

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,  
KUMASI

AN ASSESSMENT OF THE BOOK KEEPING PRACTICES OF SMALL AND  
MEDIUM SCALE ENTERPRISES (SMES) IN KUMASI METROPOLIS.

By

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## DEDICATION

I dedicate this research work to God, my husband and children.

# KNUST

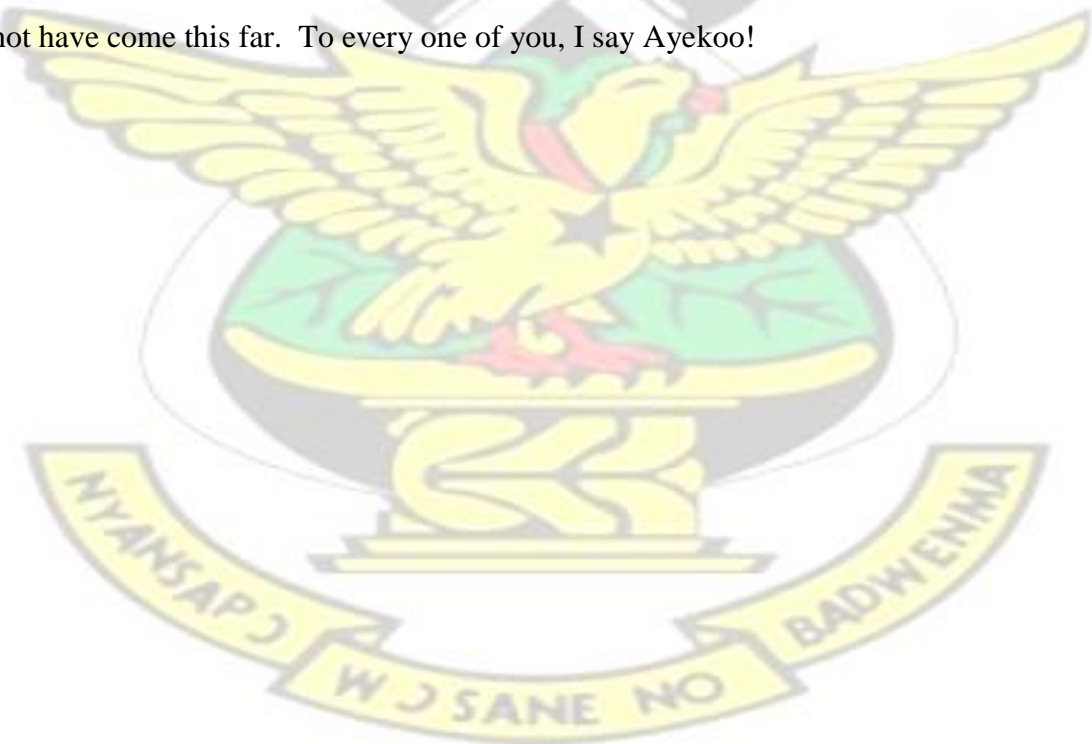


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I am most thankful to God Almighty who by His grace, direction, protection and wisdom granted me the wisdom to carry out this research work. For all these, I say thank you Father! This is how far you have brought me.

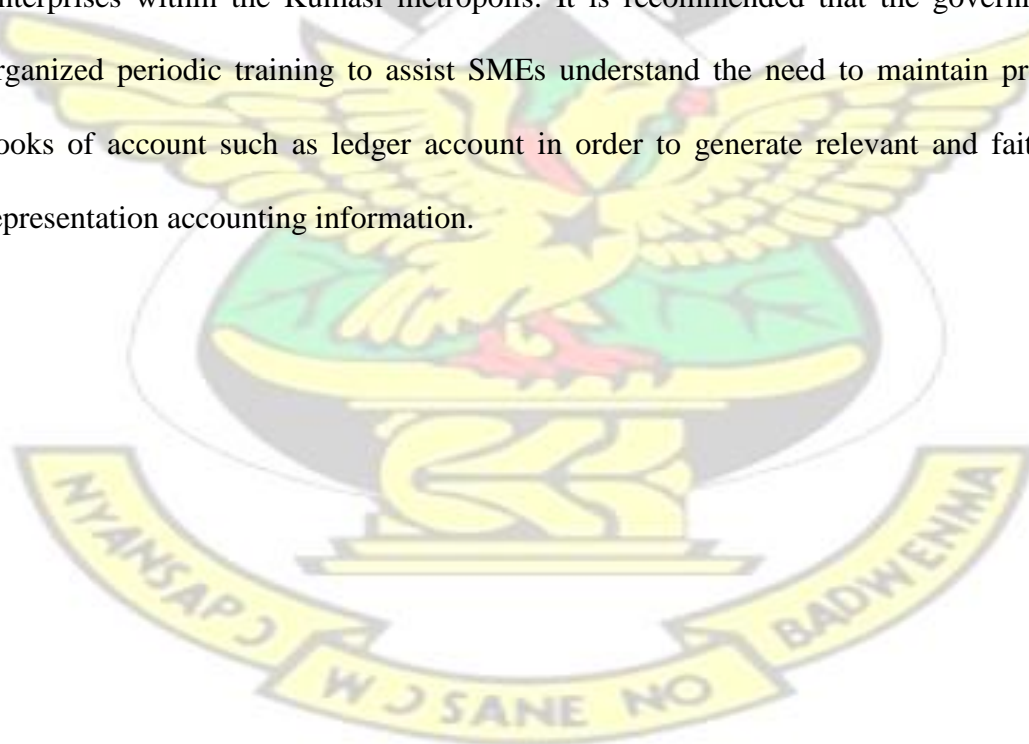
With sincere appreciation, I also acknowledge the immense commitment and contributions of Dr. Kwasi Poku of the Business School, KNUST who supervised this research work and put forward his untiring efforts in ensuring that it comes to an acceptable standard. His recommendation, advice and constructive criticisms were extremely useful. Indeed, I am profoundly indebted to him for his supervision.

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## ABSTRACT

This study sort to examine accounting information system practices of SMEs in the Kumasi metropolis. The study specifically sorts to: assess the accounting records keeping procedures of Small and Medium Enterprises; examine the value relevance of accounting information from the perspective of the SMEs and finally determine the influence of accounting information on SMEs operational performance. The study adopted a quantity study approach and data was collected from 385 respondent and analysed using OLS regression model. The major findings revealed that most SMEs do not apply the double entry principles required in accounting to record their business transactions; the study also showed that accounting information system has a positive and significant impact on firm performance among Small and Medium Enterprises within the Kumasi metropolis. It is recommended that the government organized periodic training to assist SMEs understand the need to maintain proper books of account such as ledger account in order to generate relevant and faithful representation accounting information.



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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Small and Medium Enterprises (SMEs) play an important function in sustainable development and economic growth of nations all over the world (Arthur and Arthur, 2017). SMEs are described as the building blocks of every country (Andalib and Halim, 2019). According to Haselip et al. (2015), such relevant functions played by SMEs can realise sustainability through fundamental implementation of practices adopted in accounting and finance. A greater number of SMEs have however failed to keep enough records of accounting when generating the accounting information that is much needed (Andalib and Halim, 2019). Haselip et al. (2015) reported that there are weak internal systems of accounting that often leads to poor financial condition, low collection of receivable accounts, insufficient information for purposes of making decisions, poor planning and weak expense control.

Accounting functions critically in contemporary business' success or failure (Nketsiah, 2018). Systems of accounting are employed to record, analyse, monitor and evaluate company's financial conditions, prepare documents which are needed for purposes of tax and also to provide information in supporting other institutional functions (Schroeder et al., 2019). The availability of the financial statement forms the basis of business valuation which may facilitate mergers and acquisition of businesses, expansions or joint venture activities as well as facilitate the listing of firms on the capital market (Weetman, 2019). Financial Statement preparation aids firms to track and evaluate the state of all their valuable assets (Bryce, 2017). Also, the availability of financial statement helps firms to assess their financial performance

(income statement) relating to a particular period, assess their financial position as at a particular date, trace the movement of cash relating to a particular period (cash flow statement) and among others (Towery, 2017). On the other hand, Nyathi et al. (2018) stipulated that accounting information is a powerful tool likewise an increase in the users accounting information. Therefore, users of accounting information such as SMEs may accumulate Accounting Information and evaluate them in a manner that can influence decision making of managers of SME's concerning their operation, growth and survival of their firms (Meshram and Rawani, 2019).

It was stated by Kieso et al. (2019) that, systems of accounting ensure the provision of information to SME owners and their managers who operate to measure financial performance. SME establishment in Ghana increases daily with majority of their owners having some degree of knowledge in accounting and finance with the sole aim of managing their profits and losses (Nketsiah, 2018). SME owners in Ghana indirectly make use of accounting and financial reporting. This means that, SMEs utilise systems of accounting, but they make use of it without having full knowledge of its meaning as a voucher, prepare statement of cash flow and income, and making use of double entry systems based on their requirement without knowing that they are practicing accounting systems (Weetman, 2019).

Manu (2016) revealed that keeping of proper books of accounts enables small firms to have accurate and reliable information which will help in making economic decisions. However, lack of accurate and proper accounting records is believed to be one of the causes of closure of many SMEs as well as their success. Therefore, businesses will tend to fail if entrepreneurs ignore this important element (Asuquo et al., 2018). Entrepreneurs and SME owners and businesses must be supported or helped to withstand the test of time and to the foreseeable future (Yohannes, 2015). Proper

record keeping was found to be connected directly to profitability of SMEs all over the world as established by Ramli et al. (2017). They further stated that, due to the inadequate record keeping employed by SMEs, operators of such businesses cannot assess their financial performance effectively. In lieu to this, Ramli et al. (2017) asserted that, adequate records should be kept to help SME owners keep track of their performance in terms of profits while improving their sustainability.

In Ghana, SMEs form part of the nation's production force as they contribute 85% of her employment rate. SMEs in Ghana add 70% revenue to the nation's GDP. Many works have been carried out on the SMEs in Ghana but none have considered the effects of the accounting practices they adopt to keep track of their finance and profits.

## **1.2 Problem Statement**

The 2018 budget of Ghana stipulated that it would patch up existing credit plots, for example, the Youth Entrepreneurship Development Fund, to give assets to new companies and SMEs in Ghana. Should this brilliant assistance be given to the SMEs, would they keep proper financial records of transactions to access this fund or be indulged in creative accounting just to have access to the funds? Also is their financial information analysis suitable to provide assurance or reliance to ensure recoup of the funds? This confirms that the progress of SMEs in Ghana is centred on capital. Thus, to obtain this capital proper financial accounting records are needed by these SMEs.

