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Original Research Article

Income Statement Preparation by Small and Medium Enterprises

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Abstract

Small and medium enterprises (SMEs) are of significant importance to states and nations, especially in the areas of employment creation and economic development. The Edo State government in Nigeria has made several efforts at encouraging and supporting the establishment and growth of small and medium enterprises in the State. Despite these efforts, the SMEs sector in the state seem not to have registered the desired level of performance and growth. One of the problems associated with this slow pace of development and growth of SMEs in the state is the seeming inability of the SMEs to manage their businesses through the use of accounting records. This study therefore investigates the extent to which SMEs in Edo State keep accounting records and prepare income statement in the course of their businesses. The population of the study was taken as all small and medium scale enterprises in the selected four local government areas from where a sample size of 121 businesses belonging to different product/service groups that were purposively selected for the survey, using a structured questionnaire, containing open-ended, bipolar and 5-point Likert type questions as a research instrument. The findings reveal that a majority of SMEs in the state do not fully keep accounting records, prepare income statement or employ qualified accountants to manage their financial records. It is therefore recommended that government, banks, microfinance institutions and even universities should set up enlightenment campaigns, training programmes and seminars on the need for all SMEs to keep daily record of their business transactions and prepare an annual or regular income statements as a means of controlling and enhancing the performance of their businesses and ensuring sustainable profit and growth.

Keywords: Small and Medium Enterprises, Financial Transactions, Accounting Records, Income Statement, Business Performance.

JEL Classification Codes: M41 M48

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1.0 INTRODUCTION

Income statement, which is now known as statement of comprehensive income (International Financial Reporting Standards, IFRS, 2017), was also formerly referred to as profit-and-loss statement, as it reveals a company's profit or loss over a specified period of time, usually annually (Griffin & Ebert, 2002). This accounting statement is reputed to be the most important statement or calculation in any business operations as it determines the financial performance or health of the business. The statement of comprehensive income is usually divided into three major categories, namely, revenues, cost of goods sold, and operating expenses and reveals the difference between revenues and expenses of a business operations to arrive at the net income or net earnings (Griffin & Ebert, 2002). Therefore, preparation of income statement by small and medium enterprises helps to determine their performance, profitability and growth potentials.

According to Griffin and Ebert (2002), the prospect of earning profits is what encourages people to go into businesses or entrepreneurial ventures as "profit", which is computed from the company's statement of comprehensive income, and defined by Investopedia (2018: 1) as "a financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity", is a key index for determining the performance and growth of business enterprises.

There are three broad categories of business enterprises, namely, small, medium and large enterprises, but the small and medium enterprises (SMEs) have been reputed to be of great significance in personal and national economic development as they play positive and essential roles in the process of employment generation, industrialization and sustainable economic growth (Aremu & Adeyemi, 2011). In the same vein, Mukoro (2011) observed that

SMEs make-up the largest proportion of businesses all over the world and play tremendous roles in employment generation, provision of goods and services and contribution to the Gross Domestic Products (GDP) of nations.

In view of the identified advantages of SMEs, especially in the areas of employment generation and economic development, the Edo State government has tried to promote and support SMEs through several means, which include the followings:

Edo State Graduate to farm project supported with a loan of N100, 000.00 each, established in 2017 (Okojie, 2018)

Edo State Libyan Returnees SMEs Programme, established in 2018 (Edojobs, 2018)

Alagbado Entrepreneurship Summit, organized in 2018 (Okojie, 2018)

Edo State Government Strategic Planning Team (SPT) for youth entrepreneurship, empowerment and leadership (Usoh, 2017)

Edo State Employment and Expenditure for Results (SEEFOR) – for entrepreneurship skills development (Onaiwu, 2018)

Establishment of the Ministry of Wealth, Cooperatives and Employment (Usoh, 2017)

Edo State – NEXIM Partnership – to equip entrepreneurs with training and finance to produce ready goods for export (Usoh, 2017).

