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Computerized Accounting System as an Aid to Effective Financial Reporting in Small and Medium Scale Food and Beverage Firms in Southwestern Nigeria

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ABSTRACT

Most Small and Medium Scale Enterprises (SMEs) fail due to the lack of keeping proper financial records. To forestall this problem, many studies have recommended the use of Computerized Accounting Systems (CAS) among SMEs. This chapter examines the level, type and reasons for adopting CAS among SMEs in Nigeria. The study was conducted among 229 SMEs in the Food and Beverage sector in Southwestern Nigeria and revealed that most (87.7%) adopted a form of CAS. About 23% adopted non-dedicated software (Microsoft Excel) while 17.9%, 13.1%, 15.7% and 12.2% adopted Financial Management software such as Peachtree, Dac Easy, Sage and Quickbooks respectively. About 9% adopted Tally and 3.8% each utilized Chronicle and Power of Accounting. Majority (58.5%) used both manual and computerized systems. Majority (77.7%) of the respondents indicated that they used batch posting system while 22.3% of the respondents used real-time posting. The batch posting system is prone to entry errors. About 94% adopted CAS to aid financial decision making, 90.8% for improved financial reports and 93.4% to aid overall management decision making. Ninety three percent agreed that adoption of CAS had a positive impact on firm performance. The chapter recommended SMEs fully computerize their accounting systems and those on Excel should use dedicated financial management software among others.

Keywords:
Computerized Accounting System, Information Technology, Financial reporting, Quality of reports, SMEs, Food and beverage firms.

1.0. Introduction

Computerized Accounting Systems also known as Accounting Information Systems (AISs) are tools which when incorporated into the field of Information and Technology (IT) systems, help in the management of firms. The stunning advance in technology has opened up the possibility of generating and using accounting information from a strategic viewpoint. This is important for all firms, and even more important for small and medium-sized firms that need this information to deal with high degrees of uncertainty in competitive markets (El Louadi, 1998). There is therefore the need to improve IT systems and data processing capacity to match information needs (Van de Ven and Drazin, 1985). Investing in staff training, improving the quality of products and internal processes and increasing AISs investment will be the leverage for achieving a stronger, more flexible corporate culture to face continuous changes in the environment. Information and Communications Technologies (ICT) cover a wide range of applications and include all the areas in which firms act. This study focuses on Accounting Information Systems (AISs) to show how computerized accounting tools are directly related to the economic and financial results and productivity in small and medium-sized business organizations. AISs are systems used to record the financial transactions of a business or organization. This system combines the methodologies, controls and accounting techniques with the technology of the IT industry (computers and sophisticated software). The software used to track transactions provides internal and external reporting data, financial statements, and trend analysis capabilities.

Every business has numerous processes, some simple, others complex and cumbersome, but as the business grows, there is need for the acquisition of new customers, entrance into new markets and keeping pace with constant changes in information technology. Therefore, companies need to maintain highly accurate and up-to-date accounting inventory and statutory records. This is where a Computerized Accounting System helps simplify, integrate, and streamline all the business processes, cost-effectively and helps to present the true picture of all the business undertakings to users of financial reports. With the decrease in the price of computers and accounting programs, this method of keeping books is becoming popular (Raymond and Pare, 1992).

In computerized systems, computers are used in processing data and disseminating accounting information to interested users. Most of the small business organizations eventually replace their manual accounting system with a computerized accounting system. Accounting software gathers the various accounting information related to sales, purchases, receivables, payables, cash receipts, cash disbursements, and payroll and automatically generates relevant reports needed for management decisions (Islam, 2010). In other words, there are improvements in administrative management regarding accountancy and finance. By using Accounting Software, it is possible to gauge the risk of some operations or predict future earnings with sophisticated software applications (Damanpour and Gopalakrishnan, 2001).

The evolvement of IT has increased efficiency in processing financial transactions as the adoption of commercialized packages generated improvement in quality and quantity of information made available to management for decision making (Collins, 1999). In addition, the robustness of IT equipment and facilities developed overtime also necessitated the assembling of integrated applications by software manufacturers (Jones, 2002). The use of accounting software in managing accounting information evolved nearly 40 years ago and has in recent times become an integral part of the operations of most organizations operations. Although the degree of implementation differs by business class, size and industry, their deployment has become integral to corporate survival strategies of food and beverage firms in Southwestern Nigeria. The acquisition of software to support processing of financial transactions in today's business is essential and its success depends largely on feasibility of alignment with corporate, business or operational level strategies.