Accounting has been found to be the backbone of the success of every business globally such that, inefficiently using information of accounts to support decisions of finance by SME owners can adversely influence the financial status of the enterprise. In the long term, the enterprise's sustainability would be affected (Nketsiah, 2018).

Recently, there have been education, training and sensitisation of proper practices of accounting with the sole aim of improving sustainability and profits earned in the business sector of the country (Mbroh and Attom, 2011). In an investigation by Ramli et al. (2017) on accounting practices of SME's in the Kumasi Metropolis, it was established that SMEs do not keep up legitimate books of records since proprietors do not welcome the need to continue bookkeeping records. Zotorvie (2017) also asserted that, SMEs have still realised failure in keeping the appropriate books of accounts because of reduced level of education on the subject matter which has also made them less profitable hence, making it difficult for them to hire qualified personnel in the field to handle their accounting issues. In view of this, it is imperative to carry out an assessment of the practices of financial accounting that are adopted by SMEs in Ghana with much concentration on the effects they derive from their preferred accounting practice.

### **1.3 Objectives of the Study**

The main objective of this study is to assess effect of book keeping practices on the growth of Small and Medium Scale Enterprises (SMEs) in Kumasi Metropolis.

Specifically, this seeks to achieve the following:

1. To examine the forms of records of accounting adopted by SMEs
2. To assess the challenges SMEs face when keeping the right account books.
3. To examine howbook keeping accounts influence SME activities.

#### **1.4 Research Questions**

1. What are the forms of records of accounting adopted by SMEs?
2. What are the challenges SMEs face when keeping the right account books?
3. How does book keeping account influence SME activities?

#### **1.5 Significance of the Study**

The outcome of this study to the large extent would help owners and directors of SMEs acknowledge and embrace monetary bookkeeping practices to upgrade the development of their business. The discoveries and conclusions would likewise, encourage the Ghana Revenue Authority (GRA) to establish procedures to grow the assessment tax net to cover more businesses. It might likewise fill in as reference for further and consistent research in the financial accounting or bookkeeping field of study.

#### **1.6 Scope of the Study**

The extent of this examination was to fundamentally evaluate the adoption financial accounting bookkeeping practices and its effect on SMEs in the Kumasi Metropolis. The research also considered a relatively wide area in the Kumasi Metropolis from where data were gathered. This is because most of the SMEs are situated in the regional capital due to the access of marketing. Also, demographic (gender) did not hinder the data collection procedure and within an estimated time frame of about 6 months the research work was completed. Geographically, the study was based in Accra.

## **1.7 Limitations of the Study**

The fundamental restriction of the investigation is the quantity of the population and the size of the sample for the examination, particularly, how to convince the main group to which the study was concerned (SMEs) to agree and fill out the questionnaire given to them and their ability to willingly give out the right information. Other limitation includes the limited time frame for collection of data.

## **1.8 Organization of the Study**

The research was organized into five chapters. Chapter one comprised of the background to the study, statement of the problem, objectives of the study, research questions, significance of the study to all stakeholders and finally scope, limitations and organization of the study. Chapter two examined both theoretical and empirical literature which are relevant to the study as well as definition of key concepts and conceptual/theoretical framework with possible diagrams. Chapter three captured the methodology used in terms of the general design of the study; it comprised of the research design, population and sampling, instrumentation, validity and reliability, data analysis, procedure and time frame of the study. Chapter four on the other hand presented the results of the research conducted and discussed the findings of the study. The final chapter, which is Chapter five drew conclusion from the findings of the study and made appropriate recommendation to that effect.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents works that have been carried out by scholars in the same field of study pertaining to the subject matter. It was divided into four main parts, namely, conceptual review, theoretical review, empirical review and conceptual framework. The conceptual review includes explanations to concepts or key words in line with the subject matter while theoretical review encompass theories that govern the subject matter. Works that have been done by researchers together with their findings were outlined under empirical review.

#### **2.2 Conceptual Review**

##### **2.2.1 Small and Medium Enterprises**

Many researchers define SMEs differently according to the direction of their study (Quartey et al., 2017). Definitions of SMEs are dependent on requirements of capital as well as size of employment. If enterprises are able to fulfill the maximum ceiling for headcount of staff and their investment in terms of monetary issues, then they qualify as either small, micro or medium scale enterprise. SMEs that are organized have workers who are qualified with an office that is registered. Those SMEs that are not organized are often made up of skilled workers who depend on apprentices or family members (Sibanda and Manda, 2016).

The SME sector is generally made up of individuals with reduced educational level and training (Moyo and Mandizwidza, 2017). Many SMEs are owned by families with little division of the company's monetary affairs from the finance of the owner to an extent where the operator or owner's account is similar to the account of the

company. According to Agbola and Amoh (2019), most of the enterprises are owned by females. Most of them are also dependent on the home in comparison to the ones that are held by men. It was established by Appiah et al. (2018) that the Statistical Service of Ghana regards companies with less than 11 workers as a small scale enterprise. Those with more than 11 workers are regarded as medium scale enterprises. Other researchers defined SME based on the value of their fixed assets (Muneer et al., 2017). Acheampong and Hinson (2019) found that, both size and fixed asset value are imperative to the success of SMEs in the country. Agboh (2015) made it clear that, SMEs are those with not less than nine workers with an asset valuation of not more than GHS1000. Ntiamoah et al. (2016) asserted that, the valuation of fixed asset in itself pose as a major problem and hence, is a point of caution. To add, such definition is made archaic due to the periodic rise in exchange rate (Peprah et al., 2016).

### **2.2.2 SME's Accounting Practices**

Accounting is found to be an essential aspect of the process of managing an institution. It provides information that is important to the company in terms of evaluation, making decisions, planning and controlling processes (Maskell et al., 2017). Accounting systems provide information of accounting (Boateng, 2015). It deals with every method that is needed in recording transactions, liabilities and assets in account books that would eventually make up a dependable foundation for preparing financial statements (Kieso et al., 2019). It is often not easy for SMEs to determine accounting performance with no system of accounting. It would also be difficult for them to identify customers and suppliers accounts (Rahman et al., 2015). Fagbemi and Olaoye (2016) made it clear that, the right accounting system shows the extent to which a company performs. It also identifies the kind of decisions that are

essential to be taken so as to maintain the business on the market. Osinowo (2018) in his study made it clear that, there exists a relevant adverse effects of poor accounting practices on sustainability and growth of SMEs. It was stated by the European Federation of Accountants that, it is important for business decisions to be made relevant, timely and user friendly. Notwithstanding, many SME owners carry out their business dealings without any form of accounting or financial analyses. Owusu-Appiah et al. (2016) asserted that, sometimes, SME owners do not comprehend the real status of their work in terms of finance.

It is important for enterprises to keep the right account books while preparing financial statements that provide fair and true perceptions of the financial affairs of their business (Anokiyewaa, 2016). Correct records of accounting are mandated to indicate and provide explanation to the transactions of enterprises while disclosing with reasonable accuracy, the enterprises' monetary stance at any point in time (Anokiyewaa, 2016). Nang (2017) was of the view that, when retaining the right records of accounting, procedures, policies, systems, personnel and operations are needed in administering such records of accounting. Babani and Sharma (2015) also stated that, proper record keeping provides evidence of how the transactions were handled and substantiates the steps that were taken in order to comply with business standards.

### **2.2.3 Importance of Accounting Practices**

Samuelsson et al. (2016) made it clear that, small businesses form an aspect of the business environment. It leads to the periodic relevance of accounting to companies such that, for a company to succeed or fail, it is dependent on an SME. To make it financially, owners of SMEs require an accurate, timely and updated information

based on accounting (Amara and Benelifa, 2017). The financial condition of companies are responsible for monitoring and analyzing firms' monetary conditions (Mustaghfiroh and Yanto, 2016). Without such a system, it will be very difficult for SMEs to determine performance, identify customer and 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 the maintenance, processing and communication of such information to internal and external stakeholders (Parry, 2016). When organizations adopt e-accounting, they usually discover that even though computerized accounting systems handle financial data efficiently, their true value is that they are able to generate immediate reports regarding the organization (Nirwana and Haliah, 2018).

### **2.2.5 Challenges of Accounting Practices in SMEs**

Mukhaerjee (2003) made it clear that, challenges in accounting practices may take the form of errors in the trial balance agreement. This is said to occur when both sides transacting business input the wrong amount of money. There is also an error of omission where a party omits a transaction from the accounting records. This is often done to ensure balance in accounts. A reversal errors, commission error and principal error can occur, thus, posing as challenges to use of accounting practices (Mukhaerjee, 2003).

In terms of trial balance which is often utilized to ensure balance in internal control, an error may occur in the input of debit balances or total credit balances in the general ledger. However, there are instances when there are disparities between the debit balances and the credit balances, and this is due to errors made in the accounting

process. During such instances, the debit entry is not the same as that entered to credit.

## **2.2 Theoretical Review**

### **2.2.1 Generally Accepted Accounting Principles (GAAP) Theory**

Conceptual frameworks of accounting are the theoretical bases that determines events to be accounted for, how to recognise, measure and communicate these events (ICAG, Financial Reporting Manual). These principles are not only theoretical in nature but have highly practical claims that help to standardise accounting practises, eliminate the subjection of national standards to considerable political interference (less criticism) and not only the accounts be centred on profit or loss but as well as focus on the valuation of net assets.

