UNIVERSITY OF CAPE COAST

FINANCIAL REPORTING PRACTICES AND BUSINESS PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN SEKONDI TAKORADI METROPOLIS: THE MODERATING EFFECT OF ACCOUNTANTS' CHARACTERISTICS

BERNICE KOFITO

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BY

BERNICE KOFITO

Dissertation submitted to the Department of Accounting School of Business, College of Humanities and Legal Studies, University of Cape Coast in partial fulfilment of the requirements for the award of Master of Business Administration degree in Accounting

MAY 2023

DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature ……………………………..Date ……………………...

Name: Bernice Kofito

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on the supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature ………………………… Date …………………

Name: Rev. Dr. George Tackie

ABSTRACT

Effective financial reporting practices play an effective role in the survival of small and medium-sized enterprises, but poor reporting practices is a contributing factor for small and medium-sized enterprises' failures. The current study investigates the effect of financial reporting practices on the performance in the Sekondi-Takoradi Metropolis while considering the moderating effect of accountants' characteristics. Also, the challenges relating to financial reporting practices were additionally examined. The explanatory research design was utilised to execute the objectives of the study. Through the simple random sampling technique, the study responses were obtained with a structured questionnaire. Estimations of the study were performed with the Partial Least Square Structural Equation Modelling. The study found a significant positive effect of accounting records keeping and financial disclosure on business performance. On the other hand, comprehensive financial statement contributed less to business performance. Moreover, characteristics of accountants could not moderate the relationship between financial reporting practices and business performance. Also, challenges on the financial reporting practices were found. It is recommended that small and medium-sized enterprises should enhance competencies of accountants on financial reporting practices in order that it can contribute to performance.

KEYWORDS

Financial Reporting

Accountants' Characteristics

Financial Disclosures

Business Performance

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DEDICATION

To my husband and family.

TABLE OF CONTENTS

CHAPTER FIVE: SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

LIST OF TABLES

LIST OF FIGURES

LIST OF ACRONYMS

ARK	Accounting records keeping
BP	Business performance
CFS	Comprehensive financial statement
CHA	Characteristics of accountants
FD	Financial disclosure
PLS-SEM	Partial Least Square Structural Equation Modelling

CHAPTER ONE

INTRODUCTION

Aladejebi and Oladimeji (2019), Ng'aru, Muluku and Sakwa (2018), and others have done studies on the relationship between financial accounting procedures and corporate performance and the results are generally contradictory. This can be due to variations in the traits of accountants inside the firms (Daff & Parker, 2020; Rahmanseresht, Shakeri & Azarirad, 2021). In this way, the relationship between financial reporting practices and firm performance may be influenced by the qualities of accountants.

This is required because, although most accountants may have a basic understanding of the accounting procedures used by a particular company, their unique qualities may reduce the relationship between financial accounting procedures and firm performance. Hence, the current study investigates the moderating effect of accountants' characteristics on the relationship between financial reporting practices and firm performance of SMEs in Sekondi-Takoradi Metropolis.

Background to the Study

Small and Medium-Sized Enterprises (SMEs) play a critical role in the domestic economies of both developed and developing countries (King-Aidoo, 2020). SMEs are a major source of employment, social wellbeing and economic empowerment of citizens who cannot access formal employment. Thus, SMEs have served as the backbone for economic growth and employment creation. Available evidence reveals that SMEs contribute 60 to 70 percent of job creation in developing economies (Murphy, Siedschlag & McQuinn, 2017).

In developing economies, SMEs account for about 90% of all enterprises and can be found in both rural and urban areas in the region (Murph & Rama, 2015). Specifically in Ghana, SMEs contribute not less than 71% to employment and accounts for 92% of businesses in the country (Abor & Quartey, 2010; Avevor, 2016). Similarly, SMEs contribute about 70% of Ghana's GDP. Nevertheless, anecdotal evidence suggests that 8 out of 10 SMEs kowtow to competitive pressure and does not live to its maturity and growth periods. Consequently, gamut of literature has sought to identify the key challenges facing the survival and growth of SMEs in Ghana.

Extant literature reveals inaccessibility of funds, poor managerial skills, issues regarding registration and regulation and poor record keeping as the key challenges facing SMEs in Ghana (Abor & Quartey, 2010; Amoah & Amoah, 2018; Avevor, 2016). Notwithstanding, Amoah and Amoah (2018) proffer that a major constraint that prevents SMEs from achieving the required growth in stature and serves as a significant threat to their survival is funding constraints. Meanwhile, Nunoo and Andoh (2012) posits that funds are easily available but SMEs are unable to access them because they fail to keep proper reporting records of their operations and thus, banks are unable to evaluate the extent of their profitability.

Hence, financial institutions are cautious when offering loans for SMEs' expansionary activities and projects. Thus, proper keeping of accounts remain important for SMEs (Abor & Biekpe, 2006). This is supported by the Decision usefulness theory and the agency theory. The decision usefulness theory of accounting provides the theoretical justification that underpins this study. The theory claims that when firms maintain records of transactions, management and top executives are able to obtain useful information needed for quality decision making that eventually leads to enhanced performance (Kaya & Koch, 2015). Also, in line with the agency theory, any financial transaction involves two parties who, while acting in each other's best interests, have differing expectations.

Empirical studies have also recognised SMEs lack of financial reporting practices as one of the important constraints to survival and growth of the sector (Agyei & Marfo-Yiadom, 2011; Amoah & Amoah, 2018; Avevor, 2016). Financial reporting practices as well as writing up the financial statements are very important and present enormous benefits for SMEs. These data provide information on the firm's financial performance, financial status, and changes in financial position. This information is also useful for performance evaluation, controlling, performance monitoring and helps to measure income and expenditure accurately (Adjei et al., 2014). As a corollary to this, substantial gains can be made by SMEs if they ensure financial reporting practices. Some of these practices include accounting records keeping, financial disclosure and comprehensiveness of financial statement.

However, characteristics of accountants in the preparation of the financial reports (Daff & Parker, 2020; Rahmanseresht, Shakeri & Azarirad, 2021) may be an inhibiting or enhancing factor on the association between financial reporting practices and firm performance. The contingency theory by Woodward (1958) provides the theoretical justification that underpins the role of characteristics of accountants. It suggests that there is no single best method to manage an organisation. Thus, the theory is premised on the basis that decisions or actions is dependent on the given circumstances and situations.

Contingency theory can be applied because the cost of complying with IFRS and IASs can be onerous for SMEs and may therefore be in partial compliance or no compliance to the requirements of the IFRS. For those that prepare a complete set of financial statements, it is imperative to know whether the costs involved including hiring the services of a professional accountant as well as obtaining relevant information justifies the benefits and can therefore be detrimental to their performance. However, such information provides owners and managers with insights to steer the firms toward achieving competitive advantage. Hence, the desirable features of accountants could influence the “relationship between financial reporting practices and performance” of businesses.

Accordingly, factors such as commitment, frequency of training, sturdy sense of ethics, accenting exactness, capability to work in a team, creativity, honesty and reliability, and organizational skills, among others are mostly ignored by prior studies conducted on the nexus between financial reporting practices and firm performance. This relationship would be very interesting in the context of SMEs in Sekondi-Takoradi Metropolis which have shown massive improvement over time. Sequel to the above, the study sought to examine the effect of financial reporting practices on the performance. It further investigates the moderating effect of accountants’ characteristics on the relationship between financial reporting practices and firm performance. Also, challenges facing the SMEs were also examined.

Statement of the Problem

Goltz (2011) proffer that poor reporting is one of the top ten reasons reporting for the success of SMEs. He further contends that efficient control of a business will depend on the in-depth knowledge the owner has of the business. Similarly, Huck and McEwen (1991) posit that knowledge of reporting and finance represent one of the twelve competency areas owners/managers must have of SMEs. Accordingly, the use of appropriate financial reporting practices is key to the survival of companies, specifically SMEs (Amoah & Amoah, 2018; Kabwe, Mwanaumo & Chalu, 2020).

Similarly, de Zubielqui, Fryges and Jones (2019) concurs that, effective financial reporting practices play an effective role in the survival of SMEs but poor reporting practices is a contributing factor for SMEs' failures. Hence, with inadequate, ineffective, and absence of timely financial analysis and reports, SMEs do not benefit from effective reporting practices which include enhanced monitoring of financial health and financial progress, enhanced ability to identify financial strengths to anticipate failures, better investment decisions and improved financial planning and control.

Despite the numerous benefits accruing from proper financial reporting practices, existing evidence proposes that owners/managers of SMEs are hesitant in keeping proper accounts (Dawuda & Azeko, 2015). This is because owners/managers of SMEs perceive financial reporting practices and record keeping as expensive, tedious, complex and expensive (Musah, 2017). Similarly, Chakrabarty (2020) alleges that single entry and incomplete records remains a characteristic feature of the reporting records held by SMEs. Again, anecdotal evidence divulges that SMEs have a low rate of survival with statistics revealing that within the first year after commencing operations, 3 out of 5 SMEs fail (Ng'aru et al., 2018), and most of the SMEs fail in 5 years (Mwaanga, 2014).

For instance, Ezejiofor and Olise (2014) found that the majority of SMEs in Ghana perform badly and fail at the beginning of their life cycle. Meanwhile, Senzu and Ndebugri (2018) opines that poor reporting record keeping by most SMEs partly accounts for the poor performance of SMEs. This scenario is expected to be harsh for SMEs operating in the Sekondi-Takoradi City owing in part to the heavy rivalry from surrounding cities in Cape Coast and Accra (Yeboah, 2015). Studies conducted on the nexus between financial reporting practices and firm performance mostly generate contradictory outcomes (Aladejebi & Oladimeji, 2019; Ng'aru, Muluku & Sakwa, 2018; Senzu & Ndebugri, 2018). This may be as a result of differences in the characteristics of accountants within the firms (Daff & Parker, 2020; Rahmanseresht, Shakeri & Azarirad, 2021).