Unfortunately, in spite of all the efforts made by the government, the performance and growth of SMEs in Edo State seem to be very slow with a lot of start-ups not making it to their fifth birthday (Usoh, 2017). Many factors have been attributed to the slow performance/death of many SMEs in Edo State, one of which was the lack of accounting records and statement of comprehensive income to alert the owners of the SMES to the disparities or problems in the income and expenditure profile of the

company to enable them take appropriate actions to correct the negative trend and salvage the enterprise.

Although a number of studies have been carried out on small and medium enterprises in Edo State (Jimah, 2011; Oboniye, 2014; Obeki & Bila, 2017; Owenvbiugie & Iyamu, 2017; but none seems to have specifically looked into the connection between income statement and the performance and growth of small and medium enterprises in the State. This study therefore investigated the income statement preparation of SMEs in Edo State.

2.0 LITERATURE REVIEW

The income statement is a tool for reporting the financial performance of a business in a given accounting period or financial year (Helfert, 2001). It is a statement of the nature and volume of transactions (revenues and expenses) that the company carried out during a specified period of time (either monthly, quarterly or annually), from where the profit (or loss) of the business is calculated (Baskerville, 2004; Warren, 2008).

According to Griffin and Ebert (2002) the income statement is divided into three major categories as follows:

1. **Revenues:** This is the money that comes into a business through the sale of goods or services.
2. **Cost of Goods Sold:** This is the cost of purchasing the goods sold or of obtaining materials to make the goods.
3. **Operating Expenses:** These are all the expenses that the company must incur in order to earn revenues, and they include salaries, electricity bill, water rate, cost of fuel, and general administrative expenses.

The main purpose of the statement of comprehensive income is to show owners, managers and investors whether the company made a profit or loss during the period being reported and to provide

answers to the following key management questions (Horngen & Sundew, 1990; Griffin & Ebert, 2002): What is happening? Why is it happening? What can we do about it?

Methods for preparing Income Statement

There are two methods for preparing income statement, namely, the single-step and the multi-step methods (Griffin & Ebert, 2002; Investopedia, 2018). Under the generally accepted accounting principles, or GAAP, both methods are acceptable but one method is preferred to the other depending on the size and complexity of a company and its business lines. Investopedia (2018) shows that small businesses or those with one or two product lines (e.g small bakeries or cement distributors) prefer or are better off with the single-method income statement while the multi-step method is more suitable for such big companies as Nigeria Bottling Company or Emzor Pharmaceutical Company. The single step method simply sets revenue items apart from expenses and then subtract total expenses from total revenues to arrive at the “bottom line”, which is profit or loss, or net income while the multi-step method takes several steps to find the bottom line (Investopedia, 2018).

Who prepares a company income statement?

A company's income statement and other financial documents are prepared by qualified accountants in accordance with a set of accounting standards known as “Generally Accepted Accounting Principles” (GAAP) or other related accounting principles (Griffin & Ebert, 2002). By definition, an accountant is “a professional who performs accounting functions such as audits or financial statement analysis” (Investopedia, 2018). Most accountants are competent in corporate law, audit, taxation, finance, insolvency, management and analytical skills. Therefore, every business, whether small, medium or big, needs an accountant to help record, keep, analyze and interpret

records of its financial transactions in order to determine whether its operations are adequate, effective, efficient and profitable.