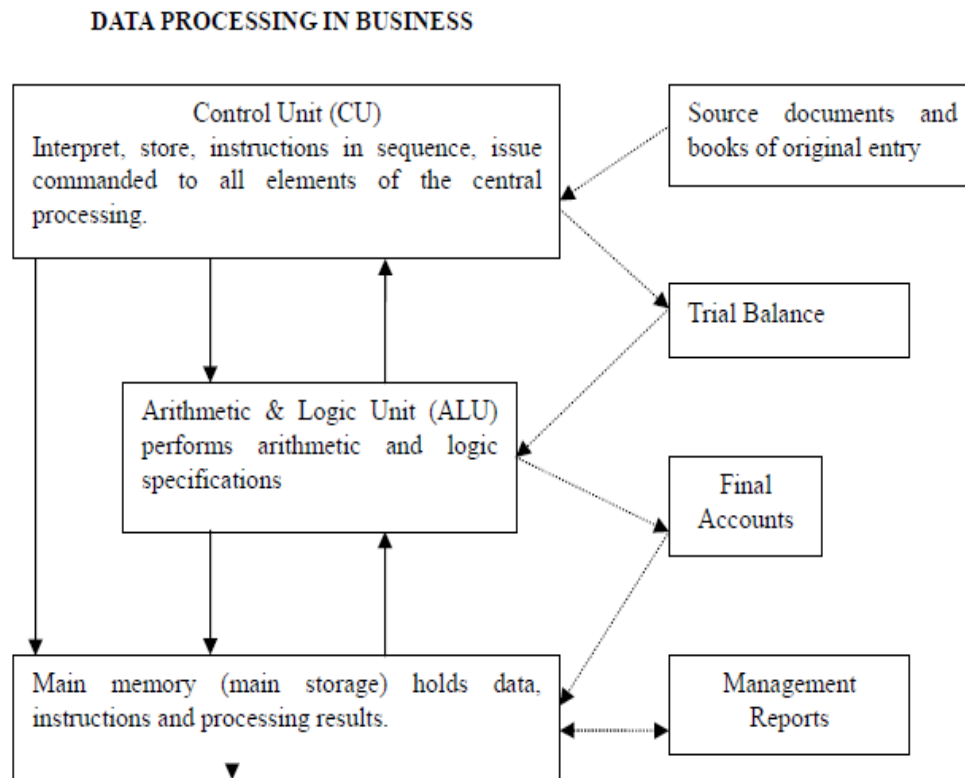
GAAP on the other hand encompass all the rules from every source that govern accounting such as National company laws, National bookkeeping models and local requirement on the exchange market. Others consist of non-compulsory sources like International Accounting Standards and Statutory prerequisites in different states or nations.

Also, the need for regulatory framework aids the assessment of firms' performances on yearly bases as well as assessment of inter-company performances, better and easier access to credit (banks/investor funds) and enhances business valuation for expansions or mergers and acquisition).

### **2.2.2 Data Processing and Information Technology (DPIT)**

Bookkeeping anyway originates before PC. Their combination is indistinguishable on ground of exactness, quality, practicality, speed, and capacity. Oladimeji et al. (2018)

design PC gadget for business and bookkeeping activities as introduced in Figure 1 below:



Source: Akanni 1998 (modified) p. 241

### Figure 2.1: Data Processing Business

The clarification of the above figure demonstrates that the imbue ment of bookkeeping and PC is anyway additionally reinforced by the strategies and phases of information gathering, recording, breaking down, condensing and translating the financial reports. These stages are additionally alluded to as information handling in business, Arli et al. (2018). The solid tie that exist between bookkeeping framework and electronic information handling framework as arranged above lies on the succession of information age from the source archives, issuance of guidelines and directions to the different preparing units or components by the control unit, performs number juggling and rationale tasks or Arithmetic Logic Unit (ALU) on the source record, test of the books of original entry by means of a trial balance for mathematical accuracy,

arrangement of conclusive reports for executives and others for effective decision making and control mechanisms, store data and guidelines in the capacity units or principle memory unit Arli, et al. (2018).

### **2.2.3 Prospect Theory**

Prospect theory is a behavioral model that shows how people make decisions between alternatives that involve risk and uncertainty. It establishes that people think in terms of expected satisfaction relative to a reference point (e.g. current wealth) rather than absolute outcomes (Abdellaoui et al., 2016). Prospect theory was developed by outlining risky choices and indicates that people are loss-averse; since individuals dislike losses more than equivalent gains; they are more willing to take risks to avoid a loss. Due to the biased weighting of probabilities and loss aversion, the theory leads to the following pattern in relation to risk (Rossiter, 2019)

The model of this theory is descriptive in that it tries to describe real-life choices rather than optimal decisions. It therefore speculates that before the owner makes any financial decision, he/she has to consider the major risks involved. This theory therefore holds that decisions made by owners should be done with some level of expertise, and this requires financial literacy for businesses to make sound financial decisions. The theory's proposition to the study is that SMEs with financial knowledge are able to make more informed decisions, hence are able to perform better financially (Schmidt, 2016). The adoption of this theory will enable the understanding of the effects of good decision making to financial performance of SMEs (Paddock, 2015).

## **2.3 Empirical Literature**

### **2.3.1 Accounting Records Kept by SMEs**

In a study conducted by Ezeagba (2017) uncovered the reasons why SMEs get ready budget summaries, and contend that on the rundown, SMEs rank evaluating gainfulness second to the motivation behind expense forms. Additionally, as indicated by Wadesango (2015) proprietors of SMEs consider benefit augmentation as the most significant money related target. This has prompted the contention that SME proprietors focus on benefit and estimation of net benefit when firms present their assessment.

Moyo (2018), stipulated that the advancement of a sound bookkeeping framework in SMEs depend on proprietors' level of bookkeeping learning and abilities. A few writers have contended that private companies utilize proficient bookkeeping firms for readiness of yearly reports and for other bookkeeping needs (Chepkelyo, 2015). Okpala (2019) reports that the fundamental drivers why SMEs get ready budget summaries is weight from administrative specialists. Bank (2018) takes note of that, a great bookkeeping framework is not just made a decision by how well records are kept yet by how well it can meet the data needs of both inner and outside leaders.

Katisme (2015) maintain that it is normal for qualified bookkeepers to work admirably of staying up with the latest yet they neglect to give data required by chiefs. Curiously, in any case, others contend that the staggering expense of contracting proficient bookkeepers has left SME proprietors with no better choice however to consign the board of bookkeeping data (Nang, 2017). Moyo (2018) has proposed the utilization of bookkeeping programming to improve bookkeeping rehearses, yet he mourns the inaccessibility of medium-sized programming for SMEs.

In the literature of Ankrah et al., (2015), a good accounting system is not only European Journal of Business and Management judged by how well records are kept but by how well it is able to meet the information needs of both internal and external decision-makers. According to Sori (2009), it is common for qualified accountants to do a good job of keeping records up to date but they fail to provide information needed by decision makers.

For a business person, an accounting system should be capable of providing the following information: interim statements, quarterly or bi-annual, that can provide information about the progress of the business. Such statements need not be detailed, but capable of addressing the special needs of the business. Such documents can also be circulated, if necessary, among external users such as lenders and efficient cash flow planning. This when reviewed annually could indicate overall financial requirement, an accounting system, in addition to providing financial statements etc. As mentioned earlier, it is important to have a system of control over all business activities which should be labelled as the accounting control procedures for small scale enterprises. A well designed and properly implemented control system can ensure the protection of resources against waste and fraud, accuracy and reliability in accounting data and success in the evaluation of the performance of the business. Accounting controls are measures that relate to protection of assets and to the reliability of accounting financial reports.

A well designed accounting control system for cash transactions will require every business to maintain a properly drawn cash book, preferably an analytical cash book that will not only enable recording of all cash but also provide the facility to record break down details of expenses and receipts. This will assist the proprietor in ascertaining the magnitude of each item of expense and based on the information

collected, take steps to prevent certain expenses getting out of control. There are two main categories of record keeping which are single entry and double entry systems.

The single entry is an informal way of recording transactions where one side of the transaction is presented. The system records all transactions relating to the firm only, such as transactions with particular creditors or debtors and neglects all the impersonal transactions. The system neglects the dual aspect concept, which forms the proper accounting (Maseko&Manyani, 2011). One of the characteristics that make the single entry system undesirable is that it generates incomplete information for preparing financial statements.

The double entry system makes use of dual concept, that is; every debit entry has the corresponding credit entry. In other words, what one does on the credit side must be supported by a corresponding debit side. McMahon (2007) explains that a ledger account is used to record every transaction twice based on the idea that each transaction has two halves that affect the business. Periodically, usually monthly, the summarized balances from the journals (subsidiary ledgers) are posted (transferred) to a formal business record called the general ledger. The double entry system must balance if the entries are correctly entered in the ledger from the source documents. The double entry system is the most recommended system as it is more accurate compared to single entry.

The approaches to basic small business accounting/record-keeping can be analyzed at various latitudes and details as in the case of formal planning and controlling of operations of which cash accounting basis is primary. Cash-basis accounting is a method of bookkeeping that records financial events based on cash flows and cash position. Revenue is recognized when cash is received and expense is recognized

when cash is paid. In cash-basis accounting, revenues and expenses are also called cash receipts and cash payments. Cash-basis accounting does not recognize promises to pay or expectations to receive money or service in the future.

The proprietary system is appropriate for cash transactions type of business. It often involves the use of daily or weekly sheets or proprietary type book, backed up in the case of retail shops by cash and bank position but often without records on the inventory levels until a physical check is done. The analyzed cash book system is appropriate for the small business with cash, credit sales in a reasonably large size. This involves the use of the analyzed cash book together with, a sales invoice summary book etc. It is flexible and could be structured for specific operations. The full double entry system is a full double entry book keeping system with cash book, purchases, sale, nominal ledgers etc. This method is often use for fairly large businesses which could be computerized in future.

According to Barbara (2010), this system uses a cash receipts journal and a cash disbursements journal in addition to the check book. All transactions are recorded in one of these journals. It records the flow of income and expenses and is practical for a small business just starting out. The cash receipts journal records all the cash received. It has columns for various categories of receipts with a line for each receipt, including date, source of cash and total amount. The column categories may be departments or types of merchandise, types of service or whatever classifications make sense for business. The cash disbursements journal records the money spent. It has columns for various categories of expenditures which include date, check number, payee, description of expense and total amount. The column categories may be merchandise for resale, supplies, interest, rent, salaries or whatever classifications make sense in the business. The choice of column categories in both journals is

critical to future analysis. All columns in both journals should be totaled each month with year to date totals after each month.

Ankrah et al., (2015) conducted a study to examine the relevance of accounting information in the management of small-scale enterprises in the YiloKrobo district in Ghana. The study population consisted of five small scale enterprise associations registered with national board for small scale industries (NBSSI) and association of small scale industries (ASSI). Purposive sampling technique was used to select 40 small scale businesses registered with the national board for small scale industries (NBSSI) as the sample size. Primary data was obtained through administration of questionnaire. The study employed descriptive statistics to analyze the data. The findings of the study revealed that small scale enterprises in YiloKrobo district had no accounting system. It further stated that, there was no full time trained accounting employee who could design and review accounting systems.