It must be noted that characteristics of accountants may have a role to play on the association between financial reporting practices and firm performance. This is necessary because, most accountants may have the basic understanding about accounting practices of a given firm, but their individual characteristics may mitigate the contribution factor of financial reporting practices and firm performance. For instance, accountants' commitment level, frequency of training, strong sense of ethics, emphasizing accuracy, among others can have an influence on the association between financial reporting practices and firm performance.

However, studies on the moderating effect of characteristics of accountants on the nexus between financial reporting practices and performance are missing. Moreover, empirical findings exist on financial reporting practices of SMEs (Kaya & Koch, 2015; McMahon, 2001), but it is argued that limited studies exist in the Ghanaian setting (Boateng, Tawiah & Tackie, 2022) and specifically the Sekondi-Takoradi Metropolis area. Hence, to address these gaps, the current study investigated the effect of financial reporting practices on performance, explored how accountants' characteristics moderate this relationship, and identified the challenges faced by these SMEs.

Purpose of the Study

This study sought to analyse the effect of financial reporting practices on performance, explored how accountants' characteristics moderate this relationship, and identified the challenges faced by these SMEs.

Research Objectives

The study sought to:

1. Examine the effect of financial reporting practices on performance of SMEs in Sekondi-Takoradi Metropolis.
2. Investigate the moderating effects of accountants’ characteristics on the relationship between financial reporting practices and performance of SMEs in Sekondi-Takoradi Metropolis.
3. Determine the challenges faced by SMEs on financial reporting practices of SMEs in Sekondi-Takoradi Metropolis.

Research Questions

To achieve the objectives of the study, the following research questions were formulated:

1. What is the effect of financial reporting practices on business performance of SMEs in Sekondi-Takoradi Metropolis?

2. What is the moderating effect of accountants' characteristics on the relationship between financial reporting practices and business performance of SMEs in Sekondi-Takoradi Metropolis?
3. What are the challenges faced by SMEs on financial reporting practices of SMEs in Sekondi-Takoradi Metropolis?

Significance of the Study

The outcome of this study holds immense significance for various reasons, particularly in the realm of accounting and financial management. Firstly, the study aims to identify the types of financial records prepared and maintained by Small and Medium Enterprises (SMEs). The results of this objective will aid in the formulation of policies by the National Board for Small Scale Industries (NBSSI), the Association of Ghana Industries (AG), and other government agencies in the domain of financial reporting. Moreover, this study seeks to investigate the impact of financial record keeping on the performance of SMEs. As accounting professionals would attest, accurate financial reporting is a cornerstone of sound business management and decision-making.

By examining the role of financial record keeping in SMEs, this study aims to contribute to the existing literature on accounting practices, specifically in the context of Ghana's SME sector. It is hoped that the results of this research will facilitate a better understanding of the accounting practices and challenges faced by SMEs and contribute to the development of effective policies to support these businesses in their financial management practices. Furthermore, the study will provide baseline results on the challenges facing SMEs in the Sekondi-Takoradi Metropolis. The outcome of this objective will provide the needed information on their key challenges to enable support agencies and policymakers to provide the needed support.

Delimitations of the Study

Generally, this study seeks to scrutinize how financial "accounting practices influences the financial performance of SMEs in the Sekondi-Takoradi Metropolis." The study is based on a cross-section of SMEs in the Metropolis. This means that the study does not exploit the time benefits of using financial reporting practices. A questionnaire is used to solicit responses for the quantitative study. Thus, the study does not consider qualitative techniques of enriching empirical discussions.

Limitations of the Study

The study is conducted for SMEs in the Sekondi-Takoradi Metropolis. This means that findings may not be generalizable across SMEs in order metropolis in Ghana. Moreover, the findings will not be applicable to firms listed on the Ghana Stock Exchange and other large firms and also extinguishes the opportunity of making a comparison with other parts of the world.

Definition of Terms

Financial reporting practices: The maintenance of accurate financial records is crucial for the growth and sustainability of a business, as it provides important information for management decision making (Saleh, Marei, Ayoush & Afifa, 2022).

Commitment: Being dedicated to work and devoted to providing accurate and reliable financial information to their clients or employers (Mabil, 2019).

Continuing Education: Staying up-to-date with the latest accounting standards and regulations. They should be committed to continuing their education and attending training courses to improve their skills and knowledge (Yohmad & Prabrat, 2022).

Ethical Standards: Adherence to strong ethical standards and maintain confidentiality when handling financial information (Schwartz, 2013).

Teamwork: Having strong communication skills and be able to work effectively with others to achieve common goals (Tannenbaum, Traylor, Thomas & Salas, 2021).

Creativity: Ability to think outside the box and develop innovative solutions to complex financial issues (Damadzic, Winchester, Medeiros & Griffith, 2022).

Organisation of the Study

This first chapter presents the study's introduction and background. The problem statement, the study's purpose, and the research questions are all included in this section. The researcher discusses the significance, delimitation, and limitation. Also, the perspectives of other researchers who are relevant to the knowledge of the association between financial reporting practices and business performance were presented in Chapter Two.

The research methodology and design were included in Chapter Three. The data sources, data management processes, and data analysis tools were all outlined in the study design. Data analysis and discussions of findings were the subjects of the fourth chapter. It was concerned with a thorough assessment of the data gathered. In this section, the study evaluates, analyses, and explains the results in light of the study's objectives. The fifth chapter was the climax of the study. There, the study indicated the significant findings, made recommendations, and concluded the study in this chapter.

CHAPTER TWO

LITERATURE REVIEW

Introduction

The purpose of the study is to analyse the impact of financial reporting practices on performance, exploring how accountants' characteristics moderate this relationship, and identifying the challenges faced by these SMEs. The chapter begins with the conceptual review of the terms in the study. Further, the study presents the theory that underpins the study. This is followed by empirical review of related literature. The concept explains the definitions by different authors. Subsequently, the empirical review focuses on the result of other studies that were closely associated to financial reporting practices and financial performance of SMEs.

Theoretical Review

Decision usefulness theory

The decision usefulness theory of accounting provides the theoretical justification that underpins this study. The theory was promulgated by Ijiri (1983). The theory claims that when firms maintain records of transactions, management and top executives are able to obtain useful information needed for quality decision making that eventually leads to enhanced performance (Kaya & Koch, 2015). The theory is premised on the notion that the fundamental objective of financial reporting is to provide useful information. Thus, Shagari and Dandago (2013) “defines decision usefulness as an approach to the preparation of financial reporting information that study the theory of investors decision making in order to understand the nature and types of information needed by the investors”.

Wang (2012) reveals that "relevance, faithful representation, comparability and understandability" defines the usefulness of decisions. The decision usefulness theory is applied in order to meet the information requirements of accounting information consumers. Wild (2008) observes that accounting is seen as a measurement activity that provides financial reports and information which supports management decision making. Financial information is useful to various users including government agencies, donor support agencies, investors, creditors, employees, for economic decision making (Shagari, 2013). The characteristics that make accounting information useful are relevance, understandability, verifiability, comparability and faithful representation (Soyinka, Fagbayimu, Adegoroye & Ogunmola, 2017).

Agency theory

According to the agency theory, managers serve as the agents for the principals, or business owners, who are also known as shareholders, to carry out the day-to-day operations of a corporate enterprise. This theory emphasises transaction costs, contracting analysis in line with Jensen and Meckling (1976). These authors' works all highlight the difficulties that SMEs and outside financiers face when it comes to ownership, contractual obligations, management relationships, credit rationing, and other issues. As a result, firms are exposed to the risk of asset substitution, which in practise means a change in the firm's asset structure.

In the case of very tiny and microbusinesses, this asset substitution may occur between the company and the owner's family (Prijadi, Wulandari, Desiana, Pinagara & Novita, 2020). The increased usage of collateral lending to small businesses as a means of resolving these agency concerns may be explained by the prevalence of these issues among small businesses (Franquesa & Vera, 2021). The methods used by lenders to address these issues greatly raise the price of operating in this market. For a large company, the assessment of a finance application may be restricted to the analysis of a set of (audited) financial statements and supporting materials supplied by the applicant, whereas for SMEs, the assessment frequently needs to go much further, implying a significantly higher transaction cost.

The hypothesis is "based on the idea of the two-sided transaction" concept. It asserts that any financial transaction involves two parties who, while acting in each other's best interests, have differing expectations. Information asymmetry, moral hazard, and adverse selection are the main issues with this theory (Owusu-Manu et al., 2018). Stiglitz and Weiss (1981) assert that agency issues like asymmetric knowledge and moral hazard might have an effect on credit availability and, consequently, the financial management of SMEs. Hence, the study seeks to assess the effect of financial reporting practices on business performance in line with the agency theory.

Contingency theory

Contingency theory was developed Woodward (1958) who suggested that there is no single best method to manage an organization. Thus, the theory is premised on the basis that decisions or actions is dependent on the given circumstances and situations. The theory is not a novel one in research in organizations as it has well been established in organizational literature. Although this theory has received attention from several studies over the past decades, the theory is still developing (Badara, 2017). Contingency theory has vast applications in research even though earlier applications of this theory in research focused on the role of uncertainty in organizational structure (Osim, Umoffong & Goddymkpa, 2020; Reid & Smith, 2000).

