

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF ART AND SOCIAL SCIENCES

SCHOOL OF BUSINESS

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MASTERS IN BUSINESS ADMINISTRATION

**THE USE OF FINANCIAL INFORMATION IN FINANCIAL DECISIONS OF
SME'S IN GHANA: THE CASE OF SELECTED SME'S IN MAMPONTENG
DISTRICT.**

BY


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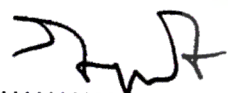
I hereby declare that the work which is being presented in this thesis entitled “The use of financial information in financial decisions of SMEs in Ghana: the case of selected SMEs in Mampong district” by Rose Owusu Asare (Mrs) in partial fulfillment of requirements for the award of Masters in Business Administration is an authentic record of my own work except where otherwise stated under the supervision of Mr. Gordon Newlove Asamoah.

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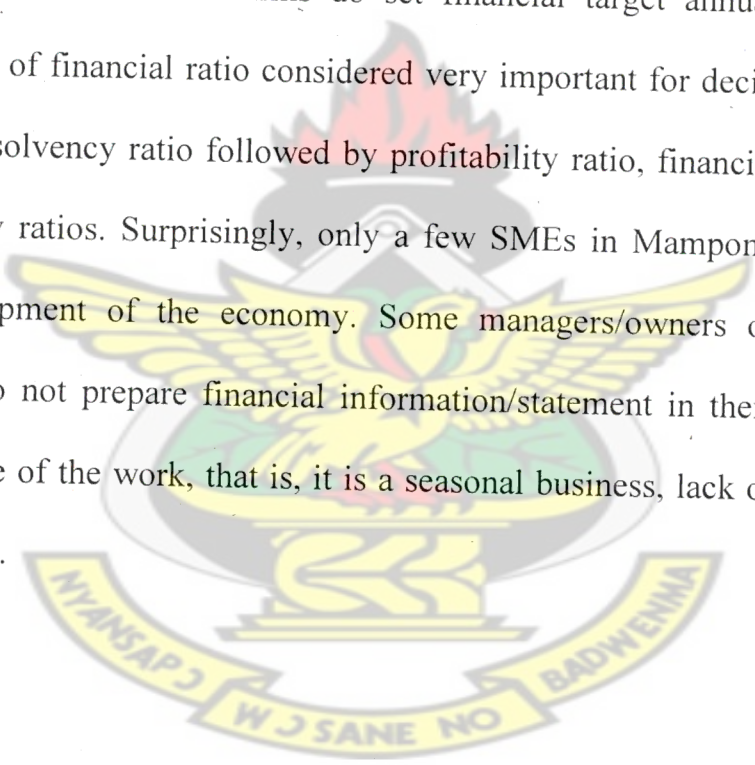
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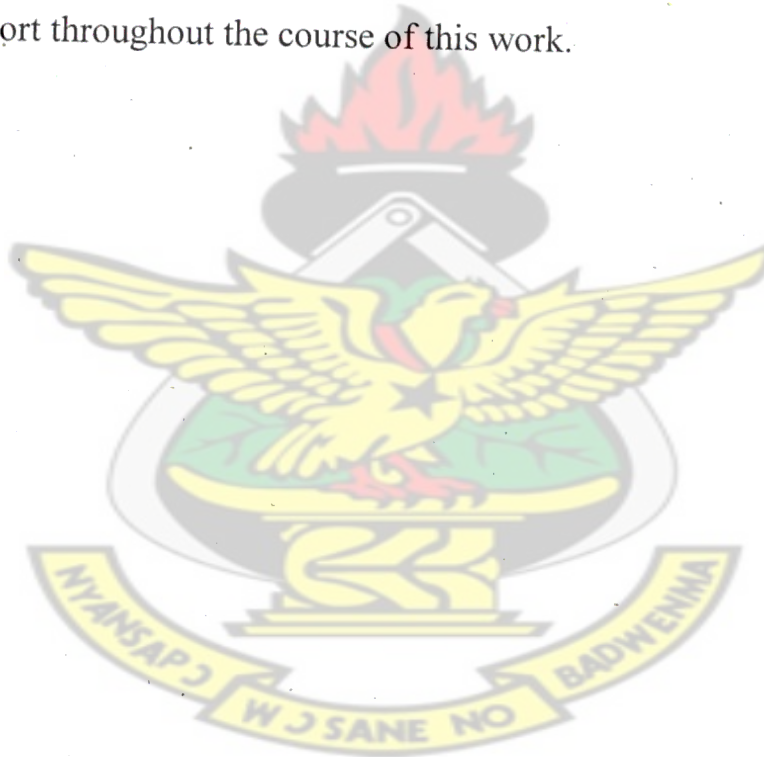
ABSTRACT

The main objective of this study was to assess how SMEs in Mampong district use financial information in decision making. A total of 50 questionnaires were administered to the owners/managers of SMEs in Mampong district and all the questionnaires were responded. The main focus of the survey was the relative uses of the different types of financial ratios use in decision making. The survey also touched briefly on the payment of tax by the SMEs in Mampong district to know their contribution or quota towards the economy and whether the SMEs/firms do set financial target annually. Results indicated that the types of financial ratio considered very important for decision making included liquidity and solvency ratio followed by profitability ratio, financial efficiency and repayment capacity ratios. Surprisingly, only a few SMEs in Mampong district pay tax to the development of the economy. Some managers/owners of SMEs in Mampong district do not prepare financial information/statement in their decisions, mainly due to the nature of the work, that is, it is a seasonal business, lack of funds and lack of skilled personnel.



DEDICATION

I wish to dedicate this research work to my daddy for his assistance in making this educational process a success, my mummy and my dear husband Mr. Bediako Sarpong Asare for his kind support throughout the course of this work.



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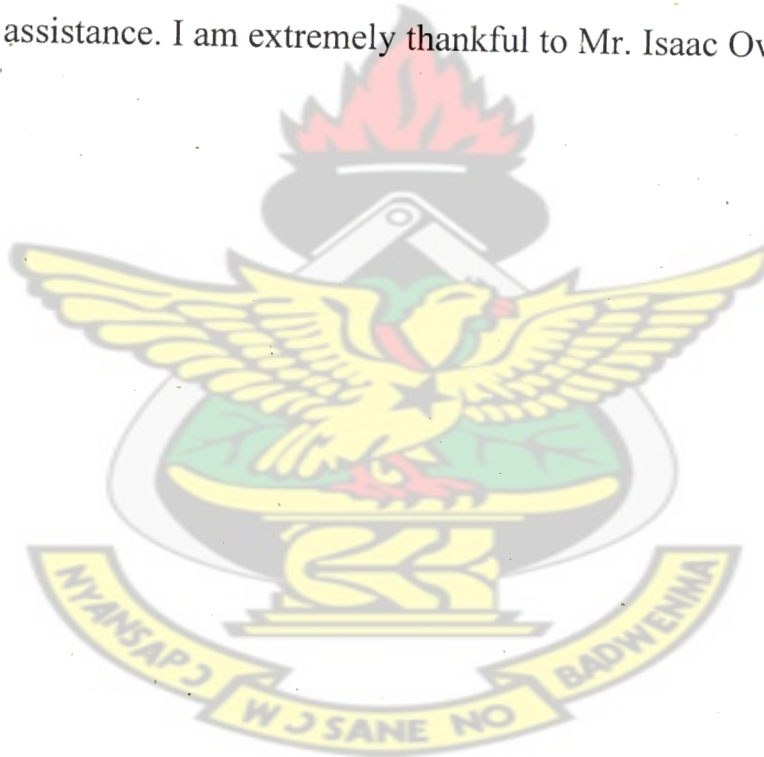


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CHAPTER ONE

GENERAL INTRODUCTION

1.0 INTRODUCTION

The rapid growth in the population and labour force in Ghana and reduction in employment in the formal sector has given concern to policy makers with the problem of unemployment in both the urban and rural areas. The government has realized that if positive interventions are adopted in the micro and small enterprise, the unemployment level can be significantly reduced. The usefulness of financial information in financial decisions are most essential in decision making but most of the Micro and Small Enterprises (MSEs) and Small and Medium Enterprises (SMEs) that constitute an important component of the industrial life of Ghana overlook it. The accounting process generates a number of different reports, but most of the financial information needed by external users is contained in just three reports as the primary financial statement:

- a) The balance sheet (statement of financial position)
- b) The income statement (statement of earning) and
- c) The statement of changes in financial position (funds statement)

1.1 BACKGROUND OF THE STUDY

In developing countries, which Ghana is one, small-scale business are the most important source of new employment opportunities. Government throughout the world attempts to promote economic progress by focusing on small-scale enterprises (Harper and Soon, 1979).

Micro and Small-scale enterprises (MSEs) are defined as those enterprises employing up to 29 or fewer employees including the owner (Working definition for NBSSI which is a government agency responsible for micro and small-scale industry in Ghana). Small and Medium Enterprises (SMEs) are defined as firms with 100 employees with \$10,000 to \$1,000,000 in fixed assets (NBSSI definition).

National board for small-scale industries (NBSSI) based their definition on employment and the assets of the business. Micro enterprises are those that employ between 1 to 5 workers or with fixed assets of value not exceeding \$10,000 excluding land and buildings. Small-scale enterprises are those employing between 6 to 29 workers or have fixed assets of value not exceeding \$100,000 excluding land and buildings.

In addition to the above definitions, the United Nations of Industrial Development Organizations (UNIDOS) definition of SMEs and MSEs for developing countries is as follows:

- Large enterprises are firms with 100+ workers
- Medium enterprises are firms with 20 to 99 workers
- Small-scale enterprises are firms with 5 to 19 workers
- Micro enterprises are firms with less than 5 workers

In Ghana available data from the Registrar General indicates that 90% companies registered are micro, small and medium enterprises. This target group has been identified as the catalysts for the economic growth of the country as they are a major source of income and employment. The Ministry of Trade and Industry (MOTI) in 1998 estimated that the Ghanaian private sectors consist of approximately 80,000 registered limited companies and 220,000 registered partnerships, the rest are SMEs.

The most widely used criteria for SMEs in NBSSI working definition are the number of employees and the value of assets of the firm. The SMEs are defined to create criteria that will cut off certain support interventions to those enterprises that are not considered beneficiaries. The major classifications under SMEs in Ghana by NBSSI definition are **commerce, manufacturing, services, export and tourism**. Government recognizes the following as being some of the economic and social benefits of MSEs and SMEs (Government Policy Paper on MSEs Development – September, 1994):

- a) Significant contributions to the economy in terms of output of goods and services.
- b) Creation of jobs at relatively low capital cost.
- c) Provision of opportunities for developing and adapting appropriate technologies.
- d) Development of a pool of skilled and semi skilled workers.
- e) Acting as ancillaries to large scale enterprises. That is, small and medium enterprises represent a majority of Ghana's national economy in all aspect.

1.2 RESEARCH PROBLEM (STATEMENT OF THE PROBLEM)

Even though SMEs play an increasingly important role in providing new products and employment opportunities, SMEs in Ghana encounter many difficulties, especially financing. One of the key pillars of business growth is finance. Poor record keeping and improper or inefficient use of accounting/financial information to support financial decision making are part of the main problems of SMEs in Ghana. This means that poor record keeping and improper use of financial information can affect negatively the financial status of a business which will also affect the development and growth of the business.

The statement of the problem is: do SMEs in Ghana use financial information and how does it affect their financial decisions?

1.3 OBJECTIVE OF THE STUDY

The objective of the study is to assess how the SMEs use financial information in the decision making in the Mampong District.

