

FINANCIAL ACCOUNTING PRACTICE IN TRANSPORT COMPANIES A STUDY OF THE YOUNG SHALL GROW MOTORS LIMITED

ABSTRACT

The study is aimed at highlighting the place of financial accounting practice in transport companies' operations with Young Shall Grow Transport Company as case study. In order to accomplish this task, questionnaires were used to investigate the financial accounting practice of companies. The research tool used for the project was structured questionnaire, observation and interview. The finding of this study indicates that there is significant relationship between financial accounting practice and the performance of transport companies. Conclusions include that the procedure for the account preparation and record keeping is not been adhered to and not constant throughout the various branches. I recommend amongst others that; (1) an individual account for each vehicle should be opened and not the general ledger for all motor vehicles as existing (2) Miscellaneous account should be created for all sundry expenses. This will reduce the risk of misappropriation of funds.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In spite of the repeated calls on governments by the Institute of Chartered Accountants of Nigeria (ICAN) to ensure that the accounts department of ministers and government parastatals are headed by professionally qualified accountants, many companies and enterprises do not seem to see the need for professional accounts to head the department. This might however be attributed to the cost of hiring these professionals. Some of these companies/enterprises do not fully understand the services an accountant would render to their organization and the benefit derivable thereof. Some of these organizations have incurred tremendous losses through fraudulent practices and errors but what remedy/checks are available to prevent future reoccurrence may not be known to them.

In addition to these, some of these business enterprises do not keep adequate accounting records to give management the financial information for decision making. As a result of these factors, many business enterprises have ceased prematurely without traceable financial accounting records that can enable one look into the ability of the business and come out with reasons why the business collapsed and suggestions or remedy for such problems.

The transportation business being one of the fast moving businesses in Nigeria is not left out in the syndrome. Majority of transport organization are operated on family basis where the owner is the managing director, and the wife or brothers and or son the manager, accountant and all in the business and records are kept to the best knowledge of whosoever is in charge and this might not be adequate.

The essence of this research work therefore is to examine critically the management control system operating in a transport company using the Young Shall Grow motors limited as a case study and to design adequate financial accounting records analyzing the information content with a view of aiding management in decision making.

THE COMPANY

The company started from a very humble beginning under the business name- ‘The Young Shall Grow’ in Onitsha in 1972 with a New ford mini-bus plying Onitsha - Enugu route. This was wound up with the movement to Lagos where the first urban Mass Trasist (bus) service was launched using a new locally built Mercedes-Benz 911 bus in 1975.

The inter-state’ passenger/accompanied luggage conveyance service was launched in 1978 with a new Mercedes-Benz 0362 luxury bus plying Lagos-Onitsha-Owerri route. This service attracted instant customers patronage because the company deviated for the common practice among its competitors of discharging all their Lagos bound passengers at their Yaba stations by providing additional service of discharging the passengers at bus stops near their homes at various sections of Lagos metropolis. This revolutionary service, provided at no additional cost, was very customer friendly since it addressed their security problems on arrival in Lagos late in the evenings. The favorable customer response contributed immensely to the rapid growth of the company.

The company was incorporated into a limited liability company in 2011 as “Young Shall Grow Motor Limited”, having office at all corners of Nigeria. It’s downstream employment includes small private entrepreneurs who provide services to its workshops, various branch offices and passengers.

The company maintains about the biggest vehicle repair and maintenances workshop which is adequately equipped and suitably staffed in the Lagos area to efficiently address the vehicle maintenances and refurbishing problems of the company and ensure that its vehicles operate with minimal breakdowns. Smaller workshop facilities are also in operation in major branches to deal with minor repair work.

The growth of the company to its present enviable position can be attributed to hard work, perseverance and deliberate programme of creating employment for the nations increasing number of youths, middle aged and even retired public servants.

1.2 STATEMENT OF PROBLEMS.

The constraint of large scale enterprises in establishing adequate management control measures and accounting records called for the search of what can be considered adequate control measures and accounting records

These groups of business of which transport business forms a greater proportion find the cost prohibitively high to employ good number of staff skilled and otherwise in such a way that the job of one person is independently checked or complementary to the job of the other. Even when numbers of employee are large, greater percentage are non-professional and as a result, records kept are incomplete and inadequate to aide management in formulating policies and making decisions. Emphasis is therefore directed in search of what is adequate control checks and balances as a tool for minimizing wastage, fraud and errors and the extent of reliability that management can place on such measure. Secondly existing accounting records in operation will be examined. With a view of designing adequate books for the operation of a transportation company concern and highlighting information content of such books for management decisions. In a transportation company concern like the Young Shall Grow Motors Limited, management control is the principle factors for effective management. The ability of management to establish adequate control measures help to keep the operating cost of the business at a realistic level, thereby eliminating unnecessary and avoidable losses. Control measures one expects to find in this type of business includes the following:

1. Control, on general financial managements which involves keeping of adequate books and records
2. A good control system on fuel and maintenance.
3. A good authorization procedure.
4. A good control system on the use of the organizations vehicles.