For instance, Fry and Slocum (1984) applied the contingency theory in evaluating the effect of technology and structure on the effectiveness of work group and teams. Furthermore, "Fiedler and Mahar (1979) applied the contingency theory when they divulged that the effectiveness of a leader is contingent on the leaders' motivational orientation and other situational" factors. Also, Kriger and Seng (2005) revealed applied the contingency theory and found that the effectiveness of leaders is often contingent on religion and the inner outworking of the leaders. Thus, the theory has been extensively applied in organizational research. In recent times, the theory has witnessed extensive application in management accounting and auditing research (Badara, 2017; Badara & Saidin, 2013; King-Aidoo, 2020).

Generally, organizational decisions and practices are contingent upon different factors including commitment level of staff, ethical skills, frequency of employee training, and the nature of the tasks of the organization (Nasrallah & Qawasmeh, 2009). Accordingly, Badara (2017) suggested that organizational practices can be explained by the contingency theory. Similarly, Westermann, Cohen and Trompeter (2019) and Negash and Lemma (2020) divulged that there is no ideal method of providing a good financial reporting practices and audit related practices but somewhat be contingent on some possibilities to command the best possible practices and procedures. This means that SMEs have to adopt accounting practices that enable owners or managers to make growth and survival decisions while considering the preparers characteristics in tandem.

Contingency theory can be applied because the cost of complying with IFRS and IASs can be onerous for SMEs and may therefore be in partial compliance or no compliance to the requirements of the IFRS. They may thus have to rely on books of prime entry. For those that prepare a complete set of financial statements, it is imperative to know whether the costs involved including hiring the services of a professional accountant as well as obtaining relevant information justifies the benefits and can therefore be detrimental to their performance. However, such information provides owners and managers with insights to steer the firms toward achieving competitive advantage. Hence, the desirable features of accountants could influence the "relationship between financial reporting practices and performance" of businesses.

Conceptual Review

Financial reporting practices

Financial reporting is an essential practice for businesses, particularly for small and medium-sized enterprises (SMEs). The maintenance of accurate financial records is crucial for the growth and sustainability of a business, as it provides important information for management decision making (Saleh, Marei, Ayoush & Afifa, 2022). Senzu and Ndebugri (2018) assert that financial reporting is fundamental to business success, as it helps businesses make informed decisions on investment, product development, pricing, inventory management, and marketing.

Financial accounting records, which are a critical aspect of financial reporting, include the profit-and-loss statement, statement of financial position, statement of cash flow, and notes to the accounts (Ng'aru, Muluku & Sakwa, 2018). These records provide a detailed overview of a company's financial performance, position, and cash flow (Kabwe, Mwanaumo & Chalu, 2020). By regularly monitoring these financial statements, SMEs can identify trends and make informed decisions to optimize their financial performance. Moreover, SMEs may keep records on the internal control system to ensure that financial reporting practices are effective and efficient.

Aladejebi and Oladimeji (2019) suggest that internal control systems are essential for SMEs, as they help to safeguard assets, prevent fraud, and ensure compliance with laws and regulations. By maintaining accurate financial records, SMEs can improve their internal control systems and strengthen their financial reporting practices. In summary, financial reporting practices are crucial for the growth and sustainability of SMEs (La Torre, M., Sabelfeld, Blomkvist & Dumay, 2020). By maintaining accurate financial records, SMEs can make informed decisions on investment, product development, pricing, inventory management, and marketing (Aladejebi & Oladimeji, 2019; Ng'aru, Muluku & Sakwa, 2018). Financial reporting practices, including the maintenance of financial accounting records and internal control systems, are essential for ensuring effective and efficient financial reporting (Amoah & Amoah, 2018).

Performance

The performance of a business measures how well the firm utilizes resources that are at its disposal to satisfy its customers and attain organizational goals (Daff & Parker, 2020; Gareth, 2003; Rahmanseresht, Shakeri & Azarirad, 2021). Performance measurement refers to the metric that is used to compute and quantify the effectiveness and efficiency of an action (Neely, Gregory & Platts, 1995; Rahmanseresht et al., 2021). Performance measurement can also be defined as a system by which an organization measures its operations and compares whether it is achieving its objectives (Cheng, 2008; Daff & Parker, 2020). Thus, performance measurement helps in performance evaluation and assessment. According to Okwo and Marire (2012), relevance of performance assessment is to ensure that the business is able to satisfy its key stakeholders effectively and efficiently.

Measures of performance can be multidimensional, financial and non-financial (Cheng, 2008; Khan & Jain, 2013; Daff & Parker, 2020). Multidimensional performance measures include both financial and nonfinancial KPIs (Kowal, 2019). Multidimensional measures of financial performance are severally used in literature and by businesses as it takes advantage of the strengths of the single-dimensional measures and overcomes the weaknesses of the single-dimensional measures. The proponents of this measure of performance measures quantity performance based internal and external measures (Cheng, 2008; King-Aidoo 2020).

Financial or quantitative performance measures deals with accounting ratios and indicators such as net profit margin, return on asset, return on capital employed, earnings per share, dividend yield, operating profit, residual income and absolute measures such as net profit (Jain, 2013; Jayathilaka, 2020). Critics of the financial or quantitative performance measurement posits that they are historic in nature and historical information may not reflect current details, they may also lack predictive value and are subject to manipulation (King-Aidoo 2020; Oppong, 2019; Venanzi, 2011).

Non-financial measures on the other hand uses qualitative information which originates from cost centres and or profit centres for control and monitoring purposes (Agyei-Mensah, 2009; Jayathilaka, 2020). Non-financial measures of performance may include measures of quality, flexibility innovation and resource utilization (Kaplan, 2014). Since the multi-dimensional measure of performance takes advantage of the strengths of the financial and non-financial performance measures, the study adopts the multidimensional measures of performance as used in the studies of Oppong (2019) and King-Aidoo (2020) to measure performance of SMEs.

Characteristics of accountants

Accountants are highly skilled professionals who are responsible for managing and analysing financial data for businesses and individuals (Zakirova, Klychova, Ostaev, Zalilova & Klychova, 2020). To be a successful accountant, it is important to possess certain characteristics and skills that will enable you to perform your job duties effectively (Rebele & Pierre, 2019). Here are some key characteristics that are essential for accountants:

Commitment: Accountants must be dedicated to their work and committed to providing accurate and reliable financial information to their clients or employers (Mabil, 2019).

Continuing Education: Accountants need to stay up-to-date with the latest accounting standards and regulations. They should be committed to continuing their education and attending training courses to improve their skills and knowledge (Yohmad & Prabrat, 2022).

Ethical Standards: Accountants must adhere to strong ethical standards and maintain confidentiality when handling financial information. They should always act in the best interests of their clients or employers and avoid any conflicts of interest (Schwartz, 2013).

Teamwork: Accountants often work as part of a team with other professionals such as auditors, tax advisors, and financial analysts. They should have strong communication skills and be able to work effectively with others to achieve common goals (Tannenbaum, Traylor, Thomas & Salas, 2021).

Creativity: Accountants need to be creative and flexible in their approach to problem-solving. They should be able to think outside the box and develop innovative solutions to complex financial issues (Damadzic, Winchester, Medeiros & Griffith, 2022).

Honesty and Reliability: Accountants should be honest and trustworthy in their dealings with clients or employers. They should be reliable and dependable, meeting deadlines and delivering accurate financial information (Izzo, Fasan & Tiscini, 2022).

Organizational Skills: Accountants must be highly organised and able to manage multiple tasks and deadlines. They should have excellent time management skills and be able to prioritize their work effectively (Dolce, Emanuel, Cisi & Ghislieri, 2020).

Small and Medium-Sized Enterprises

Various jurisdictions have various definitions for SMEs. Thus, there is no single definition for the term. For example, medium-sized enterprises are defined in Canada as enterprises with lower than "500 employees and small enterprise as one that has less than 100 employees." Again, SMEs are defined by the World Bank as enterprises having more than 500 employees. Basically, the definition of SMEs worldwide has been based on the number of employees worldwide or their asset base. Ghana uses the size criterion in defining SMEs. However, the United Nations Industry Development Organization (UNIDO) uses the number of employee's criterion in defining SMEs in developing economies.

A small enterprise has been defined as having employees ranging between five to nineteen. Examples include ubiquitous small shops in the cities such as chop bars and hair dressing saloons. A medium enterprise on the other hand has twenty to ninety-nine employees ranging from manufacturing to exporting companies. The NBSSI in Ghana criteria and the number of employees in explain the term SMEs. NBSSI (1990) defines a small-size enterprise as "a firm with not more than 29 workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding" $100,000 and micro with employee less than five and plant and machinery not exceeding the value of $10,000. SMEs have up to $1 million in fixed assets and from 30 to 99 employees. Accordingly, SMEs in this study adopts the meaning given by NBSSI.

Empirical Review

Financial reporting practices and performance of SMEs

Existing empirical findings on accounting practices and performance divulge a direct relationship. For instance, Germain (2010) reveals that poor accounting records lead to collapse of SMEs. This is because proper accounting records provide the information needed for financial planning and financial decision and a lack thereof, leads to poor decisions about future financial needs of SMEs. Additionally, Muchira (2012) finds that keeping proper books of accounts help owner mangers of SMEs estimate profits of the enterprises accurately and also avoids tax consequences of failing to keep proper books of accounts. SMEs with proper books of accounts avoid fines from tax authorities and are able to claim necessary deductions from tax officials. Thus, such fines are saved if records are kept, helping to avoid unnecessary losses.