Nyathi et al., (2018) investigated the role of accounting information in the success of Small and Medium Enterprises in Harare-Zimbabwe. Both primary and secondary source of data were used. Primary data was obtained by the use of questionnaires and interview guide whilst secondary data was collected from existing documentary and journals from other scholars on the same topic. A total population of 200 retail SMEs operating within the central business district centre in Harare. The study selected 60 registered SMEs as a sample size through random and judgmental sampling technique. The study's findings disclosed that, most of the SMEs do not keep accounting records at all. Again, the study revealed that, small and medium enterprises keep accounting information purposely for security reasons rather than decision making. The study's findings concluded that Small and Medium Enterprises

in Harare hire unskilled accounting employees which make their information unreliable and insufficient for decision making.

Harash et al., (2014) conducted a study which sought to investigate how the use of accounting information system (AIS) affects the Small and Medium Enterprises performance in Iraq. The study used AIS as the independent variable and the performance of SMEs was used as dependent variable. The independent variable – Accounting Information System (AIS) was measured by reliability, relevance and timeliness whilst the dependent variable- SMEs performance was also measured by financial and nonfinancial measures. The findings of the study showed that, Small and Medium Enterprises that employed more Accounting Information System resources are to create comparative advantage. The study also reported that, there is a significant impact of Accounting Information Systems on Small and Medium Enterprises performance.

Allah et al., (2013) conducted a study to examine accounting information systems (AIS) in the fast food industry in Cape Town, South Africa. The objective of the study was to measure the extent to which Small and Medium Micro Enterprises make use of accounting information system. The population of the study was not reported. Purposive sampling technique was employed to select 30 Small and Medium Micro Enterprises operating fast food within the Cape Metropolis as a sample size for the study. Primary data was obtained from the use of questionnaire. Data was analyzed using descriptive statistics. The findings of the study indicated that, a greater percentage of Small and Medium Micro Enterprises do not use modern technology of accounting information system (AIS) but still rely on manual accounting information systems.

Uyar et al., (2017) examined the impact of the accounting information system on Corporate Governance in Turkey. The objective of the study was to investigate the relationship between the accounting information system and corporate governance in Istanbul, Turkey. The study selected the firms operating in Istanbul as the targeted population for the study. A simple random sampling technique was used to choose 400 firms of which 142 responded. Primary source of data was utilized through administration of questionnaires.

The study employed descriptive statistics and partial least square- structural equation modeling (PLS-SEM) to analyze the data. The study measured corporate governance which is the dependent variable by revenue, number of staff and operating years whilst the independent variable – the accounting information system (AIS) was also measured by book keeping system, efficacy of financial reporting, usage of Turkish accounting standards (TAS) and efficacy of budgeting system. The results of the study revealed that, bookkeeping system, efficacy of financial reporting and efficacy of the budgeting system have a positive effect on the corporate governance whilst Turkish accounting standards (TAS) do not have direct impact on corporate governance. In conclusion the study established that, there is a positive relationship between the accounting information system and corporate governance.

Dyt & Halabi (2007) conducted a study which sought to examine the nature and type of accounting information system kept by small and micro businesses in Australia. Random sampling technique was adopted to select the firms for the study. The study employed primary data obtained from the use of questionnaire and interview guide. Data was analyzed using Pearson Chi squared test, t-test and quantitative procedures. The finding of the study revealed that only a few number of small and micro business producing accounting reports yet, significantly more small businesses produce a

balance sheet. The study further reported that profit and loss report was rated significantly more useful by small businesses. The study again indicated that, micro businesses highly depend on manual methods while small businesses were somehow using computerized system.

Ismail & King (2007) conducted a study on factors influencing the alignment of accounting information systems in small and medium sized Malaysian manufacturing firms. The objective of the study was to examine the factors that affect accounting information system (AIS). Data was obtained from primary source through the use of questionnaire from 214 firms on nineteen accounting information characteristics for requirements and capacity. The study employed cluster sampling technique in selecting the firms. Cluster analysis and moderation approach were used to analyze the data. The finding of the study showed that, informational sophistication, owner or manager accounting knowledge, advice from relevant government agencies and accounting firms, and the existence of internal IT staff, were the main determinants of AIS alignment. However, the study reported a negative relationship between firm size (number of employees) and AIS alignments. Accounting information system and firm performance of Malaysian SMEs using panel data. Both primary and secondary data were employed in the study. Primary data was obtained by the use of questionnaires to various SMEs whilst secondary data was gathered from the financial statement for a five years period covering 2004-2008. Sample for the study comprised of 205 firm-years. Regression was used for data analysis. Results from the research revealed that SMEs adopting AISs improve significantly in performance compared to non-adopters.

A study on information systems implementation in India has been conducted by Sharma & Bhagwat (2003). They measured and evaluated AISs performance from six perspectives; operational efficiency of AISs function, downtime of AISs,

responsiveness of AISs, timeliness of information, accuracy of information, and overall competitive position. This Cross-sectional survey was based on a questionnaires and personal interviews of 147 Indian SMEs. The results suggest that AISs performance measurement framework can be the foundation for SMEs strategic growth in the globalization. The proper management of AISs and its performance measurement are necessary for SMEs that want to remain competitive in global economy.

Jawabreh&Alrabei (2012) conducted a research on the impact of Accounting Information System in planning, controlling and decision-making processes in Jodhpur hotels. The descriptive analytic method was used to collect data by means of a questionnaire distributed to various hotel accountants. After the statistical analysis of the questionnaires appeared several key findings most of which are that hotels in Jodhpur didn't use the method of accounting information system in planning, control and decision-making processes. The study shows that there is no relationship between accounting information system and planning, controlling and decision making in four and five star Jodhpur hotels.

### **2.3.2 Challenges faced by SMEs in keeping proper account books**

An investigation led in Zimbabwe on 100 SMEs by Maseko and Manyani (2011) draws out that SMEs don't keep total records of records because of absence of information in bookkeeping and the expense of connecting with expert bookkeepers. Therefore, the utilization of bookkeeping data to help estimation of monetary execution by SMEs is ineffectual. The investigation suggests that administrative bodies must create explicit rules for SME bookkeeping and sort out bookkeeping preparing programs for business visionaries in independent ventures. They

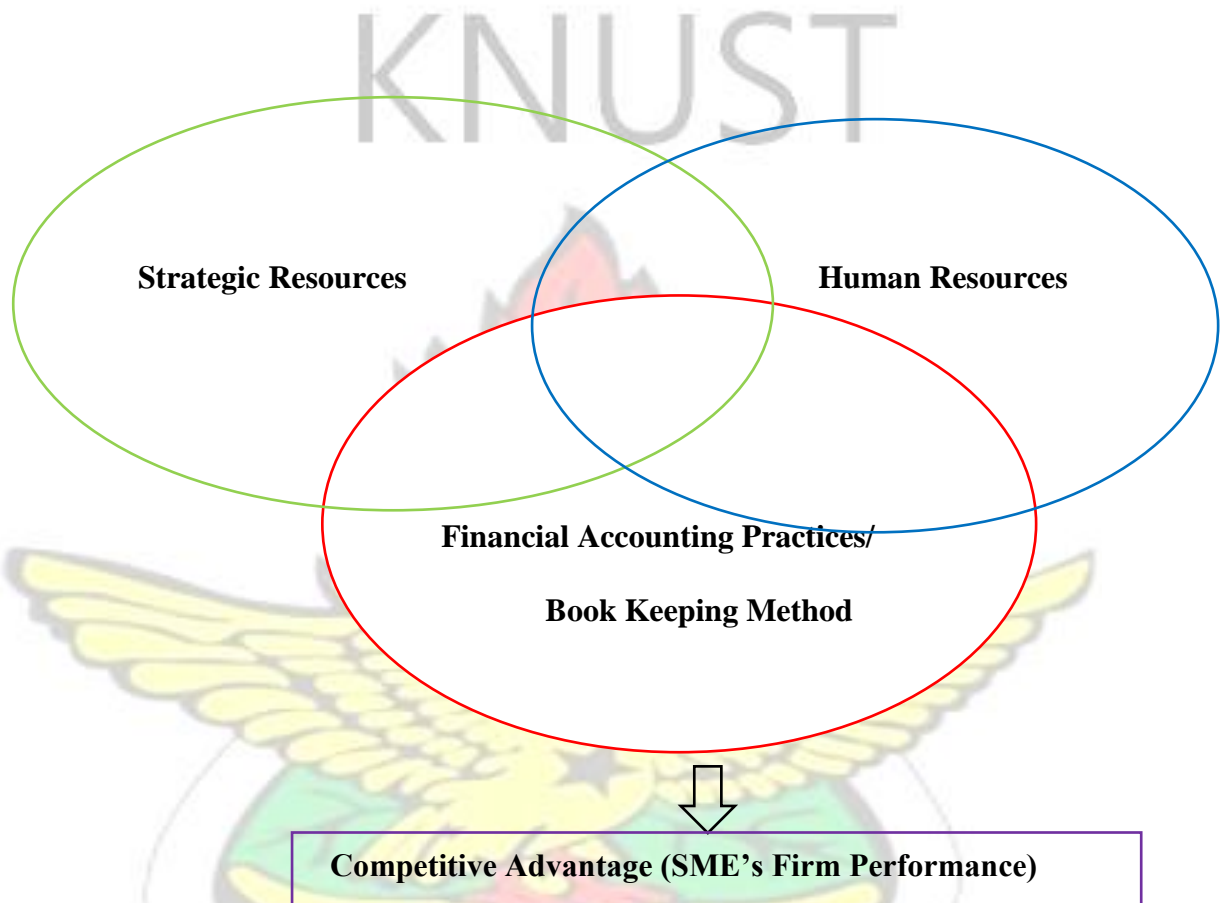
additionally prescribe the utilization of obligatory record keeping to improve bookkeeping practices of SMEs in Zimbabwe.