Concept of Small and Medium Enterprises

There is no universally accepted definition of small and medium scale businesses or enterprises. The Nigeria’s Federal Office of Statistics defines small scale enterprises for the purpose of commercial bank loans as those with an annual turnover of N500,000 and for merchant bank loans as those enterprises with capital investment not exceeding ₦2 million (excluding cost of

land) or a maximum of N5 million naira (Federal Office of Statistics, 2005). The National Economies Reconstruction Fund (NERFUND, 2010) put the ceiling for small scale industries at N10 million, while the Companies and Allied Matters Act (CAMA, 2004) defines a small scale industry as one with an annual turnover of not more than N2million and net assets of not more than N1million in value. However for the purpose of this study, we shall adopt the Central Bank of Nigeria (CBN, 2015) definitions of different businesses based on total asset value and number of employees as shown in Table 1 below:

Table 1: Definition of Businesses

CLASS OF BUSINESS	VALUE OF ASSET	NO OF EMPLOYEES
Cottage/Microscale business	Less than N1million	Less than 10
Small Scale Business	Between N1m and N4m	Between 11 and 35
Medium Scale Business	Between N4m and N150m	Between 36 and 100
Large Scale Business	From N150 and above	100 and above

Source: Central Bank of Nigeria, 2015.

The Role of SMES in Economic Development

A dynamic and growing SMEs sector has been identified as the bedrock of national economic development as they contribute to the achievement of a wide range of developmental objectives such as production of cash crops, mobilization of local resources for industrial production, redistribution of wealth and poverty reduction, creation of employment and the production of general goods and services for the teeming population of a country (World Bank, 2004; Onugu, 2005; Ihua, 2009). In addition to the above roles, small and medium scale enterprises are easy to establish, easy to manage, make use of local raw materials, encourage entrepreneurship, have steady income, high growth and high employment potential (Okafor, Isenmila & Inegbenebor, 2008; Nwoye, 2011)

Empirical Discourse

A number of studies have been carried out on bookkeeping and other accounting records of businesses’ over the years.

Studies have also shown that such accounting information is crucial for the survival and growth of businesses (Gorton, 1999). Mbogo (2011) investigated the influence of managerial accounting skills on the success and growth of small and medium enterprises (SMEs). The study employed a census research design with self-administered questionnaires on a sample of 30 SMEs. The findings showed that owners and managers with good managerial accounting skills had better decision-making skills in the management of their SMEs. In the same vein, Nzomo (2011) investigated the impact of accounting information systems on organizational effectiveness. The findings also indicated that accounting information is an important mechanism for organizations’ effective management, decision-making and controlling activities. Most recently, Mutua (2015) investigated the effect of bookkeeping or recording of financial transactions on the growth of small and medium enterprises in Kenya and discovered that SMEs do not keep complete

accounting records because of lack of accounting knowledge and the cost of hiring professional accountants, and concluded that the use of accounting information to support financial performance measurement by SMEs is grossly inefficient.

3.0 METHODOLOGY

Theoretical Framework

The theoretical framework for this study is based on the Goal Approach and the Decision Usefulness Theories. The Goal Approach, which is the first approach to organizational effectiveness, originated from the mechanistic view of the organization. It assumes that organisations are planned, logical, goal-seeking entities and they are meant to accomplish one or more predetermined goals such as profit maximisation, innovation, efficiency and quality (Griffin & Ebert, 2002; Akingunola, 2011). Griffin and Ebert (2002) further noted that goals are performance targets by which organizations measure their success or failure at every level. The approach is reputed to be accurate and clear in measuring organisational goals, especially when certain basic conditions are met. For the purpose of this study, profit, which is a product of income statement, is the performance target by which small and medium enterprises measure their success or failure at every level of operation. In using this approach to measure organisational profit and performance, the basic conditions of keeping financial records and preparing an accurate income statement must be fulfilled.

On the other hand, the Decision Usefulness Theory approach to accounting theory submits that if the financial statements cannot be prepared correctly, which seems to be the case with many Nigerian small and medium enterprises, then such statements should be prepared in such a way as to provide useful insights into the operations of the business (Scott, 2018).

Relying on the goal approach model, this study tries to provide answers to the following research questions:

1. Do SMEs in Edo State record their daily financial transactions?
2. To what extent do SMEs in Edo State agree/disagree that keeping a record of a company's daily financial transactions helps the company to monitor its performance and profit (or loss) level?
3. Do SMEs in Edo State employ qualified accountants in their companies?
4. To what extent do SMEs in Edo State agree that keeping and managing records of financial transaction should be carried out mostly by qualified accountants?
5. Do SMEs in Edo State prepare income statements?