In the same fashion, Okoli (2012) finds that SMEs are unable to track their performance over time and are therefore unable to do a proper assessment of their performance because of poor accounting records held by them. Similarly, King-Aidoo (2020) argues the need for SMEs to keep proper books of accounts when he revealed that SMEs who hold proper books of accounts benefit from effective accounting practices which include enhanced monitoring of financial health and financial progress, enhanced ability to identify financial strengths to anticipate failures, better investment decisions and improved financial planning and control. As a corollary to this, Muchira (2012) finds a positive relationship between growth of SMEs and proper accounting records of SMEs.

Accounting records keeping of SMEs in Sekondi-Takoradi Metropolis.

Senzu and Ndebugri (2018) proffer that some SMEs do not maintain proper books of accounts. This was also supported by King-Aidoo (2020) who confirmed that SMEs in Cape Coast do not keep proper accounting records. The studies further revealed that a few keep some records, prepare cash book, sales day book and petty cash book. Similarly, Nketsiah (2018) revealed that SMEs in the Sekondi-Takoradi Metropolis keeps record on customer indebtedness but least on asset register. He also revealed that SMEs in Sekondi-Takoradi Metropolis record transactions on credit purchases and also documents that the records held by the sampled SMEs contain information such as date, name, contact and the amount involved. Earlier, Mintah et al.

(2014) had revealed that SMEs in the Kumasi Metropolis score low on accounting practices.

Similarly, Boame, Kudadze and Sulemana (2014) also concur that SMEs in the Northern parts of Ghana fail to keep proper books of accounts. The study documents non-documentation of cash sales, complete reversal of accounting entries, error of principle, error of commission and incomplete records. Conversely, Rathnasiri (2014) reveal that SMEs in Sri Lanka prepare cash flow statements, balance sheet and income statement. He further revealed that although SMEs in Sri Lanka maintain the informal accounting system which does not have the comprehensive set of financial statements, SMEs in Sri Lanka place priorities on the preparation of cash flow statement. Similarly, Okpala (2019) documents that SMEs in Nigeria kept proper accounting records. This was also supported by Oyewole, Salman and Dunsi (2019) who divulge that their sampled SMEs in Nigeria pay critical attention to proper accounting records.

Senzu and Ndebugri (2018) investigated the purpose and benefit of financial records keeping on the performance of SMEs in Ghana. The study found that most SMEs do not keep legitimate records, and few of the SMEs keep records like – cash book which supports the findings of Senzu and Ndebugri (2018) that insignificant portion of SMEs keep proper financial records. Most SMEs owner managers were found to be females, and individuals between the ages of 31-40 years dominated in the sector. It was discovered that MSMEs owners have a strong commitment to keeping business transactional records, with 82 percent constituting such a large portion of the market doing so with 60.8 percent strongly agreeing on the importance of accurate records in determining a company's financial status. However, 54.5 percent of respondents stated that poor record keeping or failure to keep records was due to the high percentage of illiteracy in Ghana's MSMEs ecosystem. Finally, the amplification of investment attraction rate to the business is the greatest benefit of quality records keeping, according to 58.7% of respondents.

The importance of SMEs in many economies, according to Aladejebi and Oladimeji (2019), cannot be overstated "as they play crucial roles in the economy of both developed and developing nations, such as employment generation and the elimination of poverty." On the other hand, the "majority of SMEs have failed to see the benefits of an organised accounting system, which would have enabled them to keep up-to-date financial accounts." The goal of the study was to see how accounting data is used to evaluate small business financial performance. A total of 200 SMEs owners were given questionnaires, with 197 proving to be legitimate and being analysed using the Likert scale.

While the majority of SMEs owners lack basic accounting knowledge and complain about the expense associated with preparing financial statements, "it was found that respondents agree that one of the major benefits of keeping proper records is to know the performance of the business." They also concur that record keeping is essential to the success of the business. According to the study, "SMEs should make an effort to keep proper records and, if necessary, seek the services of SME professionals to do so at a low cost, because the cost of a business failing due to a lack of proper record keeping far outweighs the cost of keeping good records for a business concern."

In addition, according to Nyathi et al. (2018), SMEs in Zimbabwe continue to perform poorly and hence have not yet played the crucial and vibrant role that is expected of them in bringing about economic development. The role of accounting data on the success of SMEs was studied in this study. Many SMEs in Harare have been performing poorly, prompting this study. A poll served as the basis for the research. Random sampling and the researchers' judgment were both used to choose samples. The majority of SMEs do not use accounting data for decision making, according to the report. SMEs in Zimbabwe are encouraged, among other things, to retain complete financial records in order to support meaningful decision-making for their own success.

Similarly, Zotorvie (2017) investigated the financial reporting practices of SMEs in Ghana, specifically at Ho Municipality. A survey of 225 SMEs owner managers was conducted to achieve the study's results. It was found that majority of SMEs pay less attention to keeping adequate and proper accounting records for their businesses. Due to this, owner managers found it very difficult in determining their true profit or loss earned over a given period of time. In addition, the level of financial position of the SMEs such as assets, liabilities and equities were indeterminable. The inability to produce proper accounting records is due to high cost of employing the services of professional accountants to ensure financial reporting quality.

Conceptual Framework

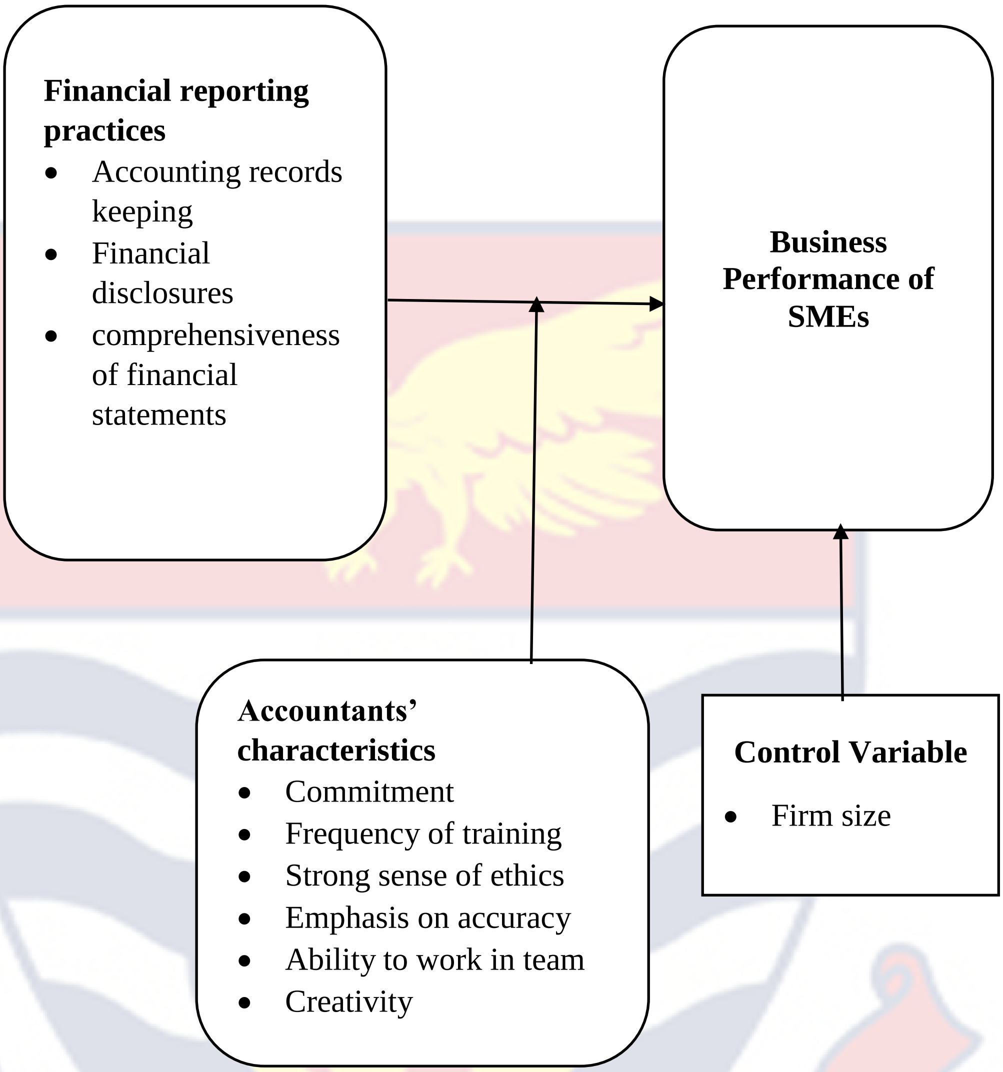

Figure 1: Conceptual Framework of the study

Source: Author's Construct (2022)

In line with the Decision Usefulness Theory, this study envisages a direct relationship of financial reporting practices in enhancing the performance of SMEs in the Sekondi-Takoradi Metropolis. Thus, the study envisages that when proper accounting records are held by the SMEs, owners and managers are likely to use the information to boost performance. Such quality information will be useful for financial planning, performance assessment and evaluation. Measurement items for the dependent and independent variables are derived from the review of literature. The study adopts a multidimensional measurement for performance in order to take advantage of the strengths and overcome the weaknesses of the single-dimensional performance measures.

Chapter Summary

The study examined literature on the nexus between financial reporting practices and business performance while considering the role of characteristics of accountants. Hence, the appropriate theoretical, conceptual and empirical issues were addressed. Particularly, the current study adopted the decision usefulness and contingency theories. The review of empirical studies revealed that the relationship between financial reporting practices and business performance is inconsistent. Therefore, ignoring the role of the characteristics of accountants in the relationship between financial reporting practices and business performance.

