
**ACCOUNTING PRACTICES OF SMES IN SUNYANI: AN
INVESTIGATIVE STUDY OF RECORD KEEPING FOR PERFORMANCE
MEASUREMENT**

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ABSTRACT

The aim of the study is to contribute to the body of knowledge in the area of Small and Medium Scale Enterprises (SMEs) accounting by analysing the types of accounting records SMEs keep and maintain as well as the types of financial statements SMEs prepare using a sample of 120 respondents selected based on convenient sample method. Primary data was collected using structured self-designed and self-administered questionnaire. Primary data was analysed using percentages, frequencies and presented using tables. The findings indicate that SMEs in the survey keep purchases day book than the other books identified. Statement of account is the most prepared financial statement. The most ranked reason for profit calculation is tax purposes. Mandatory policy should be put in place to ensure that SMEs adopt accounting practices in their business activities. Future studies should consider the same issues discussed in the current study using structural modeling method for causal study.

Key words: Small and Medium Scale business; Accounting records; financial statements; Profit calculation

Jel Classification: L25; M40; M48

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1.1. INTRODUCTION

The issue of keeping incomplete accounting records among Small and Medium Scale Enterprises (SMEs) in developed and developing economies have attracted attention from researchers, Professional Accountants, Professional Accounting Bodies, Investors, Financial Institutions, Economists and Policy makers (Maseko & Manyani, 2011). Efficient use of accounting information is needed to support financial performance measurement by SMEs (Maseko & Manyani, 2011; European Commission (EC), 2008; Cooley & Edwards, 1983). Some SMEs keep records for the purposes of security and control and not for performance measurement.

According to Maseko and Manyani (2011) the SMEs should adopt accounting practices that will “supply complete and relevant financial information needed to improve economic decisions made by entrepreneurs” and other users. The increase in attention on SMEs records keeping results from the fact that SMEs are considered to play important roles in economic development of an economy. SMEs help create job opportunities; provide government with revenues through tax payments and also serve as source of innovation and business evolution (Kithae et al., 2012; Padachi, 2012; Moore et al., 2008; Zindiye et al., 2008; Ncube & Greenan, 2004; Enright et al., 2001; Wynarczyk et al., 1993).

1.2: LITERATURE REVIEW

SMEs have been defined in different ways by various researchers in the literature (Maseko & Manyani, 2011; SEDCO, 2010; Pacter, 2009; Holt, 2008; Zindiye et al., 2008; Ghafoor & Iqbal, 2007; IASCF, 2007; Sian & Roberts, 2006; Beck et al., 2005; Hong Kong Institute of Certified Public Accountants, 2005; Schreyer, 2000). There is no agreement on the definition of SMEs yet in the literature (Maseko & Manyani, 2011). For the purpose of the current study the definition of Maseko and Manyani (2011) is adopted. That is SMEs is any business entity that has a labour force of less than 100 employees registered or not.

There are many accounting practices and financial reporting available to SMEs to adopt for the efficient running of the business they are set up to perform in an economy as reported in the literature. The findings on the various accounting practices and financial reporting are found in the works of various researchers (Supriyati & Wulanditya, 2012; Maseko & Manyani, 2011; Lalin & Sabir, 2010; Zhou, 2010; Jayabalan & Dorasamy, 2009; Ngorima, 2009; Von & Wingard, 2009; Tanwongsva & Pinvanichkul, 2008; Will, 2008; Ismail & King, 2007; Evaraert

et al., 2006; Adiningsih, 2003; Kuncoro, 2000; Marriot & Marriot, 2000; McMahon, 1999; Holmes & Nicholls, 1998; Keasy & Short, 1990; Bohman & Boter, 1984; Cooley & Edwards, 1983).

Among the various accounting practices and financial reporting available to SMEs are profit measurement and the accounting concept of capital maintenance. Under the issues of Measurement various approaches are used such as Historical cost; Current cost; Realisable value and Present value. In the area of accounting bases the elements available to SMEs are Cash basis accounting and Accrual basis accounting. SMEs use various financial records such as sales day book (sales journal); purchases day book (purchases journal); cash receipt book; cheque payments book; petty cash book; general journal; nominal ledger; debtors' ledger and creditors' ledger. SMEs also engage in various tax systems such as income tax and Value Added Tax (VAT) (Maseko & Manyani, 2011).