Hypotheses formulation

Taking into consideration the findings from previous studies on bookkeeping and accounting records by Nzomo (2011), Mbogo, (2011), Mutua (2015) and the research questions formulated for this study, the following three (3) null hypotheses were formulated and tested:

Ho₁: The extent to which small and medium enterprises in Edo State keep record of their daily business transactions do not differ significantly.

Ho₂: The extent to which small and medium enterprises in Edo State believe that keeping accounting records will improve the management of their businesses do not differ significantly.

Ho₃: The extent to which SMEs agree that keeping and managing account records should be carried out by qualified accountants only do not differ significantly.

Ho₄: Small and medium enterprises in Edo State do not differ significantly in the extent to which they prepare regular income statements.

Population

The study adopted the survey research method. Four local government areas,

namely, Oredo, Egor, Ikpoba-Okha, and Ovia North East Local Government Areas out of the 18 local government areas in Edo State were surveyed. These local government areas were chosen for this study because they are contiguous, abound in

small and medium scale businesses and are close to the research base (University of Benin). The four local government areas have a combined population of 1,627, 300 (National Population Commission, 2016 estimate) as shown in Table 2 below:

Table 2: Local Government Areas of Study

S/N	LOCAL GOVERNMENT AREA	HEADQUARTERS	POPULATION
1	Oredo Local Government Area	Benin City	490,600
2	Egor Local Government Area.	Urelu	445,800
3	Ikpoba-Okha Local Government Area.	Idogbo	487,400
4	Ovia Northeast Local Government Area	Okada	203,500
	TOTAL		1,627,300

Source: National Population Commission, 2016 estimate.

The population of the study was taken as all small and medium scale enterprises in the selected four local government areas. Since the study was limited to only small and medium scale enterprises in the selected local government areas, a manageable

sample size of 121 businesses belonging to different product/service groups that were operational in the four local government areas were purposively selected for the survey

Table 3: Distribution of Sample Size by Local Government

LOCAL GOVERNMENT AREA	POPULATION	SAMPLE SIZE
Oredo Local Government Area	490,600	37
Egor Local Government Area.	445,800	33
Ikpoba-Okha Local Government Area.	487,400	36
Ovia Northeast Local Government Area	203,500	15
TOTAL	1,627,300	121

Source: Authors' Fieldwork, 2018

The Research Instrument

The research instrument used for this study was a structured questionnaire and interview. The questionnaire contained open-ended questions, bipolar questions, and 5-point Likert-type questions in a multiple choice structure, which requires the intensity of individual's attitude by indicating the extent to which he or she agrees or disagrees with a given statement. Interview was employed to help elicit relevant and complementary qualitative information from the respondents and also to help respondents, especially the illiterate ones, in completing the questionnaire.

Field work

Twelve (12) undergraduate students (final year project students) from the University of Benin and the National Open University (Benin Study Centre) were recruited and trained to help administer the questionnaires in the four local government areas in the ratio of 3 research assistants to 1 Local Government Area

Analytic Framework

The analytic framework for this study encompasses the relevant variables or factors that need to be considered in order to achieve the objectives of this study and the goal of every small and medium

organization involved in this survey, which is profit maximization and growth. These variables or factors include level of bookkeeping, use of accounting records, preparation of income statement, which determines the level of profit or loss and enables the business manager/owner to determine the strategy for business growth and development. This framework is encompassed in the goal approach and the decision usefulness theories upon which this study is based.

Measurement of Variables

This study is mostly interested in the extent to which respondents agreed or disagreed with the views expressed in the questionnaire compared to the total number of respondents surveyed. Mean scores and percentages were used to group the data and in view of the largely non-parametric nature of the study, Chi square was used to compute the data and test the hypotheses.