1.4 JUSTIFICATION OF THE STUDY

A poor accounting record-keeping and inefficient use of accounting information causes poor financing decisions of SMEs as well as high failure rate of productivity. However ineffective use of capital budgeting techniques makes the success of SMEs more difficult. Subsequently, the findings and analysis of this study would be of relevance to the government of Ghana, particularly NBSSI in adopting various measures to avert or reduce immensely the incidents of poor record keeping/financial information. The findings would be of relevance to financial institutions as well as small and medium enterprises in the economy on appropriate measures of grant loans and access to loan facility respectively. It would also be a form of literature for researches, students, groups, agencies and anyone who wants to research into the use of financial information in financial decisions of SMEs in Ghana.

1.5 SCOPE OF THE STUDY

The study covers small and medium enterprises within Mampong, the capital town of Kwabre district in the Ashanti region. Although the major classifications under SMEs in

Ghana by NBSSI definition are **commerce, manufacturing, services, export and tourism**, this study will cover the manufacturing sector, thus, wood carving and kente weaving within Mampong in the Ashanti region.

1.6 LIMITATION OF THE STUDY

Little research has been done on the financial decisions of small and medium enterprises (SMEs) in Ghana. Prior research in financial decisions concentrated on larger listed firms, and financial companies. Value of assets were a problem in the study, because most of the SMEs in Ghana do not have the total asset to the value required to be either under micro, small or medium enterprise.

1.7 ORGANISATION OF THE STUDY

This study is grouped into five (5) chapters. Chapter one talks about the general introduction and background of the study, statement of the problem, objective of the study, justification of the study, scope and limitation of the study.

Chapter two is about the literature review of the study; the definition of small and medium enterprise in Ghana, meaning of financial and accounting information, tools used in analyzing financial information and the meaning of financial decision.

Chapter three talks about the methodology and theoretical framework of the study.

Chapter four is about the data analysis and findings. Chapter five caters for summary conclusions, and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

The importance of accounting practices in any organization cannot be over-emphasized. Accounting practices help management in its planning for the organizational objectives and also facilitate proper control. Without accounting information as a basis for decisions, it is unlikely that efficient allocation of available resources would be achieved.

Accounting system is primarily a process by which daily transactions and events of a business are conveniently recorded and summarized to show the position of the business.

In order to understand and appreciate the concept of financial decision and the use of financial information of SMEs in Ghana, this chapter reviews related literature from internet, published books and other relevant information on Small and Medium Enterprises (SMEs) in Ghana, financial and accounting information, importance and objectives of financial information, users of financial information and meaning of financial decisions. Other areas of concentration apart from the key words of the topic are the tools used in analyzing financial information, and reasons why owners/managers do not use financial information.

2.1 DEFINITION OF SMALL AND MEDIUM ENTERPRISES (SMEs)

The term small and medium enterprise has been given different definitions. These definitions vary from country to another and even from sector to sector. Most often the definitions have been in terms of either the value of the business assets or the number of employees.

The European Commission for small and medium scale enterprises (1996) indicated that small and medium enterprises are enterprises that have fewer than 250 employees and annual turnover not exceeding 40 million euro.

According to National Agency for statistics in Indonesia (2001) only the number of employees is used as a basis in determining the size, that is, either micro or small or medium. Thus SMEs are business units with one to hundred (100) employees.

Small and medium enterprises in Thailand are defined as firms with 15 to 200 employees and 30 to 200 million baht in fixed assets depending on the business sector (a paper for the Annual Conference, Ballarat, 28th September – 10th October, 2003). SMEs in Thailand are classified into three (3) categories as follows:

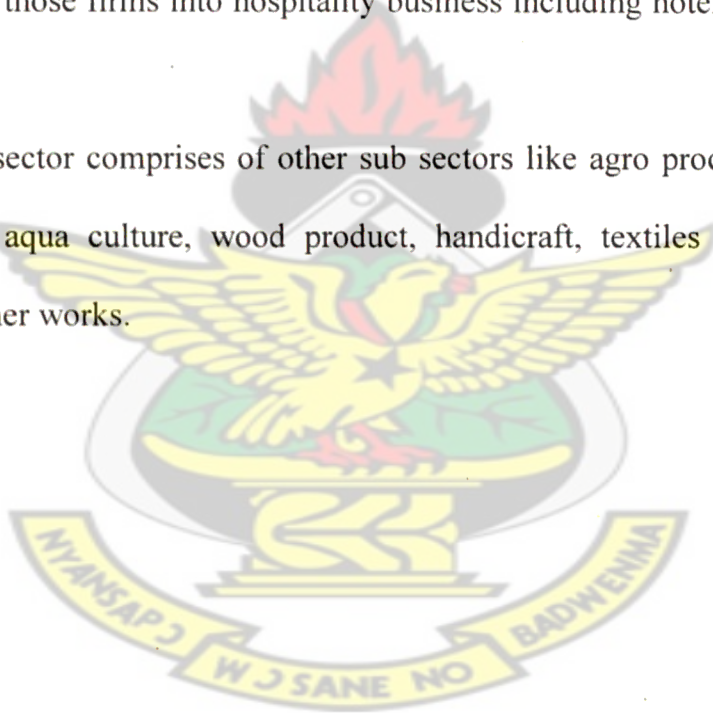
- Production sector including agricultural processing, manufacturing and mining
- Service sector
- Trading sector including both wholesale and retail

In Ghana, both criteria are used in defining SMEs, that is, numbers of employees and value of the firm assets. According to a working definition for NBSSI which is a governmental agency responsible for micro and small size industry in Ghana, small and medium enterprises are defined as firms with 5 to 100 workers/employees with \$1,000,000 in fixed assets. It is also indicated in NBSSI working definition that micro enterprises are those enterprises employing between 1 to 5 workers including the owner or with the fixed assets of value not exceeding \$10,000 excluding land and buildings. In addition, small scale enterprises are those enterprises employing between 6 to 29 workers including \$100,000 excluding land and buildings. Moreover medium enterprises are those

enterprises employing between 30 to 100 workers and with the fixed assets of value not exceeding \$1,000,000.

According to NBSSI the major classifications under SMEs in Ghana are grouped into five (5) categories:

- a. Export sector which takes care of all the products been made by industries to be sent outside Ghana.
- b. Commerce/trading sector including both wholesale and retails.
- c. Service sector including hair dressing, transport business, painting, barbering, tailoring and consultancy firms.
- d. Tourism sector, those firms into hospitality business including hotel business and catering.
- e. Manufacturing sector comprises of other sub sectors like agro processing, forest based product, aqua culture, wood product, handicraft, textiles and garment, energy and leather works.



Examples of the firms under the sub-sectors of manufacturing are indicated in the table below. Table 1: **FIRMS UNDER THE SUB-SECTORS OF MANUFACTURING**

| Agro Processing | Forest Based Product | Handicraft | Energy | Textile and Garment | Agua Culture |
|--------------------------|------------------------|-------------------|-----------------------------|---------------------|-----------------|
| 1.Cassava processing | 1.Snail farming | 1.Basket weaving | 1.Production of solar panel | 1.Tie and dye | Fish processing |
| 2.Palm oil extraction | 2.Honey making | 2.Kane production | 2.Production of cylinder | 2.Kente weaving | |
| 3.Fruit juice production | 3.Grass cutter rearing | 3.Carves making | 3.Plastic product | 3.Smock production | |
| 4.Maize production | 4.Bee making | | 4.Manufacturing of bulbs | | |
| 5.Spices production | | | | | |

2.1.1 IMPORTANCE OF SMEs IN GHANA

The importance of SMEs in general has being presented on a paper by Fan (2003) as follows:

1. Small and medium enterprises are important for poverty reduction.

Through the creation of SMEs, poor and low income people have been employed. That is, SMEs are the source of employment in poor regions and rural areas. Self employment is the only source of income for many poor people since entry into SMEs is easy. SMEs play particularly an important role in developing countries where poverty is most severe.

2. Small and medium enterprises are essential for a competitive and efficient market.

SMEs with high turnover and adaptability play a major role in removing regional and sector imbalances in the economy. That is easy entry and exit of SMEs make economies more flexible and more competitive. SMEs are essential for efficient market in the sense that, they make use of resources that were regarded by large enterprises as waste. Small and medium enterprises improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long term economic growth (Prempeh, 2007).

3. Small and medium enterprises (SMEs) are the engine of growth.

Small and medium enterprise sector is the largest provider of employment in most countries especially of new jobs. A country is regarded as growing when its citizens or people in the country are employed or have jobs to do. SMEs are a major source of technological innovation and new products.

Potocnik (2005) argues that SMEs are a source of dynamism in the knowledge economy and a growing number of SMEs are directly concerned by research activities. Amongst these the high tech, new technology-based SMEs are particularly important in terms of their impact and growth potentials.

According to Steele and Webster (1992), the significance of the role played by small scale industry in Ghana can be seen in the light of four interrelated areas namely:

- The complementary support, it gives to agriculture in providing the growing rural population with remunerative employment

- The complementary support to large scale industries in absorbing the growing urban population in gainful employment
- Providing a check on “soil erosion” by helping to the migration of the well educated people from rural to urban areas and
- Providing locally distributed economic development. According to them, there is therefore the need to promote SMEs at the individual enterprises levels.

2.1.2 CONSTRAINTS/CHALLENGES OF SMEs IN DEVELOPING COUNTRIES

Though most countries have different constraints, there are some common constraints within the developing countries. The main financial challenge facing SMEs is access to affordable credit over a reasonable period (Tagoe et al, 2005). Funds, as generally known, are the life blood of all surviving business. Firms can not survive without adequate financial resources. There are several financial institutions within the country, Ghana, yet many SMEs complain of inadequate finance. This is attributed to numerous factors deployed by these financial institutions before granting credits facility to some SMEs in the country. Some of the factors are charging high interest rate, tracing the firms track record, demanding tax clearance certificate from SMEs et cetera (Mensah, 2004).

Ali and Sipra (1998) argue that financial sector interventions also discriminate against SMEs. Selective credit controls in conjunction with controlled interest rates prevents banks from compensating for the higher cost of small loans by charging highly smaller clients who have being allocated limited credit, while large firms are given huge credit for their firms to grow at the expense of small firms.

According to Snodgrass and Biggs (1996), dealing with government regulations and tax authorities weighed more heavily on smaller firms in the context of higher compliance costs, that is, the fixed cost of complying with import/export and tax regulations, labour market regulations and licensing and price controls.

In addition failure of market to adopt technology in developing countries arguably constrains SMEs from moving onto a more dynamic growth path (Hassan et al 1997).

2.1.3 NATIONAL BOARD FOR SMALL SCALE INDUSTRY (NBSSI)

In an attempt to provide such support services, the government has established the NBSSI to provide support services to SMEs. This agency of the government assists the SMEs in the areas of technical services, financial resource application, training and other support.

The NBSSI performs three main functions in rendering services to the SMEs:

- a. Creating conducive or enabling environment for business establishment and operation.
- b. Assisting the SMEs to register the business in fulfillment of government regulations and requirements.
- c. Assisting the SMEs in the preparation and presentation of business plan that would be acceptable to the stakeholders of the business, especially bankers in order to attract financial support. (Mensah, 2004).

Other support by NBSSI are organizing training programmes to help entrepreneurs acquire the requisite skills needed to manage the business, provision of counseling services to help the operator learn the required characteristics of the successful entrepreneur and offering services like how to deal with the control income and

expenditure, skills in solving problems , and financial management practices (Mensah, 2004).

2.2 DEFINITION OF FINANCIAL/ACCOUNTING INFORMATION

No matter the form of business, all the companies in Ghana are required to keep proper accounting records (Companies Code, 1963, ACT 179). Financial information is available from a number of different sources today ranging from financial professionals, advertisements and promotional materials, self-knowledge acquired through self-education, calling around and using online data sources (Mallet, 1998). Financial information describes the conditions of an organization and its major transactions and events for a period of time.