1.3: STATEMENT OF PROBLEM

According to European Commission (2008) appropriate accounting information is important for a successful management of an organisation including SMEs. According to literature (Maseko & Manyani, 2011; Lalin & Sabir, 2010), some SMEs do not adopt accounting practices and hence do not supply complete and relevant financial information necessary to take business decisions. In view of these the current paper examined the accounting practices adopted by SMEs.

1.4: JUSTIFICATION

The current work is motivated by the fact that very few current empirical works exist in literature on SMEs adoption of accounting practices in developing economies. In the knowledge of the researchers no such empirical study exists on the study area. The current paper fills in the literature gap.

1.5: SIGNIFICANCE

The paper provides further understanding on SMEs accounting practices in developing economies by providing answers to the research questions raised in the paper. Policy makers in the area of SMEs are provided with information on the various accounting practices of SMEs in developing economies such as Ghana. Researchers doing similar work will find the findings useful reference material on SMEs usage of accounting principles

1.6: GENERAL OBJECTIVE/SPECIFIC OBJECTIVES

The paper contributes to the body of knowledge in the area of accounting practices by examining the completeness of accounting records being kept by SMEs as a source of information for economic decision making and investigates the extent to which accounting information is being used in measuring financial performance by SMEs.

The paper specifically:

- Investigates the types of accounting records being kept and maintained by SMEs.
- Investigates the type of financial statements prepared by SMEs.
- Examines whether accounting information is used for measuring financial performance or for security and control.

1.7: RESEARCH QUESTIONS/ASSUMPTIONS

The paper is based on the research question which is;

- Which appropriate accounting information are kept by SMEs?

The paper is based on an assumption that SMEs are not keeping appropriate accounting practices and they do not supply complete and relevant financial information for business decisions.

1.8: LIMITATIONS/SCOPE

Respondent's bias might be present and affect the interpretation of the findings since data for analysis is based on self-reported responses. Some respondents felt reluctant to answer the questions for fear of attracting official attention to their profits for various taxes. Cross-sectional research design is used. Hence, causal interpretations of findings are not possible. The findings cannot be generalised due to the use of non-probability sample method (convenience sample). The paper empirically did not examine challenges faced in keeping proper accounting and the users of financial statements of SMEs.

2. RESEARCH METHODOLOGY

The paper is exploratory, descriptive, quantitative and cross-sectional survey study of (120) SMEs in Sunyani Township, selected through the use of convenience sampling technique. Primary data was collected using self-designed questionnaire, administered at work places of respondents. Primary data collected was analysed using cross-tabulations and chi-square test. The statistical tool used is the SPSS version of 16.0. Results are presented in Tables.

3. RESULTS AND DISCUSSIONS

The results are presented and discussed in this section of the paper. The demographic profiles of the respondents in the survey are presented first in Table 1. This is followed with the descriptive results of responses provided by respondents.

3.1. DEMOGRAPHIC FEATURES OF RESPONDENTS

The results on demographic profiles of the respondents are reported in Table 1. Majority (58.3%) of the respondents are males. Most (41.7%) of the respondents are in the age group of 30-33years. Majority (60.8%) are Christians. Most (34.2%) of the respondents have completed Senior High school (SHS). Majority (61.7%) of the respondents have 1-5 years of experience in managing SMEs. Majority (79.2%) of the surveyed SMEs employs 1-5 workers. Majority (55.0%) of the SMEs operate in the retail sector. Most (45.8%) SMEs have an annual income of 1000-2000. Significant majority (89.2%) of the SMEs are sole proprietorship businesses.

Table 1. **Distribution of responses on Demographic features**

Variables	Frequency	Percentages (%)
Gender		
Male	70	58.3
Female	50	41.7
Missing responses	na	na
Total	120	100.0
Age		
22-25	5	4.2
26-29	14	11.7
30-33	50	41.7
34-37	26	21.7
Above 37	22	18.3
Missing responses	3	2.5
Total	120	100.0
Religion		60.8

Christian	73	31
Muslim	38	4.2
None	5	3.3
Missing responses	4	100.0
Total	120	
Education of respondents		9.2
Junior High School (JHS)	11	34.2
Senior High School (SHS)	41	25.8
Diploma	31	15.8
High National Diploma (HND)	19	14.2
Degree	17	0.8
Missing response	1	100.0
Total	120	
Year of experience		10.8
Less than 1 year	13	61.7
1-5	74	15.8
6-10	19	10.0
Above 10years	12	1.7
Missing responses	2	100.0
Total	120	
Number of employees of SMEs		
1-5	95	79.2
6-10	19	15.8
11-15	3	2.5
16-20	1	0.8
Above 25	1	0.8
Missing response	1	0.8
Total	120	100.0

