

UNIVERSITY OF CAPE COAST

ACCOUNTING RECORD KEEPING PRACTICES AND GROWTH OF  
SMALL AND MEDIUM-SIZED ENTERPRISES: EVIDENCE FROM WASSA  
AMENFI WEST MUNICIPALITY

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AMENFI WEST MUNICIPALITY

BY

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## 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: Robert Samuel Aikins

Index Number: SB/SAC/16/0014

### Supervisor's Declaration

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

Supervisor's signature..... Date.....

Name: Dr. Clement Lamboi Arthur

## ABSTRACT

The research aims to examine accounting record keeping practices and its association with growth of SMEs in Wassa Amenfi West Municipality. The specific objectives are: to determine the extent of accounting record keeping practices of SMEs in the Wassa Amenfi Municipal, examine the types of accounting records kept by SMEs in Wassa Amenfi West Municipal, determine whether entrepreneur characteristics affect accounting record keeping practices and assess the effect of accounting records keeping practices on SMEs growth. The research design adopted by the study was a descriptive research. A sample size of 205 out of the population of 453 SMEs in Wassa Amenfi was used. The study found out that accounting record keeping practices is related to the growth of SMEs in Wassa Amenfi West. It was revealed that there is a negative relationship between credit risk and profitability. The findings revealed that, the extent of accounting record keeping practices in Wassa Amenfi West is highly appreciable. The study found that with the exception of the businesses' income statements, most of the SMEs do not keep records of statements of assets, liabilities and cash flows. Also, the type of accounting records kept are records on debtors. There was also an association between entrepreneurs' educational level and accounting record keeping practices, accounting record keeping have an effect on the growth of SMEs in the Municipality. It is recommended that SME operators should ensure that they keep every form of accounting records on their business operations since it has an effects on their growth.

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## DEDICATION

To my Daughter and Son Ama Nyameaye and Adom Aikins.

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## CHAPTER ONE

### INTRODUCTION

Wassa Amenfi is one of the hubs of Small and Medium Enterprises that engage in manufacturing and service activities. As known before, the economy of the country is mostly controlled by these SMEs. However, the economy of Wassa Amenfi is one of a kind that SMEs should flourish and expand into becoming multinational organisations, but most SMEs established in Wassa Amenfi seems not have proper continuity after the death of the owner. Accounting record keeping should have been one of the major corner stones of SMEs growth in Wassa Amenfi municipality but due to improper record keeping, investors are not attracted to them. There may be other factors to be considered in accounting record keeping by SMEs and this is why the study is conducted and contribute extensively to literature.

#### **Background to the Study**

The significant role and contributions of small and medium scale enterprise (SMEs) in economic development of a developing country like Ghana cannot be over-emphasized. They are often seen as capable in the creation of jobs through the mobilization of local resources and mitigation of rural urban migration and more even distribute industrial enterprises to different part of the country, and also stimulate national economic and social growth. The potential of SMEs to promote domestic-led growth in new and existing industries and to strengthen the resilience of the economy in a competitive and challenging environment is inarguable.

Small and medium sizes enterprises (SMEs) in Ghana are said to have a distinctiveness feature of the production landscape and have been noted to provide about 85% of manufacturing, employment of Ghana (Steel & Webster, 1991; Aryeetey, 2001). SMEs are also believed to contribute about 70% to Ghana's Gross Domestic Product (GDP). A study was organized by Bastiat Ghana, a liberal economic think tank, shows that about 92% of businesses in Ghana are registered under SME (Abor & Quartey, 2010).

According to Prasad, Green and Murinde (2001), SMEs also contribute to expanding the size of directly productive sector in the economy, generating tax revenue for the government and all in all, facilitating poverty reduction through fiscal transfer and income from employment and firm ownership. This will go a long way to reduce rural urban migration which will in turn decrease the pressure of social amenities in the urban centers.

SMEs alleviate poverty and empower the citizenry with the capacity to earn a living. As a result of their crucial role in an economy, many studies have been conducted in the world and Ghana with the view of enhancing their growth and developments (Cook & Nixon, 2000). At the same time, many policies and programs of governments are geared towards facilitating their growth and developments. SMEs have been supported by governments in the area of provision of credit facility, low interest rate, technical support and training programs locally and at the national level since it serves as backbone of the economy.

According to Harvie (2014), small and medium size enterprise (SMEs) have benefited from a lot of developmental strategy as compared to other larger

enterprises which project is based on the ideology of import substitute product which goes a long way to increase our foreign exchange and reduce our balance of payment deficit in Ghana in recent years. The emphasis on Small and Medium size Enterprise (SMEs) became dominant since the adoption of the economic reform program in Ghana from the year 2000.

Nevertheless, there is an increase in business failure among many Small and Medium scale Enterprise (SMEs) in Ghana which brings continual discussions on the critical problems affecting their growth and survival regardless of the incentive policies, programs, technical support and packages which is aimed at revamping the business yet they most time perform below expectation. Studies have shown that 60% of Small and Medium Size Enterprise (SMEs) fail within the first five years of operation (Boachie-Mensah & Marfo, 2005). Different researchers have attributed the failure of Small and Medium Size or Scale Enterprise (SMEs) to many issues confronting the success of the business.

The problems of Small and Medium scale Enterprise (SMEs) fail are abundant such as lack of investment in technology and access to finance, high cost of capital due to government domestic borrowing which has crowded the financial market. Others think otherwise arguing that failure to set up research and development department, inappropriate management and owners skills, cheap import substitution goods from foreign competitors, globalization effects, low level of education of SMEs owners, lack of training for SMEs owners, no strict legislation, lack of exposure to international market and entrepreneurial skills are some of reasons of SME failure. (Ackah & Vuvor, 2011; Jamie, 2015).

Several researchers are also of the preposition that SMEs in Ghana fail due to limited market for their produce, lack of access to long term funding (loan) most loans granted to SMEs are of a short term which makes business expansion very difficult to harness their growth and survival. Bad roads network to get SMEs produce to the markets, unstable business environment due to inconstancy in monetary and fiscal policies of government, high taxes, limited storage facilities to preserve the products of SMEs, low investment in data collection and information system in the organization (Loretta 2014). There is also no legislation on pricing for SMEs which sometimes leads to the selling of their products at cheap price and which go a long way to affects their sales and profits thereby limiting their ability to survive and grow. Lack of accounting knowledge and skills by SMEs owners, inability of SMEs to hire qualify accounting personnel exposing financial information to tax and their lack of appreciation of the role of proper record keeping goes a long way to affects growth and survival of SMEs (Maseko & Manyani 2011). Smirat (2013) argue that good accounting practices are likely to bring significant improvement to SMEs operations. Therefore, the benefits of record keeping practices cannot be overemphasis. When proper records are kept it has the potential to improve SMEs access to funds and improve their performance. This is because detailed accounting records and auditing financial statements on an annual basis will enable the banks to make a proper evaluation of SMEs, which will improve their accessibility to credit (Olufunso. 2010). Good accounting record keeping practices will enable the Small and Medium Enterprise to pay the right tax but not an estimated value of tax by the tax

authorities. This will go a long way to reduce their cost of production and enhance their profits.

With all these problems or challenges confronting the growth of SMEs the researcher wishes to look at accounting record keeping practices and growth of SMEs in Wassa Amenfi West Municipal Assembly in Western Region of Ghana.

### **Statement of the Problem**

Small and Medium Size Enterprise (SMEs) play a profound role in the economic development in many countries including Ghana. Notwithstanding, SMEs are hampered by many challenges which affect their growth and leads to their collapse in a shortest possible time of operation. Among the many issues of SMEs is the book-keeping or record keeping practices which affects a lot of their decision and leads to wrong forecasting and planning of business activities of SMEs. In order to ensure the smooth flow of organizational activities, managers and owners of SMEs are expected to have some level of accounting knowledge and also expected to be familiar with the different functions of accounting (Olufunso & Fatoki, 2010) posits that by having an adequate level of knowledge in accounting will enable managers and owners of SMEs manage business resources efficiently and effectively.

A study by Dang (2011) suggest that SMEs have shortage of accounting skills and lack infrastructure in order to implement accounting regulations and standards. Small and Medium scale Enterprise (SMEs) do not keep accounting records with the reason that there is no statutory requirement for SMEs financial information to be publicly disclosed. Although, this may indicate that there are no violations of the statutory regulations but somehow it demonstrates that SME are not being responsive



to the importance and safety of accounting records. Ideally, the preparation of accounting information must be in accordance with the financial reporting regulations and standards. This is to ensure that a good and reliable financial report is produced and is able to assist a multitude of users to make informed decision by relying on the accurate accounting information (Smirat, 2013).

In order to solve this issue, few studies have been conducted in Ghana. Studies conducted had not shown that all components in accounting record keeping practices improve the overall growth of SMEs in Ghana. The non-availability of proper accounting record or bookkeeping practices may negatively affect the financial performance of SMEs as a result. Therefore, policy makers and all relevant institutions have huge responsibility to grow small businesses in order to become global leader and contribute massively to the economic growth of the economy (Gamage 2014). (Smirat 2013), argue that the accounting record keeping practices are necessary to ensure that SMEs economic resources are used effectively and efficiently in search of its goals. Karunanada and Jeyamaha (2010) expressed their view saying poor record-keeping, inefficient record keeping of accounting information and the low quality and reliability of accounting data are part of the main problems in growth concerns of SMEs. Therefore, it will be of great importance to examine the accounting record keeping practices and growth of SMES.

Present studies try to identify the accounting record practices adopted by SMEs in the capital towns of a nation without paying attention to SMEs in the municipals, their accounting record keeping practices and the impact on their growth.

It is against this realisation that the current study aims to investigate the accounting record keeping practices among SMEs in Wassa Amenfi West Municipal Assembly.

### **Research Objectives**

The general objective of this study was to examine accounting record keeping practices and their association with growth of SMEs in the Amenfi West Municipal. Specifically, the research seeks to:

1. Determine the extent of accounting record keeping practices of SMEs in the Wassa Amenfi West Municipal Assembly.
2. Examine the types of accounting records kept by SMEs in Wassa Amenfi West Municipal.
3. Determine whether there is a relationship between entrepreneur characteristic (educational level) and accounting record keeping practices.
4. Assess the effect of accounting records keeping practices on SMEs growth.