Financial information is information about a business that users rely on to make decisions (Kochanek et al, 1992). Financial information is needed by managers to help them plan, organize and control the activities of the business. Financial information in this study means accounting information. Accounting is defined as an information system that measures, processes, and communicates financial information of an identified entity (Meigs and Meigs, 1993). Accounting information is simply information provided by accountants and accounting systems, usually presented in financial statements. The purpose of accounting information is to provide relevant and reliable financial information to users for making and evaluating decisions on allocation of available resources to economic entities. Financial statements are summaries of accounts to provide information for interested parties (BNET Business Dictionary). It is also defined by Rosenfield (1981) as summaries of monetary data about an enterprise. The most

common financial statements are trading and profit and loss account, profit and loss appropriation account, balance sheet, cash flow statement, report of the auditors, statement of total recognized gains and losses, and reconciliation of movements in shareholders' funds (BNET Business Dictionary).

According to American Institute of Certified Public Accountants (1972), accounting information is used to assess the profitability, liquidity, activity and leverage of an organization. Proper accounting is a key to small business success. Poorly prepared accounting information render most SMEs unable to evaluate their own financial situation, or to demonstrate viability, and or to facilitate loan financing (Wichmann, 1983).

2.2.1 QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION

Some characteristics of accounting information described by Hoskin et al (1997) and, Porter and Norton (1999) are as follows:

Understandability

Understandability means the information must be understandable and useful to the user. The underlying assumption is that, the user is reasonably well informed about accounting terminology and procedures (Hoskin et al, 1997). For information to be useful, it must be understandable. Usefulness and understandability go hand in hand (Porter and Norton, 1999).

However the FASB believes that financial information should be comprehensible to those who are willing to spend the time to understand it. Financial information is a tool and

cannot be of much direct help to those who are unable or unwilling to use it or who misuse it.

Relevance

Relevance refers to whether the information is capable of making a difference in a decision. Information may have three kinds of value: predictive value, feedback value and timeliness.

Reliability

Reliability of information rests on four fundamental characteristics: representational faithfulness, verifiability, neutrality and conservatism.

Representational faithfulness – means that the information faithfully represents the attribute, character or economic event that it purports to represent.

Verifiability – means that independent measures, using the same measurement methods should agree on the appropriate value. It must be credible and verifiable by independent parties using the same methods of measuring (Needless et al, (1999)).

Neutrality – means that the information is not calculated or presented in a way that would bias users towards making certain desired decisions and not making other undesired decisions.

Conservatism – also means if estimates must be made in financial statements, they should err on the side of understating rather than overstating net assets and net income.

Comparability

Comparability generally refers to the ability of information produced by different corporations, particularly within a given industry to be compared. A characteristic that increases the usefulness of accounting information is comparability. Comparability also

means that the information is presented in such a way that a decision maker can recognize similarities, differences and trends over different time periods or between different companies (Needles et al, 1999).

2.2.2 IMPORTANCE OF FINANCIAL INFORMATION

Research indicates that the importance of financial information is divided into two (2) folds (faculty.valenciae.edu/smsso/ch18bus.htm):

- 1) Financial information is the heart of business management, that is, it is almost impossible to run a business effectively without being able to read, understand and analyze accounting reports and financial statements.
- 2) Accounting reports and financial statements reveals the health of a business as pulse rate and blood pressure reports reveals the health of a person.

2.2.3 OBJECTIVES OF FINANCIAL INFORMATION

The information needs of users and the general business environment are the basis for the Financial Accounting Standard Board (FASB). The following are three (3) objectives of financial information:

- a. **To furnish information useful in making investment and credit decisions.**

Financial information should offer information that can help potential investors and creditors make rational investment and credit decisions. The information should be in a form that makes sense to those who have some understanding of business and are willing to study the information carefully.

b. To provide information useful in assessing cash flow prospects.

Financial information/reporting should supply information that will help potential investors and creditors judge the amounts, timing and risk of expected cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of stocks or loans.

c. To provide information about business resources as well as claims to those resources and changes in them.

Financial reporting/information should give information about the company's assets, liabilities and stockholders' equity and the effects of transactions on the company's assets, liabilities and stock holders' equity (Needle et al, 1999).

2.2.4 USERS OF FINANCIAL/ACCOUNTING INFORMATION

According to Bodnar and Hopwood (1995), the users of accounting information fall into two (2) broad groups: External and Internal.

External users include stockholders, investors, creditors, government agencies, customers and vendors, competitors, labour unions and the public at large. Internal users comprise of managers, whose requirements depend on their level in an organization or on the particular function they perform. It is the users of the financial information who determine how it is to be used.

Management

The information on the analysis of past and expected future revenues and expenses are useful to management when plans are formulated, performance is evaluated and decisions

are made on budget for a business as the budget period unfolds, so that they can be compared with the budget to measure achievement. It is through the information that management will know in great detail the cost consequences of a particular course of action, so that steps can be taken to control the situation if things go wrong. The areas of interest to the managers of the information are the profit, liquidity, stability, sales, growth budgets and stock management. The financial information helps managers to know whether the firm's profit is improving or declining; whether the firm is financially stable, just to mention a few. The information needed by management to carry out their responsibility ought to be of high quality and in an understandable form so far as the management is concerned (Weetman, 2006).

Stockholders and Potential stockholders

This group needs financial information in the manner in which management has used their funds which have been invested in the business. They are interested in the profitability and safety of their investment to help them to appraise the efficiency of the management. They are also interested in the future performance of the business and therefore use past figures as a guide to the future if they have to vote on takeover proposal or decide whether to disinvest.

Employees

Financial information is also relevant to the employees of the firm. Employees who wish to discover whether the company can offer safe employment and promotion through growth over a period of years and to the trade unionist, who uses past profits in the calculation of claims for higher careers and efforts in the business must have a right to accounting information. According to Weetman (2006) employees and their

representatives are interested in information about the stability and profitability of their employers. They are also interested in information that helps them to assess the ability of the entity to provide retirement benefits, remuneration and employment opportunities (Beattie, 1999). The matters which are likely to be of interest to past, present and prospective employees include the ability of employer to meet wage agreement, management's intentions regarding employment levels, locations and working conditions, job security, and the contribution made by employees in other divisions of the organization (Weetman and Beattie, 1999).

Lenders

Lenders are interested in information that enables them to determine whether their loans and the related interest will be paid when due. Lenders check that profits are sufficient to cover the interest which they are to receive.

Suppliers and trade creditors

Suppliers also called trade creditors are interested in financial information that enables them to decide whether to sell to the entity and to determine whether amounts owing to them will be paid when due. Creditors are likely to be interested in an entity over a shorter period than lenders unless they are dependent upon the continuation of the entity as a major customer.

Government and their Agencies

Government and their agencies are interested in the allocation of resources and therefore, in the activities of entities. They also require financial information in order to regulate the activities of entities, assess taxation and provide a basis for national income and economic statistics (IASB, 1989).

According to Wood (1988), government agencies are interested in financial information for two (2) main reasons. First, the accounting profit forms the business. Secondly, the revenue authorities are also interested to check on capital expenditure and other items in the accounts which are adjusted on the tax computation.

Customers

Customers have an interest in financial information about the continuance of an entity, especially when they have a long term involvement with or are dependent upon its prosperity. Customers need information concerning the current and future supply of goods and services offered, price and other product details and conditions of sale. The financial statements provide useful confirmation of the reliability of the enterprise itself as a continuing source of supply, especially when the customer is making payments in advance (Marston, 1999).

Public interest

Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the entity and the range of its activities (Weetman, 1999).

Needles et al (1999) also argued that the people who use accounting/financial information to make decisions fall into three categories:

- Those who manage a business, for example management
- Those outside a business enterprise who have a direct financial interest in the business, for example investors and creditors and
- Those people, organisations and agencies that have an indirect financial interest in the business, for example tax authorities, customers and regulators

Three general areas of interest in which users' needs and objectives may lie according to Alexander and Britton (1998) are:

- a. Financial status – can the business pay its way, is it in fact liquid?
- b. Performance – how successful is the business, is it making a reasonable profit, is it utilizing its assets to the fullest, and is it in fact profitable and efficient?
- c. Investment – is the business a suitable investment for shareholders or would returns be greater if they invest elsewhere, is it a good investment?

2.2.5 TOOLS USE IN ANALYSING FINANCIAL INFORMATION

When analyzing the financial condition of business, we typically think of using the three basic financial statements – balance sheet, income statement and cash flow statement. These statements are very useful for analyzing the well-being of operations from several different perspectives and thus are very important (Wood and Sangster, 1996). However these financial statements have some limitations for some financial analysis and thus may not always be the appropriate financial tool to use. The tools for business analysis are:

Balance sheet

Also known as the net worth statement represent a financial snapshot of a business at a particular point in time and is one of the principal financial reports of a business. Balance sheet is a statement of the firm's financial position at a specific point in time. It can take on different looks but they all basically convey three (3) critical pieces of information – assets, liabilities, and equity (capital) (Brigham, 1986). Assets reflect what is owned by the business, liabilities reflect what is owed and equity or net worth reflects the owner's share of the business. The balance sheet provides useful information to lenders and others

as to the size of the business as well as how leveraged the business is which provides an indication of risk bearing ability. A balance sheet is not an account; it is simply a statement of assets and liabilities extracted from the accounting records at a particular moment in time (Hannagan, 2002). A balance sheet is a statement of financial position at a particular date. The balance sheet equation: $\text{total assets} = \text{total liabilities} + \text{owner's equity}$ (Keown et al, 2005).

Income statement

Income statement is a statement summarizing the firm's revenues and expenses over an accounting period. It is the key financial statement for measuring the success of a business over a certain period of time in terms of net income or profit (Brigham, 1986).

Income statement, often referred to as profit and loss statement measures the amount of profits generated by a firm over a given time period. It can be expressed as $\text{sales} - \text{expenses} = \text{profit}$ (Keown et al, 2005).

Cash Flow statement

Cash flow statement is a recording of the funds coming in and going out of a business over some time period and thus it measures how well a business is performing at meeting its cash commitments. Cash inflows refer to money coming into the business. For example sales, loans and cash outflows refer to money leaving the business. For example expenses, cash withdrawals. Cash flow statements can be either historical or projected for a future time period. The sources and uses of funds statement is similar to a historical cash flow statement in that it lists all the funds that come into a business and the funds that leave the business (Keown et al, 2005; Wood and Sangster, 1996; Brigham, 1986). According to Meigs and Meigs (1993), a cash flow statement is used to summarize the

information required and to find any problems. They added that the statement of cash flows is intended to assist investors, creditors and others in assessing the ability of the business to: generate positive cash flows in future periods; meet its obligations and pay dividends, invest in new equipment or projects; and raise sufficient finance as and when needed.

Ratios are very useful tools of financial statement analysis because they conveniently summarize data in a form that is more easily understood, interpreted and compared (Davidson et al, 1986). Financial ratios are the value for both internal and external benchmarking of a business when multiple years of data exist. Internal benchmarking refers to examining how your business is performing overtime when compared to itself. External benchmarking refers to how your operations are advancing as compared to other operations. The various categories under financial ratios are:

- a) Liquidity and solvency – considers the debt level and debt structure of the business.
- b) Profitability ratio – measures the extent to which the business generates a profit from the use of its resources.
- c) Financial efficiency ratio – measures the intensity to which a business uses its assets to generate value of production and the effectiveness of production, purchasing, pricing, financing and marketing decisions.
- d) Repayment capacity – measures the ability of the business to cover its principal and interest payments and evaluate the potential to acquire and service additional debt (Weetmen, 1999; Needles et al, 1999; Brigham, 1986).