Industrial sector of the SMES	66	
Retail(shop)	10	55.0
Manufacturer	42	8.3
Services	2	35.0
Entertainment/hospitality	120	1.7
Total		100.0
Annual income of SMES (Ghana cedis)	20	
Less than 1000	55	16.7
1000-2000	36	45.8
Above 2000	9	30.0
Missing responses	120	7.5
Total		100.0
Type of business	4	
Family business	107	3.3
Sole proprietor	6	89.2
Partnership	2	5.0
Limited company	1	1.7
Missing responses	120	0.8
Total		100.0

(Source: field survey, 2013)

3.2. ACCOUNTING/MANAGEMENT KNOWLEDGE LEVEL OF SMES

The knowledge level of respondents was examined to find out whether they have basic understanding of accounting. This was done using various questions in the survey. The results in Table 2 indicate that significant majority (83.3%) of the respondents offered business programme in school and might have been exposed to some basic accounting principles. Majority (56.7%) of the respondents indicate they have no training in accounting. On whether

respondents have training in SMEs management, majority (75%) of the respondents have no training in managing SMEs. The results are reported in Table 2.

Table 2. Knowledge level of SMEs on Accounting practices

Questions	Frequency	Percentage (%)
Programme of study		
Business	100	83.3
Arts	13	10.9
Science	4	3.3
I don't know	2	1.7
Missing responses	1	0.8
Total	120	100.0
Training in managing SMEs		
Yes	30	25.0
No	90	75.0
Total	120	100.0
Training in accounting		
Yes	52	43.3
No	68	56.7
Total	120	100.0

(Source: field survey, 2013)

3.3. TYPES OF ACCOUNTING RECORDS BEING KEPT AND MAINTAINED BY SMES

The type(s) of Accounting Records being kept and maintained by SMEs were/was examined in the survey. Respondents were asked for the one who prepare their accounts/financial statements. The results are shown in Table 3. Significant majority (84.2%) of the respondents indicated that owners of the SMEs who are also the managers (Owner-manager) prepare the accounts/financial statements.

Table 3. Preparer of accounts/financial statements

Questions	Frequency	Percentage (%)
Who prepare the financial accounts/financial statements		
Full-time accounting officer	15	12.5
Consultant	3	2.5
Owner-manager	101	84.2
Use of accounting software	1	0.8
Total	120	100.0

(Source: field survey, November, 2013)

The accounting records kept by SMEs were examined and ranked. The results are reported in Table 4. The results indicate that purchases day book is the most kept records followed by sales day book and expenditure book.

Table 4: Distribution of ranked responses on the Accounting records kept by SMEs

Question: Accounting Records kept by SMEs	Percentage (%)
Purchases day book	64.2
Sales day book	63.5
Expenditure book	62.5
Payroll records	58.3
Asset register	37.5

(Source: field survey, March, 2013)

3.4. TYPES OF FINANCIAL STATEMENTS PREPARED BY SMES

The financial statements prepared by SMEs were examined and ranked. The results are reported in Table 5. The results indicate that statement of income is the most prepared financial statement followed by Statement of financial position and statement of cash flows. The values of the percentages do not indicate that significant majority of the respondents prepare these statements.

Table 5: Distribution of ranked responses on the financial statements prepare by SMEs

Question: Financial statements prepare/kept by SMEs	Percentage (%)
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Statement of income	39.2
Statement of financial position	39.1
Statement of cash flows	36.7
Statement of changes in equity	30.8

(Source: field survey, March, 2013)

3.5. BOOKS OF ACCOUNTS/LEDGERS KEPT AND MAINTAINED BY SMES

The books of accounts/ledger kept by SMEs were examined and ranked. The results are reported in Table 6. The results indicate that cash book is the most kept book followed by receivables accounts and payables accounts. The values of the percentages do indicate that majority of the respondents prepare these statements.