### **Research Questions**

The study was formulated based on the following questions:

1. What is the extent of accounting record keeping practices of SMEs in the Wassa Amenfi West municipal Assembly?
2. What are the types of accounting records kept by SMEs in Wassa Amenfi West Municipal Assembly?
3. What is the relationship that exist between entrepreneur characteristic (educational level) and accounting record keeping practices?
4. What is the effect of accounting records keeping practices on SMEs growth?

### **Significance of the Study**

This research will contribute to literature and body of knowledge in order to assist managers and owners of SMEs in Wassa Amenfi West Municipal Assembly in Western Region of Ghana to appreciate the role and value of financial records and its implication on the business growth. The study will bring to light the need for training of accounting staff to enhance their skills in financial, investment, and business proposals of SMEs decision to give a good judgement when it comes to investment in other to ensure growth.

The study seeks to use accounting records keeping to improve the SMEs access to funds both short and long term and increase their performance in the general level of economic activity which will meet expectation of financial provider thereby enhancing their growth and development. The study will reduce the phenomenon of business failure among SMEs and highlights quickly areas where problems could arise and remedies to be put in place to stop these problems. It is also expected that the findings of this research will help future researchers to try additional research in effectiveness of accounting record keeping practices and help decision makers to come out with legislations that will compel owners of Small and Medium Scale Enterprise to prepare their account to conform to certain standards.

### **Delimitation of the Study**

The study examines the accounting records keeping practices of some selected SMEs in the Wassa Amenfi West Municipal Assembly in the Western

Region of Ghana through the use of questionnaires and observation. The result of the study will be used to generalise the situation that exists in other SMEs in Ghana.

### **Limitation of the Study**

Based on the problems associated with generalisation of the findings, the study should have covered all SMEs in Ghana but sample from the area of study was used for this work. Also, some of the SMEs may not be willing to open their doors to the researcher to enable him to get all the information needed.

### **Organisation of the Study**

The study is organized in or structured into five (5) main chapters. Chapter One is on the background of the study, statement of problem, research objectives, research questions and significance of the study, scope or delimitation of the study, limitation of the study. Chapter Two look at the review of related literature. The various contributions from different authors will be reviewed with regards to accounting record keeping practices and growth of SMEs. Chapter Three discusses the methodology and deals with research design, population, sample and sample techniques and instrument for data collection. Data analysis and discussions are found in chapter Four. Chapter Five covers summary of findings, conclusions, recommendations based on the results of the study.

## CHAPTER TWO

### LITERATURE REIVIEW

#### **Introduction**

This chapter reviews existing literature on the examination of accounting record keeping practices and their association with growth of SMEs. It sets off by documenting information on theoretical framework, conceptual framework, record keeping, meaning of SMEs, accounting Practices of SMEs, types of accounting records kept by SMEs, reasons for accounting records keeping, effects of accounting records keeping practices on growth of SMEs, significance of accounting record keeping, empirical review of accounting record keeping practices by SMEs and gaps in literature.

#### **Theoretical Review**

This study is predicated on a number of theories which form the basis. These include Decision Usefulness Theory, Positive Accounting Theory, Agency Theory, Cash Conversion Cycle Theory and Pecking Order Theory.

#### **The Decision Usefulness Theory**

The theory emphasizes the role of accounting in providing the relevant information to the relevant decision makers (Muchira, 2012; Kamau, 2015). Different users and decision makers require different information on which to base their decisions. The accounting systems provide the different information to meet the needs of the different decision makers. For instance, the bank may need information to assess the credit worthiness of the enterprise before giving loan, the tax authorities may require information for tax purpose, the would-be investor may require

information on the rate of return on investment, the owners of SME's may require information on the overall performance of the business. It is the responsibility of accounting professionals to determine which information best meets the needs of the users. This theory emphasizes the relevance of accounting records keeping in effective decision making in SME's. Therefore, in this study, the extent of accounting record keeping practices is operationalised as providing useful information to end users.

### **The Positive Accounting Theory (PAT)**

This theory provides an understanding of an entity's choice of accounting methods. It is the position of this theory that accounting practice of an SME can, therefore, be based on the nature of its business (Kamau, 2015). The understanding of the accounting theories is what brings about the understanding of various types of accounting record keeping. Based on this theory, an entity chooses the type of account to kept based on the understanding of the nature of business in which the entity is into.

### **Agency Theory**

Agency theory deals with the people who own a business enterprise and those who manage it. The agency theory postulates that the day to day running of a business enterprise is carried out by managers as the agents who have been engaged by the owners of the business as principals who are also known as shareholders (Mosisa, 2011). This theory places emphasis on transaction costs, contracting analysis following the work of (Coase, 1937; Jensen & Meckling, 1976) and most important (Stiglitz & Weiss, 1981).

The work of these writers all point to the challenges that surround ownership, contractual agreements, management interrelationship, credit rationing and so on between managers of SMEs and external providers of finance, thereby subjecting firms to the risk of asset substitution which in practice means a change in the firm's asset structure. For very small and micro-enterprises this asset substitution may well take place between the enterprise and the owner's household.

The presence of these problems in small firms may explain the greater use of collateral lending to small firms as a way of dealing with these agency problems. Lenders strategies for dealing with these problems also add significantly to the cost of dealing with this sector. For a large enterprise the evaluation of an application for finance may be limited to the assessment of (audited) set of financial statements and supporting documentation provided by the applicant, while for SMEs the assessment frequently has to go far beyond this, implying a substantially higher transaction cost (Muchira, 2012).

The theory is on the notion of the principle of two sided transactions. It holds that any financial transactions involve two parties and both act in the best interest but with different expectations. The major problem associated with this theory includes information asymmetry, moral hazard and adverse selection (Kamau, 2015). According to Kamau (2015), agency problems such as asymmetric information and moral hazards can impact on the availability of credit and hence, the financial management of SMEs. This can affect accounting record keeping practices since these SMEs do have enough funds to hire professional accountants.

### **Cash Conversion Cycle Theory**

Cash conversion cycle theory was propounded by Blinder and Maccini (2001). Cash conversion cycle theory is the time it takes a company to convert its resource inputs into cash. It evaluates how effectively a firm is managing its working capital. In most cases, a company acquires inventory on credit, which results in accounts payable. A firm can also sell products on credit, which results in accounts receivable. Cash, therefore, is not involved until the firm pays the accounts payable and collects accounts receivable. So the cash conversion cycle measures the time between outlay of cash and cash recovery (Ohachosim, Onwuchekwa & Ifeanyi, 2012). This cycle is essential for SME's. This measure describes how quickly a company can convert its products into cash through sales. The shorter the cycle, the less time capital is tied up in the business processes, and thus the better for SME's bottom line (Maseko & Manyani, 2011).

The proponents of this theory argue that a short cycle allows a business to quickly acquire cash that can be used for additional purchases or debt repayment. The lower the cash conversion cycle, the healthier a company generally is. Businesses attempt to shorten the cash conversion cycle by speeding up payments from customers and slowing down payments to suppliers. Cash conversion cycle can even be negative; for instance, if the company has a strong market position and can dictate purchasing terms to suppliers that is, it can postpone its payments (Ohachosim, et.al 2012).

Nkwor-Azariah (2015) argued that traditional ratios such as current ratio, Quick acid test and cash ratios had not been able to provide accurate information



about working capital and insisted on using on-going liquidity measures in working capital management, where on-going liquidity refers to the inflows and outflows of cash as a product of acquisition, production, sales, payment and collection process are done over time. The firm's on-going liquidity is a function of its cash conversion cycle, hence the appropriateness of evaluation by cash conversion cycle, rather than liquidity measures (Nkwor-Azariah, 2015).

### **Pecking Order Theory**

The pecking order theory as propagated by Myers (1984) states that firms finance their needs in a hierarchical order, first by using internally available funds, followed by debt and finally, external equity. According to Maseko and Manyani (2011), this practice is more common in small firms practice and indicates the negative relationship between profitability and external borrowing among small firms. This hypothesis implies that there tends to be a negative relationship between profitability and external borrowing by SME's.

Implicit in pecking order theory are two key assumptions about financial managers. The first of these is asymmetric information, or the likelihood that a firm's managers know more about the company's current earnings and future growth opportunities than outside investors. The use of internal funds saves managers from having to make public disclosures about the company's investment opportunities and potential profits to be realized from investing in them. The second assumption is that managers will act in the best interests of the company's existing shareholders. The managers may even forgo a positive-NPV project if it would require the issue of new equity, since this would give much of the project's value to new shareholder sat the

expense of the old (Adom, Amakye & Anku, 2014). Small and medium enterprises often suffer problems linked to asymmetric information, which causes information costs. Empirical evidence from previous studies that examined SMEs was consistent with the pecking order argument, since leverage was found to be negatively related to profitability. The pecking order theory seems particularly relevant for SMEs due to their typical features and limited access to external finance (Adom et al., 2014).

Frank and Goyal (2003), investigated whether SMEs natural financial behavior can be described by the pecking order theory. They argue that SMEs are likely to be affected by typical asymmetric information problems like adverse selection and moral hazard. Cassar and Holmes (2003), argue that owners and managers of SMEs may have constrained skills about financial decision making compared to larger companies. They found empirical evidence that profitability and growth are important influences on SMEs financing.

The Decision Usefulness Theory, Positive Accounting Theory, Agency Theory, Cash Conversion Cycle Theory and Pecking Order Theory attempt to describe accounting as a process of providing the relevant information to the relevant decision makers. Since, the theory set out a formal procedure whereby an individual can make the best decision given his or her subjective probabilities, it is then relevant in this research where the SME managers in Wassa Amenfi West Municipal are expected not only to monitor their business transactions but also to make the most accurate decisions that would bring profit to their enterprises.