Capital budgeting is the process by which the financial manager seeks out investment opportunities, gather information on the investment opportunities, evaluate each opportunity, and then compares all investment opportunities, resulting in the selection of those projects, which maximize the value of the cooperation and hence shareholders wealth (Weetman, 1999). Capital budgeting is a technique used to rank assets and to decide whether they should be accepted in the capital asset budget.

According to Pizzey (2001) capital budgeting decision is defined as the firm's decision to invest its current funds most efficiently in long term assets in anticipating of an expected flow of benefits over a series of years. According to Drury (2000), the success of a firm, its survival, its ability and willingness to maintain operation and to invest in fixed and working capital are largely determined by its financial policies, past and those planned for the future.

2.3 MEANING OF FINANCIAL DECISION

Financial decisions are concerned with the amount of income we receive, the way we spend our money and the amount of money we save. When making decisions, we also have to consider that we should save some of our income. The prime decisions according to Bendrey et al (1992) are:

- Whether to spend all the income as it is received.
- Whether to save part of the income to meet unknown future needs or wishes.
- Whether to save part of the income to meet a future known needs or wishes.
- Whether to borrow to purchase now and repay interest in the future.

CHAPTER THREE

METHODOLOGY AND THEORETICAL FRAME WORK

3.0 INTRODUCTION

This chapter specifically talks about how the data for the study was collected, thus, the methodology, research design and sampling procedures for data collection and a brief history of Mampong in Kwabre district as the case of selected SMEs. The different methods of primary data collection such as personal interviews, telephone interviews and self administered questionnaires were considered but personal and telephone interview were ruled out due to manpower and cost constraints. Therefore the cross sectional or social survey design approach, using self administered questionnaires was selected for the study.

3.1 METHODOLOGY

3.1.1 RESEARCH DESIGN

The study was a cross sectional or social survey design. Data was collected by the use of self administered questionnaires on the use of financial information in decision making in SMEs in Mampong. The structure of the research was a descriptive research. The research described the state of the use of financial information in decision making in SMEs in Mampong.

3.1.2 SAMPLING PROCEDURE

The target population of this study was all the owners of SMEs under handicraft and textile (kente weaving) sector in Mamponteng. Therefore the study population or the sample of the study was the owners of SMEs under the handicraft sector in Ahwia and owners of SMEs under the kente weaving sector in Ntonso. These two towns – Ahwia and Ntonso, are within the capital town of Kwabre district – Mamponteng. According to the District Medium Term Development Plan, Kwabre District Assembly (2006 – 2009); large number of SMEs under the handicraft and kente weaving sectors are dominated in Ahwia and Ntonso respectively.

The sample size was 50 SMEs both in handicraft and kente weaving sector in Ahwia and Ntonso respectively.

3.1.3 SAMPLING SELECTION

The method that was used to select the SMEs under handicraft and kente weaving in Ahwia and Ntonso respectively was the cluster sampling method. Almost all the SMEs under the handicraft sector in Ahwia and kente weaving sector in Ntonso were grouped at one area – along the main road of Mamponteng. Each SME under handicraft and kente weaving in Ahwia and Ntonso respectively were given equal chance of being selected.

3.1.4 SOURCES OF DATA

Responses from owners of SMEs under handicraft and kente weaving in Ahwia and Ntonso respectively were the primary source of data. In addition Kwabre District

Assembly journal (December, 2006) was also used which served as the secondary source of data.

3.1.5 MEHTODS OF COLLECTING PRIMARY DATA

The method of collecting primary data was self administered questionnaires. The self administered questionnaires were answered by some of the respondents (owners of the SMEs) who could read and write. Some of the self administered questionnaires were also read out and interpreted to some of the respondents who couldn't read and write. This method helped to elicit information on the use of financial information in financial decisions in the selected SMEs in Mampong as the questions focused on record keeping, preparation of financial statement and the use of financial statement in decision making.

3.2 ORGANISATIONAL FRAMEWORK – MAMPONTENG

Mampong is the capital of Kwabre district in the Ashanti region. The Kwabre district until 1988 was part of the Agona/Kwabre district council with its headquarters at Agona. A legislature instrument promulgated by the erstwhile Provisional National Defense Council (PNDC) established Kwabre district with its capital town Mampong. In addition to exercising political and administrative authority, the district assembly, according to Local Government Act 1993, Act 462 is empowered to provide guidance, give direction to and supervise all other administrative encumbrance in the district [District Medium Term Development Plan (2006 – 2009), Kwabre District Assembly, 2006].

3.2.1 KWABRE DISTRICT ECONOMY

The Kwabre district economy which was carved out of the former Kwabre Sekyere district in 1988 is made up of people with a homogenous culture. The people are mainly Akans of Ashanti origin and the predominant occupation of the people is farming. Aside farming, weaving and carving of handicraft are the major source of secondary occupation.

Production activities in the district have been categorized into three (3) major sectors namely: agriculture, industry and service. The agricultural sector is dominated by crop farming which is mostly done on subsistence basis and employs rudimentary production techniques. The 2005 household survey revealed that about 82% of all farmers interviewed are food crops farmers. Fruits, vegetables, cocoa and livestock are also grown but on a smaller scale (Kwabre District Assembly Journal; December, 2006).

The industrial sector consists of a wide range of micro, small and medium scale manufacturing and processing activities, including agro-processing, wood based, textiles based, metal based, quarrying, construction and other activities. Trading, personal services such as hair dressing and barbering, drinking and “chop bar” operations, transport, tourism and other services are referred to as service sectors (Kwabre District Assembly Journal; December, 2006).

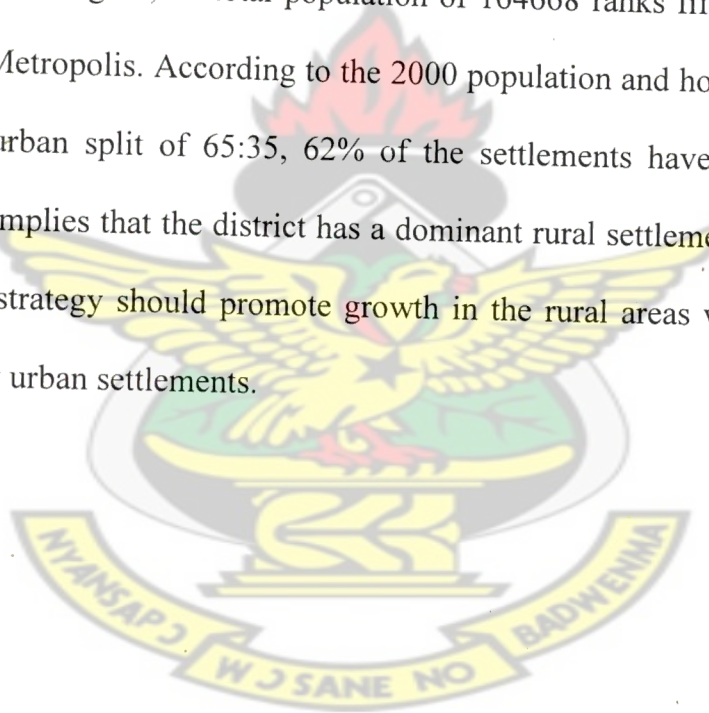
3.2.2 LOCATION AND SIZE OF KWABRE DISTRICT

Kwabre district (Mampong) carved out of the former Kwabre Sekyere district in 1988 is located almost in the central portion of the Ashanti region. It is within latitudes 6° 44' North and longitudes 1° 33' to 1° 44' west. The district shares common boundaries with

Afigya Sekyere district to the north, Kumasi Metropolitan area to the south, Ejisu Juaben district to the southeast, Atwima district to the west and Offinso district to the northwest. The district has a total land area of 246.8 square kilometers constituting about 1.01% of the total land area of Ashanti region.

The district capital Mampong is approximately 14.5 kilometres from Kumasi to the northeast. There are 86 settlements administered under 3 paramount chiefs, 2 parliamentary constituencies, 11 Area councils and 42 district electoral areas.

The 2000 population and housing census put the entire population for the district at 164668. Although Kwabre district (Mampong) is one of the districts with the least land size in the Ashanti region, its total population of 164668 ranks fifth among the 21 districts of Kumasi Metropolis. According to the 2000 population and housing census the district has a rural-urban split of 65:35, 62% of the settlements have less than 1000 inhabitants and this implies that the district has a dominant rural settlement structure and so the development strategy should promote growth in the rural areas whilst managing the growth of the few urban settlements.



CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.0 INTRODUCTION

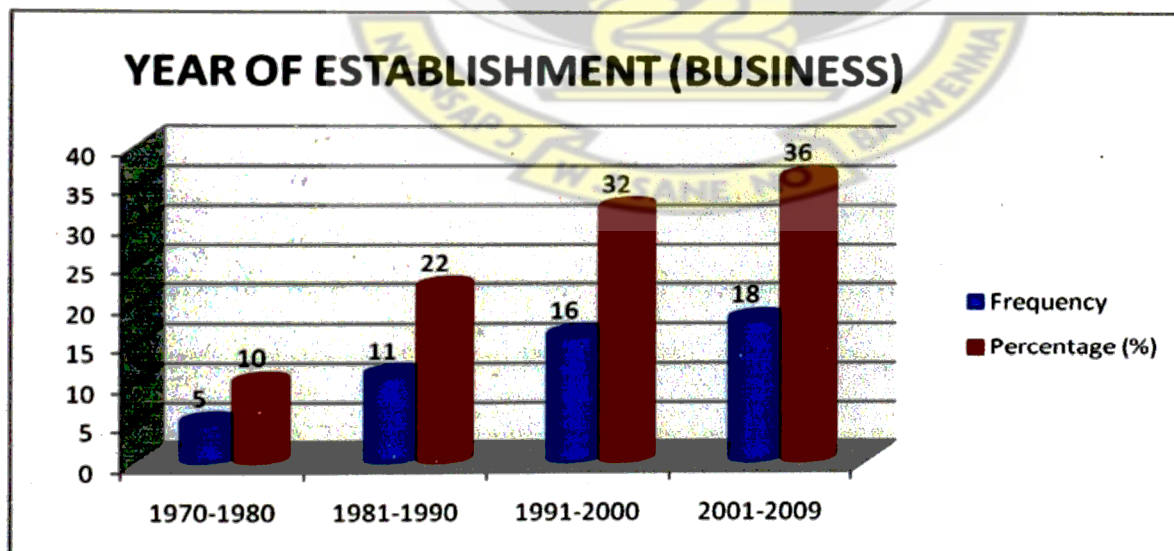
This chapter presents and interprets data collected from field work. A sum of 50 questionnaires was administered to owners of 50 businesses (SMEs) in Mampong district through the use of cluster sampling technique. Cluster sampling technique was implored because it enabled the researcher to select small scale businesses which were the target of this study to provide the needed information for this study.

The information obtained from respondents were coded and presented in graphical forms of histograms, bar charts and tables for easy interpretation and analysis with the use of software known as Statistical Package for Social Scientists (SPSS).

This chapter is presented in two categories, that is, presentation and interpretation of data and analyses and discussion of results.

4.1 PRESENTATION AND INTERPRETATION OF DATA

Figure 1



SOURCE: Field Work (June, 2009)

Figure 1 shows information on the years in which 50 businesses surveyed in Mamponteng district were established. Out of 50 responses, 18 respondents representing 36% which constitute majority established their businesses between the years 2001-2009. The second largest businesses (16) representing 32% were established between the years 1991-2000. On the other hand 11 businesses, representing 22% and 5 businesses, representing 10% were established between the years 1981-1990 and 1970-1980 respectively.