In recent times, small and medium sized enterprises (SMEs) have been given due recognitions especially in 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 product (GDPs) of many countries (Ronita, 2012).

Advancement in information technology has brought improvement on the accounting profession, but except for statutory demands, small and medium scale enterprises hardly give serious thought to the process of sound accounting, yet the inadequacy and ineffectiveness of accounting processes have been responsible for the untimely collapse of a host of them (Aremu and Adeyemi, 2011). Poor record keeping, inefficient use of accounting information to support their financial decision-making and the low quality as per timeliness, relevance, understandability, reliability, and accuracy of financial data are part of the main problems in financial management concerns of SMEs (Sarapaivanich, 2003).

The importance of SMEs to sustainable development, especially in developing countries cannot be overemphasized. However, most fail due to many reasons and chief among these is a lack of keeping proper financial records. In order to encourage the use of CAS among SMEs in Nigeria and inform policy and management practice, there is the need to examine the level, type and reasons for the adoption of CAS among SMEs in Nigeria. This study was conducted with the view of these objectives in mind.

2.0. Literature Review

2.1. The concept of computerized accounting systems (CAS)

Small businesses remain an important part of the business environment (Holmes and Nicholls, 1988; Norwell, 1998; Mitchell *et al*., 1998). Mitchell *et al*. (1998), underscoring the strategic importance of accounting to firms, noted that the use of management accounting information could be linked to the success or failure of SMEs.

In order to survive, SMEs owners and managers need updated, accurate and timely accounting information (Lohman, 2000; Amidu and Abor, 2005). Accounting systems are responsible for analyzing and monitoring the financial condition of firms, preparing documents for tax purposes, and providing information to support 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 customers, verify 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 processing and communicating such information to internal and external stakeholders (Stefanou, 2006). Marivic (2009) described a computerized accounting system as a method or scheme by which financial information on business transactions are recorded, organised, summarized, analysed, interpreted and communicated to stakeholders through the use of computers and computer based systems such as accounting packages. When organizations adopt computerized accounting system, they usually discover that even though the systems handle financial data efficiently, their true value is that they are able to generate immediate and timely reports regarding the organization (Hotch, 1992).

Prior to the advent of personal computers, businesses were limited to two methods for keeping track of financial data (Tavakolian, 1995). One method was to install a mainframe computer and set up a data processing department. This approach had its own difficulties. The mainframe computer was expensive and many qualified ICT personnel were required to handle the various tasks involved in processing the accounting data. In most cases, large corporations were the only organizations that could afford such an expensive system.

The other option was to have a manual accounting system which consists of paper ledgers, typewriters and calculators. Each customer or vendor was on a separate ledger card which contained all the transactions for that company. Typewriters were used to type invoices and cheques, and all calculations were performed using calculators. The key drawback of the manual system was that it was possible for errors to be introduced into the system and that the error could go undetected for quite some time (Breen *et al*., 2003). Initially, the affordable option for SMEs to adopt is the manual systems since the mainframe accounting system

was not within their means. However, with the introduction of PC-based Accounting Systems, both the computer hardware and the accounting software have become cheaper, creating an opportunity for SMEs to adopt e-accounting. There are several factors that determine whether an organization adopts e-accounting or not. Such factors have created a division between e-accounting adopters and non-adopters (Ashari, 2008).

2.2. Information technology and accounting

The purpose of financial accounting is to provide financial information about an economic entity that can be used to plan and control the operating and financial decisions of the entity. Although this financial information was hitherto prepared at extensive intervals, the advent of computerization and subsequent development of accounting software has made possible the preparation and presentation of financial information at shorter intervals. In recent times, financial reports may be made available as often as may be required for management decision-making (Law and Coulmas, 2010). Technology sophistication has now engendered real-time financial transactions processing platforms (Law and Coulmas, 2010) as the traditional accounting exercise has almost been completely replaced by real time systems (Rezaee *et al*., 2000). It has also been argued that in contrast to periodic financial performance reporting, technology would pave way for new standards that will allow for uninterrupted measurement and reporting of transactions for users of financial information (Mattingly, 2001). Transactions shall cause to be entered and recorded as business processes continue and reports made available instantaneously providing a base for progress tracking (Law and Coulmas, 2010). The distribution of specialized audit software has also replaced labor with IT and caused significant change in professional audit team members (Banker *et al*., 2002).

The level of computerization of accounting system differs across industry, business size, class, and mode of operation. Studies have shown that the rate of software adoption by small and medium enterprises is less than 30 percent as compared to large businesses of more than 90 percent due to their structural, financial, organizational and cultural differences.