4.0 ESTIMATION OF RESULTS AND DISCUSSION OF FINDINGS

Table 4: Distribution and Retrieval of Questionnaires

S/N	Business Group	No of questionnaires administered	No of questionnaires retrieved	No of questionnaires found usable
1	Restaurants/Fast Food Companies	20	16	12
2	Fashion Boutiques	8	8	6
3	Potable water companies	8	6	6
4	Pharmaceutical Stores	12	11	11
5	Patent Medicine Stores	15	14	14
6	Bakeries	7	7	7
7	Supermarkets	14	14	14
8	Electronic Stores	12	10	8
9	Electrical materials store	10	10	8
10	Bookshops	15	14	14
	TOTAL	121	110	100

Source: Authors' Fieldwork, 2018

Table 4 above shows that out of 121 questionnaires originally administered, 110 were retrieved while only 100 were found usable.

Respondents' Responses

Table 5: To what extent do you record your daily business transactions?

Options	Frequency	Percentage
Very large extent	19	19%
Large Extent	11	11%
Not Sure	11	11%
Low Extent	32	32%
Very Low Extent	27	27%

Total	100	100%
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Source: Authors' Fieldwork, 2018

Table 5 above shows that only 30% of the respondents claim to record all their daily business transactions, while a majority of the respondents, 59%, do not record all their daily financial transactions. 11% of the respondents were undecided.

Table6: To what extent do you agree/disagree that keeping a record of a company's daily business transactions helps the company to monitor its performance and profit (or loss) level?

Options	Frequency	Percentage
Strongly Agree	50	50%
Agree	13	13%
Not Sure	10	10%
Disagree	15	15%
Strongly Disagree	12	12%
Total	100	100%

Source: Authors' Fieldwork, 2018

The above table shows that 63% of the respondents agreed that keeping a record of a company's daily financial transactions helps the company to monitor its performance and profit (or loss) level, 27% of the respondents disagreed while 10% of the respondents were undecided

Table 7: Do you have a qualified accountant (OND, HND or B.Sc. Accounting) in your company to manage your financial records?

YES	32	32%
NO	58	58%
Total	100	100%

Source: Authors' Fieldwork, 2018

The above table reveals that 58% of the SMEs do not have qualified accountants working with them. Only 32% of the SMEs claimed to have qualified accountants.

Table 8: To what extent do you agree that keeping and managing of account records should mostly be carried out by qualified accountants?

Options	Frequency	Percentage
Very large extent	39	39%
Large Extent	20	20%
Not Sure	15	15%
Low Extent	20	20%
Very Low Extent	6	6%
Total	100	100%

Source: Authors' Fieldwork, 2018

Table 8 above shows that 59% of the respondents agreed that bookkeeping/keeping and analysis of account records should mostly be carried out by qualified accountants. However, 15% of the respondents were undecided.

Table 9: To what extent does your company prepare an income statement regularly?

Options	Frequency	Percentage
Very large extent	24	24%
Large Extent	15	15%
Not Sure	8	8%
Low Extent	35	35%
Very Low Extent	18	18%
Total	100	100%

Source: Authors' Fieldwork, 2018

The above table shows that only 39% of the SMEs adequately prepare income statement while 53% claim that they do not adequately prepare income statement. When those who do not adequately prepare income statement were asked how they compute their taxes, they reveal that they rely on estimated income or fake income statement prepared by tax agents to satisfy tax or bank requirements.

On why some of the respondents do not have qualified accountants to manage their business financial record, the following key answers were given:

1. 26% of the respondents felt that they can do well without the extra burden of a qualified accountant.
2. 14% of the respondents said they could not afford a qualified accountant's salary
3. 10% of the respondents said that their business was not big enough to require the services of an accountant
4. 3% noted that accountants can be overbearing
5. 5% said accountants can be fraudulent.