Adom, et al. (2014) explains how entrepreneurs succeed in their business. They contend that successful business operators consider profit to be a measure of

success and competency. They set personal but attainable goal for their business and are concern with how well they are doing. In this sense, they are conscious of every transactions accruing from their business and hence they are in a better position to control loss. The Decision Usefulness Theory, Positive Accounting Theory, Agency Theory, Cash Conversion Cycle Theory and Pecking Order Theory emphasize the recording of business transaction for the purpose of effective decision making in business. The recording of the business transactions is determined by various factors some of which are illustrated in the following conceptual framework.

### **Empirical Review**

Accounting record keeping will not meet objectives unless reports from systems are analyzed and used for making managerial decisions. This section provides an empirical review of accounting records keeping by SMEs.

Okoli (2011), conducted a survey of 62 manufacturing SMEs on the use of accounting information in managerial decision making. Eighty-six percent of respondents reported that they used some form of financial statement analysis and interpretation. Of these, 40 percent indicated that the founders of the businesses were actively involved. D'Amboise and Gasse (1980) studied the use of financial statement analysis by small manufacturers in Quebec, Canada and found that small manufacturers in shoe and plastic industries formally undertook the analyses based on financial statements presented.

Lindecamp and Rica (1983) studied familiarity with accounting record keeping of 102 owner-managers of small retail stores in Mississippi. Some 73 percent of respondents reported that they analyzed their cost figures on a frequent or

regular basis. Nearly 60 percent indicated that they did not maintain up-to-date figures on the contribution to profit of individual product or product lines. Nearly 50 percent seldom or never compared their business performance with industry figures. Over 50 percent of respondents did not appear to understand the meaning of debt or equity ratio and 59 percent did not know the value of this ratio for their business.

In Australia, McMahon (1999) and Ismail (2007) are considered key researchers who studied accounting records keeping by SME's. Zhou (2010) examined preparing the accounting statements of 60 small enterprises and found that they were both internally and externally prepared but taxation returns were mainly prepared by external accountants (92.7 percent). Similar results were also found from a study conducted by Holmes and Nicholls (1988). With only a minor change in percentage of internal and external taxation return preparation.

Adom (2014) researched on non-existence of proper accounting record keeping and basic accounting procedures in Small Scale Enterprises in Ghana. According to Adom (2014) most Small Business Entities did not present financial statement for tax assessment, due to poor financial recordkeeping. High cost of hiring the service of trained accountant, lack of knowledge about financial report and its importance to the business and lack of computerized accounting systems were the challenges faced by the Small Scale Enterprises in Ghana.

Maseko and Manyani (2011), established significant association between financial reporting and analysis and achieved growth rates and financial performance. The following results were also found out: Enterprises that had more comprehensive reporting, in terms of both the number of statements obtained and their frequency,

were more likely to employ financial analysis. Moreover, there is apparently no statistically significant association between rates of growth in turnover and employment achieved by participating enterprises and their historical financial accounting reporting practices. Also, there appears no statistically significant association between achieved rates of growth in turnover, employment, and net profit and use of financial ratio analysis.

Ntim, Oteng and Anthony (2014), revealed in the study that SMEs kept at least one books of accounts to record transactions, establish various accounting control for the simplicity of operations and thus overall accounting system of SMEs are influenced by some crucial factors.

Yousef (2013) carried out a research on the use of accounting information by SMEs in the south district of Jordan. Data were systematically collected using questionnaires from a sample of 136 SMEs. The study found out that the level of awareness on the importance of financial management and accounting information is still very low among SMEs in the south district of Jordan.

Onaolapo and Adegbite (2014) investigated the impact of accounting records on SMEs' performance. Data were collected through interviews and questionnaires from a sample of 113 SMEs using a mixture of stratified and purposive sampling techniques. Descriptive statistics, Chi-square and analysis of variance (ANOVA) were used for data analysis. The findings of the study revealed that there is a strong positive relationship between accounting records keeping and SMEs' growth.

Amaoko (2013), studied the accounting practices of SMEs in the Kumasi metropolis of Ghana. The study was based on data collected through structured

questionnaires from a sample of 210 SMEs. The study found that majority of SMEs fail to keep proper accounting records as they feel that it is not necessary; it exposes their financial position; it is time consuming; and expensive. It is really a matter of issues that small and, medium enterprises in Wassa Amenfi West Municipal now face the spaces of ongoing accounting records keeping. Keeping pace with accounting records keeping issue study is profoundly concerned with accounting system of small and medium enterprise. Beyond aforementioned studies little is known about an examination of accounting record keeping practices and their association with growth of SMEs in the Wassa Amenfi West Municipal. This study sought to fill this gap of literature.

Norman (2004) in his work states that, to get projections of future cash flow, SME's need to start tracking account receivables and payables. Also to control costs, SMEs need to track inventory and once employees are employed, businesses may have to track pay roll records. Once these steps were under taken, the objective of accounting records keeping practices were more likely to be achieved. Norman further explains these in his 8 steps for efficient accounting record keeping.

Norman (2004), 8 steps for efficient accounting record keeping state that as a small business owner it might get difficult to keep regular tabs on bookkeeping and accounting activities for your business. But this is one area if neglected could have dire consequences on future growth of business. A few quick tips to help business owners to maintain proper books of account. SME's accounting records keeping might be of low priority compared to other revenue generation activities, however regular record management not only makes business reports more sensible, but can

prove a real stress relief during tax submission. Here are eight (8) tips to kick start a proper record management system given by Norman (2004).

According to Norman, small and medium enterprises must:

- Maintain separate accounts for business and personal provisions. It is very essential to differentiate the two and it is not simple.
- Verify and find out legitimate business expenses and which cannot be put under business expenses.
- Get receipts or invoices for all business expenses and keep them in a monthly file – at the end of the month attach these to your bank statement, and make sure none is missing. Use this information to do your record keeping system or give to your expert to keep the accounting record. Maintain proper order and filing system for all records. It will be waste of time to hunt and search for document before the tax preparation season.
- Get organized before the start of fiscal year and keep records of all financial and business relevant transactions.
- Keep proper documents of assets purchased which might include vehicles, equipment, real estate etc relevant for business. Maintain clear employee compensation records.
- Keep your yearly tax records wisely and up to date. It is easiest to keep these broken down by month, and file them in plastic sleeves in a ring binder or in manila folders.

- Keep a log of your business travel in your vehicle. Note the kilometer reading on the odometer at the beginning of the financial year and then enter the kilometers by date each time you use the vehicle for a business purpose.

All of the above activities are required to avoid mistakes and penalties when preparing accounts. Setting aside few hours every week to maintain systematic records help businesses to overcome certain challenges. If SMEs will apply these rules of good accounting records keeping now and follow through, it will create a positive difference during tax season and their accounting will be easier all year long.

This work will examine accounting record keeping practices and their association with growth of SMEs in the Wassa Amenfi West Municipal Assembly using the criterion established by Norman (2004) to find out if accounting record keeping is undertaken by owners of SMEs in the Municipality. Accounting practices are the activities of an entity that are aimed at measuring, communicating and interpreting financial transactions for decision making by the users. The accounting practices used record keeping.

### **Record Keeping**

Record keeping has been operationally defined as the accounting practice involving the proper maintenance of relevant books for the purpose of entering the details of daily business transactions.

The steps in the process of recording are briefly explained below.

- i. Source documents: these include such documents as: invoices, receipts, bank studs, goods received note etc.



- ii. Recording into the source books: these source books are also known as Journals. The data obtained from the source documents are recorded into appropriate source books. Such source books include sales daybook, for the recording of credit sales; purchase daybook, for the recording of credit purchases; cashbook, for the recording of cash transactions; and general journal, for other transactions.
- iii. Posting to the ledger: the journalized data are entered into appropriate books of account (known as ledgers). The double entry principle is applied at this stage.
- iv. The trial balance: these are list of balances extracted from the ledger to be used for the preparation of the final account. This checks arithmetical accuracy of the ledger.
- v. Financial reports: An adequate and effective record keeping process should be able to produce relevant financial reports.

Adequate record keeping ensures that economic resources of the business is effectively and efficiently utilized to achieve goals (Kamau, 2015).

## Conceptual Review

### Meaning of SMEs

The issue of what constitute SMEs has been extensively investigated in the literature. Basically, the classification of firms has been based on the following criteria; capital assets, skilled labour, turnover level, firm size, legal status, and method of production (Lopez & Aybar, 2000). The general conclusion emanating from these classifications suggests that there is no 'one-fit-all' definition for SMEs.

In Ghana, various classifications on what constitute SMEs have been provided. A cursory glance at them all indicates that the most frequently used criterion for classification has been the employment size (Kayanula & Quartey, 2000). The Ghana Statistical Service for example classifies firms with less than 10 employees as small-scale enterprise and firms with more than 10 employees as medium and large-sized enterprises.

Lopez and Aybar (2000), classified SMEs into three categories; micro, very small, and small. Using a cut-off point of 30 employees, the authors indicated that micro enterprises are firms that employ less than 6 workers; exceedingly small firms are those that employ between 6 and 9 workers, and small firms are those that employ between 10 and 29 workers. In a more recent survey by the Regional Project on Enterprise Development, Ghana Manufacturing, micro enterprise employs less than 5 workers; small enterprise employs between 5 and 29 workers; medium enterprise employs between 30 and 99 workers, and large enterprise employs 100 and above (Teal, 2002).

The National Board for Small Scale Industries (NBSSI), however, base their classification on employment size and value of fixed asset. Based on these criteria, small enterprise are firms having not more than 9 workers and plant and machinery value of not more than 10 million Ghana cedis. Using the same criteria, however, the Ghana Enterprise Development Commission (GEDC) used an above 10 million Ghana cedis value of plant and machinery.

### **Accounting Practices of SMEs**

The extent of accounting record keeping by SMEs is documented, though limited. This is due to the fact that most of the literature looks at the importance of accounting systems on the basis of its application in assessing the performance of businesses by all stakeholders (Aryeety, 2001). Musah and Ibrahim (2014), argue that accounting information users in SMEs is on the increase. Another aspect of the studies claims that, in the process of planning for profit, financial information is assembled in a way that can help make informed judgment and take decisions concerning the organisation (Boachie-Mensah & Yiadom, 2005).