CHAPTER THREE

RESEARCH METHODS

Introduction

This study sought to analyse the effect of financial reporting practices on performance, explored how accountants' characteristics moderate this relationship, and identified the challenges faced by these SMEs. The chapter discusses the various sections within the research methods to facilitate the analysis of the study. The chapter initially presents the research design, study area, population of the study as well as the sample size and sampling procedures. This is followed by the instrument design, data collection technique, ethical consideration, data analysis and processing and ends with the chapter summary.

Research Approach

Research approach can either be quantitative and qualitative. However, the study seeks to explore numerical nexus between the research variables in line with the quantitative approach (Amagtome & Alnajjar, 2020). Therefore, because of the existence of the numerical variables that provides objective investigations, a quantitative analysis methodology was employed for this study. According to Kwiek (2021), quantitative study is research that seeks to establish the nature of a relationship between aspects of a phenomenon by quantifying the variation. In this manner, the current study investigated numerical assessment of financial reporting practices of SMEs and performance amid characteristics of accountants.

Research Design

Due to the nature of the research objectives, two research designs were used. Hence, explanatory research design was employed in the study for a well-structured collection and presentation of data on the effect of financial reporting practices on performance, and exploring how accountants' characteristics moderate this relationship. The prime motive to use the explanatory design is to have a better understanding of the financial reporting practices of SMEs and performance (Amagtome & Alnajjar, 2020). Again, explanatory research design was used because of its ability to extend a snapshot of the current situation. On the other hand, descriptive design was used for the third objective to identify the challenges faced by SMEs.

Study Area

As the third largest city with a harbor, the Sekondi-Takoradi Metropolis is almost entirely urban. The majority of industries in the Western Region are situated in Sekondi-Takoradi Metropolis, the region's industrial and economic core. The Metropolis is also a bustling location because of the waterfront, which serves as a significant export hub. The discovery of oil, making it the oil city in Ghana coupled with the high export activities has resulted in many people migrating to the Metropolis and this has necessitated the establishment of SMEs that offer diverse business activities. Therefore, the results from this study will make meaningful statistical inferences. Hence, this study examines impact of financial reporting practices and performance of SMEs in the Sekondi-Takoradi Metropolis.

Population

The study was conducted on SMEs in Sekondi-Takoradi Metropolis. Specifically, the research instrument was addressed to managers of each SME. This is because these persons are believed to have advanced knowledge about how the firm is being run. Currently, there are 962 SMEs registered with the NBSSI at Sekondi-Takoradi Metropolis.

Sampling Procedures

The sample size chosen was determined by a number of factors, including the researcher's time and financial resources, as well as the statistical analysis that will be used. The target population was used to establish the sample frame. Specifically, the sample size of the study was 278 according to Krejcie and Morgan (1970) sample size determination table. For this reason, the appropriate sampling technique was simple random. This sampling method is adopted to entail all facets of the population as per Mugambi (2019), to utilise information from managers of each SME.

Data Collection Instrument

The primary source of data was used for the questionnaire analysis. A questionnaire is a written method for gathering data on a certain issue that consists of a set of questions or assertions called items (Agyedu et al., 2007). Closed-ended questions were included in the survey. Closed-ended surveys, according to Becker and Watts (1999), reduce time in terms of filling out, coding, and analysing questionnaires. The questionnaire served as the main tool, with questions requiring replies on a 5-point likert scale. For likert scale choices, coding were used, for instance the response “Strongly disagree” shall generally be coded as “1”, “Disagree” was coded as “2”, “Neutral” was coded as "3", "Agree" was coded as "4" and "Strongly agree" was coded as "5". The questionnaire would be divided into five sections. Information about respondents, financial reporting practices, financial performance measures, challenges faced by the SMEs and characteristics of accountants were considered.

Data Collection Procedures

The study employed primary data through the use of questionnaire to assess the effect of financial reporting practices on performance, exploring how accountants' characteristics moderate this relationship, and identifying the challenges faced by these SMEs. The primary data employed for the analysis was obtained with the aid of five postgraduate research assistance through proper training on how information can be gleaned. The training session took about a week, and they were tested on what they have learnt. The fieldwork was started with trips to SMEs at Sekondi-Takoradi and in each case the five research assistance sought the consent of the respondents before the questionnaires were distributed.

Ethical Consideration

Fraenkel and Wallen (2002) asserted that it is important to keep confidential information collected from respondents. Respondents would be satisfactorily informed prior to obtaining their answers to request their consent. The researcher's goals and intent would be made known to the respondents. As a consequence, introductory letter would be obtained from the department by the researcher and shown to respondent who need to be sure of the intent of the study. The study would offer a guarantee of anonymity and confidentiality that on any aspect of the questionnaire respondents' names would not be given out.

Data Processing and Analysis

Reliable research considers data analysis in evaluating the research objectives. Genuine researchers normally consider the method of analysis to be used before the collection of data (Cohen, Manion & Morrison, 2013). Data analysis entails identifying, classifying, categorizing, synthesizing, consolidating, sorting, explaining, developing theories, searching for themes, and organizing in order to make sense out of the data that one has collected (Herawaty & Hernando, 2021). A descriptive account of the data collected, through interpretive analysis were performed to ascribe meaning to the data.

Statistical Package for the Social Sciences (SPSS) version 22 were used to perform frequency and percentages. To evaluate correlations among the research variables, the study used structural equation modelling (SEM), specifically, the Smart Partial Least Squares (PLS) statistical software version 4. The element between "each latent construct and observed indicators is taken into account by SEM." SEM is a statistical method that combines the two statistical methods of factor analysis and route analysis into a single method (Alazzabi, Mustafa & Karage, 2020; Arif, Aslam & Hwang, 2020).

SEM is divided into two parts, according to Albawwat, Al-Hajaia and Al Frijat (2021). The structural element of factor analysis "establishes the relationship between the latent variables and regression at the same time" as the first part links the observed variable to the latent variable. The PLS-SEM is employed to answer research questions 1 and 2. A principal component factor analysis, one sample test and Cochran's Q were performed to execute the third research question on the challenges faced by the SMEs.

Chapter Summary

The study employed quantitative research approach as well as descriptive research design. For this reason, descriptive statistics through mean, standard deviation, frequencies and percentages were applied to this study. In addition, factor analysis would be utilised to the key variables of this study. The target population for this study included SMEs at Sekondi-Takoradi Metropolis. The sampling technique for this study was simple random. To study the association between the variables, the PLS-SEM was considered.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

In Sekondi-Takoradi Metropolis, the study investigates the nexus between financial reporting practices and performance, the moderating effect of accountants' traits, and the challenges thereof. The information obtained from respondents is examined in this chapter. A structured questionnaire served as the experiment's main method. The mean, standard deviation (SD), frequencies, percentages, and multiple linear regression analysis utilizing PLS were the statistical methods used in this study. This chapter is structured as follows: First displayed, Response rate, next is the Descriptive outcome of demographic considerations.

The results are presented in tables to make them easier to read. The study also evaluates the characteristics of business accountants, business performance, and constructions of financial reporting practices. In order to answer research questions 1 and 2, the essential findings were presented in a single model. The study was specifically interested in how accounting record keeping, financial disclosure, and the thoroughness of financial statements influence performance. The moderating impact of accountant’s qualities on the association between financial reporting practices and firm performance were also studied. The study also covered issues that SMEs in Sekondi-Takoradi Metropolis have with financial reporting.

Response Rate

278 SMEs registered with the NBSSI in Sekondi-Takoradi Metropolis made up the sample size. In the end, 280 questionnaires were distributed, but

the researcher was able to obtain the necessary minimum sample size of 278 that was then used for the study. The response rate of 99 percent. “Based on Mugenda and Mugenda's (2008) assertion that a response rate of 50% is acceptable for quantitative analysis”, this response rate was deemed satisfactory. The self-administration of the questionnaire by the researcher, who pre-notified the targeted respondents from a variety of SMEs on the actual data collecting day, is responsible for the study's high success rate.

Descriptive Outcome for Demographics

The results of the study's respondents are detailed in this study, and as a result, they cannot be applied to people who were not surveyed. Data from a range of demographic groupings were gathered. It clarifies the type of respondents who were taken into account for this study, as indicated in Table 1.

Table 1: Respondents’ Background

		Frequency	Percent
Gender	Male	155	56
	Female	123	44
Highest educational qualification	Secondary/Technical/ Vocational	33	12
	Tertiary	83	30
	Professional	162	58
Years of experience	Less than 5 years	56	20
	5-10 years	83	30
	Beyond 10 years	139	50
	Total	278	100

Source: Field survey (2022)

In accordance with Table 2, 155 of the 278 respondents were male, making up 56% of the study sample, while 123 respondents were female, making up 44%. This shows an owner management group that is dominated by men. Additionally, the majority of owner managers are credentialed professionals. Tertiary education comes in second, making up almost 30% of all responses.

The demographic for "years of working with the firm" reveals that the majority of respondents have worked above 10 years, which represents 50% of them, followed by 5-10 years, which represents 30% of them, and those who have worked for less than 5 years as the least working group. Consequently, it is anticipated that those who have worked for the company for a long time will have a greater understanding of the activities of SMEs.

Measurement Model Assessment

Construct reliability, indicator reliability, and convergent validity

An assessment of the model's fitness and reliability is done before calculating the PLS-SEM result (Nitzl, 2016). Construction reliability was examined using the composite reliability. Table 2's data demonstrate that various constructions typically have composite reliability (CR) above the 0.7 limits, demonstrating the constructs' robustness (Straub, 1989). A quick inspection at Table 2's item loadings indicated that the minimal cut-off of 0.5 for the indication was likewise accurate (Hair et al., 2014). Almost all of the indicators are loaded above 0.5.