2.3. Accounting practices and financial reporting of SMEs

The changes that occurred in the 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 can 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. 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 and Manyani, 2011). It has been found that CAS provides general benefits in terms of increased transaction processing efficiency, more accessible information of a higher quality and greater support for adhoc reporting. Evidence from a survey of companies who have adopted AISs and their impact on management accounting practice confirms a number of such benefits (Spathis and Constantinides, 2003).The most highly-rated perceived benefits involve increased flexibility in information generation, improved quality of reports, increased integration of account applications and improved decisions based on timely and reliable accounting information. More specifically, CAS is expected to reduce costs by improving efficiency through computerization and enhance decision-making by providing accurate and updated organization-wide information, both of which should lead to improved company performance (Poston and Grabski, 2001).

2.4. Quality of financial reports

Van (2005) defines financial reporting as the process of presenting financial information or data about a company's financial position, operating performance and its flow of funds for an accounting period. According to Frank (1999), financial reporting is all about presenting useful information

to users so that proper decisions can be made. His implication about financial reporting is that financial information should aid in the evaluation of the value, volume, timing and uncertainties of cash flows. Also, financial reporting should furnish information about the entity's economic resources, claim against owners' equity and changes in the resources and claims. Indira (2008) emphasized that financial reports should provide information about financial performance during a period management discharges its stewardship responsibility to owners. It should likewise be useful to managers and directors themselves in making decisions on behalf of the owners. The author further argues that accounting information is very necessary if decisions are to be made accurately and rationally by the various interested parties or users of financial information. These are broadly classified into external and internal users. Where internal users include management and employees and external users comprise donors, shareholders, creditors, government, competitors and the general public. According to Carl *et al*. (1999) the quality of financial reports depends on the intended users of the information and should be evaluated with respect to the needs of the users. Federation of Accounting Standards Board (FASB) defined quality as a hierarchy of accounting qualities with relevance and reliability considered as the primary characteristic while representing faithfulness, verifiability, neutrality, comparability, consistency and understandability considered as secondary characteristics. Information is said to be reliable if it is free from material errors and bias and represents faithfully that which it purports to represent (Frank and Sangester, 1999). According to Turner (2000), neutrality is the demand that accounting information should not be selected to benefit one class to the detriment of other classes. Reliable information is verifiable, neutral and has representative faithfulness. Relevance is also a very important characteristic of quality. Frank and Sangester (1999) reported that financial information is relevant if it is capable of making a difference in decisions made by helping users to form predictions about the outcomes of the past, present and future events either to confirm or correct prior expectations. Comparability is another characteristic of quality information. Frank and Sangester (1999) also stresses that users must be able to compare the financial statements of the enterprise over time in order to identify trends in its financial position and performance. According to Indira (2008), timeliness is also another important characteristic of quality financial information. This arises as a result of perishability of accounting information. To benefit users, financial information must be presented at the right time otherwise it loses relevance. According to Pallai (2007), Understandability is the quality of financial reporting that enables users to perceive the significance of financial information. The author argues that users are assumed to have reasonable knowledge of business and willingness to study and understand the information. The International Accounting Standards Board adds that information should not be excluded on grounds that it may be difficult for certain users to understand.

3.0. Research Methodology

The study was conducted among selected Small and Medium Scale Food and Beverage firms in the Southwestern geo-political zone of Nigeria. The choice of this zone was informed by the large number of these firms within the zone. However, out of the six states that make up this zone, three were purposively selected for the survey as they are the major industrial hubs in the zone. These were Lagos, Ogun and Oyo States (Taiwo *et al.*, 2007).

In the Food and Beverage sector, five product-based sub-sectors were purposively selected for this study. These are (i) biscuits and bakery products, (ii) fruit juice, (iii) soft drinks and carbonated water, (iv) meat, poultry and fish, and (v) animal feeds. The targeted respondents were the top management personnel and the accounting officers of the firms under study. This is based on assumption that those categories of personnel are with relevant information on accounting software adoption in their respective firms. Sixty copies of the questionnaire were administered in each of the five sub-sectors selected for the study, making a total of 300 respondents. The study recorded a response rate of 87%. The variables measured include timeliness, relevance, understandability, reliability, and accuracy of the financial report generated by the system. These were measured on a five point Likert scale of 5-1 where 5 = very great extent, 4 = great extent, 3 = moderate extent, 2 = little extent and 1 = not at all.