An accounting record keeping practices is one of the most effective decision making tools of management of SME's. It provides an orderly method of gathering and organizing information about the various business transactions so that it may be used as an aid to management in operating the business. An emphasis is laid on the significance of keeping proper books of accounts by Smirat (2013) because it enables small businesses to have accurate information on which to base decisions. SMEs project purchase and sales, determine break-even point, and make a wide range of other financial analyses based on accounting information. The study contends that,

lack of proper accounting records has seen the closure of some businesses and thus makes it a significant issue for business success.

Other studies assert that the high incidence of failure among SMEs could be attributed to the poor accounting record keeping used by these enterprises (McChlery, Godfrey & Meechan, 2005). Those studies recount that since accounting record keeping play a key role in determining business growth and profitability, there is a need to evaluate the accounting record keeping practices used by SMEs in Wassa Amenfi West Municipal Assembly. This is important because for optimum business growth, SMEs must make use of a system of accounting which will enable them determine the volume of sales, profits (or loss), assets and liabilities at any given time.

According to Smirat (2013), the quality of accounting information utilized within the SME has a positive relationship with an entity's performance and survival. Similarly, it has been emphasized that there is the need for financial information for small and medium scale enterprises/business units due to the volatility normally associated with their situation such as unstable cash and profit positions, and reliance on short-term borrowing (Smirat, 2013).

Lopez and Aybar (2000), posit that accounting is one of the important types of information for decision making both within and outside the organization. They further stated that the quality of this information gauged by its relevance and its reliability for a particular decision is equally important. Nkwor (2015) argued that accounting information could help SMEs manage short-term problems in such areas

as costing, expenditure and cash flow by providing information to support monitoring and control.

Maseko and Monyani (2011), noted that decision making processes in small scale enterprises are more sophisticated than anticipated but they lacked effective accounting information and control system to support their decisions. Furthermore, there are some evidence to suggest that SMEs are aware of the importance of accounting records keeping (International Federation of Accountants, 2006).

In spite of this awareness, most owners of SMEs in Ghana specifically those in the Wassa Amenfi West Municipal Assembly are not too keen to use standard accounting systems to run the day-to-day activities of their enterprises. The high rate of failure of SME's in developing countries like Ghana especially Wassa Amenfi West Municipality, has generally been traced to poor management and accounting systems employed by SMEs. There seems to be some consensus on the significance of accounting records keeping to business success. Some researchers assert that the quality of accounting records keeping employed within the SMEs sector has a positive relationship with the performance of the entity (Smirat, 2013).

In spite of the considerable amount of studies conducted in accounting over the last few decades, there has been little effort on examination of accounting records keeping and the growth of SME (McChlery et al., 2005). For instance, Marriott & Marriot (2000) observed that, in the United Kingdom only recently had research been directed towards the financial management systems that are used within small-sized enterprises.

To date, limited research has been carried out into the accounting records keeping practices in use by SME's. Obviously, there is a need to research the small businesses community across a spectrum of sectors including newly formed and established firms (McChlery et al., 2005). Poor accounting record keeping is also cited as a cause for start-up business failure. In most cases, this is not only due to the low priority attached to it, but also a lack of the basic business management skills. Most managers and owners of SMEs therefore, end up losing track of their daily transactions and find it difficult to account for their expenses and their profits at the end of operations. According to Smirat (2013), accounting is a major challenge to management of SMEs. The study recommends that SME managers and/or owners of SMEs need to learn about proper accounting or engage the services of accounting experts for accounting reporting purposes.

Some authors believe that accounting reports play a significant role in SMEs. However, they argue that such accounting reports must be customised to suit the needs of SMEs. There have been proposals that the use of the cash basis must be preferred to the accruals basis of accounting.

#### Types of Accounting Records Kept by SMEs

The four most common accounting records reported externally by SME's are the statement of financial position, income statement, statement of changes in equity or retained earnings, and statement of cash flows. Although derived from the same accounting records, each statement takes a somewhat different view of the well-being of a business Olatunji (2013). Taken in sum with past statements, they are tremendous sources of information relating to business operations. Each has a

heading consisting of the name of the business organization, the name of the statement, and the end date of the period covered by the statement or the date that the report was prepared. Normally, these statements are prepared annually. Many businesses, however, compile them on an interim basis such as monthly or quarterly to make better use of their information. The following paragraphs describe each of these statements, its particular uses, and its interrelationships with the other statements.

First of all is the statement of financial position. The balance sheet is also known as the statement of financial position (Velankar, Gupta & Garud, 2013). It is a snapshot of a business financial position on a particular date. The statement of financial position has two parts: the heading and the body. The body has three sections: assets, liabilities, and stockholders' equity. The ordering of the elements in each section follows an established pattern. The first asset listed are the non-current asset buildings machines, vehicles etc. Following the non-current assets are the current assets which are inventories, Account receivables, cash etc. Finally, the liabilities are always found above the stockholders' equity. Assets are defined as "economic resources controlled by a business as result of past event and which future benefits are expected to flow to the enterprise." Assets may either be tangible or intangible. Tangible or physical assets include such things as buildings, cash, and office equipment. Intangible assets are often in the form of legal claims or rights an example is the patent right. Assets, despite of their form, are recorded at their original (historical) cost. This is called the cost principle (Ntim, Oteng & Anthony, 2014).

Liabilities are the next section in the body of the statement of financial position. According to Ntim, Oteng and Antoney (2014), liabilities are also commonly known as debts. Two of the liabilities are worth noting. Accounts payable is the liability created by the purchase of goods or services on credit (Ntim et.al 2014). Account payable arise from the borrowing of money to meet SMEs goals. The last section of the body of the balance sheet is owners' equity. Conversely, owners' equity can only be decreased by distribution of assets to the owners or by losses incurred in the operation of the business (Maseko & Manyani, 2011).

The second financial statement is the income statement. According to Adom, et. al (2014), income statement shows the operating results of SMEs by matching the revenue earned during a given period with the expenses incurred in obtaining that revenue. The income statement views the organization over a period rather than at a specific date. This is necessary to understand a business economic performance as represented by the term net income. The gain or loss made with the use resources over a period is much more meaningful to decision makers than the gain or loss for a single day.

According to Amoako (2013), income statement is divided into revenue and expenses. Revenue is the amount received from price of goods sold and or services rendered during a given accounting period. Revenue can be separated into many categories such as sales, interest earned, and fees earned (Ismail & King, 2007). Revenues are recorded at the time the services are provided or goods sold to the customer rather than when the cash payment is received. Expenses, on the other hand, are the cost of the goods and services used up in the process of earning revenue (Zhou,



2010). Expenses are, then, the costs associated with developing, producing, marketing, and selling a product.

Okoli (2011) postulates that there should be a cause and effect relationship between all expenses and revenues reported for a given period. Recording expenses is not based on when the cash payment was made. Rather, it is based on the period in which the expenditure is incurred or help to generate the revenue. The third common financial statement is the statement of cash flows. This statement builds upon the information contained in the previous statements (Fatoki, 2012). Though the balance sheet helps figure out solvency and the income statement helps determine profitability, users of this information also need to assess a business liquidity ability to remain solvent. According to Fatoki (2012), the basic purpose of the statement of cash flows is to provide information on the origin and amount of cash receipts and on the destination and amounts of cash payments. According to Smirat (2013), a business that cannot raise funds from operations will be hard pressed to gain sufficient funds from investing and financing activities to remain solvent. SME Beginners should keep the few accounts since the business is small and only have few transactions as explained by Zhou (2010):

- a. Sales account: Sales account records all transactions involving the sale of goods or services. Information recorded include date, invoice no., amount, customer name and type of transaction – whether cash or credit.
- b. Purchases account: The Purchases account records all transactions related to the acquisition of raw materials or inventory. Information recorded include

date of purchase, purchase order number, stock number of item purchased, purchase price, and whether bought on credit or cash.

SME that have been in business for longer period of time are required to keep more accounts which will cover all larger transactions that take place in the business:

Among others the following are some of them:

- i. Debtors account: This Accounts is useful for monitoring the level of receivables for each customer. If products or services are paid for at time of delivery, you will not need an accounts receivable tracking system. However, if you provide services or products for which people pay you at a later date, your accounts receivable records keep track of what is owed to you. You can monitor accounts receivable by holding on to a copy of all invoices sent out or by keeping accounts receivable record. Either way, the information you need to capture includes: invoice date, invoice number, invoice amount, terms, date paid, amount paid, and the name of the entity being billed.
- ii. Creditors account/Accounts payable: Accounts Payable keeps track of amounts owed to suppliers/creditors. Knowing the level of the accounts payable and when these are due, helps in better cash control and also contributes to establishing a good credit standing with your suppliers and creditors.
- iii. Regardless of the system chosen, the business should retain the following information about accounts payable: invoice date, invoice number,

- invoice amount, terms, date paid, amount paid, balance (if applicable), and clients names and address.
- iv. Cash account: this account records all the receipts and payments made in the business.
  - v. Stock account: Keeping on top of the inventory records will prevent pilferage, keep inventory holdings to a minimum, and track buying trends, among other things. The crucial inventory information you need to capture is: date purchased, stock number of item purchased, purchase price, date sold, and sale price.
  - vi. Financial Statements: financial statement is the result of the activities of an entity and is prepared to help interested persons decide on questions such as whether to lend it money or invest in its shares.

Accounting records keeping really look at the link between the financial statements and the decision making process. Financial Statement is made up of income statement, balance sheet, statement of cash flow and the statements of changes in equity or statement of retain earning as well as notes to the account are often included (Maseko, & Manyani, 2011).

#### Reasons for Accounting Records Keeping

Some aspects of the existing research delve into the relationship between record keeping and growth of SME. Nkwor (2015) commented on the reasons why SMEs prepare financial statements, and argue that on the list, SMEs rank assessing profitability second to the purpose of tax returns. According to Ismail, and King (2007), owners of SMEs consider profit maximization as the most important

financial objective. This has led to the argument that SME owners pay attention to profitability and measurement of net profit when they evaluate their firm's performance (Ismail & King, 2007). Factors such as age of business, size of the business, and the nature of the industry. They further point out that most SME owners and managers of SMEs engage public accountants to prepare financial statements required of their business.

