

Evaluating the Status of the Accounting System in the Small And Medium Enterprises In Jordan

Eman Al Hanini

Ahmad kalbouneh

Accounting Department/ Business Faculty

Balqa Applied University/ Jordan

E-mail of the corresponding author: Hanini_bau@yahoo.com

ABSTRACT

This study aimed to identify the status of accounting system in the small and medium enterprises in Jordan. To achieve this aim, a questionnaire was designed and distributed into 100 respondents of owners of small and medium enterprises in Jordan where 80 questionnaires were retrieved and analyzed statistically. The study concluded that these enterprises lack of requirements of the good accounting system; these enterprises do not employ accountants but they get help from an external accountant where there is a need and these enterprises do not also have appropriate set of documents and do not keep suitable records. And these enterprises prepared only income statement and balance sheet and ignore preparing cash flows statement and mentioning disclosures. In addition, these enterprises do not audit their accounts at a legal audit office and they do not adapt any of computerized accounting systems.

Keywords: accounting system, documents, financial statements, qualitative characteristics of accounting information, small and medium enterprises.

1. Introduction

The small and medium enterprises have an important role in the countries' economy especially the developing ones because of the big number of these enterprises and their contribution in reducing the unemployment and increasing the savings , redistributing the income, achieving the integration in the economy which helps accelerating the economic development and improve the economic indications in general.

Generally, there is increased interest in small and medium enterprises because their number is growing rapidly, the public favors small business, there is growing trend toward self-employment and this kind of enterprises is attractive to people of all age (Megginson and others, 1997,4).

Jordan has started to encourage the small enterprises in the early of 1970s through the fifth plan of the economic development (19676-1980) (Mahroq and Magabla,2006) and interest of them has increased since then and the number of the enterprises increased till they become 98% of the size of the enterprises in Jordan employing 33% of the total of the labor force which means they become a basic support for increasing the productivity and solving the problems of poverty and unemployment through using simple productive techniques and achieving rapid return (Smerat,2009).

So to guarantee the success of the small and medium enterprises , these enterprises should adapt an accounting system providing them with a representative image of their work's results and financial position, allow them to compare themselves with themselves via time and with other enterprises locally and internationally, and help their administrations to identify points of weakness and strengths and the available opportunities and obstacles facing them in order to utilize their resources in the short and long term perfectly(Abd-alghani and Ameen,2005)

2. Significance of the study

The significance of the study is represented by :

- 1- The important role that the small enterprises play in stimulating the economic and social growth in Jordan and around the world.
- 2- The accounting system in any small or big enterprise represented its spine and any imbalance in this system may cause its collapse

3. Problem of the study

In Jordan the small and medium enterprises face shortcomings in their accounting systems affecting their performance and preventing them from supporting the economic development .And the main problem of the study is represented by evaluating the status of the accounting system in the small and medium enterprises in Jordan through the following sub questions :

- 1- Do the small and medium enterprises employ qualified accountants?
- 2- Do the small and medium enterprises keep suitable documents?
- 3- Do the small and medium enterprises keep suitable legal and organized records?
- 4- Do the small and medium enterprises in Jordan prepare financial statements agree with the international accounting standards ?
- 5- Do the small and medium enterprises in Jordan audit their accounts at legal auditor office?
- 6- Are the qualitative characteristics of the accounting information available in the financial statements of the small and medium enterprises?
- 7- Do the small and medium enterprises adopt computerized accounting systems at their work ?

4. Theoretical framework

4.1 Definition of small and medium enterprises

The definitions of small and medium enterprises varied where American Institute Certified Public Accountants (AICPA) defines the small and medium enterprises as : the economic institutions aiming to win after excluding large shareholding companies and the characteristics of the small and medium enterprises were identified as follows : few number of employees, low sales ,assets' low value, vague identification of duties and responsibilities because of the weakness of the internal control's systems, the owner's or the manager's control of the companies' activities (Matar and Noor,2008).