Mbroh and Attom (2011) contemplates 217 out of 250 SMEs in Ghana and reports that 59% don't rehearse formal bookkeeping by any means. The reasons they provided for this incorporate low degree of training and insufficient learning in bookkeeping which makes it hard for them to welcome the need to work on bookkeeping in their business. In an investigation of 148 respondents in Nigeria (Enugu), Okoli (2011) joins appropriate record keeping and productivity of little scale undertakings and attest that because of deficient record keeping, the little scale administrators couldn't survey their exhibitions successfully. He contends that so as to improve the productivity of little scale undertakings and their congruity, there is requirement for satisfactory record keeping which will assist the owners with keeping track of the presentation of these endeavors.

Mensah et al. (2007), stated that a critical number of endeavors in their study kept no records relating to activities, fund, evaluated accounts, government forms and among others. As of not long ago, all the smaller scale and little undertaking couldn't get credit from the banks and special organizations on grounds that the formal financial part thought of them as a high hazard territory, and consequently charged them staggering expense for acquired assets from the banks. Nkestiah (2018) claimed the presence of functional issues in determining records and assumes that own up the expressions. One explanation behind that is on the grounds that for practically all undertakings the proprietors keep every one of the records in memory and subsequently the absence of records of numerous sorts – deals, showcasing lack of records of all kinds –sales, marketing, accounting, borrowing from credit or lending institutions, staff costs, managements emoluments. When Proprietors of SMEs don't

keep appropriate records in this manner, then they are not ready to give information about their business.

## 2.4 Conceptual Framework



**Figure 2.2: Conceptual Framework**

**Source:** Adapted from Sulaiman 2014

The Resource-Based View (RBV) suggests that lack of financial, human, organizational resources and capabilities reduce the firm innovation activities (Hewitt-Dundas, 2006). The inconsistency in the financial records especially due to unavailability of human resources is a major challenge to SME's development; particularly it prevents them from expansionary opportunities. In Hewitt-Dundas study conducted, using a panel data analysis of Irish firms and he found out that lack of access to finance are a major constraint to the firm innovation activities.

The RBV model also suggest that, resources play vibrant role in supporting firms to achieve better operational performance. However, the firm with less financially literate in book keeping procedures is more likely to face huge challenges with regards to their performance. Greenspan (2002) argued that financial literacy in book keeping aids individual, household and businesses to instill financial knowledge essential to individual, household and business planning, inculcate savings, taking strategic investment decisions as well as the possibility of getting access to credit.

Good appreciation of book keeping principles and knowledge helps owners of SME's to effectively plan and allocate resources and efficiently account for those resources to derive maximum utility. This is emphasized by a study conducted by Hilgert, Hogarth, and Beverly (2003) which asserted that individuals with lower appreciation of financial literacy may be due to lower degrees of education, less interest in financial matters, and poor financial knowledge.

## **2.5 Conclusion**

This chapter presented works that have been carried out by scholars in the same field of study pertaining to the subject matter. It concentrated on conceptual review, theoretical review, empirical review and conceptual framework. The conceptual review included explanations to concepts or key words in line with the subject matter while theoretical review encompasses theories that govern the subject matter. Works that have been done by researchers together with their findings were outlined under empirical review.

Thorough literature analysis revealed that numerous works have been done on accounting practices. However, there are gaps. First, the advancement of a sound bookkeeping framework in SMEs depend on only proprietors' level of bookkeeping

learning and abilities (Moyo 2018) and that that private companies utilize proficient bookkeeping firms for readiness of yearly reports and for other bookkeeping needs (Chepkelyo, 2015). Interestingly, Katisme (2015) argued that qualified bookkeepers neglect to give data required by professionals and again, there is staggering expense of contracting proficient bookkeepers has left SME proprietors with no better choice.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This part of the study gives more information on the methods adopted to facilitate collection of data for inference to be drawn. This included the study's design, population, sample size, sampling technique, instrument used to collect data, data collection methods, data analyses and ethical consideration.

#### **3.2 Research Design**

Methods employed in a study encompass those that are used to select techniques suitable for data collection, analyses and interpretation of responses obtained (Doyle, 2006). It is often important for researchers to choose the right methods with the sole aim of putting together the study in question. Research methodology deals with systems of comprehensible measures and rules for which there is evaluation of knowledge claims and on which a study is dependent (Doyle, 2006).

A study's design deals with the logical sequence that connects empirical knowledge to its objectives with an ultimate influence of its conclusions (Ziegler, 2006). It is made up of an arrangement to collect and analyse data such that, relevance of a study is combined with its purpose. Research design is identified as the blue-print of a study. In other words, it guides the conduct of the study (Doyle, 2006). Ravi and Saxena (2015) explained the design of a research as a study's framework. According to them, it dictates the kind of information that is relevant for a particular study.

The design of a research can take the form of descriptive, explanatory, exploratory, case study, survey or even ethnography. It can also be quantitative, qualitative or

mixed method. For the purpose of this study, the descriptive design coupled with quantitative technique was adopted to obtain information that is relevant to the study in the easiest and fastest way possible. The study adopted the descriptive study design because of the quest to explain into detail the information obtained. According to Cooper et al. (2011), descriptive research is adopted to carry out a whole description of a phenomenon or object with quantitative technique employed due to its ability to help in quantification of data.

### **3.3 Population**

Saunders (2012) made it clear that the population of a study includes the overall group of people, cases or objects that a research is interested in. In this regard, the study concentrated more on SMEs in Kumasi without much focus on the kind of products sold in the enterprise. This was to give a general idea of the SMEs accounting practices across board. The population of the study encompasses all SMEs operating in the Kumasi Metropolis. The actual number SME operators was unavailable or difficult to obtain; contact with the regional office of the National Board for Small Scale Industries (NBSSI) did not give specific number. But according to NBSSI estimates the number of SMEs in the Kumasi Metropolis to be a little over eleven thousand (11,000). This number was then used as the population for the study.

### **3.4 Sample Size**

Cooper et al. (2011) argues that a sample is a subset of an entire population. From the population of 11,000 a sample of three hundred and eighty-five (385) was selected with the help of Yamane (1967) sample size calculation formula to sieve out the SMEs that keep good account records to furnish accurate information. This was done with an alpha level of 5% and a confidence level of 95%.

$$n = \frac{N}{1 + N(e)^2}$$

Where n= sample size, N= target population,  $\alpha$ = confidence level (95%) and

e = significant level (0.05) or 5%

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{11000}{1 + 11000(0.05)^2}$$

$$n = 385$$

### 3.5 Sampling Technique

The convenience sampling method was used to select the owners and managers of SMEs and questionnaires administered to them. Convenience sampling is used where the researcher is interested in getting an inexpensive approximation of the truth. It involves choosing test components that are most promptly accessible to take part in the investigation and who can give required data (Chigamba&Fatoki, 2011). This method was used to select all the respondents for the study.

### 3.6 Research Instrument

For a research, the instrument utilised mainly depends on the technique adopted for data collection. In this study, the technique employed was quantitative. In view of this, the questionnaire was used to collect primary information from respondents on the subject matter. The questionnaire had three major sections. The first part covered the demographic profile of the respondents followed by the profile of the business entity. The next section covered the question that sought to categorize respondents into whether proper books of accounts were maintained or not. Finally, after the

categorization, respondents were asked to give reasons why they maintained or do not maintain accounting records and possibly, how to improve accounting records keeping in their firm.

### **3.7 Data Collection Technique**

There are two kinds of data which can be employed in a study, thus, determining the kind of research instrument to use. The kinds of data include primary and secondary sources. The former encompass data which is gotten from participants directly while the latter deals with information that has been collected before for use in research and has been documented for future use (Ocansey et al., 2019). Primary data was however adopted in this study due to its nature. The questionnaire geared towards soliciting of primary information was well structured with groupings under the study's specific objectives. Personal information of the respondents was also taken initially to make respondents feel a sense of belonging. This is often done to make them feel at ease while providing relevant information that only they are aware of (Chigamba&Fatoki, 2011). The study's participants were given a significant amount of time to fill out the questionnaire during data collection.

### **3.8 Model Specification**

A regression model was framed to understand fully the impact of book keeping practices on the growth of small and medium scale enterprises (SMEs). This was done because the various literature reviewed established some impact of book keeping practices on the growth of small and medium scale enterprises (SMEs). Also, these variables were seen as important to financial policy makers as well individuals since they affect SME growth and development. Based on the literature reviewed, the functional regression model was hypothesised as;

### **SME G = f (BK P)**

Where SME G represented the SME Growth and BK P represented Book Keeping Practices.

In this study, similar model specification will be adopted. The data generated will be analysed using the Ordinary Least Squares (OLS) regression technique to determine the significance of the independent variable has on dependent variable. The model for this study is specified thus:

$$SME G_i = \alpha_0 + \beta_1 BK P_i + \varepsilon_i \text{ --- (1)}$$

### **3.9 Data Analyses**

Descriptive statistics was adopted in the data analysis. Descriptive research involves gathering data that describe events and then organize and tabulate to depict and describes the data collection (Lowe et al., 2017). Also, descriptive studies report summarized data using measures of central tendency such as mean, median, mode, standard deviation, variation, percentage, and correlation between variables. Survey research commonly includes that type of measurement but often goes beyond the descriptive statistics in order to draw inferences. On the other hand, Standard deviation measures the quantified amount of variation or dispersion of a set of data values (Bebermeier&Hagemann, 2019). The study mainly sorted data using a five-point Likert scale and the computation of mean scores and standard deviation for each item. "A higher mean score for a factor indicates a greater importance and a lower mean score indicate lesser importance". Similarly, "a low standard deviation indicates that the data points tend to be close to the mean (expected value) of the set, while a high standard deviation indicates that the data points are widely spread (deviance from the mean)". The data was analysed with the aid of Statistical Package for Social Science (SPSS).

### **3.10 Validity and Reliability of Data**

Validity is one of the most important considerations in development and evaluation of measuring instruments (Brian et al., 2017). It is used to determine if an instrument measures what it is intended to measure. Also, Ocansey et al. (2019), describes reliability as the extent to which results are consistent over time and if the result of a study can be reproduced under any similar methodology, then the research instrument is considered to be reliable. Therefore, to ensure validity and reliability of the instrument used for the study and reduce ambiguity in statements, the questionnaires were pretested. Data collected were proven through test-retest reliability method to ensure that both the data and information acquired are accurate.

### **3.11 Ethical Consideration**

The current study was carried out integrity without focus on the personal gain of the researcher. No adverse effects on the participants were realized as the trust of the subjects were not abused respondents were given surety of their anonymity and confidentiality in the highest level. Before administration of questionnaire, the purpose of the study and its rationale was elaborated to the participants. Their consent as to whether they would take part in the research was sought. It was ensured that, individuals who were willing and ready to take part in the study were employed. Participants were made aware of their right to withdraw from the exercise as and when they want to, when they lose interest in it.