Hypotheses Testing

The Study tested all the hypotheses formulated earlier using the chi-square test statistic at 0.05 margin of error and 95% confidence level.

keep record of their daily business transactions do not differ significantly.

Using the respondents' responses in Table 5 above, the Chi Square table is presented below:

Null Hypothesis 1: The extent to which small and medium enterprises in Edo State

CELL	OF	EF	OF - EF	(OF - EF) ²	(OF - EF) ² /EF
C ₁	19	20	-1	1	0.05
C ₂	11	20	-9	81	4.05
C ₃	11	20	-9	81	4.05
C ₄	32	20	12	144	7.2
C ₅	27	20	7	49	2.45
Total	100	20			X ² = 17.8

X² calculated = 17.8
 X² tabulated at 0.05 level of significance
 Degree of freedom, df = (r - 1) (c - 1)
 Where r = row total, c = column total
 wr = (5 - 1)(2 - 1)
 df = (5 - 1)(2 - 1)
 df = 4 x 1 = 4
 X² tabulated at 0.05 level of significance df 4 = 9.49

and medium enterprises in Edo State keep record of their daily business transactions do not differ significantly and accept the alternative hypothesis (H₁) which states that the extent to which small and medium enterprises in Edo State keep record of their daily business transactions differ significantly. This finding corroborated a previous finding by Mutua (2015) that most SMEs do not keep record of their business transactions fully enough to be able to provide a reliable income statement. In this study, only 30% of the respondents claimed to fully record their daily business transactions.

Decision Rule

If the tabulated value of Chi-square distribution at 0.05 significance level is greater than the value calculated, null hypothesis is accepted. Otherwise reject the null hypothesis and accept the alternative hypothesis.

Null Hypothesis 2: The extent to which small and medium enterprises in Edo State believe that keeping accounting records will improve the management of their businesses do not differ significantly.

Interpretation

From the analysis above, X² calculated value is 17.8 while X² tabulated value is 9.49, meaning that the X² calculated value of 17.8 is greater than X² tabulated of 9.49. Therefore, we reject the null hypothesis (H₀) which states that the extent to which small

Using the respondents' responses in Table 6 above, the Pearson's Chi Square table is presented below:

CELL	OF	EF	OF - EF	(OF - EF) ²	(OF - EF) ² /EF
C ₁	50	20	30	900	45
C ₂	13	20	-7	49	2,45
C ₃	10	20	-10	100	5
C ₄	15	20	-5	25	1.25
C ₅	12	20	-8	64	3.2
Total	100	20			(X ² = 56.9

X^2 calculated = 56.9
 X^2 tabulated at 0.05 level of significance
 Degree of freedom, $df = (r - 1)(c - 1)$
 Where $r =$ row total, $c =$ column total
 $r = (5 - 1)(2 - 1)$
 $df = (5 - 1)(2 - 1)$
 $df = 4 \times 1 = 4$
 X^2 tabulated at 0.05 level of significance $df = 4 = 9.49$

Decision Rule

If the tabulated value of Chi-square distribution at 0.05 significance level is greater than the value calculated, null hypothesis is accepted. Otherwise reject the null hypothesis and accept the alternative hypothesis.

Interpretation

From the analysis above, X^2 calculated value is 56.9 while X^2 tabulated value is 9.49, meaning that the X^2 calculated value of 56.9 is greater than X^2 tabulated of 9.49. Therefore, we reject the null hypothesis (H_0) which states that the extent to which small

and medium enterprises in Edo State believe that keeping accounting records will improve the management of their businesses do not differ significantly and accept the alternative hypothesis (H_1) which states that the extent to which small and medium enterprises in Edo State believe that keeping accounting records will improve the management of their businesses differ significantly. This finding also corroborated an earlier finding by Mutua (2015) on the level of importance attached to income statement by some small and medium business owners/managers.