The World Bank distinguishes in his definition of the small and medium enterprises between three types:

- 1- very small enterprises : that have less than 10 employees and its total assets less than 10000\$ and the sales' size does not exceed 100000\$.
- 2- Small enterprises: that have less than 50 employees and its sales' size does not exceed 3.000.000\$.
- 3- Medium enterprises : that have less than 300 employees and their assets and their sales' size do not exceed 15.000.000\$.

And the United Nation of Development dines the small enterprises as the projects controlled by one owner who is responsible for everything and the number of its employees ranges from 15 to 50 and this standard varies from one country to another according to its capabilities , economic circumstances and degrees of development so the projects which are considered large in a developing country could be considered small or medium in a developed country (Smerat,2009).

Department of Statistics in Jordan adopted the employees' standard to determine the size of the project during collecting information about the Jordanian projects operating within the different economic sectors considering the project that hires five employees and less is a small project and the project that hires between 6-19 is considered medium and the large project hires more than 20n employees (Omar,1995).

4.2 The small and medium –sized enterprises in Jordan

Jordan has encouraged the small and medium enterprises since 1970s through the economic development plan which encouraged economic and social development and the small enterprises instead of the imported goods and products .And in 1984, Jordan Loan Guarantee Corporation was established with a capital 10.000.000JD (Mahroq and Magabla,2006). In 1986, General Federation of Charity was established and the economic plan also encouraged the agricultural industries and development of crafts and in 1989 an economic program was launched to provide job opportunities for the Jordanians in the small enterprises (Nablsi and Shibli,2009). In 1998 the Ministry of Planning launched Social security package program to improve the poor categories' living conditions and increase their productivity and this program was enhanced in 2002,2003,and 2005(Ministry of Planning).And in 2006 the work of the national bank of financing the small projects launched as the first national bank cares of funding the small enterprises .and establishing the Jordanian Cooperation for financing the small enterprises had a vital role in financing the enterprises that worked on reducing poverty and participated in solving some economic problems in Jordan. As a result of these efforts of supporting the small and medium enterprises , the number of the small and medium enterprises increased with a 98%of the companies registered as private sector.

4.3 Characteristics of small and medium-sized enterprises

The small and medium enterprises are distinguished by the following :

1. Decline of the absolute capital's size of these institutions.
2. The owner of this company is mainly its manager who takes the responsibility of its administrative and financial issues.
3. Lack of organizational structure.
4. The costs of creating work opportunity are low in comparison with the costs of the big industries.
5. Flexibility and its ability to spread for its ability for adaptation in different situations.
6. low individual ability to develop and expand because of ignoring the research and development (Mahoroq and Magabla,2006)

4.4 Accounting System

The accounting system includes operations of registration and classification ,designing documents ,books, control's procedures and methods of presenting the results of the enterprise and its financial center in the financial statement and the accounting system includes the following elements:

- 1- Documents used in the company as receipt voucher, payment voucher, Journal voucher and others.
- 2- Records used in the company either they were financial or statistical as Journal and Ledger.
- 3- Management reports prepared in the department of accounting to provide them to the owners of the project of the administration.
- 4- Accounting procedures organizing the accounting work in the company.
- 5- Final financial statements which include balance sheet, cash flow statement and Income statement.
- 6- The accountants and the tools used in the department of accounting .

Accounting system is important to small enterprises for the following reasons:

- 1- It proves what the enterprise did financially.
- 2- It shows how much the enterprise is worth.

- 3- Banks, creditors, investors require it.
- 4- It provides easy to understand plans for business operations (Kats and Green, 2007, 356).