## CHAPTER FOUR

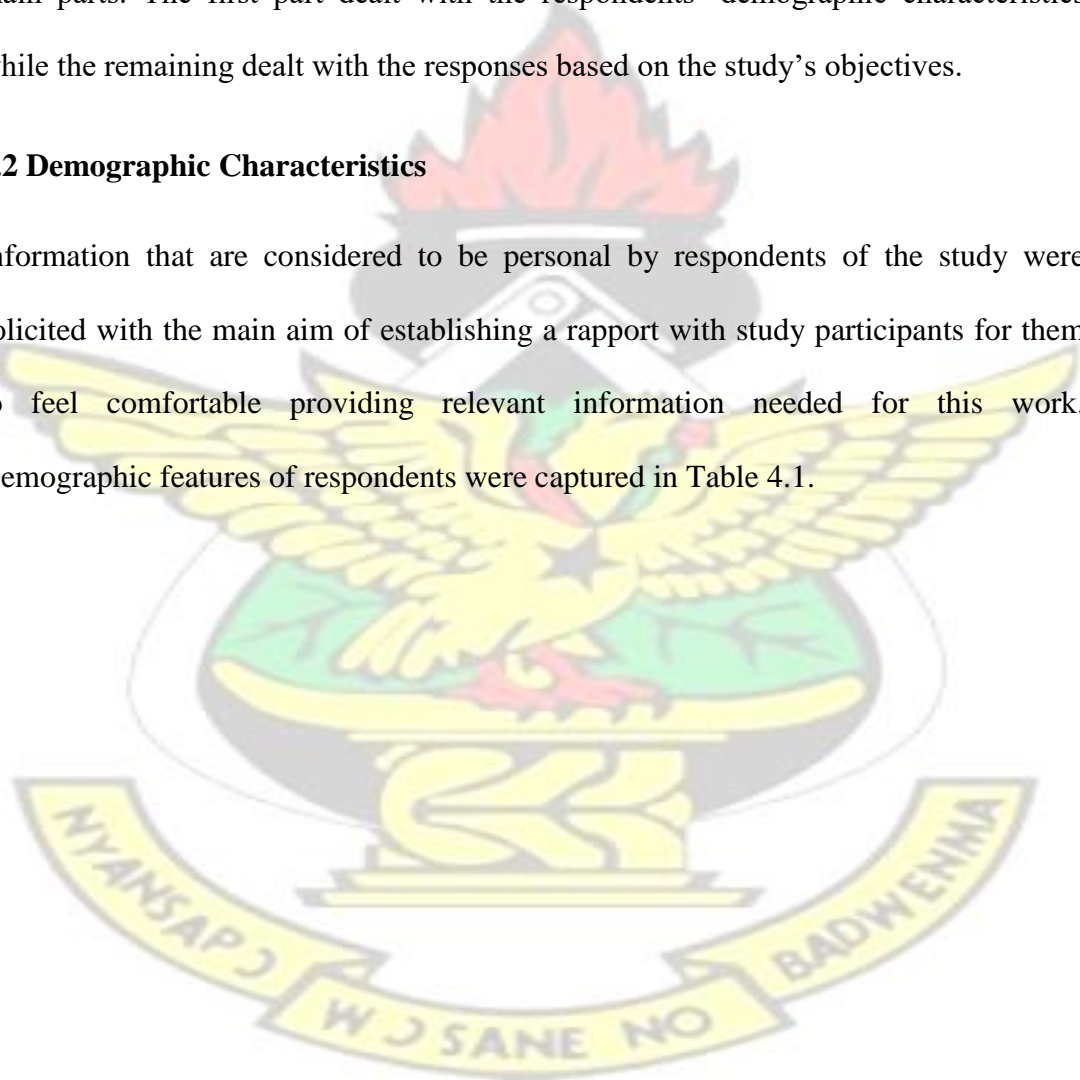
### DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

#### 4.1 Introduction

This section present results obtained from respondents in tables. The results obtained are also interpreted and explained according to literature or works that have been carried out by people in the same field of study. The section was grouped into two main parts. The first part dealt with the respondents' demographic characteristics while the remaining dealt with the responses based on the study's objectives.

#### 4.2 Demographic Characteristics

Information that are considered to be personal by respondents of the study were solicited with the main aim of establishing a rapport with study participants for them to feel comfortable providing relevant information needed for this work. Demographic features of respondents were captured in Table 4.1.



**Table 4.1:Demographic Characteristics**

<b>Statement</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Male</b>	178	46.23
<b>Female</b>	207	53.76
<b>Total</b>	<b>385</b>	<b>385</b>
	<b>Age</b>	
<b>20-30</b>	105	27.27
<b>31-40</b>	102	26.49
<b>41-50</b>	83	22.07
<b>51-60</b>	64	16.62
<b>Above 60</b>	31	8.05
<b>Total</b>	<b>385</b>	<b>385</b>
	<b>Qualification</b>	
<b>BECE</b>	66	17.14
<b>SSCE</b>	169	43.89
<b>Diploma</b>	76	19.74
<b>Bachelor's Degree</b>	45	11.68
<b>Professional Certificates</b>	29	7.53
<b>Total</b>	<b>385</b>	<b>385</b>
	<b>Level of accounting skills</b>	
<b>Low skills</b>	53	13.76
<b>Below average</b>	71	18.44
<b>Average</b>	107	27.79
<b>Above average</b>	85	22.07
<b>High skills</b>	79	20.51
<b>Total</b>	<b>385</b>	<b>385</b>

It was evident from results obtained that, majority of SME owners in Ghana are females. Female participants were 207(53.76%) while SME owners who were males among the 385 were 178(46.23%). This confirms the statement made by Nketsiah (2018) as he made it clear that, there are more women in the SME sector as compared to males, thus, showing that, women are more business centered and economical as compared to males in the country. In the same way, individuals between 20- and 30-years old venture more into SME than other ages. This was so as 27.27% of the sample size acknowledged that, they were between 20 and 30 years old. This confirms the argument raised by Sibanda and Manda (2016) that SMEs are organized by workers who are qualified with an office that is registered and that those SMEs that are not organized are often made up of skilled workers who depend on apprentices or family members.

Those who were between 31 and 40 years old were 102 (26.49%) while 83(22.07%) stated that, their ages ranged from 41 to 50. To add, five were between 51 and 60 years old with very few of them (8%) being more than 60 years old.

Level of education influences proper book keeping practices of business owners and entrepreneurs. To a large extent this is the view of most Ghanaians, thus, to understand a business and keep proper records of accounts to aid the success of a business one need to appreciate certain level of higher educational background. This will undoubtedly affect the influence on implementing the necessary accounting and control systems in that business (Amoako, 2013). According to responses obtained from participants, majority of them were holders of SSCE certificates (43.89%) while very few of them were holders of professional certificates (7.53%). 17.14% of the respondents stated that, they had attained Basic School Certificate. The same number had also gotten their Diploma degrees while 26 stated that they have acquired education to the tertiary level (11.68%). The results depart from the findings of (Moyo and Mandizwidza, 2017) who asserted that the SME sector is generally made up of individuals with reduced educational level and training. Many SMEs are owned by families with little division of the company's monetary affairs from the finance of the owner to an extent where the operator or owner's account is similar to the account of the company

Degree of accounting skills was found to be one of the reasons why SME owners do not keep proper bookkeeping (Ocansey et al., 2018). Individuals with low skills were 13.76% while those with accounting skills below average were 18.44%. 107 (27.77%) respondents made it clear that, they have average level of accounting skills. Those with accounting skills above average were 85 (22.07%) while 79(20.51%) possessed high accounting skills.

**Table 4.2: Kind of Business Engaged in**

<b>Statement</b>	<b>Frequency</b>	<b>Percentage</b>
	Form of business	
<b>Sole proprietorship</b>	197	51.16
<b>Partnership</b>	105	27.27
<b>Company</b>	83	21.55
<b>Total</b>	<b>385</b>	<b>385</b>
	Nature of business	
<b>Retail</b>	162	42.07
<b>Wholesale</b>	118	30.64
<b>Manufacturing</b>	57	14.80
<b>Services</b>	48	12.46
<b>Total</b>	<b>385</b>	<b>385</b>
	Duration of business	
<b>1-5</b>	104	27.01
<b>6-10</b>	168	43.63
<b>11-15</b>	93	24.15
<b>Above 15</b>	20	5.19
<b>Total</b>	<b>385</b>	<b>385</b>

The study captured the business profile in terms of business form, nature of business and operation duration of the business. It was found that, sixty-four respondents had their businesses being solely owned by them 197(51.16) while 105(27.27%) asserted that, their businesses were jointly owned Those whose businesses were owned by companies were found to be 83(21.55%). This showed that, majority of the SMEs in Ghana are owned by individuals with very few of them being jointly owned. Again, the results depart from the findings of (Moyo and Mandizwidza, 2017) who asserted that the SME sector is generally made up of individuals with reduced educational level and training. Many SMEs are owned by families with little division of the company's monetary affairs from the finance of the owner to an extent where the operator or owner's account is similar to the account of the company. This may be due to mistrust that people have in each other. The kind of businesses run by respondents was found to be retail to a large extent (42.07%). Those who acknowledged that they run wholesale businesses were 30.64%. In the same way, 14.80% run a manufacturing business while 12.46% run businesses that deal in

service. To add, business duration ranged from 1 hour to more than 15 hours a day. Majority of the respondents stated that, they operate their businesses for less than 5 hours in a day (27.01%). 43.63% were of the view that, their businesses are open for more than 6 hours a day but for less than 10 hours. Those who operate their shops for more than 11 hours in a day collectively formed 24.15% of the respondents.

### 4.3 Types of Accounting Records kept by SMEs

In examining the types of accounting records kept by SMEs, the ability of SME owners to maintain their records of accounting were assessed. Their responses as to whether they maintain records of accounting or not are shown in Table 4.3.