Table 6: Distribution of ranked responses on the Books of accounts/ledgers kept and maintained by SMEs

Question: Books of accounts/ledgers kept and maintained by SMEs	Percentage (%)
Cash book	75
Receivables	65
Payables	63.3
Non-current assets	37.5

(Source: field survey, March, 2013)

3.6. REASONS FOR PROFIT CALCULATION BY SMES

Profit measurement was also examined in the survey as one of the accounting practices and financial reporting available to SMEs. Respondents were asked if they calculate profit and the reasons they calculate profit. The results on whether they calculate profit are reported in Table 7.

Table 7. Calculation of Profit

Questions	Frequency	Percentage (%)
Do you calculate profit?		
Yes	107	89.2
No	12	10.0
Missing responses	1	0.8

Total	120	100.0
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(Source: field survey, March, 2013)

The results on the reasons why profit is calculated are reported in Table 8 in a ranked form. Tax purpose is the most ranked reason for profit calculation followed by profit sharing and financial reporting. The percentage values for profit sharing and financial reporting indicate that most of the respondents do not calculate profit because of profit sharing and financial reporting. The results indicate that SMEs record keeping is security and control and not for capturing accounting information for performance measurement.

Table 8: Distribution of ranked responses on the Books of accounts/ledgers kept and maintained by SMEs

Question: Reasons SMEs calculate Profit	Percentage (%)
Tax purposes	70.8
Profit sharing	31.7
Financial reporting	25.8

(Source: field survey, March, 2013)

3.7. ACCOUNTING BASES SMES ADOPT

The accounting bases adopted by SMEs were examined in the survey. The two main bases are cash basis accounting (53.3%) and accrual basis accounting (33.3%) on ranking.

3.8. DISCUSSION

The findings on accounting records kept by SMEs are not in line with the ranks reported by Maseko and Manyani (2011) in which sales day book ranked highest with 62% with purchases day book ranking second with 58%. The findings on the types of financial statements prepared by SMEs are in line with that of Maseko and Manyani (2011) study which ranked statement of income highest with 30%. The second ranked statement is the Statement of changes in equity (23%) which is contrary to the second ranked statement for the current study which is Statement of financial position (39.1%). The results on the highest ranked ledger/book kept and maintained is in line with that of the study of Maseko and Manyani (2011) who ranked cash book highest (53%) followed by receivables (32%) with payables ranking third (28%) and non-current assets

(22%). The findings also support the view of Walhlstedt (1996) that cash accounting is easy as compared to the other bases of accounting.

This result on the calculation of profit is in line with the findings of Maseko and Manyani (2011) who reported that 78% of SMEs calculate profit with 22% not calculating profit. The results indicate that SMEs record keeping is security and control and not for capturing accounting information for performance measurement. Maseko and Manyani (2011) reported that SMEs in Zimbabwe keep records for security and control and not for capturing accounting information for performance measurement (proxied by financial reporting). The findings are not in line with that of Maseko and Manyani (2011) who reported that 28% of SMEs calculate profit for financial reporting; 27% for profit sharing and 13% for tax purposes. The findings on accounting bases are in line with that of Maseko and Manyani (2011) study who reported that 72% of SMEs adopt cash basis of accounting with 28% adopting accrual basis of accounting.

The findings of the survey indicated that SMEs do not keep and maintain complete set of financial statements as reported by previous researchers such as Maseko and Manyani (2011) and McMahon (1999). This results from the fact that majority of the SMEs financial statements are prepared by owner-managers who have little or no financial knowledge (Maseko & Manyani, 2011; Wichman, 1983; Everaert et al., 2006) as reported in Table 2.

4. CONCLUSIONS AND POLICY IMPLICATIONS

The aim of the study has been achieved. The types of accounting records SMES keep and maintained are identified and ranked. The financial statements SMEs prepare have also been examined and ranked. The reasons SMEs calculate profits have been investigated and ranked. SMEs in the survey do not keep complete accounting records which is an indication that enough accounting information are not used to support financial performance measurement in their business activities. Policy makers in accounting and regulators of SMEs should provide guidelines for use by the SMEs to be able to capture the relevant accounting information in a mandatory manner. Training programmes in SMEs management and accounting should be put in place for the SMEs to acquire the needed skills in managing their business. Future studies should consider the same issues discussed in the current study using structural modeling method as well as correlation analysis to examine the link between independent variables and the dependent

variables. The study should be replicated in other communities to determine if the findings will be collaborated.

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