or another. This is an indication that there is low presentation of people below 25 years because they are mostly students. Bolton Committee (1971) defined small businesses as companies with small market place share, unstructured management and is independent of affiliations. The researcher confirms that the respondents are owners of small businesses as most of them have workforce of less than 8 workers and 97% of them are not affiliated to any other business.

Although the findings that majority of the small businesses kept financial records, it also show that an overwhelming 71% of them have poor knowledge of how to make financial statements. Ogechukwu (2011) argued that many businesses operate on just single entry memorandum record of transactions thereby forcing them make business decisions based on guess and intuition. To this note the researcher was surprised to discover that despite the poor knowledge of financial statement, most business owners still make attempts of keeping their financial records themselves.

5. Conclusion

The involvement of women in small businesses is gradually improving as this research discovered almost an even distribution of both genders as business owners. Middle-aged individuals with mostly secondary school qualification and mono-faceted knowledge of financial statement mostly run the business in Yola. While some see it as the inflow and outflow of cases from a business, others describe it as financial worth of the business and some see it as a record of profit and loss. Most of the businesses in Yola are retail trades with relatively low number of factories/manufacturing companies. This is an indication of the underdeveloped stage of business in Yola. there might be challenge of diversifying into production for the small business especially as the majority of the business have capital have less than 499,000 which suggest that the business are indeed small scale in terms of profit margin. Also the size of business in Yola are quite small with most of them having an unstructured management with a workforce of less than 10 and are not affiliated to any other business. There is about 83.5% awareness of financial statement among small business in Yola.

Financial statement issued by small business in Yola to evaluate profit over a period of time and it is a tool for assessing necessary variables which are important for growth and expansion, as well as to determine the worth of the business in assets and liabilities. Findings also indicate that performance and productivity status is determined by considering the financial statement of the business. In addition, financial statement helps discover mistakes and/or fraud in business transaction. Investors need the financial statement to know if this is good to invest in a business, as it will build their confidence in the viability of the business. However, subsequent findings also show that investors only gain such confidence when the financial statement is made by professionals (auditors). Almost all small business prepare financial statement themselves, majority of them still admit that financial statement is solely the work of accountant. Owing to the fact that most of the respondents prepare their own financial statement, majority of the respondents admit to the fact that proper accounting records are poorly kept by small businesses because they feel accounting principles are not easily applicable to small business. Poor accounting record keeping can be attributed to the high level of inflation/consistent price increase affect the reliability of financial statement in comparing the present value with the previous period.

financial statement might not be directly related to the strength and weakness of a business in terms of human and materials resources because the business owners have inadequate knowledge of financial statement that the respondents have, or it is due to the small sizes of their businesses, which mostly have less than 8 employees.

5.1 Recommendation

i. Regardless of size or motive; be it small or large, profit making or nonprofit making, keeping financial records is quite essential to the success and sustenance of that business. Small business should ensure that proper records of their financial activities are adequately kept so that they can properly plan for expansion. This is because banks and other investors find it easy to consider a company for loan and/or making investments.

ii. The findings show that there is inadequate knowledge of financial statement in small businesses in Yola. Business owners should ensure that they acquire financial or accounting training for them and their employees so as to make sure all financial records are professionally gathered and analyzed.

iii. It is recommended that business owners should periodically seek the services of external auditors so that fresh unbiased eyes can look at the records they have so as to curb any possible discrepancies. This will give the business a sense of internal control and also allow the business owner to make objective decisions as to how and where to stir the business in the short, mid and long term.

iv. Business owners in their attempt to save money go for cheap labor and employ people with low or no level of education at all. This might be a decision that would be quite expensive in the future because so many things that require expertise and finesse could go wrong of which financial records is a typical example. Therefore business owners should try and employ individuals that have at least moderate financial record, to handle their financials.

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