NUMBER OF EMPLOYEES

Table 1

| Number of employees | Frequency | Percentage (%) |
|---------------------|-----------|----------------|
| 1 – 10 | 39 | 78 |
| 11 – 20 | 8 | 16 |
| 21 – 30 | 2 | 4 |
| 31 – 40 | 1 | 2 |
| Total | 50 | 100 |

SOURCE: Field Work (June, 2009)

Table 1 indicates the number of employees of 50 businesses surveyed in Mamponteng district. Information collected indicate that majority of businesses that is, 39 out of 50 businesses representing 78% have employees between 1-10. In addition, 8 businesses, representing 16% have employees between 11-20.

On the other hand, 2 businesses-representing 4% and 1 business-representing 2% have employees between 21-30 and 31-40 respectively.

LEVEL OF EDUCATION

Table 2

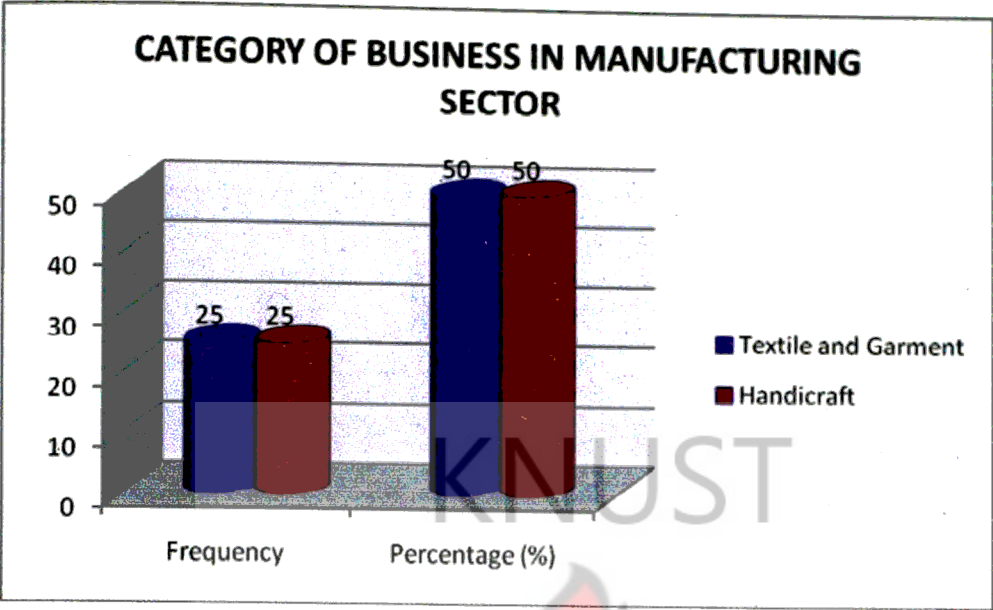
| Level | Frequency | Percentage (%) |
|---------------|-----------|----------------|
| Literate | 6 | 12 |
| Semi-literate | 43 | 86 |
| Illiterate | 1 | 2 |
| Total | 50 | 100 |

SOURCE: Field Work (June, 2009)

Table 2 displays the level of education of 50 businesses (SMEs) surveyed in Mampondeng district. Responses as shown in Table 2 reveal that 6 respondents who are owners of businesses representing 12% are literate. Also, 1 business owner out of 50 business owners, representing 2% of the population of study was illiterate. On the other hand, out of 50 business owners, 43 business owners- representing 86% were semi-literate.

It can therefore be concluded that most small-scale business owners (86%) in Mampondeng district are semi-literate.

Figure 2



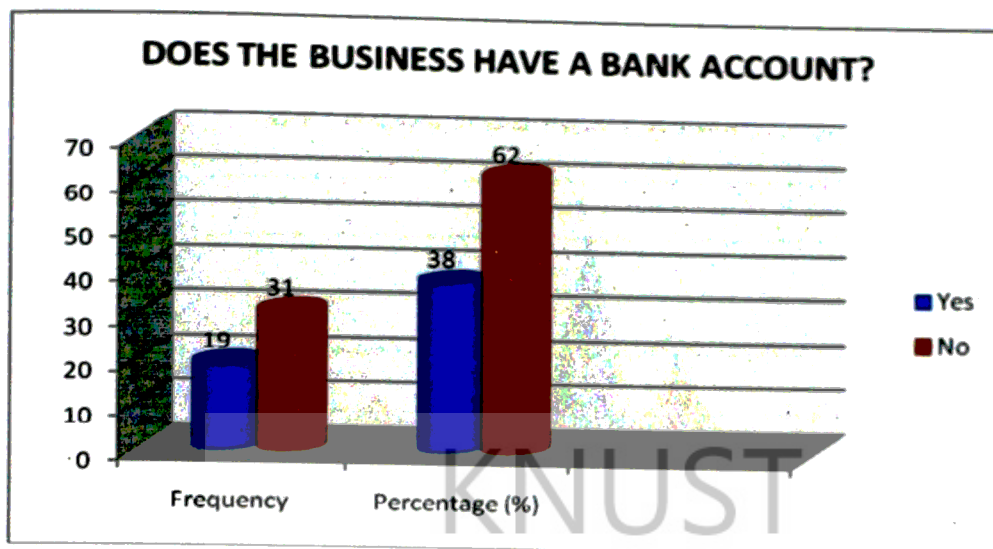
SOURCE: Field Work (June, 2009)

Figure 2 represents category of businesses in the manufacturing sector. Fifty (50) business owners were asked to indicate which category of their business fall under four areas: agro-processing, textile and garment, handicraft and aqua culture.

Responses showed that only two areas (textile and garment, handicraft) of the four options given represent the category of business that fall under the manufacturing sector.

Both textile and garment, and handicraft businesses had equal representation-25 representing 50% each do fall under the manufacturing sector. No business out of 50 businesses was under the agro-processing and aqua culture respectively.

Figure 3



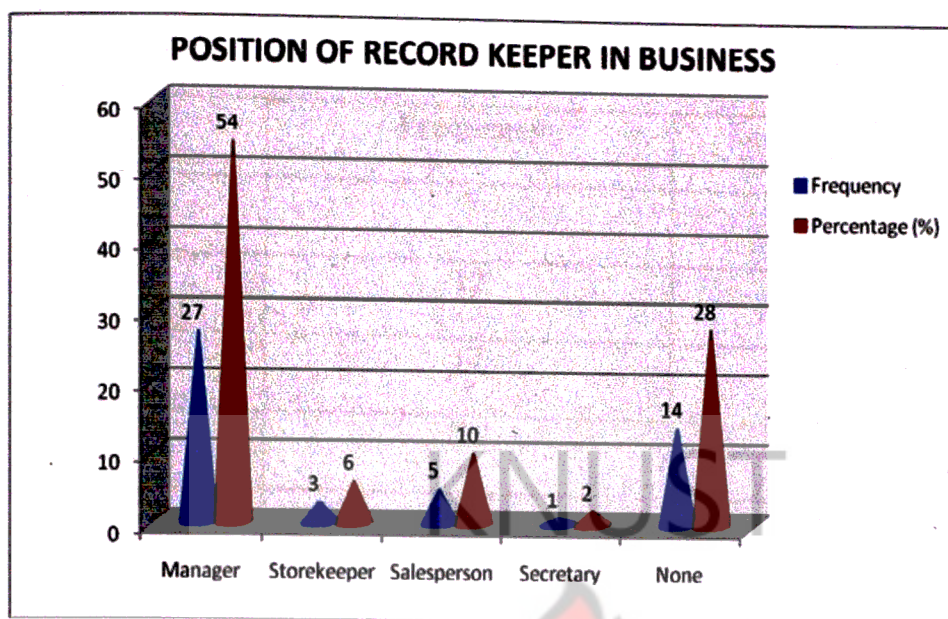
SOURCE: Field Work (June, 2009)

Figure 3 above displays 50 businesses that have opened bank account and those that have not in Mampong district. Information on Figure 3 shows that out of 50 businesses, 19 businesses-representing 38% have bank accounts.

On the other hand, 31 businesses-representing 62% which is majority do not have bank accounts.

It can therefore be concluded that most businesses (62%) in the area of study (Mampong district) do not have bank accounts.

Figure 5



SOURCE: Field Work (June, 2009)

Figure 5 represents position of records keeper in business. Business owners who said they had someone in charge of keeping records (36 representing 72% as already showed in Figure 4) were asked to indicate position of persons in charge of records keeping.

Responses as shown in Figure 5, show that 27 out of 36 managers-representing 54% majority were in charge of records keeping for their businesses. Besides, 5 salespersons-representing 10% were in charge of records keeping.

On other hand, 3 storekeepers (6%) and 1 secretary (2%) of 36 businesses were in charge of records keeping.

It can therefore be deduced that most business owners in the area of study (Mampong district) had their managers in charge of keeping records for their businesses. It must also be noted that 14 business owners out of 50 business owners did not have anyone in charge of keeping records.

HOW OFTEN THE BUSINESSES (SMEs) KEEP RECORDS

Table 3

| Periods | Frequency | Percentage (%) |
|---------|-----------|----------------|
| Daily | 7 | 14 |
| Weekly | 12 | 24 |
| Monthly | 17 | 34 |
| None | 14 | 28 |
| Total | 50 | 100 |

SOURCE: Field Work (June, 2009)

Table 3 displays the periods (Daily, Weekly, and Monthly) of records keeping of businesses that had someone in charge of records keeping in Mampong district. It can be deduced from Table 3 that most businesses 17 out of 50 representing 34% kept monthly records of business transactions. 12 businesses, representing 24% which is the second highest kept weekly records of business transactions and 7 representing 14% keep records daily.

MONTHLY EXPENSES OF BUSINESSES

Table 4

| Monthly Expenses (GH¢) | Frequency | Percentage (%) |
|------------------------|-----------|----------------|
| 1 – 1,000 | 47 | 94 |
| 1,001 – 2,000 | 1 | 2 |
| 2,001 – 3,000 | 2 | 4 |
| Total | 50 | 100 |

SOURCE: Field Work (June, 2009)

Table 4 above shows monthly expenses of 50 businesses in Mampong district. Results from the survey as shown on Table 4 indicates that out of 50 businesses, 47 businesses which represent 94% spent between GH¢1 to GH¢1,000 as monthly expenses of their businesses.

Only 1 business (2%) spent between GH¢1,001 to GH¢2,000 as monthly expense of business and 2 businesses (SMEs) representing 4% spent between GH¢2,001 to GH¢3,000 as monthly expenses of businesses.

LIQUID ASSETS AVAILABLE

Table 5

| Liquid Assets (GH¢) | Frequency | Percentage (%) |
|---------------------|-----------|----------------|
| 1 – 5,000 | 36 | 72 |
| 5,001 – 10,000 | 10 | 20 |
| 10,001 – 15,000 | 3 | 6 |
| 15,001 – 20,000 | 1 | 2 |
| Total | 50 | 100 |

SOURCE: Field Work (June, 2009)

Table 5 shows the liquid (cash and other available monies) assets available for 50 SMEs in Mampong district. Out of 50 businesses, the liquid assets available for 36 businesses which represent 72% (majority) were between GH¢1 to GH¢5,000. In addition, 10 businesses (20%) had between GH¢5,001 to GH¢10,000 as liquid assets available.

Only 1 business out of the 50 had between GH¢15,001 to GH¢20,000 as liquid assets available. Similarly, it can be observed from Table 5 that 3 businesses had between GH¢10,001 to GH¢15,000 as liquid assets available.