According to Ismail and King, (2007), the development of a sound accounting system in SMEs hinge on owner's level of accounting knowledge and skills. Some authors have argued that small businesses use professional accounting firms for preparation of annual reports and for other accounting needs. Maseko and Manyani, (2011), reports that the main reason why SMEs prepare financial statements is pressure from regulatory authorities. Hussein (1983) notes that, a good accounting system is not only judged by how well records are kept but by how well it is able to meet the information needs of both internal and external decision-makers.

Zhou (2010) has proposed the use of accounting software to improve accounting practices, albeit has laments the unavailability of tutored software for SMEs. A study conducted in Zimbabwe on 100 SMEs by Maseko & Manyani (2011), brings out that SMEs do not keep complete records of accounts due to lack of knowledge in accounting and the cost of engaging professional accountants. Consequently, the use of accounting information to support measurement of financial performance by SMEs is ineffective. The study proposes that regulatory bodies must develop specific guidelines for SME accounting and organise accounting training programs for entrepreneurs in small businesses. They also

recommend the application of mandatory record keeping to improve accounting practices of SMEs.

Mbroh and Attom (2011), studied 217 out of 250 SMEs in Ghana and reports that 59% do not practice formal accounting at all. The reasons they gave to this include low levels of education and inadequate knowledge in accounting which makes it difficult for them to appreciate the need to practice accounting or keep accounting records in their business.

In a study of 148 respondents in Nigeria (Enugu), Okoli (2011) links proper record keeping and profitability of small scale enterprises and assert that due to inadequate record keeping, the small scale operators could not assess their performances effectively. He argues that in order to enhance the profitability of small scale enterprises and their continuity, there is need for adequate record keeping which will help the proprietors to keep track of the performance of these enterprises.

Mensah, Tribe, and Weiss (2007), state that a significant number of enterprises in their survey kept no records pertaining to operations, finance, audited accounts, tax returns, and so on. Until recently, all the micro and small enterprise could not receive credit from the banks and promotional institutions on grounds that the formal banking sector considered them a high risk area, and hence charged them high cost for borrowed funds from the banks.

In assessing the financial statements of micro and small enterprises, Mensah et al. (2007) claim the existence of practical problems in deriving records and figures that make up the statements. One reason for that is because for almost all enterprises, the owners keep all the records in memory and hence the lack of records of all kinds –

sales, marketing, accounting, credit borrowing from lending institutions, staff costs, owners' emoluments, etc. This study therefore argues that most owners of SMEs in Wassa Amenfi West Municipal Assembly do not keep proper accounting records and thus, they are not able to provide data about their entities. This therefore justifies the need for this study.

### **Effects of Accounting Records Keeping Practices on growth of SME's**

Basically accounting system is worldwide live out that circulated some parallel part of the organizational system, Ismail & King (2007), focused on right position in relation to accounting information requirements and accounting system capacity to generate information in the context of Malaysian SME manufacturing firms where AIS alignment strongly related to the six influencing factors (IT sophistication, owner/manager knowledge, owner/manager commitment, external expertise, internal expertise and firm size).

Zhou (2010) identified some problems in conducting a study (Undeveloped SMEs Accounting Software, inadequate managerial attention and untrained managers and employees regarding accounting information systems) relating to implement accounting systems that SMEs faced and gave some suggestions (Development of SMEs accounting software, strengthen the responsibility of administering authority, educational depth of accounting information of the authority as well as software developers and effective training to the managers and employees to the overall operations of SMEs) to resolve those problems in other to make SMEs better. Maseko, and Manyani (2011), carried out an investigative study

to reveal that accounting practices (record keeping) for performance measurement of SMEs in Zimbabwe using Bindura as a case.

This study focused that most of the SMEs in Wassa Amenfi West Municipality did not keep complete accounting records due to lack of accounting knowledge for this reason it was not possible for measuring financial performance through the use of accounting information. Okoli (2011) conducted a study in Enugu, South East of Nigeria for evaluating the accounting systems of small scale enterprises due to the high failure rate. The result of the study revealed that a significant number of enterprises followed single entry accounting system as a record keeping tool for the flexibility of its usage and for ensuring profitability.

Fatoki (2010) focused on financial planning and control, financial analysis, accounting information, management accounting, investment appraisal and working capital management for proper financial management practices whereas micro enterprises did not follow financial planning and control, financial analysis and investment appraisal but those enterprises maintained purchase and sales books as to keep the record of the business transactions. Smirat (2013) conducted a research about the use of accounting information of small and medium enterprises (SMEs) in south Jordan and found most of the SMEs followed single entry accounting system for its simplicity and recommended good accounting practices would improve the developed operations of small and medium sized enterprises (SMEs).

Smirat (2013) revealed that the main objective of the study is to examine the interrelationship between accounting system and the corporate performance of small and medium scale enterprises and found that adoption of sound accounting system

has a significant impact on the performance of small and medium size orscale enterprises. Amoako (2013), conducted a study that sound accounting practices (maintaining proper books of accounts) helped to emphasize proper financial planning and control but result of the study was that most of the SMEs Kumasi, Ghana failed to keep and maintain complete accounting records.

Fatoki (2010) conducted a study about e-accounting practices/accounting systems of SMEs at Madhya Pradesh in India and found that majority of SMEs followed accounting software (Tally, sage, Excel, QuickBooks and others) to reduce clerical works rather than manual recording and book keeping and maintain accounts receivable, accounts payable, inventory management, payroll, fixed assets management, bank reconciliation and cash management functions effectively.

Ntim, Oteng, and Anthony (2014), revealed in his study that SMEs kept at least one books of accounts to record transactions, establish various accounting control for the simplicity of operations and thus overall accounting system of SMEs are influenced by some crucial factors (i.e. the size of firm, age of business and engagement of accounting personnel). Aforementioned study is the basis of different nations and perceptive issues of the accounting practices that describe the accounting system use from different angles. It is really a matter of issue that small and, medium enterprises now feat the spaces of ongoing accounting system of Bangladesh as for the tremendous trend of accounting system. Keeping pace with the accounting system issues, this study is profoundly concerned with accounting system of SMEs of Wassa Amenfi West Municipal Assembly beyond aforementioned studies gap of the literature.



### **Significance/Benefits of Accounting Record Keeping**

According to Zhou (2011), it is worth remembering that there are several reasons and advantages for good business accounting records and some of these reasons may include:

- a. Accounting Record Keeping Enables the Business to know Its Financial Position.

It enables the management to know where the business stands financially. Without proper business records, the business will never know what its real financial position is, but it is very useful to be able to work out how much the business has at the bank, how much money is owed to the business by customers and how much money the business owes to its suppliers. This can be done only if substantial records of the business are kept.

- b. Accounting Record Keeping Facilitate Decision Making

When proper records are kept it makes financial decisions effective. Armed with an up-to-date statement of the business' financial position and recent trading, management can make real financial decisions. For instance, if there is the need to invest in more capital assets (that is, plant and machinery), or rather employ more labour and also where to allocate scarce resources. Without business records providing management with the necessary facts, management would not be in the position to make such decisions.

- c. Accounting Record Keeping Aid Auditing Processes

When proper records are kept, there will be no need to appoint an auditor to audit the firm's accounts especially in the case of a sole trader or a partnership firm

unless otherwise stated. However, in the case of a limited liability company, its accounts will have to be audited each year by a qualified auditor, who goes right through the records of the business to satisfy himself that the accounts give a true and fair view of the company's financial situation and of its profit or loss for the period. The possibility of the audit work would be depended upon the relevant, reliable, accurate and adequate records of the firm.

d. Accounting Record Keeping facilitate Tax Assessment

Proper accounting records enables assessment of tax. There must be proper records in order to agree on the exact tax liability and without good records being kept, it becomes cumbersome to defend yourself against excessive estimated tax demands by the tax officials or the inspector of taxes. Proper records of accounting will enable you to know your tax reliefs and allowances that you would be entitled to and thus would reduce your tax liabilities.

e. Accounting Record Keeping Provides Evidence of Business Transaction

It also helps to provide evidence during disputes. Whenever there is misunderstanding or disputes between the firm and the other parties, that is customers, suppliers or bankers, with proper records being kept the settling of such misunderstanding or disputes would be easily done. Proper records would also serve as evidence in court if a legal action is taken against the firm.

f. Accounting Record Keeping Assist Businesses in Loan Acquisition

The keeping of effective and efficient accounting records can assist in the acquisition of loan. Financial institutions and other money lenders would examine

critically the accounting records of SMEs to certify whether the loan could be repaid before giving it out.

g. Accounting Record Keeping helps in Disposal of Business Assets

When proper records are kept, the sale of business or share of ownership can be determined. If the owner(s) decides to sell the business, the one buying it will examine the records to know if the business is worth its price before he purchases the business. Also, when the business wants to introduce a partner or a person wants to join the business to share ownership, the person would examine the records to satisfy himself if the business is lucrative to invest in or it is worth joining.

From the above significance or benefits related to the use, of accounting record keeping by SMEs, relatively few empirical studies have focused on accounting records keeping by small companies, only a small portion of the literature documents empirical work concerning accounting record keeping (Fatoki, 2012).

The results of the above mentioned research show that for company owners and directors, the most important users of the small company accounting records keeping are the SMEs top management. Indeed, the value of accounting records keeping as a source of information for owners who do not operate inside the firms as well as for clients and suppliers is regarded as of little importance (Smirat, 2013). This justify the need for accounting records keeping by SMEs of which those in the Wassa Amenfi West municipal are inclusive.