From the above, it is pertinent to ask the following questions:

- a. Is there any relationship between the cost of operation and the profit of the business within a given accounting period?
- b. Is there any need for all these control measure?
- c. What benefit is to be derived from such operational procedures?

If any large scale transport business makes profit and has all these control measures established and working with the organization, such profit cannot be described as fluke and the organization is bound to succeed

1.3 PURPOSE OF STUDY.

This research was undertaken to find answers to the following questions

- 1) Does The Young Shall Grow Motors Ltd. deliberately formulate accounting policies?
- 2) To what extent do they comply with standard accounting procedures?
- 3) How does The Young Shall Grow Motors Ltd make use of accounting information in planning, decision making, controlling and performance evaluation.

In answering these questions, the main objectives are achieve viz. establishing how much accounting information is used by different levels of management. Identifying and suggesting possible solutions to problems in the transport business arising from inadequacies of their

system, recommending ways of making better system for improved efficiency thus enhancing profitability.

1.4 RESEACH QUESTIONS

In the course of this research, the following questions were asked;

- 1) Do large scale transport businesses keep adequate records?
- 2) To what extent do these records comply with standard accounting procedures?
- 3) Is there any relationship between the cost of operation and the profit of the business with a given period?
- 4) What type of record is kept for daily collections?
- 5) Are daily collections banked within 24 hours?
- 6) What types of books are kept in respect of motor vehicles?
- 7) Are separate books kept for each vehicle?
- 8) How many major repairs carried out and where?
- 9) What provisions are made for assets replacement?

These questions were asked to seek a way of making a large scale accounting standard and also designing accounting system for effective operations.

1.5 HYPOTHESIS

There is no significant relationship between financial accounting practice and performance of transport companies.

1.6 SIGNIFICANCE OF STUDY.

The responsibility of the prevention and detection of fraud and errors and minimization of cost rests with the management and this responsibility is fulfilled mainly through the

establishments, implementation and continued operations of an adequate system of management control.

This being the case, can organization without adequate accounting records and management control system, stands the risk of losses, fraud, and misuse of organizations assets and operating at high cost.

Other organization of similar sizes and in the same business will also record and establish a sound control system, since it will enable them know the general welfare of the other branches and thus make them have no effective management financial system.

Finally, an organization which does not know its financial position and cannot make decision based on this can be said to be heading for failure.

1.7 SCOPE OF THE STUDY

The scope of this research is limited to cover;

- a) Examination of management control system in operation and suggestion of what is adequate taking cognizance of available manpower and other resources.
- b) Designing accounting records for a large scale transport organization “The Young Shall Grow Motors Ltd.

1.8 LIMITATIONS

1. Time and money constraint
2. Scarcity of data as well as incomplete records of the transport company
3. The tracking down of the managing director.
4. Reluctance of management to release information considered confidential that will make the research work more informative.

1.9 DEFINITION OF TEAMS

ACCOUNTING: accounting is the process of identifying, measuring and communicating financial information to ensure informed judgments and effective information by the users of such information.

It encompasses book-keeping which refers to the systematic recording business transactions in such a manner that the financial position of the business can be ascertained readily at any time.

ACCOUNTING SYSTEMS: This is concerned with the design and implementation of procedures for the accumulation and reporting of financial data, with the classifying and structuring of accounting data such as financial accounting, standard costing, responsibility accounting, output cost etc.

AUTHORIZATION: This is the act of giving official permission or official power.

BALANCED CARRIED DOWN: This is the closing balance of a particular account at the last day of the period.

BALANCED CARRIED FORWARD: This is the opening balance of a particular account at the last day of the period which is finishing.

BOOKS OF ORIGINAL ENTRY: These are books in which we record transactions first of all as we have a separate book for each different kind of transactions.

BUDGET: Made available to a person or an organization as a plan on how it will spend and receive inflow over a period of time.

CASH FLOW: This is the inflow and outflow of cash and cash equivalent in a project/company.

CHARGE: The amount of money asked for given goods and services.

COST: This is the price at which goods and services can be obtained.

CREDIT: This is the right-side of accounts in a double entry book.

DEBIT: This is the left-side of accounts and double entry book.

EXPENDITURE: This is the act of using up money.

HIRE PURCHASE: this a credit system under which property or a chattel is acquired by payment made in installments during the period which the title in the property remains with the sellers.

INCOME: This is the revenue accruing to the business or cash-flow into it.

INTERNAL CONTROL SYSTEM: This is the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprises in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure far as possible the completeness and accuracy of the records.