INCOME FOR LAST YEAR (2008)

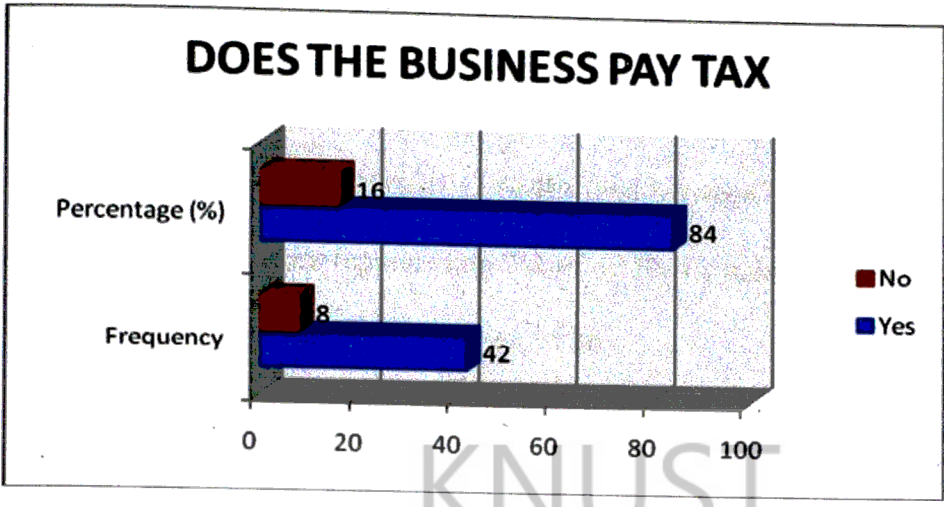
Table 6

| Income (GH¢) | Frequency | Percentage (%) |
|----------------|-----------|----------------|
| 1 – 2,000 | 46 | 92 |
| 2,001 – 4,000 | 1 | 2 |
| 4,001 – 6,000 | 1 | 2 |
| 6,001 – 8,000 | 1 | 2 |
| 8,001 – 10,000 | 1 | 2 |
| Total | 50 | 100 |

SOURCE: Field Work (June, 2009)

Table 6 indicates income of 50 SMEs in Mampong district. Respondents (business owners) were asked to disclose their income of their businesses for the previous year (2008). Results as shown in Table 6 reveals that 46 businesses which represent 92% out of 50 businesses had their income between GH¢1 to GH¢2,000 for 2008. Remaining 4 businesses spent between: GH¢2,001 to GH¢4,000; GH¢4,001 to GH¢6,000; GH¢6,001 to GH¢8,000; and GH¢8,001 to GH¢10,000 respectively.

Figure 6



SOURCE: Field Work (June, 2009)

Figure 6 above displays businesses that pay tax and those that do not pay tax in the Mampondeng district.

From the information in Figure 6, 42 businesses representing 84% of the 50 businesses of study indicated that they do pay tax. 8 businesses surveyed, do not pay tax.

AMOUNT OF TAX PAID LAST YEAR (2008)

Table 7

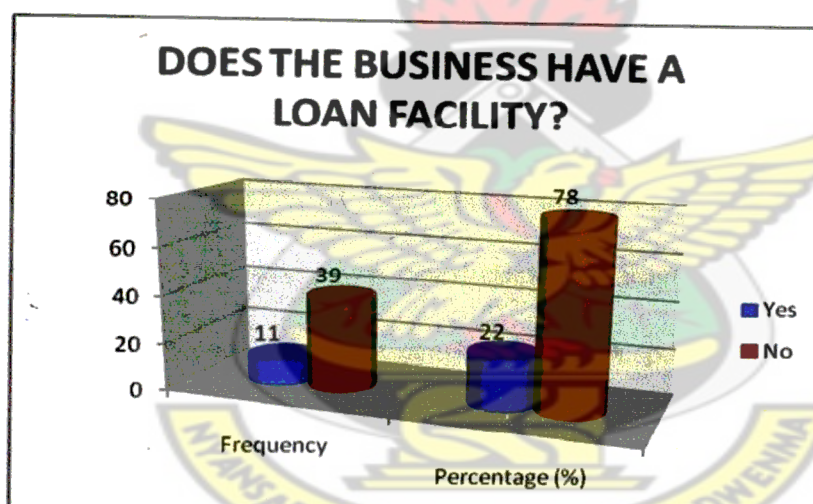
| Tax Paid | Frequency | Percentage (%) |
|-----------|-----------|----------------|
| 1 – 100 | 28 | 67 |
| 101 – 200 | 11 | 26 |
| 301 – 400 | 3 | 7 |
| Total | 42 | 100 |

SOURCE: Field Work (June, 2009)

Table 7 displays the amount of tax paid by the 42 SMEs in Mampondeng district for last year ending December, 2008. It could be observed that 28 businesses which represent 67% of 42 businesses paid between GH¢1.00 to GH¢100 as tax for 2008.

In addition, 11 SMEs representing 26% of 42 SMEs paid between GH¢101 to GH¢200 as tax for 2008. Also, only 3 SMEs representing 7% of 42 SMEs paid tax between GH¢301 to GH¢400 as tax for the year ending December, 2008.

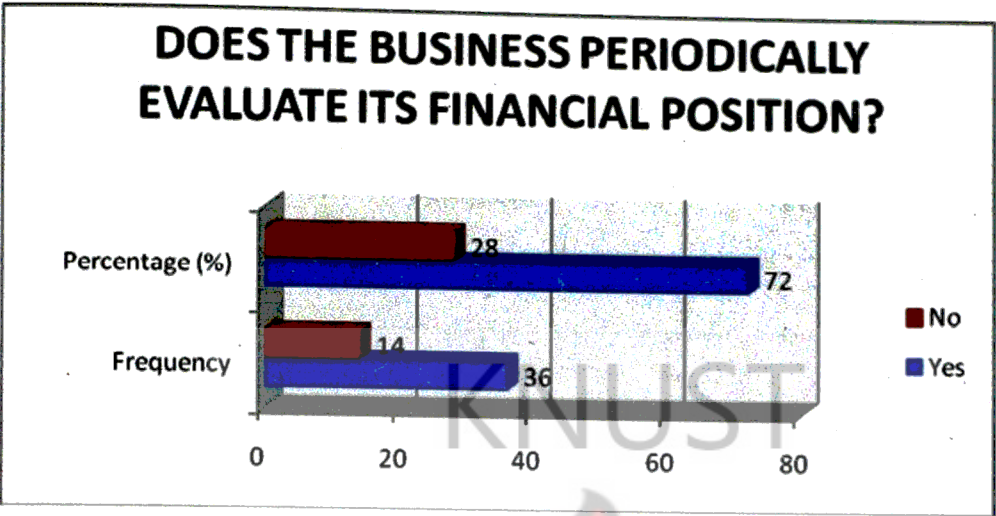
Figure 7



SOURCE: Field Work (June, 2009)

Figure 7 shows 50 SMEs in Mampondeng district that have loan facility and those that do not. It can be observed on Figure 7 that out of 50 SMEs, 11 answered “Yes”, meaning they do have a loan facility and 39 SMEs answered “No”, meaning they do not have a loan facility.

Figure 8



SOURCE: Field Work (June, 2009)

Responses of 50 SMEs owners to the question, “Does the business periodically evaluate its financial position?” are shown on Figure 8. Result shows that out of 50 business owners, 14 which represent 28% of respondents answered “No”, which in logical extension means that such businesses do not periodically evaluate their financial position. However, 36 of 50 businesses owners representing 72% of respondents said “Yes”, which means that they do evaluate their financial position.

WHICH OF THE FOLLOWING TYPE DOES THE FIRM USE TO EVALUATE ITS FINANCIAL POSITION PERIODICALLY?

Table 8

| Type | Frequency | Percentage (%) |
|-------------------------------|-----------|----------------|
| Liquidity and Solvency | 26 | 72 |
| Profitability ratios | 6 | 17 |
| Financial Efficiency | 3 | 8 |
| Repayment Capacity | 1 | 3 |
| Total | 36 | 100 |

SOURCE: Field Work (June, 2009)

Table 8 shows the type that 36 SMEs (out of 50 SMEs) use to evaluate their financial position periodically. As observed on Table 8, 26 firms representing 72% of SMEs use “Liquidity and Solvency” ratio to evaluate their financial position periodically.

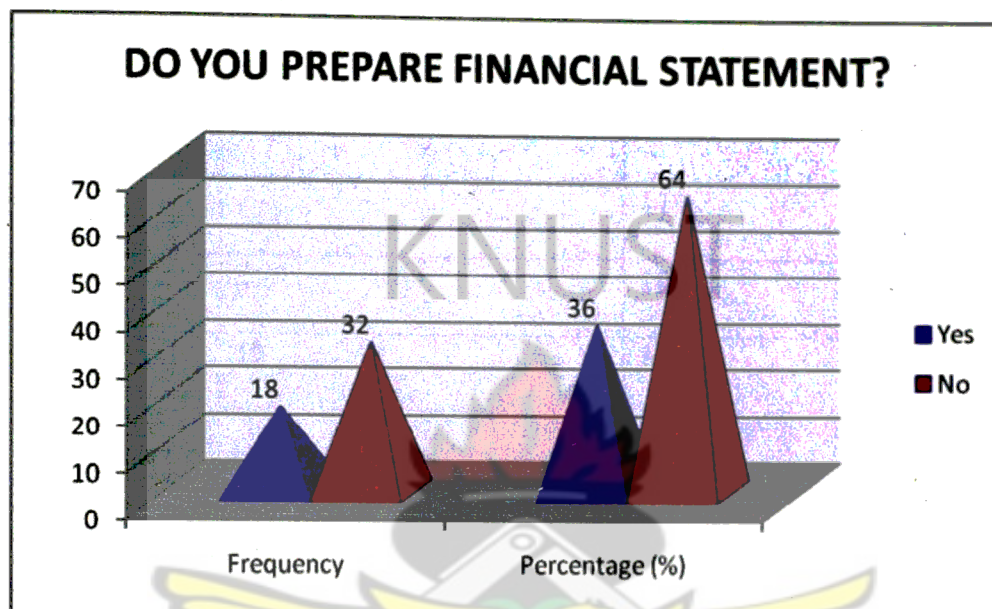
On the other hand, 6 firms representing 17% of 36 SMEs use “Profitability Ratios” to evaluate their financial position periodically.

Besides, 3 firms (8%) and 1 firm “3%” uses “Financial Efficiency” and “Repayment Capacity” to conduct the periodic evaluation of their financial position.

As shown on Table 8, it can be deduced that the most popular type that SMEs in Mampondeng district use to evaluate their financial position periodically is “Liquidity and

Solvency” ratio, followed by “Profitability Ratios”. The use of “Financial Efficiency” and “Repayment Capacity” as type are not commonly used.

Figure 9



SOURCE: Field Work (June, 2009)

Figure 9 displays “Yes” and “No” responses to questions on whether 50 business owners in Mampondeng district prepare financial statement or not. Out of 50 respondents, 18 business owners representing 36% answered “Yes”, that is, they do prepare financial statement and 32 SMEs owners which represent 64% said “No”, meaning they do not prepare financial statement for their businesses.

It can be deduced from the information above that most SMEs in Mampondeng district do not prepare financial statement for their businesses.