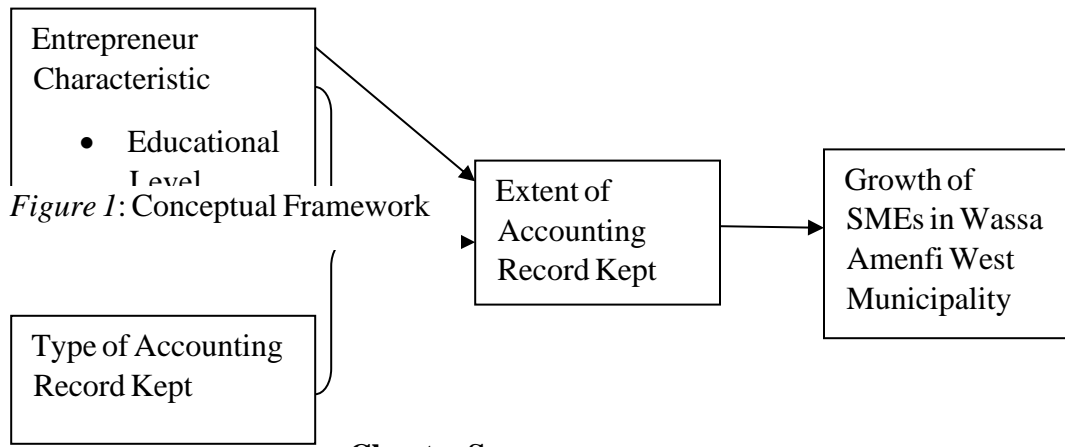


Figure 1: Conceptual Framework

### Chapter Summary

Many researchers have studies about SMEs, focusing on different study problems such as; management, accounting and financial needs and challenges, causes of small business failures. But only a few have investigated the impact of accounting records on SMEs performance. They have pointed out that, some SMEs produce accounting records based on computerized packages, relying on accountants but often left bewildered by the complexity of information, accounting records hinder application of appropriate measures in evaluating business success. Despite the findings, other researchers did not mention some of the main issues like; how many SMEs really do keep accounting records? How do SMEs keep the records? Moreover, among the studies, few studies are done in Ghana on accounting records keeping and SME's growth. This study tried to respond to this knowledge gap.

## CHAPTER THREE

### RESEARCH METHODS

#### **Introduction**

This chapter discusses techniques, tools and processes used to collect and analyze data for the study. Specifically, this chapter consists of the study area and research design. Other areas of concern include data sources, population and sample size selection of participants, methods of data collection instruments, data analysis and management, reliability and validity of instrument and ethical considerations.

#### **Research Approach**

Researchers adopt different analytical procedures or approach based on their research philosophy. These differences in analytical procedures and research approach could basically be classified into three. These are quantitative, qualitative and mixed approach (Creswell, 2013). Researchers may select a specific approach based on its appropriateness to answer the research question as well as the research problem.

This study employs quantitative research as a main approach. The quantitative research approach is more suitable because the study seeks to observe the outcome of one variable (growth of SMEs) by manipulating other variables (accounting practices constructs). The approach provides investigation of this nature requires quantitative approach (Creswell, 2013). The use of numerical data to measure constructs requires quantitative approach (Camerron & Sankaran, 2015). This makes the quantitative approach more suitable for this study. The approach is applied empirically in this study by developing scale instrument capable for

measuring each of the accounting record keeping practices variables and growth of SMEs quantitatively (Johnson & Onwuegbuzie, 2004). Additionally, to the quantitative approach, the researcher personally visited all SMEs in the Wassa Amenfi municipality to observe and assessed how their accounting records are kept.

### **Research Design**

According to Kusi, Opata and Narh (2015) and Creswell (2013), research design is the domain of generalization that indicates whether or not the data obtained could be interpreted to mimic a different situation.

A cross sectional survey was used as a design for the study. Cross-sectional research involves using different groups of people who differ in the variable of interest but share other similar characteristics, such as socioeconomic status, educational background, and ethnicity. Cross-sectional research studies are based on observations that take place in different groups at one time (Creswell, 2013). This means there is no experimental procedure, so no variables are manipulated by the researcher. So instead of performing an experiment, you would simply record the information that you observe in the groups you are examining. This was the basis for this study by way of examining accounting record keeping practices and their association with growth of SMEs in the Wassa Amenfi West Municipality.

Quantitative data was collected using questionnaires showing the extent of accounting record keeping practices of SMEs in the Wassa Amenfi West municipal, types of accounting records kept by SMEs in the Municipality, educational background effect accounting recordkeeping practices and effects of accounting

records keeping practices on SMEs growth. All the SME's in the WassaAmenfi West Municipality were visited and their accounting records keeping were assessed.

### **Study Area**

The location for this study is Wassa Amenfi West Municipal Assembly of the Western Region of Ghana. Wassa Amenfi West Municipality is bounded to the north by Aowin Municipal, to the south by MansoWassa Amenfi Central District Assembly and Wassa Amenfi East Districts, Wassa Akropong respectively. According to Ghana Statistical service Wassa Amenfi West has a population of 112,555 as at 2018 and has projected growth rate of 2.5%. Wassa Amenfi West Municipal is mostly dominated with cocoa and rubber plantation farmers. These farmers used proceeds from their farming activity to set up SME businesses in the locality. Recently, mining activities in the municipality has opened up businesses mostly SMEs to take advantages of the increase economic activity in the area. Most of owners of the businesses do not even keep any accounting record on their business which goes a long way to affect their growth and survival.

One of the most common challenges to be addressed in Wassa Amanfi West Municipal is the issue of accounting record keeping practices and their association with growth of SMEs. Even though accounting records keeping is an important tool for SME's growth, it has not been given the necessary attention in Wassa Amenfi West municipal which warrants a research. The study was conducted in Wassa Amanfi West Municipal on all SMEs.

### **Population**

Population according to Saunders (2009) is a full set of cases from which a sample is taken. Lim & Ting (2012) opined that study population is any unit of group that has a common set of characteristics from which data can be collected. According to Groebner, Shannon, Fry and Smith (2008), population is a set of all objects or individuals of interest or the measurements obtained from all objects or individuals of interest. Mason (2007) also described a population as an entire group about which some information is required to be ascertained or a main focus of a scientific query. Base on this, it is believed that all individuals or objects within a certain population usually have a common, binding characteristic or trait for which the descriptions of its members are the same.

The target population for this study were both registered and unregistered SMEs that were owned by business men and women in the Wassa Amenfi Municipality. Both registered and unregistered SMEs business operators in the Municipality were selected for the study. The Wassa Amenfi West Municipal Assembly have a total population of 453 SMEs of which 321 are unregistered and 132 are registered under the Wassa Amenfi West Municipal Assembly as SMEs. Out of the 321 unregistered SMEs 200 are owned by males and 121 are owned by females and the 132 registered SMEs in the Municipality, 79 are owned by males and 53 are owned by females.

Table 1 shows the population distribution for this study. Table 1 shows total number of SMEs in Wassa Amenfi Municipal Assembly.

**Table 1: SME's Total Number Distribution for 2018**

SME's	Total Number
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Registered	132
Unregistered	321
<b>Total</b>	<b>453</b>

Source: Field Survey (2018)

### **Sampling Procedures**

A sample is a representation of the targeted population and is an important feature of any empirical study in which the goal is to make inference about a population (Israel, 2013). Sampling is necessary because in conducting a research study, it is practically impossible, time-consuming and too expensive to test every individual in the entire population. Hence, there is the need to get a fair representation of the people. To achieve this then sampling techniques become important. As defined by Kraska and Neuman (2011), a sampling is the process of selecting a sample as a subset from a defined population. The stratified sampling technique was used to sample from the population. The stratified sampling technique was used because the population of the study is heterogeneous (registered and unregistered) and to get the sample size, a representation of the groups should be selected for the study. Under this technique, bias in sampling is avoided because each respondent has the chance of being selected to represent a group.

Both the registered and unregistered SMEs of the Wassa Amenfi Municipality were used for the study. Table 2 shows the sample size for the two categories of respondents used for the study. From table 2, the total sample frame of registered SMEs and unregistered owners was 132 and 321 respectively, total sample frame for the registered owners of SMEs were 132 and total sample frame of

unregistered SMEs owners were 321 an error margin of 7% was used to calculate the sample size for registered and unregistered SMEs. The 7% error margin used means that 93% of the information gathered from the respondents is accurate.

Miller & Brewer (2003) formula shown below:

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

Where: n= required sample size, 1= constant, N= sample frame,  $\alpha$ = margin of error.

**Table 2: Sample Size for the Two Categories of Respondents based on Miller and Brewer (2003) Formula**

Sample size determination for registered SMEs owners	
Sample size (n)	?
Total population	132
Constant(1)	1
Margin of error (e)%	7%
Exponent	2
$N(e)^2$	0.6468
Factor $1 + N(e)^2$	1.6468
$n = N/1 + N(e)^2$	80
Sample size determination for unregistered SMEs owners	
Sample size (n)	?
Total population	321
Constant(1)	1
Margin of error (e)%	7%
Exponent	2
$(N(e))^2$	1.5729
Factor $1 + (N(e))^2$	2.5729
$n = N/1 + N(e)^2$	125

Source: Field Survey (2018)

The representative sample selected was then proportionally distributed for both the registered and unregistered SME's owners in Wassa Amenfi West Municipal Assembly. Table 3 shows the proportional distribution sample size of both registered and unregistered SME's in the Municipality.

**Table 3: Proportional Distribution of SMEs Owners Sample Size**

SMEs	Population			Sample Size
	Female	Male	Total	Total
Registered	53	79	132	80
Unregistered	121	200	321	125
<b>Total</b>	<b>174</b>	<b>279</b>	<b>453</b>	<b>205</b>

Source: Field Survey (2018)

A total of 205 respondents (thus 125 registered SMEs owners and 80 unregistered SMEs owners) took part in this study. Their selection was influenced by the main objective of the study and also on the aspect of trying to get variations in experiences as far as possible.

#### **Data Collection Instrument**

Data for this study was collected using the mixed method (quantitative and qualitative) approach and it includes surveys, and observations. The mixed method design was used for the study. In this case, the observation data supports the survey data. Also the mixed method approach was used in order to access respondent's experiences on extent of accounting record keeping practices of SMEs, the types of accounting records kept by SMEs and the effects of accounting records keeping practices on SMEs growth. Through observation, the researcher could see what some SMEs owners actually do with regards to their accounting records keeping hence enabling the researcher to obtain a deep understanding of the accounting records keeping practices influence on growth of SMEs. As stated already the study employed both survey questionnaires and observation to collect the data.