To prove convergent validity for a construct, Fornell and Larcker (1981) suggested an "extracted minimum average variance (AVE) of 0.5". The AVE must be at least 0 for all of the study's structures. (Refer to Table 3). For convergent validity, "factor loadings must be 0.50 and above," according to

Hair et al. (2014). The definition is greater than half the average variation of its indicators if the AVE value is 0.50 or above. An AVE of less than 0.50, on the other hand, denotes that the commodities are normally more volatile than the concept's defined variance. The results show the convergent validity of the model because all hidden variables have an AVE of 0.5 or above.

Table 2: Summary of Measurement Scale

	Loadings	Cronbach's Alpha	Construct Reliability	Average Variance Extracted
Accounting Records Keeping (ARK)		0.725	0.820	0.534
ARK1	0.793			
ARK2	0.730			
ARK3	0.689			
ARK4	0.704			
Business Performance (BP)		0.804	0.857	0.502
BP1	0.679			
BP2	0.763			
BP3	0.599			
BP4	0.660			
BP5	0.796			
BP6	0.737			
Comprehensive Financial Statement (CFS)		0.863	0.877	0.651
CFS2	0.504			

CFS3	0.897			
CFS4	0.874			
CFS5	0.883			
Characteristics of Accountants (CHA)		0.832	0.878	0.595
CHA1	0.754			
CHA3	0.800			
CHA4	0.852			
CHA5	0.849			
CHA6	0.568			
Financial Disclosure (FD)		0.744	0.823	0.485
FD1	0.573			
FD2	0.648			
FD3	0.757			
FD4	0.818			
FD5	0.660			
Firm- Size	1.000			
CHA x FD	1.000			
CHA x ARK	1.000			
CHA x CFS	1.000			

Source: Field survey (2022)

Note: ARK, BP, CFS, CHA and FD denote Accounting Records Keeping (ARK), Business Performance, Comprehensive Financial Statement and Characteristics of Accountants respectively.

Discriminant validity

Hair et al. (2021) state that "The Fornell-Larcker criterion is a second and more cautious way to evaluating discriminant validity in addition to cross-loading". Fornell-Larcker (1981) stated that for discriminant validity to be appropriate, "the square roots of the AVE of each construct should be higher than the correlations of that construct with all other constructs", as seen in Table 3.

Table 3: Discriminant Validity

	ARK	BP	CFS	CHA	FD	Firm_size
ARK	0.730					
BP	0.337	0.709				
CFS	0.030	-0.085	0.807			
CHA	-0.025	0.104	0.049	0.772		
FD	0.470	0.359	-0.009	-0.006	0.697	
Firm size	0.044	0.023	-0.009	-0.044	0.032	1.000

Source: Field survey (2022)
Note: ARK, BP, CFS, CHA and FD denote Accounting Records Keeping (ARK), Business Performance, Comprehensive Financial Statement and Characteristics of Accountants respectively.

The result presented in Table 3 demonstrates that when viewed both vertically and horizontally, the figures in bold face are larger than other correlation values among the latent variables. This may indicate that the prerequisite for discriminant validity has been met.

Structural Model Assessment

The study question is covered chronologically in the following sections. Confirmatory factor analysis was employed in the study to address the research questions. Additionally, the PLS SEM was used to analyse the association between modern accounting record keeping and business performance while taking into account the function of accountant features.

After satisfying the requirements of "construct and indicator reliability as well as convergent and discriminant validity", the study investigates the research questions. "This task was completed by assessing the direction and strength using the coefficient (β), p-values depicting the level of significance through 5000 bootstraps, the variance inflation factor (VIF)" as a measure of multicollinearity among the constructs, the coefficient of determination (R Squared), and the effect size (f^2), as shown in Table 4. In order to guarantee that the route coefficients are not biased and to lower levels of collinearity among the predictor constructs that are statistically significant, collinearity diagnostic is first assessed, according to Hair et al. (2014).

Table 4: Diagnostic Tests of Coefficients

INV	T-Stat	R^2	f^2	Q^2	VIF
ARK	3.656	0.195	0.047	0.124	1.311
CFS	1.114	0.195	0.010	0.124	0.000
CHA	1.719	0.195	0.017	0.124	1.008
FD	4.063	0.195	0.067	0.124	1.070
Firm-Size	0.167	0.195	0.001	0.124	1.304
CHA x FD	1.406	0.195	0.008	0.124	1.005
CHA x ARK	0.453	0.195	0.001	0.124	1.802
CHA x CFS	0.461	0.195	0.001	0.124	1.788

Source: Author's Construct (2022)

From Table 4, the exogenous variables; Accounting Records Keeping (ARK), Comprehensive Financial Statements (CSF), Financial Disclosure (FD), and Characteristics of Accountants (CHA) explain about 19.5% of the variations in business performance (BP). From the T-statistics, only ARK and FD are significant. The effect size measure shown in Table 4 indicates that ARK (f^2 = 0.047), CFS (f^2 = 0.010), CHA (f^2 = 0.017), FD (f^2 = 0.067) all have a small effect, as per Cohen's f^2. The model has predictive importance when the Q square values are greater than zero. With a "maximum VIF of 1.802, which is below the threshold of 5 as stated by Hair et al. (2014), the results of the VIF" from Table 4 demonstrate that the pathways are free of multicollinearity.

Figure 2 presents the association between financial reporting practices and business performance while considering the role of characteristics of accountants in Sekondi-Takoradi through multiple regressions by the Smart PLS. To achieve this objective, firm size is employed as a control variable.

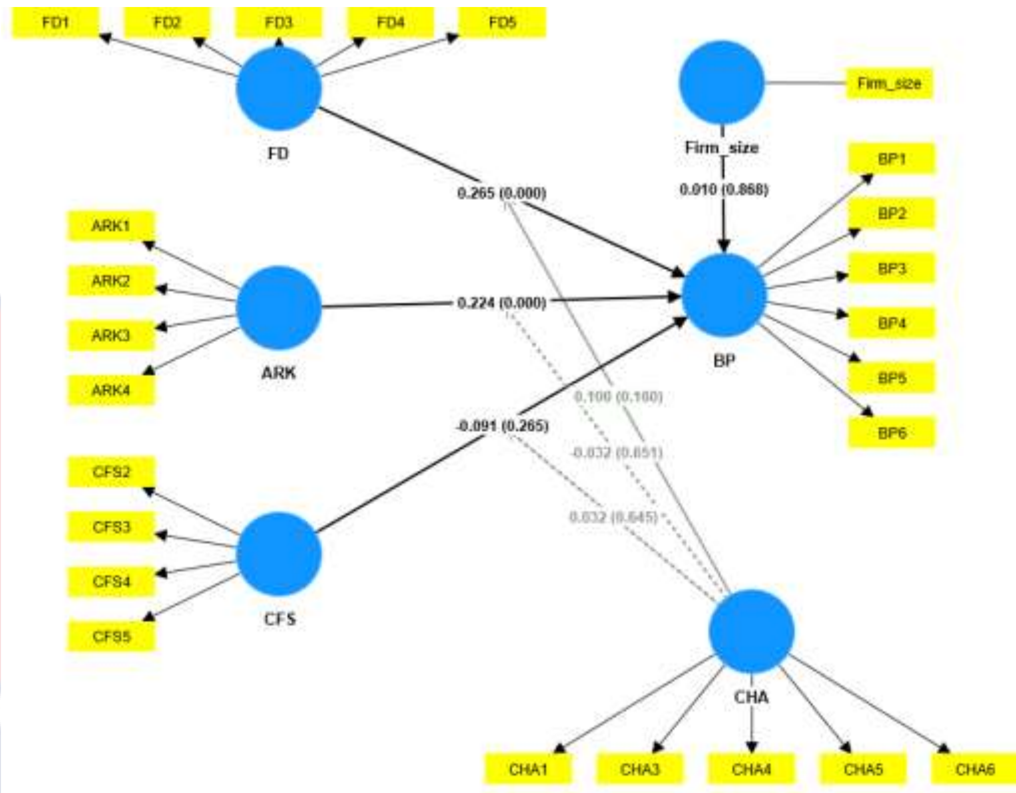

Figure 2: Effect of financial reporting practices on performance, and how accountants' characteristics moderate this relationship

Note: ARK, BP, CFS, CHA and FD denote Accounting Records Keeping (ARK), Business Performance, Comprehensive Financial Statement and Characteristics of Accountants respectively.
Source: Field survey (2022)

From Figure 2, accounting records keeping has a positive significant effect (*p-value* = 0.224, β = 0.000) on business performance of SMEs in Sekondi-Takoradi Metropolis. Hence, a unit increase in accounting records keeping corresponds to a 0.224 unit increase in business performance of SMEs. In this regard, factors such as; preparing “petty cash book to keep track of all business payments made on a small scale, preparing sales day-book to record credit sales, preparing purchase day book to record all transactions” connecting to credit purchases and preparing “income statement to show how much profit or loss our business generated or incurred during the reporting period" are relevant to ensure a significant improvement of business performance.

Also, financial disclosure has a positive significant influence (*p-value* = 0.265, β = 0.000) on business performance in Sekondi-Takoradi Metropolis. Thus, a unit increase in financial disclosure corresponds to a 0.265 unit increase in the business performance of SMEs in Sekondi-Takoradi Metropolis. As a result, making of disclosures frequently for capital expenditure, frequently disclosing depreciation methods upon accounts preparations, income tax disclosures, disclosures on inventory composition and the enterprise frequently provide disclosures on funds flow statement are reliable factors that are necessary for the improvement of business performance.