**Table 4.3: Maintaining Records of Accounting**

Maintaining accounting records	Frequency	Percent (%)
YES	205	53.24
NO	180	46.75
<b>Total</b>	<b>385</b>	<b>385</b>

Out of the 100 respondent, 205(53.24%) answered “Yes” thus they maintain book keeping practices such as purchases/sales book, cashbook, petty cash book, purchases / sales return book and the general journal. However, these books form the bases for the preparation of final account which include Income statement (profit /Loss account), Balance sheet (statement of financial position), Cashflow statement and among others. On the other hand, 180(46.75%) answered “No” thus, they are those whose record (even if they have), do not follow any prescribe format to qualify as accounting record in the classification process. With regard to the results, arguments from (Anokyewaa, 2016; Nang 2017; Babani and Sharma 2015) suffixes in that correct records of accounting are mandated to indicate and provide explanation to the transactions of enterprises while disclosing with reasonable accuracy, the enterprises’

monetary stance at any point in time. Again, when retaining the right records of accounting, procedures, policies, systems, personnel and operations are needed in administering such records of accounting. Ideally, proper record keeping provides evidence of how the transactions were handled and substantiates the steps that were taken in order to comply with business standards.

#### 4.3.1 SME's Book Keeping Records

Also, those who answered "Yes" were further asked the forms of bookkeeping records their firm maintains and the possible final accounts drawn up from the accounting books kept by the SME's. Their responses are shown in Table 4.4.

**Table 4.4: SMEs Book Keeping Records**

<b>Statement</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Purchase/sales book</b>	108	28.05
<b>Cashbook</b>	91	23.63
<b>Petty cashbook</b>	77	20
<b>Purchase/sales return</b>	61	15.84
<b>General journal</b>	48	12.46
<b>Total</b>	<b>385</b>	<b>385</b>

On the forms of book keeping record, the study revealed that 108 (28.05%) kept purchases/sales book, 91(23.63%) kept cashbook records, petty cash book was 77(20%) and purchases/sales return records were 61(15.84%). This confirms the "self-average ratings" of the respondents as revealed by the study most of them do not completely keep records or make use of the books of prime entry. Results agree with the findings of Samuelsson et al. 2016; Amara and Benelifa, 2017; Mustaghfiroh and Yanto, 2016; Parry, 2016; Nirwana and Haliah, 2018) who contended that SMEs require an accurate, timely and updated information based on accounting and that financial condition of companies are responsible for monitoring and analyzing firms' monetary conditions. Without such a system, it will be very difficult for SMEs to

determine performance, identify customer and supplier account balances and forecast future performance of the organization.

#### 4.3.2 Forms of Final Accounts Maintained

The forms of final accounts that were maintained by owners of SMEs in Kumasi were identified. Results are shown in Table 4.5.

**Table 4.5: Forms of Final Accounts Maintained**

Statement	Frequency	Percentage
None	83	21.55
Income statement	107	27.79
Balance sheet	88	22.85
Cash flow statement	107	27.85
<b>Total</b>	<b>385</b>	<b>385</b>

It was evident from results obtained that, thirteen SME owners did not keep any form of final accounts (21.55%) while 107(27.79%) of them acknowledged that, they kept income statements as the final account form geared towards keeping track of their profits and losses. The same number of SME owners also keep cash flow statements (27.85%) while a reduced number of them 88(22.85) keep balance sheets.

#### 4.3.3. Reasons why Accounting Records are maintained

After it was established that about 71% of the respondents do not keep accounting records, the reasons that motivate such group in keeping such records was solicited. This was done with the aid of a five-point likert scale measuring the possible factors. A higher mean score for a factor indicates greater importance and similarly, a low standard deviation indicates the closeness of the data point to the mean or expected value of the data set and high standard deviation indicates how widely spread the data set from the mean. The respondents were asked to rate 6 reasons why they maintained accounting records using the five point likert scale with “1 as Strongly Disagree”, “2 Disagree”, “3 Neutral” , “4 Agree” and “5 Strongly Agree”. Results agree with the

findings of Samuelsson et al. 2016; Amara and Benelifa, 2017; Mustaghfiroh and Yanto, 2016; Parry, 2016; Nirwana and Haliah, 2018) who contended that SMEs require an accurate, timely and updated information based on accounting and that financial condition of companies are responsible for monitoring and analyzing firms' monetary conditions. Without such a system, it will be very difficult for SMEs to determine performance, identify customer and supplier account balances and forecast future performance of the organization.

**Table 4.6: Purpose of Maintaining Accounting Records**

<b>Statement</b>	<b>Mean</b>	<b>SD</b>
<b>Taxation</b>	3.62	1.235
<b>Income distribution</b>	3.90	1.173
<b>Tracking receivables payables</b>	3.89	1.166
<b>To support credit finance</b>	3.62	1.113
<b>To access business performance</b>	4.41	0.904
<b>To support business valuation</b>	3.76	1.140

Table 6 shows that the main purpose for keeping accounting record is “to access business performance”. A larger percentage of the respondents agreed that it is important to prepare your profit and loss account to access the business performance of their firm. The mean and standard deviation for this factor is 4.41 and 0.904 respectively. The other factors ranked income distribution, tracking receivables/payable and to support business valuation for takeovers with means 3.90, 3.89 and 3.76 respectively. The last ranked is taxation with 3.62 mean. This shows the level of importance of how Ghanaians view taxation and its importance to the state.

#### **4.4 Challenges faced by SMEs in maintaining books of accounts**

Whilst 71(71%) chose “Yes”, on the other hand about 29(29%) selected “No” thus, their firm do not maintain records that can be describe as accounting record. Hence, we sort to delve into the reasons why those firms do not maintain accounting record form possible reasons ranked in five – point likert scale form with “1 as Strongly

Disagree”, “2 Disagree”,” 3 Neutral”, “4 Agree” and “5 as Strongly Agree”. Results obtained are shown in Table 4.7.

**Table 4.7: Challenges in Keeping Proper Account Books**

Statement	Mean	SD
Time consuming	3.76	1.455
Expensive	3.28	1.162
Requires technical skills and knowledge	3.72	1.360
Expose your financial position	2.86	1.284
Firms pay more tax	3.17	1.416
Difficulty in maintaining system	3.28	1.486
No need to keep accounting records	3.14	1.457

According to SME owners, the major challenge that they face is that, it is time consuming to keep such detailed accounting records (response=3.76, SD=1.455). They further stated that, such time can be used to do other things like attending to customers or purchasing new products for sale. Respondents agreed that, there is the need to acquire technical skills and knowledge to be able to keep accounting records (response=3.72, SD=1.360). Keeping records of accounts was found to be expensive and difficult while maintaining the accounting system (response=3.28, SD=1.162; response=3.28, SD=1.486).

Respondents however disagreed that, keeping financial records expose their financial position (response=2.86, SD=1.284). It was identified that, owners of SMEs pay more tax (response=3.17, SD=1.416). This is however dependent on the volume of products for sale (Nketsiah, 2018). Due to this, a greater number of the respondents made it clear that, there is no need to keep accounting records (response=3.14, SD=1.457).

Findings in this study was consisted with that of Mbroh and Attom (2011). They provided that most SME’s fail to keep proper books of account due to owners of SME’s low level of education and inadequate knowledge in Accounting or lack of

funds to hire qualified accountants. Such factors pose as challenges to SME owners as far as proper book keeping is concerned.

#### **4.5 Book keeping accounts influence SME activities.**

In keeping accounting records in a proper way, there are effects or positivities that arise with such acts. Responses of respondents in lieu to such effects of keeping accounting books properly have been outlined in Table 4.8.

**Table 4.8: Effects of Proper Accounting Records on Performance of SMEs**

<b>Statement</b>	<b>Mean</b>	<b>SD</b>
<b>Make use of accounting records</b>	3.92	1.134
<b>Strengthen monitoring and supervision</b>	4.02	1.054
<b>Hire consultants for SMEs</b>	3.59	1.181
<b>Motivate managers and owners to adopt accounting records</b>	4.16	0.929
<b>Offer free accountancy services</b>	3.68	1.238

It was identified that, proper keeping of accounting records makes owners and managers of SMEs utilise their accounting records in a positive way, thus deriving much benefits from such sound book-keeping (response=3.92, SD=1.134). Respondents agreed that, proper accounting keeping strengthens their monitoring and supervision skills (response=4.02, SD=1.054). Owners of SMEs are also able to hire consultants, particularly those in account field of profession to help them keep accounts of their financial deals (response=3.59, SD=1.181).

Dawuda and Azeko (2015) were of the view that, owners and managers of enterprises are motivated to ensure maximum productivity and profitability when proper book-keeping is done. This was confirmed from findings in this study as respondents agreed that, they are often motivated to adopt accounting records (response=4.16, SD=0.929). Accountancy services that are free are also realised in cases where the owners have basic knowledge in accounting (response=3.68, SD=1.238).

# KNUST



## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Overview

This section provides the findings obtained in the study in a summarized form. Conclusions based on the study's findings were also outlined in this section with recommendations made. Recommendations made are geared towards improving the situation.

#### 5.2 Summary of Findings

It was found that, there are more females in the SME sector than there are males. Majority of those within the sector is between 20 and 30 years old while very few of them are more than 51 years old. To add, more of them have attained education to the senior high school level while a reduced number of them have professional certificates. Due to the reduced educational level of most of them, it was identified that, respondents had average accounting skills. The kind of businesses owned by them also ranged from sole proprietorship to company owned. A greater number of the businesses were retail in nature while those who deal in manufacturing were not many.

##### 5.2.1 Types of accounting records kept by SMEs

It was identified from results obtained that, many owners of SMEs keep and maintain accounting records while very few of them do not. More of those who acknowledged to keeping proper books of accounts were found to keep sales books other than the other forms of books like cashbook. Others preferred keeping petty cashbooks, purchase or sales return books, general journals and cashbooks. To add, it was identified that, the forms of final accounts that owners of SMEs maintain included

income statements and cash flow statements as a greater number of them agreed to using such account keeping statements. The remaining respondents made it clear that, they made use of balance sheets while a reduced number of them did not use any account keeping strategy.

Respondents acknowledged that, the main reason why they maintain accounting records is because of their quest to assess the performance of their business. Others were of the view that, maintaining accounting records help them to keep track of their income distribution. It also helps them to keep track of their receivables and payables. In addition, SME owners acknowledged that, they engage in proper book-keeping to support the valuation of their business while supporting their credit finance.