Null Hypothesis 3: The extent to which SMEs agree that keeping and managing account records should be carried out by qualified accountants only do not differ significantly.

Using the respondents’ responses in Table 8 above, the Pearson’s Chi Square table is presented below:

CELL	OF	EF	OF - EF	(OF - EF) ²	(OF - EF) ² /EF
C ₁	39	20	19	361	18.5
C ₂	20	20	0	0	0
C ₃	15	20	-5	25	1.25
C ₄	20	20	0	0	0
C ₅	6	20	-14	196	9.8
Total	100	20			($X^2 = 29.55$)

X^2 calculated = 29.55
 X^2 tabulated at 0.05 level of significance
 Degree of freedom, $df = (r - 1)(c - 1)$
 Where $r =$ row total, $c =$ column total
 $r = (5 - 1)(2 - 1)$
 $df = (5 - 1)(2 - 1)$
 $df = 4 \times 1 = 4$
 X^2 tabulated at 0.05 level of significance $df = 4 = 9.49$

Decision Rule

If the tabulated value of Chi-square distribution at 0.05 significance level is greater than the value calculated, null hypothesis is accepted. Otherwise reject the

null hypothesis and accept the alternative hypothesis.

Interpretation

From the analysis above, X^2 calculated value is 29.55 while X^2 tabulated value is 9.49, meaning that the X^2 calculated value of 29.55 is greater than X^2 tabulated of 9.49. Therefore, we reject the null hypothesis (H_0) which states that the extent to which SMEs agree that keeping and managing account records should be carried out by qualified accountants only do not differ significant and accept the alternative hypothesis (H_1) which states that the extent to which SMEs agree that keeping and managing account

records should be carried out by qualified accountants differ significantly. This finding is corroborated by an earlier finding by Obeki and Bila (2017) that a majority of small and medium enterprises in Edo State do not employ qualified accountants to manage their account records.

Null Hypothesis 4: Small and medium enterprises in Edo State do not differ significantly in the extent to which they prepare regular income statements.

Using the respondents' responses in Table 9 above, the Pearson's Chi Square table is presented below:

CELL	OF	EF	OF - EF	(OF - EF) ²	(OF - EF) ² /EF
C ₁	24	20	4	16	0.8
C ₂	15	20	-5	25	1.25
C ₃	8	20	-12	144	7.2
C ₄	35	20	15	225	11.25
C ₅	18	20	-2	4	0.2
Total	100	20			(X ² = 20.7)

X² calculated = 20.7

X² tabulated at 0.05 level of significance

Degree of freedom, df = (r - 1) (c - 1)

Where r = row total, c = column total

r = (5 - 1)(2 - 1)

df = (5 - 1)(2 - 1)

df = 4 x 1 = 4

X² tabulated at 0.05 level of significance df 4 = 9.49

Decision Rule

If the tabulated value of Chi-square distribution at 0.05 significance level is greater than the value calculated, null hypothesis is accepted. Otherwise reject the null hypothesis and accept the alternative hypothesis.

Interpretation

From the analysis above, X² calculated value is 20.7 while X² tabulated value is 9.49, meaning that the X² calculated value of 20.7 is greater than X² tabulated of 9.49. Therefore, we reject the null hypothesis (H₀) which states that small and medium enterprises in Edo State do not differ significantly in the extent to which they prepare regular income statements and accept the alternative hypothesis (H₁) which states that small and medium enterprises in Edo State differ significantly in the extent to which they prepare regular income statements. This finding is also corroborated

by an earlier finding by Obeki and Bila (2017) that a majority of small and medium enterprises do not prepare regular income statements, but only produce an estimated and inaccurate income statement, which is not a true reflection of their accounting records but for the purpose of taxation only as they do not keep full record of accounting records. In this study, only 39% of the respondents claimed to prepare income statements annually while the remaining 69 % prepare income statements only when tax agents knock on their doors. Otherwise, they pay estimated tax.