In choosing which research instrument to use for this study, a survey was deemed to be suitable. With this method, questionnaires (both close ended and open ended) were self-administered to the respondents rather than face-to-face encounters. The sample survey questionnaires constituted the main research instruments for registered and unregistered SMEs owners at the Wassa Amenfi West Municipal Assembly, because it is easy to use on a large number of subjects, two hundred and five (205) respondents were selected for the study.

Apart from using questionnaires, to investigate the respondents' experiences on the current extent of accounting record keeping practices of SMEs in the Wassa Amenfi West municipality, observation was also used to develop an understanding of how SMEs owners keep records of their finances. This comprised of items to be observed, particularly the researcher used this method to observe the availability of book keeping in terms of receipts, sales books, cash book etc.

In this study, observation has been used as a data collection method. The choice of observation as a tool for collecting data was to get the opportunity to collect live data on accounting records keeping. In this study, the researcher conducted observation to the availability records book owned by the respondents. By doing this, the researcher was able to determine the extent of accounting record keeping practices of SMEs in the Wassa Amenfi West Municipal Assembly. The observations which were carried out for this study were structured observation because all the respondents that were observed were aware that their accounting records are going to be assessed because I had to seek their consent before conducting the study.

### **Data Collection Procedures**

Procedure is the most important thing in research methodology. Without procedure we cannot reach any conclusion. After selecting and finalising the tools for the research, the researcher visited the SMEs under investigation personally for taking prior permission from the managers. Subsequently the researcher discussed in detail his investigation with the owners of the SMEs and sought the permission from them for collecting the necessary data.

In the first step, a good rapport with the employees of the concerned SMEs was established to do the investigation carefully. Before assigning the questionnaire, instructions of each test used in the study was made clear. In order to giving responses to the questions free and frankly, honestly and sincerely, they were made aware there are no right or wrong answers to these questions and their businesses would not be affected as it was only an exercise for academic research purpose and their responses would be held highly confidential. In order to free them from boredom, the researcher gave time interval for his visit. Thus, the questionnaires were administered under proper testing conditions. Each testing session ended with a vote of thanks to the respondents concerned.

After collecting data from the sample, and with the help of the selected tools, collected data was scored in the following manner: growth of SMEs and accounting record keeping practices were scored on a Likert scale. This scale has five choices numbered 1 to 5 against each statement with '1' -strongly disagree and '5' - strongly agree. Data was then analysed from this point.

### **Data Processing and Analysis**

The face validity of the questionnaire was established with the help of a director responsible for small business development in the Wassa Amenfi West Municipality. The director helped to correct all typographical errors and elements of ambiguity in the instruments before it was used. He deemed it suitable for gathering information on respondent's views on the accounting records keeping practices and growth among SME's business owners.

Content validity of the instrument was determined with the help of the researcher's supervisor who is an expert in the field of Research and Lecturers from the University of Cape Coast. The examination of the instrument by the supervisors and other research experts, changes were effected as a result of comments and suggestions from them. These changes were in the form of the deletion of incorrect items, addition of new items and modification of existing ones. This helped to improve the content validity of the instrument, because his objective judgment was used to establish congruence on all the items.

With regards to the reliability of the instrument, a pilot test of the instrument was carried out with ten (10) SME's business owners in Wassa Amenfi West Municipal Assembly of the Western Region of Ghana who share similar characteristics with the sampled respondents. Thus, those chosen did not form part of the main study. This was to avoid contamination of the sample for the study and hence the results.

### **Data Analysis**

After data collection, survey data was edited and coded. This is where data was examined for errors and omissions and corrected where necessary and possible.

In the coding process, data was organised into categories after which, numerals were assigned to each item before entering them into the computer. After entering using SPSS version 20 programme, the computer was used to generate quantitative results including the percentages, frequencies and means (averages).

After data collection, data was coded and analysed. Editing involved examining data for errors and omissions after which, corrections were made accordingly. Coding involved organizing data into classes/categories in relation to the themes/objectives of the study. After this, interpretations were made before making conclusions.

Since the study specifically employs quantitative approach, tables, graphs and charts were used to present outcomes of the analysis. Each of the variables are measured using mean scale on 1 to 5. The study subsequently employs chi-square used to analyse the main objective; mean, frequencies/percentages were used to analyse objectives 1 and 2; and multivariate regression to analyse the objectives 3 and 4.

### **Ethical Considerations**

On the aspect of consent, before the researcher conducted the study in the Municipality, the researcher explained the main objective and specific objectives of the research to the respondents and sought permission to carry out the study. The researcher also informed the respondents of their right to withdraw when they felt like doing so. Before doing the observation, the researcher assured the participants that all observations during the work will be kept securely and treated as confidential. To maintain confidentiality, all the participants were given anonymous names in the

data analysis and interpretation. Therefore, private data identifying the participants and SMEs were not included in the report.

### **Chapter Summary**

The methodology chapter provides the rationale behind the choice of the methodology, population, sample size and a brief description of the research participants. Also, data analysis procedure was discussed. Since this is a mixed method study, the main instrument for data collection were survey and observation. The researcher used the instruments to seek an in-depth assessment of the extent of accounting record keeping practices of SMEs in the Wassa Amenfi West Municipal Assembly, the types of accounting records kept by SMEs in Wassa Amenfi West Municipality, educational background effects on accounting recordkeeping practices and the effects of accounting records keeping practices on SMEs growth.



## CHAPTER FOUR

### RESULTS AND DISCUSSIONS

#### **Introduction**

This chapter presents the results and discussions of the study. In view of these, it is worth noting that the study sought to examine the accounting records keeping practices and their association with growth of the SMEs in the Wassa Amenfi West Municipal Assembly. The study was conducted using the cross-sectional research design on all SMEs within the Wassa Amenfi West Municipal Assembly, irrespective of the operators' gender or educational background. A sample of 205 respondents which was determined by Miller & Brewer (2003) formula was selected through a combination of the proportional allocation stratified and purposive sampling techniques. The study adopted the cross-sectional research design to collect and analyse data and therefore used. Self-administered questionnaires to gather the data and resulting data were analysed using techniques such as means, percentages, frequencies and reliability analyses (using Cronbach's Alpha). The researcher also personally visited and observed how some SMEs in the area of study keep their accounting records of their business operations.

#### **Socio-Demographic Characteristics of the Respondents**

The demographic characteristics of the respondents used in the study are presented and discussed under this section. The characteristics of the respondents include their gender, age and qualification. The duration of working in the SME industry was also considered under this section. The results of the analyses on these characteristics of the respondents are presented in Table 4.

**Table 4: Demographic Characteristics of Respondents**

Characteristics	Frequency	Percent
<b>Gender</b>		
Male	122	59.5
Female	83	40.5
Total	205	100.0
<b>Age</b>		
18-23	24	11.7
24-29	43	21.0
30-35	40	19.5
36-40	31	15.1
41-45	33	16.1
46-50	16	7.8
51-55	10	4.9
56-60	8	3.9
Total	205	100.0
<b>Qualification</b>		
Master Degree	4	2.0
Professional	32	15.6
First Degree	39	19.0
HND/Diploma	39	19.0
SHS/Tech/Voc.	65	31.7
JHS/MSLC	14	6.8
No education	12	5.9
Total	205	100.0
<b>Duration in SME business</b>		
1 - 23 months	51	24.9
2 - 3 yrs.	39	19.0
4 - 5 yrs.	43	21.0
Above 5 yrs.	72	35.1
<b>Total</b>	<b>205</b>	<b>100.0</b>

Source: Field Survey, Aikins (2018)

It can be observed from Table 4 that 59.5% of the 205 respondents for the study were males whilst –on the other hand – the remaining 40.5% of them were females. This implies that the respondents for the study were dominated by males.

Table 4 shows that a little close to one-third of the respondents (32.7%) were less than 30 years old (11.7% between 18-23 years and 21.0% between 24-29 years). A little over one-third of them (34.6%) reported that they were between the ages of 30 and 40 years (19.5% between 30 - 35 years and 15.1% between 36 - 40 years). On the other hand, a few of the respondents (3.9%) reported that they had about 5 years to reach their pension age of 60 years. These indicate that the operations of the SME sector of the Wassa Amenfi West Municipality is dominated by the youth.

It can be observed from Table 4 that a little close to one-third of the respondents (31.7%) reported that they had completed their second-cycle education and had obtained either secondary high school (SHS), technical or vocational certifications. Nineteen percent (19%) of the respondents reported that they had completed their first degree, higher national diploma (HND) and diploma education while a few of them (5.9%), on the other hand, indicated they were not educated at all. These imply that the respondents in the SME sector of Wassa Amenfi West Municipality were generally educated.

Finally, Table 4 also shows that approximately a quarter of the respondents (24.9%) reported that they had not even worked in the SME sector of the economy up to 2 years. However, a little more than one-third of them (35.1%) of them reported that they had worked in the SME sector for more than five years. These indicate that most of the inhabitants of the Wassa Amenfi West municipality engaged in the SME sector of the economy had been engaged for less than 5 years.

#### **Extent of Accounting Record Keeping Accounting Practices of SMEs in Wassa Amenfi West Municipality**

The first objective of the study was to examine the extent to which the SMEs operating in the Wassa Amenfi West Municipality kept records on their accounting operations. In view of this, the respondents were provided a list of statements to indicate the extent to which each of them applied to their operations. The result of the analysis on their responses is presented in Table 5.