### **5.2.2 Challenges of SMEs in keeping proper books of accounts**

According to owners of SMEs, it was identified that, there are challenges or factors that hinder them from keeping the right account books. It was evident that, keeping proper account books is time consuming. It was also found to require technical skills and knowledge, thus, making it expensive. Keeping proper account books is difficult to maintain. There is also no need to keep such accounting records due to its expensive nature. SME owners made it clear that, they are mandated to pay more tax due to the quantity of products they sell. High tax payment adds to their expenses, thus making them realise considerable losses other than profits. This makes them lose interest in keeping accounts.

### **5.2.3 Effects of proper accounting records on the performance of SMEs**

As part of the effects of proper and improper accounting records, it was identified that, keeping proper accounts make SME owners utilize the accounting records they make fully. To add, proper accounting records strengthen monitoring, evaluation and

supervision of their businesses. They also hire consultants for SMEs in attempting to keep records efficiently. Managers and owners of SMEs are also motivated to employ records of accounting. At the same time, proper accounting makes it possible for them to offer free accountancy services during their operations. Findings were found to be consistent with that of Dawuda&Azeko (2015).

### **5.3 Conclusion**

The study explored the financial accounting practices adopted by SMEs in Ghana along with the effects such accounting practices have on the operations of such businesses. It was identified from study results that, quite a number of the respondents have average accounting skills. Also, most SME owners in Kumasi Metropolis keep accounting records to support their business operations. The majority keeps accounting records to access business performance, distribute income fairly and to track receivables and payables. However, quite a few numbers of the respondent do not keep records that could qualify to be accounting record and their reasons were time consuming, requires technical skills and knowledge and the expensive nature accounting records keeping. It can be concluded that, owners of SMEs who engage in proper book-keeping realize many advantages as efficiency in monitoring and supervision of their business.

Knowing the fact that lack of professional training is the major cause of the challenges in accounting practices, account officers in SMEs should be encouraged to go in training to acquired knowledge and skills needed to perform accurate accounting procedures. Since our focus is on SMEs, it will be a step in the right direction, if government, non-government organizations take it upon themselves to provide

accounting in-service or on-the-job training for financial managers or owner-managers in this sector to improve their knowledge.

Most of the challenges that are recorded are because of lack of knowledge in accounting by financial managers who are the key financial planners and managers of the enterprise. Their inefficiency will affect the whole accounting system in the enterprise. SMEs should learn how to maintain strong internal control system to check the practice of misappropriation of funds in the enterprise. Internal control system is a very important tool in accounting system in which every transaction is needed to pass through in an accounting cycle. This is to check the accuracy and reliability of every transaction in the business. With this, if businesses maintain a strong internal control system those challenges will not be recorded in the sachet water production business.

#### **5.4 Recommendations**

In order to improve the situation, the following recommendations were made:

It is imperative to organize accounting education and training for managers and SME owners while motivating them to employ accounting records. In terms of implementation, this should also be done to help strengthen SME owners while equipping them with supervision skills via regulatory bodies such as the Institute of chartered Accountant, Ghana (ICAG).

For businesses to grow and expand, it is imperative to use and account for financial resources judiciously in a way that separates the business from the owner. This helps the business to grow independently and gain many business opportunities. In terms of implementation, business owners must be committed to accounting record keeping for their businesses and go as far as hiring or engaging professional accountants for such help whenever the need be.

It is also recommended that; owners of SMEs should take advantage of Information Technology to manage their accounting records as that provides a more easy and reliable approach in managing accounting records.

It is also recommended that; owners of SMEs should take advantage of Information Technology to manage their accounting records as that provides a more easy and reliable approach in managing accounting records.

SMEs in the municipality should form a union through which a consultant would be hired to prepare accounts for them at shared cost to be settled by the clients through the union. In this way, the problem of high cost of accounting services that prevent most SMEs from preparing proper books of account would have been greatly resolved.

Lastly, national regulators such as National Board for Small Scale Industries (NBSSI) in collaboration with the Institute of Chartered Accountants, Ghana (ICAG) should organize accounting training programmes for owner-managers of SMEs to equip them with basic accounting knowledge and skills.

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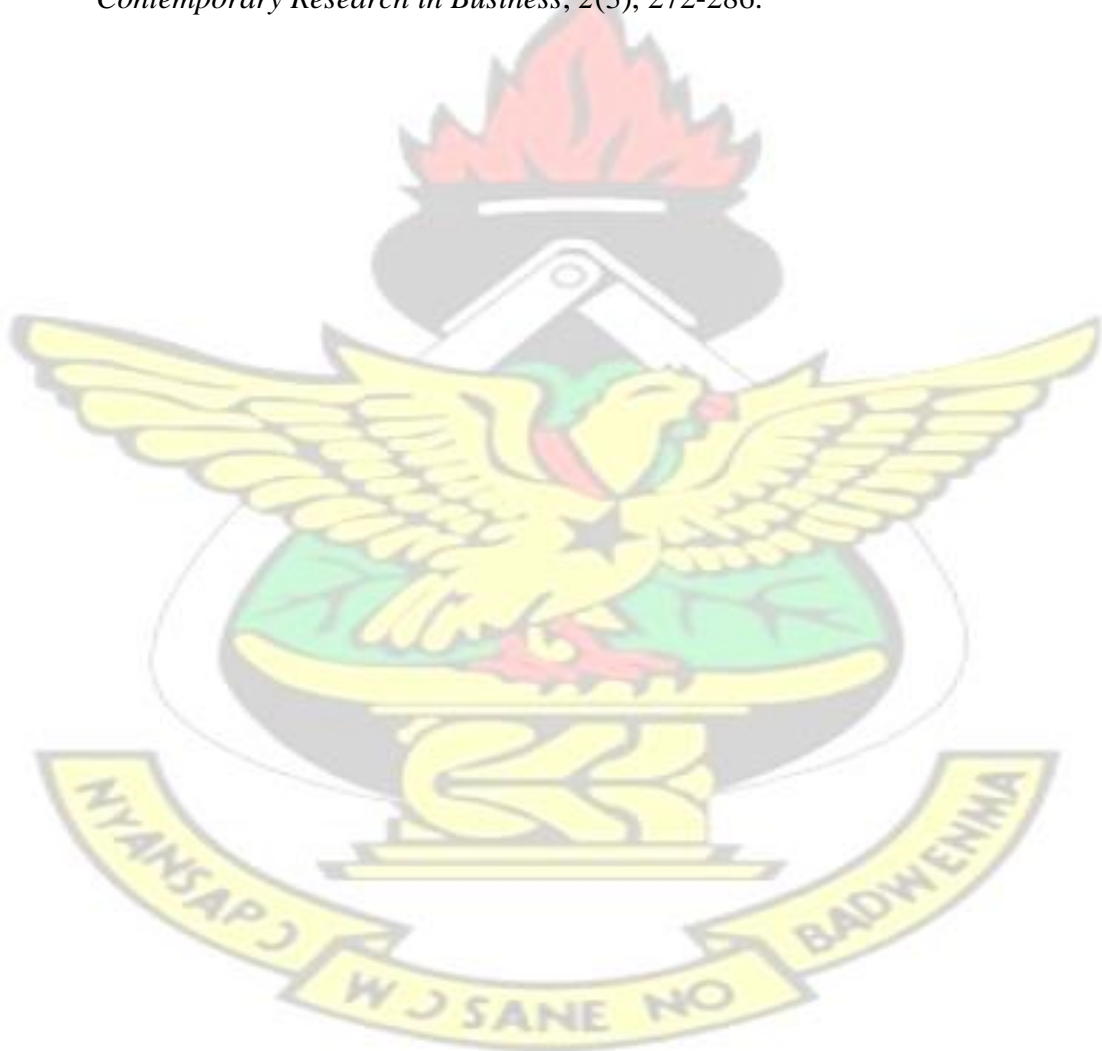
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## APPENDIX

### DISSERTATION QUESTIONNAIRE

My name is Bridget Owusu. I am a final year Master of Business Administration (Accounting) student from School of Business, KNUST. As part of the requirement for the master's degree, I am conducting a research on the topic: **Book Keeping Records and the Performance of Small and Medium Enterprises (SMEs) in the Kumasi Metropolis.**

The implication of the findings is for future implementation and development of occupational health and safety in Ghana and other countries. Information given will be treated with utmost confidentiality.

Thank you for your participation and assistance with this study.

#### SECTION A: DEMOGRAPHIC INFORMATION

**1. Gender**

Male ( )

Female ( )

**2. Age**

20 – 30 ( )

31 – 40 ( )

40+ ( )

**3. Education Background**

Master ( )

Bachelor ( )

Diploma ( )

Other ( )

**4. Experience in SME business**

0 – 1 ( )

1 – 5 ( )

6 – 10 ( )

11 + ( )

**5. What is the type of your business**

Agric/Production ( )

Services ( 0

**SECTION A: ACCOUNTING RECORD KEEPING PROCEDURE PRACTICES**

How would you rank the following accounting record keeping procedures commonly used by SMEs. Please rank them from most commonly used (5) to least commonly used (1)

Accounting Record Keeping Procedure Practices	Rank
Accounting record storage and retrieval	
Booking Methods	
Single Entry Booking System	
Double Entry Booking System	
Cash Book or Cash Account	

**SECTION B: IMPORTANCE OF ACCOUNTING RECORD KEEPING PROCEDURE PRACTICES**

On the scale of 1-5, please indicate by ticking[√] the appropriate cell in relation to the importance of accounting record keeping procedure practices

1	2	3	4	5
<i>Strongly Disagree</i>	<i>Disagree</i>	<i>Neutral</i>	<i>Agree</i>	<i>Strongly Agree</i>

Statement	1	2	3	4	5
Accounting records address special needs of the business					
Accounting records reveal efficient cash flow planning					
Accounting records ensure protection of business resources against fraud, accuracy and reliability					
Accounting records ensure better evaluation of business performance					
Accounting records ensure protection of business assets					

**SECTION C:**

On the scale of 1-5, please indicate by ticking[√] the appropriate cell in relation to the effect of accounting information system on performance.

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<i>Strongly Disagree</i>	<i>Disagree</i>	<i>Neutral</i>	<i>Agree</i>	<i>Strongly Agree</i>

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Efficiency</b>					
Control of financial expenses					
Staff satisfaction					
Drive timely interventions					
Responsiveness to target group reactions					
<b>Production</b>					
Effective competition					
Capital investment					
Structural changes in business					
Strategic goals of the business enterprise					