Furthermore, the study finds a negative but insignificant effect of comprehensive financial statement (*p-value* = -0.091, β = 0.265) on business performance of SMEs in Sekondi-Takoradi Metropolis. Hence, the comprehensive of financial statements are not necessary conditions in improving business performance of SMEs. It can be noticed that revaluation surplus on fixed assets exclusion in the treatment of net income, presentation of a statement of changes in retained earnings, frequent preparation of branch accounts, preparation of statement of changes in equity and exclusion of noncapital changes in the treatment of net income are not enough to improve the performance of SMEs in Sekondi-Takoradi Metropolis.

To end with, the study found that characteristics of accountants do not moderate the association between measures of financial reporting and business performance. This means that the characteristic of accountants does not matter for the contribution effect of financial reporting on business performance. Hence, characteristics of accountants are not a necessary factor that would improve the association between financial reporting and business performance of SMEs in Sekondi-Takoradi Metropolis.

Challenges Faced by SMEs on Financial Reporting Practices

This section presents a principal component factor analysis of eight items designed for the challenges. Table 5 shows factor analysis and reliability of Challenges faced by SMEs on Financial Reporting Practices. Statistical tests such as mean, standard deviation, factor loadings Cronbach’s Alpha, factor analysis, one sample test and Cochran’s Q were used to contribute to investigating the levels of challenges.

Table 5: Challenges Faced by SMEs on Financial Reporting Practices

Code	Mean	SD	Factor Loadings	Cronbach's Alpha	T-statistic (One Sample Test)
CA1	3.322	0.8691	0.632	0.858	-15.590***
CA2	3.602	0.7720	0.739	0.848	-10.298***
CA3	3.542	0.8030	0.748	0.842	-11.395***
CA4	3.670	0.6650	0.730	0.848	-9.925***
CA5	3.747	0.6202	0.661	0.852	-8.142***
CA6	3.898	0.6657	0.730	0.846	-3.080***
CA7	3.648	0.7380	0.693	0.850	-9.553***
CA8	3.505	0.7658	0.584	0.860	-12.928***
Overall	3.6169	0.5332		0.867	-14.370***
TVE		33.782%			
KMO		0.847***			
Df		28			
Approx. Chi-Square		1633.513			
Cochran's Q		246.592***			

Source: Author's Construct (2022)

Note: ARK, BP, CFS, CHA and FD denote Accounting Records Keeping (ARK), Business Performance, Comprehensive Financial Statement and Characteristics of Accountants respectively. [*], [**], and [***] "indicate significance at 10%, 5% and 1% levels respectively". Kindly see appendix for an extensive view on the indicators of Challenges faced by SMEs.

Because the items' associations are not non-linear, Table 5 demonstrates that the "correlation matrix and Bartlett's Test of Sphericity (p-value 0.05)" is not an identity matrix and that the items can form a construct. The study found that the Kaiser-Meyer-Olkin measure of sample adequacy (KMO) was 0.847 with a total variance explained (TVE) of 33.782%, suggesting that the components fully accounted for the changes (Williams, Onsman & Brown, 2010). If the Cronbach's Alpha is greater than 0.7 then the items and constructs are all considered credible (Nitzl, 2016). This can be revealed in Table 5.

Each of the eight items that loaded well on the challenges construct had a mean greater than 3, and a total mean of 3.6169 indicated that, generally, the respondents agreed that Challenges faced by SMEs on Financial Reporting Practices are taken into consideration. This was determined using a five-point Likert scale to measure challenges faced by SMEs. Hence, all the eight items can effectively measure the proposed challenges faced by the SMEs. The Cochran's Q reveals the magnitude of statistical variances between the construct-related components. With regard to the challenges faced by SMEs, it can be inferred that responses significantly differ from one another for each item (Cochran's Q = 246.592, p-value 0.01).

The one sample test with test value "4" was used to statistically determine if the respondents agree significantly on the challenges faced by SMES about financial reporting practices. To represent "agree," the test value 4 was used. The level of agreement among the respondents varies significantly, as can be seen from the analysis. Therefore, respondents generally do not concur with the comments made about the difficulties experienced by SMEs in adopting modern financial reporting practices. This is hardly surprising considering that the majority of the mean scores for each item fall below the "agree" level. This suggests that because businesses are enhancing their financial reporting practices, the issues experienced by SMEs are not the same (King-Aidoo, 2020; Senzu & Ndebugri, 2018).

Discussion

Examine the effect of financial reporting practices on performance

The study revealed that accounting records keeping has a significant positive effect on business performance of SMEs in Sekondi-Takoradi Metropolis. Hence, the accounting records keeping of SMEs should be carefully monitored at all times by the needed supervisors to ensure a sustainable contribution to business performance. This is particularly important because Germain (2010) reveals that poor accounting records lead to collapse of SMEs. Hereafter, proper accounting records provide the information needed for financial planning and financial decision and a lack thereof, leads to poor decisions about future financial needs of SMEs. Additionally, Muchira (2012) finds that keeping proper books of accounts help owner mangers of SMEs estimate profits of the enterprises accurately and also avoids tax consequences of failing to keep proper books of accounts.

This contradicts the outcome of Okoli (2012) that SMEs are unable to track their performance over time and are therefore unable to do a proper assessment of their performance because of poor accounting records held by them. The study further found that a financial disclosure has a significant positive effect on business performance of SMEs in Sekondi-Takoradi Metropolis. In this sense, the financial disclosures of SMEs should be carefully assessed to ensure a continuous increase in SMEs business performance. This is in line with the findings of King-Aidoo (2020) that SMEs need to keep proper books of accounts and disclosures which could enhance financial progress, enhanced ability to identify financial strengths to anticipate failures, better investment decisions and improved financial planning and control.

As a corollary to this, Muchira (2012) finds a positive relationship between growth of SMEs and proper accounting records and disclosures of SMEs. Contrarily, comprehensiveness of financial statements contributed less to business performance of SMEs. Henceforth, SMEs should regularly revise the extent of comprehensiveness of financial statements so that their performance could be enhanced in a foreseeable future. This is in line with the study of Okoli (2012) that SMEs are unable to track their performance over time and are therefore unable to do a proper assessment of their performance because of poor accounting records held by them.

Moderating effect of accountants' characteristics on the relationship between financial reporting practices and business performance

Moreover, moderating effect of characteristics of accountants on the association between financial reporting practices and business performance was not supported. This implies that a characteristic of accountants does not matter in the association between financial reporting practices and business performance. This is not surprising because irrespective of the characteristics of accountants such as commitment, trustworthiness, reliability, strong sense of ethics, ability to work in a team, the mandatory adoption of IFRS by Ghana and other oversight bodies such as tax authorities enjoin that firms ensure a sustainable accounting practices (Borgi & Mnif, 2021; Kabwe, Mwanaumo &

Chalu, 2020; Mnif & Borgi, 2020). Sequel to this, accountants would have to succumb to those principles and concepts put in place by the responsible bodies other than relying on their personal characteristics in the preparation of accounts.

Challenges faced by SMEs on financial reporting practices

It was discovered that SMEs encounter difficulties with financial reporting practices, including the inability to keep proper accounting records because of a lack of skills, the participation of family members in SMEs management, the lack of skilled personnel, and the decision to conceal their operations to avoid paying taxes. Responses obtained from the factor analysis showed that the items measuring challenges are important, but dispersed at various levels depicted by the differences in mangers' agreement from each SMEs.

This partly confirms the outcome of King-Aidoo (2020) and Senzu and Ndebugri (2018) proffer that some SMEs do not keep proper books of accounts. Similarly, Nketsiah (2018) revealed that SMEs in the Sekondi-Takoradi Metropolis keep record on customer indebtedness but least on asset register. In addition, according to Nyathi et al., (2018), SMEs in Zimbabwe continue to perform poorly and hence have not yet played the crucial and vibrant role that is expected of them in bringing about economic development.

Earlier, Mintah et al. (2014) had revealed that SMEs in the Kumasi Metropolis score low on accounting practices. Similarly, Boame, Kudadze, and Sulemana (2014) also concur that SMEs in the Northern parts of Ghana fail to keep proper books of accounts. Conversely, Rathnasiri (2014) reveal that SMEs in Sri Lanka prepare cash flow statements, balance sheet and income statement. Similarly, Okpala (2019) documents that SMEs in Nigeria kept proper accounting records. This was also supported by Oyewole, Salman and Dunsi (2019) who divulge that their sampled SMEs in Nigeria pay critical attention to proper accounting records.

Chapter Summary

The study employed quantitative research approach and descriptive as well as explanatory research design. For this reason, descriptive statistics through mean, standard deviation, factor analysis, one sample test, and Cochran's Q were applied to this study. In addition, factor analysis and multiple linear regressions through Smart PLS were utilised to the key variables of this study. The study found a significant positive effect of accounting records keeping and financial disclosure on business performance. On the other hand, comprehensive financial statement contributed less to business performance. Moreover, characteristics of accountants could not moderate the association between financial statement and business performance. The study further revealed that a challenge faced by SMEs regarding financial reporting practices varies.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Introduction

In Sekondi-Takoradi Metropolis, the study investigated the moderating effect of accountants' characteristics on the relationship between modern financial reporting practices and SMEs company performance. This chapter presented the study's findings in accordance with its aims, and its conclusions based on those findings. Additionally, it made recommendations for topics that may require more thought in terms of possible research. Directions for future studies were further provided highlighting the limitations of the study.