4.5 Previous studies

- The study of Bandokjy (2005) entitled by : “ The Small Industrial Enterprises in Jerash City” aimed at identifying the financial and economic difficulties concerning these enterprises. And the study concluded that the owners of these enterprises lack the administrative skills regarding planning and organization and they were unable to face the economic problems because of the low capital of these enterprises.
- The study of Smerat (2009) entitled by : “The Financial and The Administrative Problems Facing the Small Enterprises in the South”, aimed to identify the problems facing the owners of the small enterprises in the South of Jordan. And the study was conducted on a sample consisted of 260 enterprises using a questionnaire included five dimensions (establishment, funding, administration, state support, surrounding environment). The study concluded that the most important problems facing the small enterprises were lack of capital , shortage of accounting, marketing and administrative experiences and their inability of getting help from financial statements for planning and predicting of the future cash flows.
- The study of Qashi and Abadi (2010) entitled by : “The Impact of the Absence of Accounting Strategy in the Small and Medium Enterprises on the Performance Efficiency”, aimed at identifying the extent of the accounting strategy availability represented in the conceptual frame of accosting in the small and medium-sized enterprises in Jordan. The study concluded that most of the items of the accounting conceptual frame were not found in the accounting information system used in the small and medium-sized enterprises represented by not preparing all the required financial statements and lack of all of the qualitative characteristics of the accounting information in the statements in these enterprises which lead to some negative effects as the accountants’ low salaries and these enterprises were unable to Keep up with the big enterprises.
- The study of Bin-Aishi (2013) entitled by: “ The Impacts of Applying the Financial Accounting System on the Environment of Small and Medium-Sized Enterprises in Algeria”, aimed to reveal the extent of the Algerian environment’s compatibility with the accounting system and the extent of applying the accounting system in the Algerian environment. The study concluded the necessity to rehabilitate employees of the enterprises and their accounting systems in line with the International accounting standards because these systems lack of commitment to unified accounting standards.

This study is significant because it is –according to the researcher’s knowledge- is the first study discussed the status of the accounting system in the small and medium enterprises-sized in Jordan.

5. Hypotheses of the study

- HO1: The small and medium -sized enterprises in Jordan do not commit to employ accountants.
- HO2: The small and medium- sized enterprises in Jordan do not keep appropriate documents.
- HO3: The small and medium- sized enterprises in Jordan do not keep legal and organized records.
- HO4: The small and medium- sized enterprises in Jordan do not prepare the financial statements which the international standard requires.
- HO5: The small and medium- sized enterprises in Jordan do not audit their accounts at a legal auditor office.

- HO6 : The qualitative characteristics of the accounting information are not available in the financial statements in the small and medium-sized enterprises in Jordan .
- HO7: The small and medium sized-enterprises do not adapt computerized accounting systems.

6. Population and sample of the study

The population of the study is represented by the small and medium sized-enterprises operating in Jordan in different sectors (commercial, agricultural, services).And the sample of the study which was selected randomly consisted of 100 companies from different sectors. 80% of the questionnaires, which were distributed into the sample, were retrieved and analyzed statistically.

7. Tool of data collection

A questionnaire was developed and used to collect data depending on the theoretical framework and the previous studies where is consisted of items representing the hypotheses of the study. The responses of the small and medium –sized enterprises’ owners were either saying “yes” or “no” .

8. Statistical analysis

Descriptive statistical analysis was used to analyze the questionnaire and extract the necessary frequencies.

9. Hypothesis Testing

First hypothesis

HO1: The small and medium enterprises in Jordan do not commit to employ accountants. This hypothesis was tested through the items (1,2) of the questionnaire. The results are illustrated in table (1)

Table (1): Testing first hypothesis

N	Item	Yes	No
1	I support the necessity of employing accountant in the small and medium enterprises in Jordan.	12	68
2	There is an accountant doing the accounting procedures in my enterprise.	5	75

The previous table showed the small and medium enterprises’ owners’ lack of support to employ accountants in these companies. And the small and medium enterprises do not commit to employ an accountant to do the accounting affairs.

Second hypothesis

HO2: The small and medium enterprises in Jordan do not keep appropriate documents. This hypothesis was tested through items (3,4,5) of the questionnaire . Table (2) illustrates the results of the test.

Table (2):Testing of second hypothesis

N	Item	Yes	No
3	The enterprise keeps bills and releases them in the sales operations or providing services.	60	20
4	The enterprise keeps receipt voucher.	50	30
5	The enterprise has payment voucher.	33	47

The previous table showed that the small and medium enterprises keep bills and receipt vouchers while they do not care of having payment vouchers.

Third hypothesis

HO3: The small and medium enterprises do not keep organized records . This hypothesis was tested through items (6,7,8,9,10) of the questionnaire . Table 3 illustrates the test’s results.