WHO PREPARES FINANCIAL STATEMENT OF THE BUSINESS

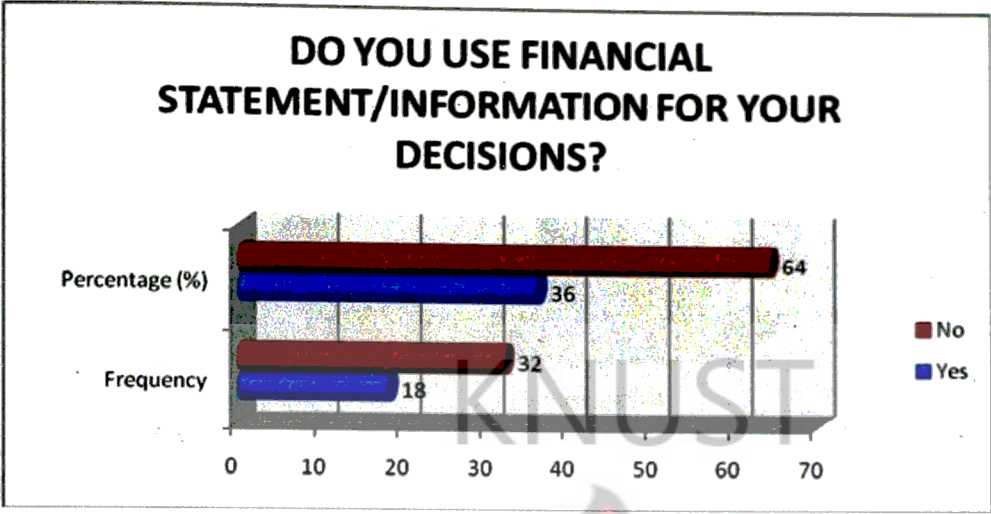
Table 9

| Position | Frequency | Percentage (%) |
|--------------------|-----------|----------------|
| Manager | 14 | 78 |
| Storekeeper | 2 | 11 |
| Accounting Officer | 2 | 11 |
| Total | 18 | 100 |

SOURCE: Field Work (June, 2009)

Table 9 is a probing question which sought to know SMEs (18 out of 50 SMEs which indicated on Figure 9) that do prepare financial statement to disclose the one who is in charge of preparing financial statement. Out of 18 SMEs owners, 14 SMEs owners which represent 78% said that their managers were in charge of preparing financial statement and 4 SMEs owners, 2 each disclosed that their storekeepers and accounting officers were respectively in charge of preparing financial statement for their SMEs.

Figure 10

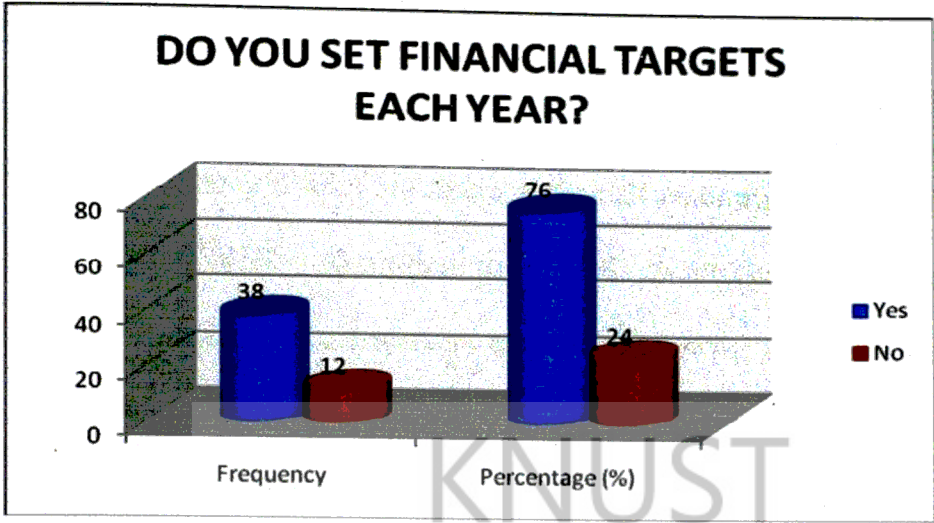


SOURCE: Field Work (June, 2009)

SMEs in the Mamponṭeṅ district were asked a general question to indicate whether they use the financial statement/information for decisions. Out of 50 SMEs, 32 representing 64% answered “No”, that is, they do not use financial statement/information for decisions.

On the other hand, 18 SMEs said “Yes”, they use the financial statement/information for decisions.

Figure 11



SOURCE: Field Work (June, 2009)

Figure 11 shows the number of business owners that set financial targets each year and those that do not. Here, 50 respondents (business owners) were asked to indicate if they do set financial targets for their businesses each year. The responses were positive as 38 (76%) of 50 businesses owners said “Yes”, they do set financial targets for their businesses annually.

Besides, 12 business owners representing 24% of 50 business owners responded “No”, that is, they do not set financial targets yearly.

4.2 ANALYSIS AND DISCUSSION OF RESULTS

It can be deduced from figure 1 that most of the businesses surveyed (34) representing 68% were established between the last 19 years, that is, the period between the years 1991 – 2009. This affirms that from the past 19 years, there have been rapid growth in the creation of SMEs and also most of the people in Ghana have been employed as a way of reducing unemployment in Ghana. SMEs are the source of employment in poor regions

and rural areas. SMEs are the largest provider of employment in Ghana as depicted in figure 1.

Table 1 under the presentation and interpretation of primary data indicates that majority of the SMEs in Mampong district are micro and small enterprises (MSEs) from the working definition of NBSSI. According to NBSSI, micro enterprises are those enterprises employing between 1 to 5 workers including the owner and small enterprises are those enterprises employing between 6 to 29 workers including the owner. Table 1 affirms that about 48 respondents out of 50 respondents represent micro and small-enterprises (MSEs) in the Mampong district because the number of employees which is a criterion in defining SMEs in Ghana by NBSSI was also used for the study.

Table 2 also gives the level of education of the 50 businesses surveyed in Mampong district. From the responses gathered only one business employees were illiterate which means that they were not able to finish the basic level (Junior High School). The semi-literate level of education which takes the majority means that the employees and the owners' level of education were from Junior High School level to Senior High School level. On the other hand, 6 SMEs were literates representing SMEs/businesses whose employees level of education is beyond Senior High School level. This means that the level of education at Mampong district as far as the manufacturing sector is concerned is too low and therefore handicap as far as the business industry is concerned.

Figure 2 represents category of businesses in the manufacturing sector. The categories are Agro-processing, textile and garment, handicraft and aqua culture. Handicraft and textile

and garments were the categories ticked by the 50 respondents because the towns visited were two, Ahwia known for handicraft and Ntonso known for textile and garment under manufacturing sector in the Mampong district.

Figure 3 affirms that most SMEs in the Mampong district do not have bank accounts and the reason been that the business is seasonal; therefore there is no need to open a bank account. Also, they use it as ancillaries in assisting the home and therefore use the money as and when it comes. 19 businesses (SMEs) out of 50 SMEs do have bank accounts but some of the 19 SMEs do not have the bank accounts in the business name, they use their personal bank account for the business.

In figure 4, 36 SMEs/businesses had someone in charge of records keeping and 14 SMEs do not have someone in charge of keeping records. The position of the people in charge of records keeping from the 36 SMEs as shown in figure 5 were managers/owners – 27 SMEs, 8 SMEs for salespersons/storekeepers and 1 SME for a secretary. Figures 4 and 5 affirm that most managers/owners of SMEs in Mampong district are in charge of records keeping and some of the SMEs in the Mampong do not have someone at all in charge of records keeping.

Table 3 displays the periods in which the records are kept in the businesses. 17 SMEs keep records monthly, 12 SMEs keep records weekly, 7 SMEs keep records daily and 14 SMEs do not keep records at all. It is significant to note that only 7 businesses kept daily records on business transactions. This result is not encouraging as it can be concluded that it takes most businesses in the area of study one week and above to keep records on

the business transactions. This is not an appropriate means of record keeping because most of the transactions may be forgotten or may not be properly recorded.

Table 4 from the presentation and interpretation primary data displays monthly expenses of the 50 SMEs in the Mampong district. From the study, 47 SMEs out of 50 SMEs spent between GH¢1500 and 2 SMEs spent between GH¢2001 to GH¢3000 as monthly expenses. Since the business in the manufacturing sector in the Mampong district is seasonal, they only spend a few which is on utilities, that is why the majority of the SMEs (respondents) do not spend much as their monthly expenses.

Table 5 shows the liquid assets available for 50 SMEs in the Mampong district. From the study, the liquid assets available are the assets that can be converted or transformed into cash easily, that is, cash in hand, cash at bank, debtors and the inventory (stock). 36 SMEs out of 50 SMEs had their liquid assets to be between GH¢1 to GH¢5000 (after adding up all their cash in hand and at bank, debtors and stock). 10 SMEs had their liquid assets between GH¢5001 to GH¢10,000; 3 SMEs had GH¢10,001 to GH¢15,000 and 1 SMEs had its liquid assets to be GH¢18,000.

From the working definition of NBSSI, SMEs are defined as firms with 5 to 100 workers/employees with \$1,000,000 in fixed assets. To be precise, micro enterprises are those enterprises employing between 1 to 5 workers or with the fixed assets of value not exceeding \$10,000 excluding land and buildings. Table 5 affirms that the 50 respondents are SMEs because the value of the firm assets which serves as a criteria in defining SMEs (NBSSI working definition) indicates that the liquid assets available plus their fixed

assets will add up to the exact amount required for micro and small enterprises(MSEs) but not for medium enterprises. Although handicraft and textile and garment business in the Mampondeng district is seasonal, some of the SMEs managed to have income for last year (2008) even though business for last year was not encouraging as compared to the previous years. It was because the productivity level of the business was not encouraging that was why most of the SMEs earned between GH¢1 to GH¢2000.

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Figure 6 displays those SMEs that pay tax and those that do not pay tax. From the study, 42 SMEs out of 50 SMEs do pay tax while 8 SMEs do not pay tax at all. Most SMEs studied in the Mampondeng district though pay tax; do not pay the exact amount because they do not keep records which can be used by the Internal Revenue Service (IRS) to tax them. From table 7, it affirms that some are over taxed and others are under taxed because proper records are not kept. Every business or industry is obliged to pay tax, but from the study some do not pay tax which the IRS should not encourage that. 42 SMEs were the businesses that pay tax and 8 SMEs do not provide any amount, which implied they do not pay tax. It can therefore be deduced that most businesses in Mampondeng district pay tax and pay it half yearly.

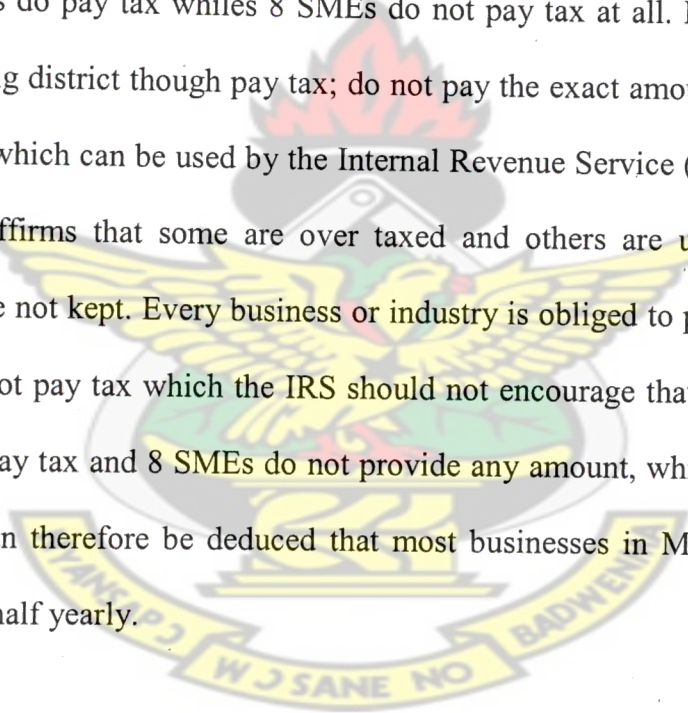


Figure 7 shows that, from the study 39 SMEs do not have loan facility but 11 SMEs out of the 50 SMEs do have loan facility. From the study, the reasons why most of the SMEs do not have loan facility are the fear of the interest rate from the banks and also the collateral they demand from the SMEs/businesses. 11 SMEs do have loan facility but only 1 SME had its loan from Barclays Bank (i.e. Commercial banks) and other 10 SMEs

had their loan from the Rural Banks and Credit Unions. From the study, figure 7 affirms that the Commercial banks including Ghana Commercial Bank, Ecobank Ghana, Stanbic and others do not grant credit facilities to the SMEs.