4.0 Results and Discussions

4.1. Profile of SMEs

Table 1 shows the respondents by job role, sub-sector of food and beverage firms, and staff strength of the selected firms. It shows that 17 (6.5%) were the Managing Directors of the firms, 103 (39.5%) were accountants, 51 (19.5%) were senior managers, 45 (17.2%) were bookkeepers, 18 (6.9%) were cashiers, 1 (0.4%) was a chairman of one of the firm, 2 (0.8%) were customer service officers, 2 (0.8%) were Board Directors, 1 (0.4%) was an IT officer and 21(8.0%) were sales personnel. This shows that the respondents contacted for the study are those directly relating with the accounting system of their respective firms. This ensures obtaining relevant and professional responses from the respondents.

Table 1: Distribution of respondents by job role, sub-sector and staff strength

Parameters	Frequency	Percentage (%)
Job role		
Managing Director	17	6.5
Accountant	103	39.5
Senior Manager	51	19.5
Bookkeeper	45	17.2
Cashier	18	6.9
Chairman	1	0.4
Customer Service Officer	2	0.8
Director	2	0.8
IT Officer	1	0.4
Sales Person	21	8
Total	261	100
Sub-sector		
Biscuits and Bakery products	50	19.2
Fruit Juices	48	18.4
Soft Drinks & Carbonated Water	56	21.5
Meat, Poultry & Fish	52	19.9
Animal Feeds	55	21.1
Total	261	100
Staff Strength		
10 – 49 Employees	152	58.2
50 – 300 Employees	109	41.8
Total	**261**	**100**

The table also shows that 50 (19.2%) of the respondents were in biscuits and bakery products sector, 48 (18.4%) were in firms that processed fruit juices, 56 (21.5%) were in the soft drinks and carbonated water sector, 52 (19.9%) were into processing meat, poultry and fish, while 55 (21.1%) were in animal feeds production. Table 1 also shows that 152 (58.2%) had between 10 – 49 employees while 109 (41.8%) had between 50 – 300 employees. This shows that 152 (58.2%) are respondents from small scale firms, while 109 (41.8%) are respondents from medium scale firms based on the classification for SMEs.

4.2. Distribution of respondents by adoption of computerized accounting software and other factors

Table 2 shows that out of total 261 respondents, 32 (12.3%) indicated that their firms had not adopted any form of computerized accounting system while 229 (87.7%) had adopted at least one type of computerized accounting system. This showed that majority of the firms studied adopted a computerized accounting system.

Table 2: Distribution of respondents by Adoption, Type of Accounting Software adopted and the Duration of Adoption

Parameters	Frequency	Percentage (%)
Adoption of CAS		
No	32	12.3
Yes	229	87.7
Total	261	100
Types of Accounting Software		
Excel	53	23.1
Peachtree	41	17.9
Dac Easy	30	13.1
Sage	36	15.7
QuickBooks	28	12.2
Tally	21	9.2
Chronicle	10	3.8
Power of Accounting	10	3.8
Total	229	100
Numbers of Years of Adoption		
2-3 years ago	70	30.6
4-5 years ago	124	54.1
6 years and above	35	15.3
Total	229	100

In response to the question on the type of accounting software in use, table 2 shows that 53 (23.1%) of the firms replied that they used Microsoft Excel, 41 (17.9%) used Peachtree, 30 (13.1%) used Dac Easy, while 36 (15.7%) used Sage. In addition, twenty-eight (12.2%) used QuickBooks, 21(9.2%) used Tally, 10(3.8%) used Chronicle while another 10 (3.8%) used Power of Accounting. This shows that majority of the firms used excel as the accounting package, followed by

Peachtree. This also suggests that most of the food and beverage firms have not really embraced newer accounting technologies that are already available for use in Nigeria such as SAP, ERP and so on.

With regard to the question of when the firms computerized their accounting system, table 2 reveals that 70(30.6%) of the respondents indicated that they had adopted a computerized accounting system between 2-3 years ago, 124(54.1%) adopted between 4 - 5 years ago, while 35(15.3%) indicated that they had computerized their accounting system over 6 years ago. This shows that majority of the firms had adopted computerized accounting systems between 4-5 years ago.

Table 3 reveals that 134 (58.5%) of the respondents used a combination of manual and computerized systems, 70(30.6%) used fully computerized systems, while 25 (10.9%) used wholly computerized system linked to web-based applications. The result is in agreement with the finding of Oladipupo and Ajape (2013). This shows that majority of the firms used a combination of a manual and computerized accounting system which shows that there is room for improvement in the area of adoption of CAS, so that the firms can enjoy the benefits of the system better than they currently are enjoying.