Table (3): Testing of third hypothesis

N	Item	Yes	No
6	The enterprise keeps statistical books used in administering the enterprise.	10	70
7	The enterprise keeps regular journal where registration is done right away.	20	60
8	The enterprise keeps ledger where everything is transferred to right away.	18	62
9	Assistant journals are kept.	1	79
10	Assistant ledgers are kept.	1	79

Fourth hypothesis

HO4 : The small and medium enterprises in Jordan do not prepare financial statements according to international standards of accounting . This hypothesis was tested through items (11,12,13,14,15) and the results are illustrated in table 4.

Table (4): Testing of Fourth hypothesis

N	Item	Yes	No
11	The enterprise prepares income statement or profit and loss statement.	50	30
12	The enterprise prepares balance sheet.	40	40
13	The enterprise prepares cash flows statements.	5	75
14	The enterprise prepares necessary disclosures.	2	78
15	Comparative financial statements are prepared for two years respectively.	-	80

The previous table showed that the small and medium enterprises do not prepare cash flows statements and they do not also do the necessary disclosures .And it is clear that they are careless of preparing comparative financial statements.

Fifth hypothesis

The small and medium sized-enterprises do not audit their accounts at legal auditor's office. This hypothesis was tested through items (16,17) of the questionnaire and the results were illustrated in table (5)

Table (5): Testing of fifth hypothesis

N	Item	Yes	No
16	I support that the small and medium enterprises audit their accounts at legal audit office.	10	70
17	I audit the enterprise's accounts at legal audit office.	2	78

Sixth hypothesis

HO6: The qualitative characteristics of the accounting are not available in the financial statements in the small and medium-sized enterprises in Jordan .This hypothesis was tested through items (18,19,20) of the questionnaire and the results were illustrated in table 6.

Table (6): Testing sixth hypothesis

N	Item	Yes	No
18	I care of preparing financial statements and reports of the enterprise which are understandability by the users.	10	70
19	Reliable financial statements and reports should be prepared representing honestly the enterprise's situation .	12	68
20	Comparable Financial statements are prepared for two periods respectively.	10	70

The previous table showed that the accounting information mentioned in the financial statements lack of qualitative characteristics.

Seventh hypothesis

HO7: The small and medium sized-enterprises do not adapt computerized accounting systems. This hypothesis was tested through items (21,22) of the questionnaire and the results were illustrated in table 7.

Table 7: Testing seventh hypothesis

N	Item	Yes	No
21	I support adapting a computerized accounting system in my enterprise	10	70
22	I use computerized accounting system in the enterprise	4	76

The previous table showed that the small and medium –sized enterprises lack of computerized accounting systems .

10. Conclusions

Conclusions can be summarized as follows :

- 1- The small and medium sized-enterprises in Jordan do not employ accountants to do daily accounting work. And the researcher believes that this result is attributed to the weakness of companies' capabilities and the low number of their employees.
- 2- The small and medium sized-enterprises in Jordan do not keep integrated set of documents to be used in proving their daily financial operations where some of these companies keep bills as sales bills and other companies keep receipt and payment vouchers while most of them do not keep any vouchers. The researcher believes that the higher proportion of keeping the bills and receipts vouchers rather than other documents refers to the customers' demand of having copies of these documents as a proof of their rights.
- 3- The small and medium sized-enterprises in Jordan do not keep statistical records or journals, or ledgers but they get help from an accountant to do their work , organize their accounting affairs and prepare their financial statements that they wish to prepare.
- 4- Most of the small and medium-sized enterprises in Jordan prepare income statement or statement of profit and loss to know the result of their work .And about 50% of them prepare balance sheet while these enterprises do not prepare cash flows statements and they do not provide disclosures and these statements are not prepared for two years respectively.
- 5- The small and medium –sized enterprises do not audit their accounts at an office or a Licensed audit company after they were prepared by the accountant and the owners do not approve this .
- 6- The qualitative characteristics in the financial statements are not available and the owners of these enterprises do not show any interest in these characteristics as reliability or comparability.
- 7- The owners of the small and medium sized-enterprises do not agree using computerized accounting systems and they do not use them.