Summary of the Study

The study responded to three research questions. They included: (i) what is the effect of financial reporting practices on performance of SMEs in Sekondi-Takoradi Metropolis? (ii) what are the moderating effects of accountants' characteristics on the relationship between financial reporting practices and performance of SMEs in Sekondi-Takoradi Metropolis? and (iii) what are the challenges faced by SMEs on financial reporting practices of SMEs in Sekondi-Takoradi Metropolis? The study employed a descriptive research design and utilised quantitative methods for data collection. Simple random sampling was used for this study. The instrument used to collect data was a questionnaire. A 99 percent response rate was obtained for the study. The principal technique used in this experiment was a structured questionnaire. The statistical techniques employed in this study were factor analysis, one sample test, Cochran's Q and PLS-SEM.

Summary of Key Findings

1. The study revealed a significant positive association between financial reporting practices and business performance of SMEs in Sekondi-Takoradi Metropolis. It was found that accounting records keeping has a significant positive effect on business performance of SMEs in Sekondi-Takoradi Metropolis. Also, the study revealed that a financial disclosure has a significant positive effect on business performance of SMEs in Sekondi-Takoradi Metropolis. Contrarily, comprehensiveness of financial statements contributed less to business performance of SMEs.
2. Moreover, moderating effect of characteristics of accountants on the association between financial reporting practices and business performance was not supported. This implies that a characteristic of accountants does not matter in the association between financial reporting practices and business performance.
3. It was revealed that most SMEs face challenges on the financial reporting practices such as lack of proper accounting "record keeping skills is a barrier to accounting record keeping, involvement of family members" in SMEs management obstructs proper, among others. The challenges vary significantly among the SMEs.

Conclusion

Based on the findings of this study, the conclusions are;

Accounting records keeping in SMEs are necessary factors that can enhance their performance. In order to "show how much profit or loss our business generated or incurred during the reporting period", we prepare an income statement, a statement of financial position, which lists our assets, liabilities, and the difference between our "current assets and current liabilities, a petty cash book to keep track of all small-sized business payments, a sales day-book to record credit sales, a purchase day-book to record all transactions relating to credit purchases.

Also, financial disclosures are relevant to improve performance. In this manner, making of disclosures frequently for capital expenditure, frequently disclosing depreciation methods upon accounts preparations, income tax disclosures, disclosures on inventory composition and the enterprise frequently provide disclosures on funds flow statement are reliable factors that are necessary for the improvement of business performance.

Conversely, the comprehensiveness of financial statement is not a necessary factor that can enhance the performance of SMEs at Sekondi-Takoradi Metropolis. Hence, factors such as revaluation surplus on fixed assets exclusion in the treatment of net income, presentation of a statement of changes in retained earnings, frequent preparation of branch accounts, preparation of statement of changes in equity and exclusion of non-capital changes in the treatment of net income are not enough to improve the performance of SMEs in Sekondi-Takoradi Metropolis.

Moreover, the characteristics of accountants are not relevant in addressing the relationship between financial reporting practices and business performance of SMEs in Sekondi-Takoradi Metropolis. In this manner, irrespective of the characteristics of accountants such as commitment, trustworthiness, reliability, strong sense of ethics, ability to work in a team, the mandatory adoption of IFRS by Ghana and other oversight bodies such as tax authorities enjoin that firms ensure a sustainable accounting practices.

Nonetheless, SMEs in Sekondi-Takoradi Metropolis continue to face challenges relating to financial reporting practices.

Recommendations

The study is guided by the following recommendations in relation to the findings of the study.

- Managers and other supervisors of SMEs should monitor accounting records keeping of SMEs to ensure a sustainable contribution to business performance. The financial disclosures of SMEs should be carefully evaluated to ensure improvement in SMEs business performance at all times.
- Factors such as revaluation surplus on fixed assets exclusion in the treatment of net income, presentation of a statement of changes in retained earnings, frequent preparation of branch accounts, preparation of statement of changes in equity and exclusion of non-capital changes in the treatment of net income should be harnessed to improve the performance of SMEs in Sekondi-Takoradi Metropolis.
- Managers of SMEs should enhance competencies of accountants on financial reporting practices in order that it can contribute to performance. This can be developed through practical training and encouraging accountants to take on professional studies to enhance their professional conducts such as integrity, confidentiality, conflict of interest, professional competence and professional behaviour.

Suggestions for Future Research

Further studies may employ qualitative research approach through the use of interview guides in addition to quantitative research to provide an extension view on the financial reporting practices and business performance. Further studies may be conducted on other geographical area to investigate differences in results. Also, factors relating to rules of professional conduct can be utilised as moderators in the relationship between financial reporting practices and business performance of SMEs.

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APPENDIX

UNIVERSITY OF CAPE COAST

QUESTIONNAIRE

FINANCIAL REPORTING PRACTICES AND PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN SEKONDI TAKORADI METROPOLIS: THE MODERATING EFFECT OF ACCOUNTANTS' CHARACTERISTICS

This survey is intended to collect data for a research project as a requirement for the University of Cape Coast's Master of Business Administration (Accounting) degree (UCC). Your participation is required, and we will only use your comments for academic purposes and in a confidential manner.

"Please tick [√] the appropriate response where options are provided and write your response where spaces are provided."

Section A: Demographic Characteristics

A01. Sex: a. Male [ ] b. Female [ ]

A02. Age [years]: …………………………………………….....

A03. Highest educational qualification: a. Secondary/Technical/Vocational [ ] b. Tertiary [ ], c. Professional [ ]

A04. Indicate the number of employees: ……………………….

A05. How long have you been working with the firm?

a. Less than 5 years b. 5-10 years c. Beyond 10 years

A06. Answer the following pertaining to characteristics of a good accountant.

A06I. A good accountant should have high sense of commitment

a. Yes b. No

A06II A good accountant should ensure consistency in training levels.

a. Yes b. No

A06III. A good accountant should have a strong sense of ethics

a. Yes b. No

A06IV A good accountant should emphasize accuracy

a. Yes b. No

Section B: Financial Reporting Practices

The statements that follow are all related to how well-run SMEs in the Sekondi-Takoradi Metropolis maintain their accounting records. Please check the box next to each statement that is anchored to the scale if you agree with it: From 1 to 5, 1 represents the weakest agreement to 5= strongest agreement.

Code	*Accounting record keeping*	1	2	3	4	5
ARK1	Petty cash books are created at my company to record all small-scale business payments.					
ARK2	My company creates a sales day-book to track credit sales.					
ARK3	In my company, we create a buy day diary to keep track of every transaction involving credit purchases.					
ARK4	To illustrate how much profit or loss my company made or suffered during the reporting period, we prepare income statements.					
ARK5	As at the end of an accounting period, my company prepares a statement of financial position that lists its assets, liabilities, and the difference between those totals.					
	In my business, a statement of cash					

ARK6	flows is prepared to indicate where the firm's money comes from (cash inflows) and goes (cash outflows), over a certain time period.					
ARK7	The firm has a financial internal control system that verifies the veracity of business transactions.					
	Financial disclosures					
FD1	Disclosures are frequently made for capital expenditure					
FD2	Depreciation methods are frequently disclosed upon accounts preparations					
FD3	Disclosures are mostly made on income tax					
FD4	Disclosures are mostly made on inventory composition					
FD5	The enterprise frequently provides disclosures on funds flow statement.					
FD6	The enterprise frequently present disclosures on price-level adjustments					
	Comprehensiveness of financial statements					
CFS1	The enterprise usually includes noncapital changes in owner's equity					

	in the treatment of net income					
CFS2	Revaluation surplus on fixed assets are frequently excluded in the treatment of net income					
CFS3	The enterprise mostly present a statement of changes in retained earnings					
CFS4	The enterprise frequently prepares branch accounts.					
CFS5	The enterprise mostly prepares a statement of changes in equity					
CFS6	The enterprise usually excludes noncapital changes in the treatment of net income					

Section C: Business Performance

The answers to the following questions are related to how your businesses performed last year. “Please rate your agreement with each of the following statements” using the scale: “1: weak agreement to 5: strong agreement”.

	Business Performance	1	2	3	4	5
	The “customer base of our firm has increased.”					
	“Our service quality has improved.”					
	Our firm’s responsiveness to customers’ needs have improved.					
	Resource utilization in our firm has improved.					
	The firm’s return on assets has increased.					
	The firm’s liquidity base has increased.					

Section D: Challenges Faced by SMEs in Financial Reporting Practices

The difficulties SMEs have keeping accurate accounting records are addressed in each of the issues that follow. "Please rate your agreement with each of the following statements" using the scale: "1: weak agreement to 5: strong agreement".

Code	Challenges	1	2	3	4	5
CA1	The expense of employing experienced accountants to maintain accurate accounting records prevents SMEs from adopting it.					
CA2	Accounting record keeping is hampered by improper accounting record keeping abilities.					
CA3	Family members' participation in SME administration impedes accurate accounting record keeping.					
CA4	One of the factors that prevents SMEs from maintaining accurate accounting records of their operations is a lack of qualified personnel.					
CA5	The choice to hide their business in order to avoid paying taxes obstructs accurate accounting record keeping.					
CA6	Accounting record keeping is complicated					

	by how time-consuming it is to maintain accounting records.					
CA7	Proper accounting record keeping is hindered by people's ignorance of the importance of financial record keeping to SMEs.					
CA8	The proper accounting “record keeping in SMEs is hampered by the lack of accounting knowledge among SME managers.”					

Section E: Characteristics of accountants in the Firm

The features of accountants in SMEs with regard to accounting record keeping are addressed in each of the ensuing questions. "Please indicate your perception as they pertain to characteristics of accountants with each of the following statements" using the scale: "1: weak agreement to 5: strong agreement".

Code	Challenges	1	2	3	4	5
CHA1	Commitment, Trustworthiness and reliability					
CHA2	Frequency of training					
CHA3	Strong sense of ethics					
CHA4	Emphasising accuracy					
CHA5	Ability to work in a team					
CHA6	Creativity					