Table 3: Distribution of Respondents by Level of Automation, Transaction Processing Model and Network Utilization Mode

Parameters	Frequency	Percentage (%)
Level of Automation		
Manual & Computerized	134	58.5
Fully Computerized	70	30.6
Wholly Computerized-linked		
to web-based applications	25	10.9
Total	229	100
Transaction Processing Model		
Batch Posting	178	77.7
Real-time posting	51	22.3
Total	229	100

In response to the question of the transaction processing model in use in the firms, table 3 shows that 178 (77.7%) of the respondents indicated that they used batch posting system while 51(22.3%) of the respondents use real-time posting. This shows that majority of the firms use batch posting which has its own shortcomings. This may be as a result of the fact that majority of the firms are still combining manual with computerized systems to process their accounting information. This may not be effective enough for proper timely, correct and relevant financial information.

4.3. Distribution of respondents by factors influencing the choice of computerized accounting system

Table 4 presents the respondents opinions on the extent to which various factors motivate their choice of computerized accounting system. From the responses, 14 (6.1%) disagreed that they were motivated by the need to facilitate financial management, 106 (46.3%) agreed while 109 (47.6%) strongly agreed. This shows that most of the respondents agreed that the need to facilitate financial management motivated their choice of computerized accounting system.

Among the respondents, 16 (7.0%) disagreed that their accounting system is user friendly, 105 (45.9%) agreed while 108 (47.2%) strongly agreed. This shows that most of the respondents agreed the accounting systems adopted are user friendly. Also, 21 (9.2%) disagreed that the need for an improved financial report motivated them, 105 (45.9%) agreed and 103 (45.0%) strongly agreed. Furthermore, 16 (7.0%) disagreed that the desire for a positive impact on performance of the firm motivated them, 96 (41.9%) agreed while 117 (51.1%) strongly agreed. This showed that most of the respondents agreed that the positive impact of the accounting system on performance of the firm motivated them. Finally, 15 (6.6%) disagreed that the need for an effective management decision motivated them, 111 (48.5%) agreed and 103 (45.0%) strongly agreed. The above shows that most of the respondents agreed that the need for an effective management decision was a motivating factor in the adoption of computerized accounting system.

Table 4: Factors Influencing the Choice of Computerized Accounting System

Variable	Levels	Frequency	Percentage (%)
The need to facilitate financial management	Disagree	14	6.1
	Agree	106	46.3
	Strongly Agree	109	47.6
	Total	229	100
The Accounting system is user friendly	Disagree	16	7
	Agree	105	45.9
	Strongly Agree	108	47.1
	Total	229	100
The need for an improved financial report	Disagree	21	9.2
	Agree	105	45.9
	Strongly Agree	103	44.9
	Total	229	100
Its positive impact on performance of firm	Disagree	16	7
	Agree	96	41.9
	Strongly Agree	117	51.1
	Total	229	100
The need for an effective management decision	Disagree	15	6.6
	Agree	111	48.5
	Strongly Agree	103	44.9
	Total	229	100

In summary, table 4 shows that most of the respondents agreed that their choice of computerized accounting system was motivated by the need to facilitate financial management, a user friendly accounting system, the need for an improved financial report, the positive impact of computerized accounting system on performance of the firm and the need for an effective management decision.

5.0 Summary, Conclusion and Recommendations

In conclusion, most (87.7%) adopted a form of CAS. Most (23.1%) however adopted a non-dedicated software (Microsoft Excel) while 17.9%, 13.1%, 15.7% and 12.2% adopted Financial Management software such as Peachtree, Dac Easy, Sage and Quickbooks respectively. About 9% adopted Tally and 3.8% each utilized Chronicle and Power of Accounting. Majority (58.5%) used both manual and computerized systems. One hundred and seventy eight (77.7%) of the respondents indicated that they used batch posting system while 51 (22.3%) of the respondents used real-time posting. The former was common among SMEs whose CAS was not fully automated.The batch posting system is prone to entry errors. About 94% adopted CAS to aid financial decision making, 90.8% for improved financial reports and 93.4% to aid overall management decision making. Ninety three percent agreed that adoption of CAS had a positive impact on performance of the firm. In view of these benefits, the study recommended that SMEs fully computerize their accounting systems and those on Excel migrate their CAS to dedicated financial management software. SMEs not using CAS may be empowered to computerize their accounting systems through various measures such as development of locally developed software specifically for small businesses, training and

provision of funds for the acquisition of ICT infrastructure.

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