5.0 SUMMARY FINDINGS

The main objective of this study was to determine if the preparation of income statement or lack of it by small and medium enterprises in Edo State is one of the factors that are responsible for the seeming low performance of these enterprises in Edo State. Using data collected from 100 businesses belonging to different groups as shown in Table 4 above, the following results were obtained:

1. On the extent to which SMEs record your daily financial transactions, only 30% of the respondents claimed to record all their daily business transactions, while a majority of the respondents, 59%, do not record all their

daily financial transactions while 11% of the respondents were undecided.

2. On the extent to which SMEs agreed that keeping a record of a company's daily financial transactions helps the company to monitor its performance and profit (or loss) level, 63% of the respondents agreed that keeping a record of a company's daily financial transactions helps the company to monitor its performance and profit (or loss) level, 27% of the respondents disagreed while 10% of the respondents were undecided.
3. On whether SMEs employ qualified accountants (OND, HND or B.Sc. Accounting) to manage their financial records, 58% of the SMEs do not have qualified accountants working for them, 32% of the SMEs claimed to have qualified accountants, while 10% were undecided.
4. On the extent to which SMEs agreed that keeping and managing of account records should be carried out by qualified accountants, 59% of the respondents agreed that bookkeeping/keeping and analysis of account records should be carried out by qualified accountants, 26% disagreed while 15% of the respondents were undecided.
5. On the key question on whether SMEs in Edo State prepare regular income statement, 39% of the SMEs claimed they prepare regular income statement, 53% claim that they do not prepare income statement, while 8% were undecided.

6.0 CONCLUSION

Although the findings reveal that most small and medium enterprises in Edo State do not keep record of their financial transactions, or employ accountants in their companies, but a majority of these SMEs believe in the role of qualified accountants in keeping accounting records. They also believe that keeping accounting records help to monitor the financial performance and profit level of

the companies as they have invoices, receipts, local purchase orders, bank deposit slips, credit sales books, etc. that reflect their financial transactions. However, instead of using qualified accountants, most SMEs in Edo State use sales managers, or sales clerks whose qualifications are GCE or School certificate, or even graduates with little or no knowledge of accounting procedures to record these transactions. In view of their limited knowledge of accounting, they are unable to keep and analyze complete accounting records. Although a lot of the SMEs were interested in having qualified accountants in their companies, but reasons why some of them are reluctant to employ qualified accountants as listed below are very instructive:

1. 26% of the respondents felt that they can do well without the extra burden of a qualified accountant.
2. 14% of the respondents said they could not afford a qualified accountant's salary
3. 10% of the respondents said that their business was not big enough to require the services of an accountant
4. 3% noted that accountants can be overbearing
5. 5% said accountants can be fraudulent.

7.0 RECOMMENDATIONS

In view of the above findings, it is recommended that government, banks, microfinance institutions and entrepreneurship support agencies should educate small and medium enterprises on the importance of keeping record of financial transactions as a tool for ascertaining financial performance, profit or loss level, tax computation and for loan application. In the same vein, other factors that militate against the performance and growth of small and medium enterprises in Edo State, such as lack of capital, multiple taxation, fees and rates and the negative effect of such basic amenities and infrastructures as electricity, water supply

and bad roads should be addressed. Finally this study recommends the following:

- a. Government should make a properly prepared income statement as a mandatory document for annual tax assessment.
- b. SMEs should be made to undergo training on the importance of accounting records in the performance and growth of enterprises.
- c. Employment of accounting staff, e.g. OND holders for small enterprises and HND or B.Sc holders for Medium enterprises to improve the accounting practices of the enterprises.
- d. The revelation that tax agents help SMEs to prepare emergency or fake income statement whenever required by banks or statutory agencies, which does not usually reflect the true position of the company during the period under review, is a fraudulent activity, which the government and relevant regulatory agencies should endeavor to discourage or look into.

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