Figure 8 presents and interprets those businesses that do evaluate its financial position periodically and those businesses that do not evaluate its financial position. From the study, 36 SMEs out of 50 SMEs in the Mampong district said 'yes' which means they evaluate their financial position and the remaining SMEs answered 'no' meaning they do not evaluate their financial position, but for a business to be successful, its financial position should be evaluated at periodically.

Table 8 shows the 36 SMEs who answered 'yes' in figure 8 concerning the type of financial position that the firm use in their evaluation. Table 8 shows that liquidity and solvency topped the very important type of usage to evaluate financial position. The liquidity ratio indicates the ease of turning assets into cash. They included current ratio, quick and working capital ratios. 26 firms use liquidity and solvency type to evaluate their financial position. This means that the SMEs consider the debt level and debt structure of the business. 6 firms use profitability ratios type for evaluating their financial position, that is, the firms evaluate the business on the extent to which the business generates a profit from the use of its resources. 3 firms and only one firm use financial efficiency and repayment capacity respectively; followed closely behind in evaluating its financial position. Table 8 affirms that the majority of firms that evaluate their financial

position mostly use their current assets in evaluating their position, that is, the assets that can be easily converted into cash.

It is surprising as figure 9 indicated that 18 SMEs out of 50 SMEs in Mampong district prepare financial statement. This means majority of the SMEs in the Mampong district do not prepare financial statement. According to BNET Business Directory, financial statements are summaries of accounts to provide information for interested parties like customers, lenders, suppliers and trade creditors, and tax authorities. This means that the firms in the Mampong district should do all that they could to prepare financial statement since that provide information to the public concerning the position of the business.

Table 9 shows the people of the 18 SMEs who prepare the financial statement. 14 SMEs out of the 18 SMEs who prepare financial statement are been prepared by the managers/owners of the business. In figure 5 of the study, 27 SMEs responded that the managers/owners of the firms are in charge of records keeping and table 9 also affirms it.

For figure 10, the 18 SMEs who answered 'yes' that they do prepare financial statement affirms in figure 10 that they use what they prepare in their decision making. The 18 SMEs use the financial statements prepared to decide whether to spend all income as it is received or not; or whether to save part of the income to meet future known needs and whether to borrow to purchase now and repay interest in the future.

Though most of the firms in the Mampondeng district do not prepare financial statement, they do set financial targets for their businesses every year. 38 firms out of 50 firms representing 76% in Mampondeng district do set financial targets annually and 12 firms do not set any targets.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

The usefulness of financial information in financial decisions are most essential in decision making for large companies and also small and medium enterprises. This chapter is all about the summary, conclusions and recommendations gathered for the study: the use of financial information in financial decision for SMEs in Ghana.

5.1 SUMMARY OF FINDINGS

Statistical Package for Social Sciences (SPSS) was used for the data analysis and findings. 50 questionnaires were administered to SMEs in Mampong district through the use of cluster sampling technique, and all the 50 were responded. Primary data was purely used for the data gathering. Only 18 SMEs out of the 50 SMEs do prepare financial statement though it is in the Companies Code, 1963, ACT 179, that all companies are required to records. The information gathered from the respondents were coded using the SPSS programme and presented in graphical forms of histogram, bar charts and tables which assisted in the presentation and interpretation of data and the discussion of the findings. It depicted a clear picture of the responses from the respondents in Mampong district.

5.2 CONCLUSIONS

Although the response rate to the survey was low, the results of the survey did provide information which could be considered representative. It can be concluded that most SMEs in the Mamponteng district do not prepare financial statements/information and therefore do not use it in their decisions but they do set financial goals/targets that they want to accomplish every year.

From the findings it was realised that managers/owners of the firms represented the highest number of people who prepare the financial statements and also set financial targets.

5.3 RECOMMENDATIONS OF THE STUDY

Small and medium enterprises act as ancillaries to large scale enterprises for economic and social benefits to the economic development; therefore there is the need to take financial information more seriously in their activities to make proper decisions concerning the business industry. Without accounting information as a basis for decisions, it is unlikely that efficient allocation of available resources would be achieved. It is recommended that SMEs should prepare financial statement/information to make relevant decisions.

It is also recommended that SMEs should take advantage of the preparation of financial information very essential because according to Kochanek et al (1992), "financial information is the information about a business that users rely on to make decisions". SMEs can be known and attracted to more customers and public interest through the

preparation of financial statement/information. Customers need information concerning the current and future supply of goods and services offered, price and other product details and condition of sales. It also provides useful confirmation to the customer of the reliability of the enterprise and to the public interest, provides information about the trends and recent developments in the prosperity of the entity and the range of its activities.

According to Wichmann (1983), “proper accounting is a key to small business success but poorly prepared accounting/financial information render most SMEs unable to evaluate their own financial situation, or to demonstrate viability, and or to facilitate loan financing”. It is recommended that the SMEs register with some accounting consultancy firm to prepare their financial statement for them since from the findings only a few SMEs have their level of education beyond Senior High School level or they should employ qualified personnel for the preparation of the financial statement.

SMEs should make it possible to attend all seminars and training programmes held by NBSSI on the preparation and presentation of financial information.

Financial information in financial decisions can never be erased or undermined in the business industry. It is recommended by government to frequently organize seminars and training programmes for SMEs through the NBSSI on the preparation of financial information and the financial institutions should make the preparation of financial statement their requirement before granting them loans or credit.

Consequently, financial information describes the conditions of an organization and its major transactions and events for a period of time. Owners and managers require financial statements to make important business decisions that it needs for continued operations. It feeds management with a more detailed understanding of the figures. When the business provide a steady and up to date flow of information, the business will be able to make appropriate decisions about how to reduce costs, how to increase sales, how to raise profitability, when to purchase new capital asset and the best source of finance and, duration.



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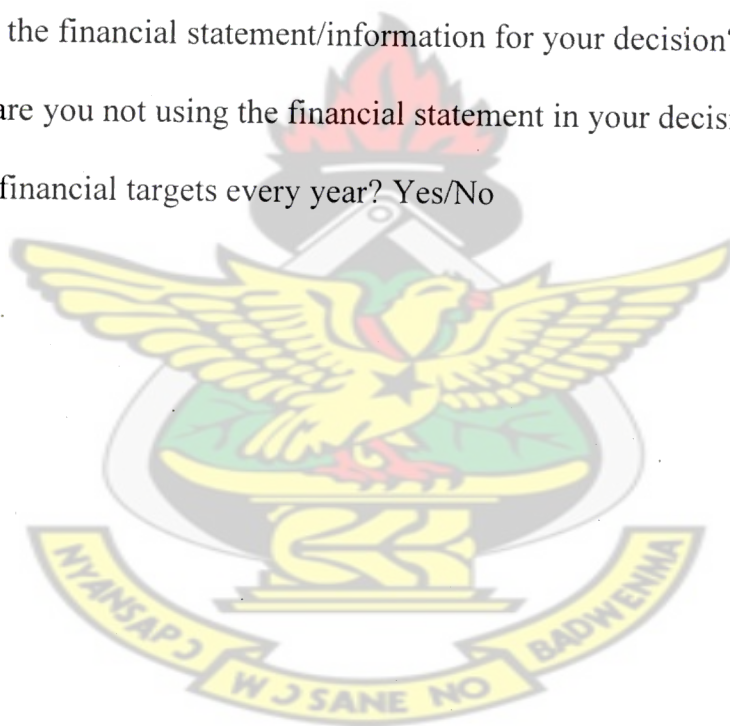
APPENDIX A

THE QUESTIONNAIRE ON THE TOPIC “THE USE OF FINANCIAL INFORMATION IN FINANCIAL DECISIONS OF SMES IN GHANA: A CASE STUDY OF SMES IN MAMPONTENG DISTRICT”.

Please tick (✓) where appropriate and write in spaces (.....) provided.

1. Name of the business.....
2. When was the business established?
3. How many employees are in the business?
4. What are the employees levels of education? a) Literate b)Semi-literate c)Illiterate
5. Which category do the business fall under manufacturing sector a)Agro processing b) Textile and Garment c) Handicraft d) Aqua culture
6. Does the business have its own bank account? Yes/No
7. How often do you keep records? a) Daily b)Weekly c)Monthly
8. Do you have someone in charge of the records keeping? Yes/No
9. If yes, what is his/her position in the business
10. What are the monthly expenses of the business
11. What are the liquid (cash and other available monies) assets available?
12. What was the income for last year?
13. Does the business pay tax? Yes/No

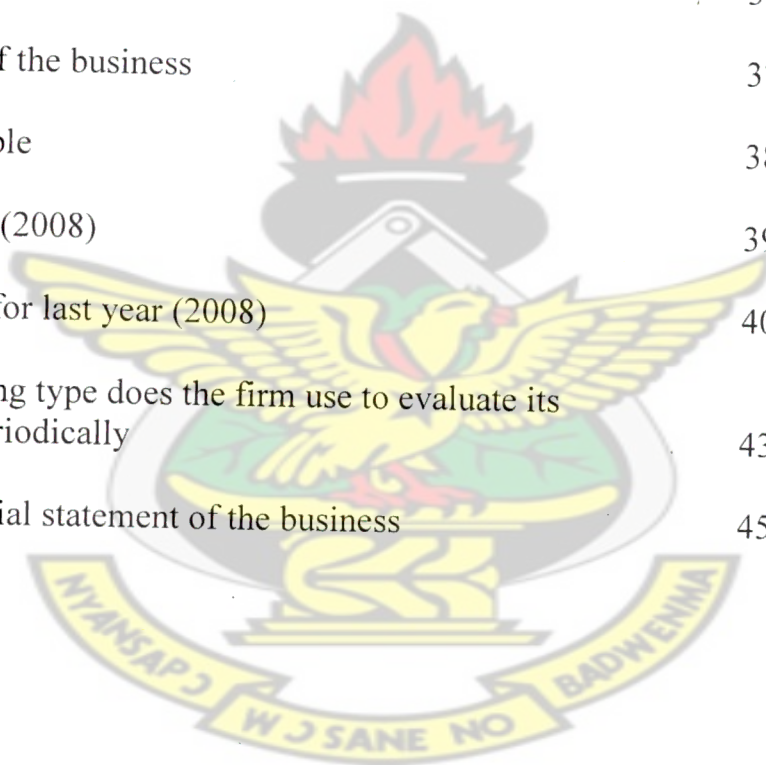
14. If yes, how much tax did the business pay last year?
15. Does the business have a loan facility? Yes/No
16. If yes, which financial institution
17. Does the firm periodically evaluate its financial position? Yes/No
18. If yes, which of the following type does the firm uses to evaluate its financial position periodically?..... a)Liquidity and solvency b) Profitability ratios c) Financial efficiency d) Repayment capacity
19. Do you prepare financial statement? Yes/No
20. If yes, who prepares the financial statement
21. Do you use the financial statement/information for your decision? Yes/No
22. If no, why are you not using the financial statement in your decisions
23. Do you set financial targets every year? Yes/No



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