11. Recommendations

- 1- Necessity of developing legislations and laws regarding the small and medium-sized enterprises in Jordan where special requirements and conditions are determined concerning the accounting system that should be followed in these enterprises particularly with regard to the financial statements and their preparation's conditions.
- 2- The income tax department should provides special facilities to the small and medium-sized enterprises where revenues were achieved with simple proportions that suit these companies' capabilities.

- 3- Public and private parties should provide the small and medium-sized enterprises with financial and technical support to enable them resist in light of the difficult economic circumstances and that because of their important role in reducing unemployment and supporting economic development.
- 4- Ministry of Planning and other institutions hold rehabilitating specialized courses to the owners of small and medium sized enterprises in economic, accounting and management affairs to improve their financial and administrative abilities so as to enable them do their work better.
- 5- Conducted specialized studies about manual and computerized accounting systems of the small and medium sized-enterprises emphasizing on the importance of separating the small enterprises from the medium ones during carrying out the research or evaluating its results because there is a difference between the small enterprise where one person works and the medium one where the number of employees may reach to 20.

References

- Abd-Alghani, Dadn and Ameen, Komasi Mohamad (2005), "Financial Performance from Financial Simulation's Perspective", International Scientific Conference about the Significant Performance of the Government and the Organizations, University of Wargla, Algeria.
- Bandokgi, Mohamad Ryadh (2005), "The Small Enterprises in Jerash City", Derast, University of Jordan, VOL.32, NO 1 pp62-67.
- Bin-Aishi, Basheer and Bin-Aishi, Ammar (2013), "Impacts of Applying the Financial Accounting System on the Environment of Small and Medium Enterprises in Algeria", National Conference entitled by: "Status and Perspective of the Financial Accounting System in the Small and Medium Enterprises in Algeria, Wadi University, Algeria.
- Kats, Jermo A. and Green, Richard P., (2007), Entrepreneurial Small Business, International Edition, McGraw-Hill, USA.
- Mahroq, Maher & Magabla, Eihab (2006), The Small and Medium Projects: Importance and Obstacles, Small and Medium enterprises' Center, Amman-Jordan.
- Matar, Mohamad and Noor, Abdnaser (2008), "Nature and the Information Disclosure's Limits in the Financial Statements in the Small and Medium Enterprises", The eight professional scientific conference of the small and medium-sized enterprises between accounting and auditing, Amman, Jordan.
- Megginson, William L., Byerd, Mary, Scott, Charles R. and Megginson, Loen C., (1997), Small Business Management, Second Edition, McGraw-Hill, USA.
- Ministry of Planning & International Cooperation (2005), Programs of Social and Economic productivity, Annual report of achievement.
- Nablsi, Saleem and Al-Shibli, Abdalfath (2009), "The Small and Suitable Finance Systems to Develop the Local Society", A paper presented to the second regional conference, Creativity & Initiatives in the Arab cities, Amman, Jordan.
- Othman, Khalaf (2004), "The Status of the Small and Medium Enterprises and Ways of Supporting and Developing them", Dissertation, University of Algeria.
- Omar, Rafeeq (1995), "The Effects of Economic Policy in the Economic and Social Plan (1993-1995) on the Operation in the Small and Medium Enterprises", Ministry of Planning, Amman, Jordan.
- Qashi, Daher and Abadi, Haithem (2010), "The Impact of the Absence of the Accounting Strategy in the Small and Medium Enterprises on the Performance Efficiency", Journal of Commercial and Financial Studies, Faculty of Commerce, University of Beni-Suef.
- Smerat, Bilal (2009), "The Financial and Administrative Problems Facing the Small Enterprises in South", Derast, University of Jordan, Vol 36 NO 2, pp369-414.

The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage:
<http://www.iiste.org>

CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

Prospective authors of journals can find the submission instruction on the following page: <http://www.iiste.org/journals/> All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

MORE RESOURCES

Book publication information: <http://www.iiste.org/book/>

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digital Library, NewJour, Google Scholar