**Table 5: SMEs' Extent of Keeping Accounting Records**

Extent	Mean	Std. Dev.	N	Cronbach's
				Alpha (N = 8)
The business keep account records of the operations	1.42	0.751	202	0.972
Records of all sales are kept	1.42	0.789	202	
Records of customer's indebtedness is kept	1.48	0.812	202	
There is records of all cash transactions	1.42	0.770	202	
Records of inventory are kept	1.36	0.742	202	
The business keeps records of all purchases	1.36	0.742	202	
The business keep records of all purchases on credit	1.42	0.757	202	
Account records have details such as date, name, contact, amount involved number, etc.	1.41	0.769	202	
Overall	1.41	0.001	8	

1.0 – 1.49 = Agree; 1.50 – 2.49 = Not sure; 2.5 – 3.0 = Disagree

Source: Field Survey, Aikins (2018)

Table 5 shows that the Cronbach's alpha value recorded by the variables used in measuring the extent of the SME businesses' accounting records keeping was 0.972. This indicates that the variables used in measuring the extent to which the SMEs operating within the Wassa Amenfi West Municipality kept their accounting records were highly correlated. Thus, they were appropriate in being used to measure the extent of keeping accounting records.

It can also be observed from Table 5 that 202 out of the 205 respondents engaged in the SME sector of the Wassa Amenfi West Municipality responded to their indication of the extent of their businesses' record keeping practices. The respondents' responses on records of customer's indebtedness being kept recorded the highest mean and standard deviation of 1.48 and 0.812 whilst, on the other hand, their responses on keeping records of inventory as well as records of all purchases recorded the same least mean and standard deviation of 1.36 and 0.742 respectively. Moreover, the variables "*The business keeps account records of the operations*", "*Records of all sales are kept*", "*There is records of all cash transactions*" and "*The business keeps records of all purchases on credit*" recorded equal means of 1.42 with respective standard deviations of 0.751, 0.789, 0.770 and 0.757 indicating that some of the respondents' responses on "*Records of all sales are kept*" differed from "Agree" more than their responses on the other variables. Despite these, all the variables measuring the extent to which SME businesses in the Wassa Amenfi West Municipality keep business accounting records recorded mean values between 1.36 and 1.48. This indicates that respondents generally had an appreciably high extent of keeping their businesses' accounting records.

### Accounting Record Keeping Practices of SMEs

As the first objective, the study sought to assess the accounting records keeping practices of the SMEs operating within the Wassa Amenfi West Municipality. Thus, the respondents were asked if they were aware of the term “accounting records keeping”. If they were aware of it, the study further sought to find out the frequency at which it is carried out, if they practice it within their businesses. The result of the analysis is presented in Table 6.

**Table 6: Respondents' knowledge and Practice of Accounting Records Keeping**

			If yes do you practice it?	
			Yes	
Are you aware of the term accounting record keeping?			Frequency	Percent
Yes	How often do you keep records of your business?	Daily	112	70.9
		Weekly	20	12.7
		Monthly	26	16.5
<b>Total</b>			<b>158</b>	<b>100.0</b>

Number of respondents (N) = 158

Source: Field Survey, Aikins (2018)

It can be observed from Table 6 that 158 out of the 205 respondents who took part in study reported that they were aware of the accounting term “record keeping” and as well practiced it. Of these, 70.9% indicated that their businesses’ accounting recording keeping was done as often as daily. A little over one-tenths of the respondents reported that the record keeping for their businesses was done either monthly (16.5%) or weekly (12.7%). These imply that the operators of SMEs in the

Wassa Amenfi West municipality were aware of accounting record keeping and practiced it as often as daily.

### **Basis of SME Businesses' Operations**

The respondents were asked to indicate of their SME businesses were operating on the basis of cash or credit. The result of the analysis on their responses is presented in Figure 1.

*Figure 2: Basis of Business Operation*

Source: Field Survey, Aikins (2018)

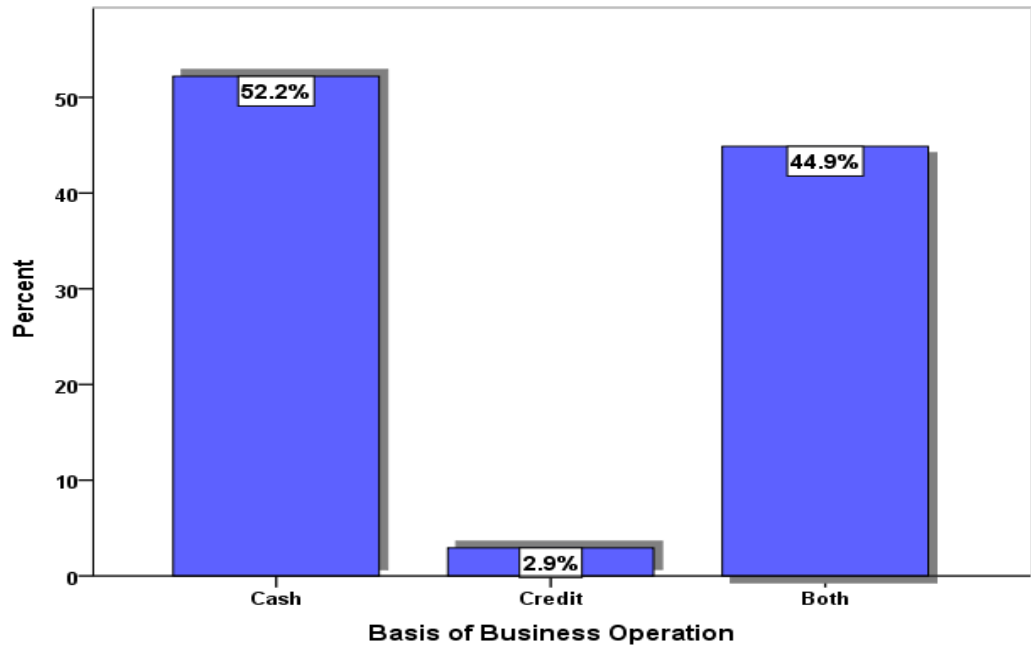


Figure 1 shows that a little over half of the respondents (52.2%) indicated that their SME businesses have operating on only cash basis whilst – on the other hand – only a few of them (2.9%) reported operating on only credit. A little over two-fifths of them (44.9%) reported that their businesses operated on both cash and credit. These imply that the SMEs in the Wassa Amenfi West municipality generally operate on either cash only or on both cash and credit.

### **Types of Accounting Statements Kept by Entrepreneurs**

As part of the objective of identifying the type of accounting records kept by the SMEs in the Wassa Amenfi West municipality, the study sought to find out the respondents' knowledge on the type of accounting statements that entrepreneurs keep. The result of the analysis is presented in Table 7.

**Table 7: Types of Accounting Statements Kept by Entrepreneurs**

Accounting Statements	Mean	Std. Dev.	N
Income statement	1.38	0.693	199
Statement of assets	1.61	0.671	199
Statements of liabilities	1.74	0.661	199
Statement of cash flows	1.78	0.702	199
Overall	1.63	0.032	4

1.0 – 1.49 = Agree; 1.50 – 2.49 = Not sure; 2.5 – 3.0 = Disagree

Source: Field Survey, Aikins (2018)

It can be observed from Table 7 that 199 out of the 205 respondents (representing 97.1%) engaged in the SME sector of the Wassa Amenfi West Municipality responded to the type of accounting statements kept by entrepreneurs. From their responses, Table 7 shows that with an overall mean of 1.63 and a corresponding standard deviation of 0.032), most of the respondents in the municipality do not see entrepreneurs keeping records on the accounting statements in question. Table 7 shows that the records on the businesses' cash flow statements recorded the highest mean and standard deviation of 1.78 and 0.702 indicating that most of the respondents were either not sure or certain that entrepreneurs were keeping records of such type of accounting statements. On the other hand, their responses on keeping records on income statement recorded the least mean of 1.38



with a standard deviation of 0.693 indicating that most of them agreed to entrepreneurs keeping records of the income statement of their businesses. These indicate that with the exception of the businesses' income statements, most of the entrepreneurs in the municipality do not keep records on their businesses' statements of assets, liabilities and cash flows.

### **General and Specific Types of Accounting Records Kept by SMEs**

The identification of the types of accounting records which are kept by the SMEs operating in the Wassa Amenfi West Municipality was done in two phases. Firstly, the study directly asked if the respondents kept some fundamental accounting records pertaining to every business such as records on creditors, debtors, assets and liabilities. Secondly, they were asked to provide, in their own words, the type of accounting records that specifically pertain to their businesses.

Table 8 presents the result of the analysis on the SMEs practice of the general types of accounting records that pertain to every successful business venture. That is, the result of the analysis on the types of accounting records that the respondents were directly asked.

**Table 8: General Types of Accounting Records Kept by SMEs**

Type	Responses		Percent of Respondents
	N	Percent	
Do you keep records on creditors?	148	33.9	88.6
Do you keep records on your debtors?	154	35.2	92.2
Are there proper records of assets and liabilities?	135	30.9	80.8
<b>Total</b>	<b>437</b>	<b>100.0</b>	<b>261.7</b>

Number of respondents (N) = 167

Source: Field Survey, Aikins (2018)

It can be observed from Table 8 that 167 out of the 205 respondents responded to all the three questions of “*Do you keep records on creditors?*” “*Do you keep records on your debtors?*” and “*Are there proper records of assets and liabilities?*” Of these, 9 out of every ten (10) (92.2%) reported that they keep records on the debtors of their businesses. Similarly, at least, 4 out of every five (5) of the respondents reported that their businesses records of their creditors (88.6%) as well as their assets and liabilities (80.8%). These indicate that most of the SMEs in the Wassa Amenfi West Municipality keep records on their creditors and debtors as well as assets and liabilities.

Furthermore, the respondents were asked to state – in their own words – the kind of accounting records kept by SMEs. Table 9 presents the result of the analysis on the respondents’ views on the type of accounting records kept by their SME businesses. It should be noted that Table 9 is a multiple response table – a table constructed from questions which allow their respondents to provide more than one

answer to them – and so the *Totals* and *Percentages* are not calculated as in the normal tables.

**Table 9: Specific Types of Accounting Records Kept by SMEs**

Records	Responses		Percent of Respondents
	N	Percent	
Bank account records	44	9.9	28.4
Sales and purchases ledger	119	26.7	76.8
Cash receipts records	106	23.8	68.4
Profit and loss account	6	1.3	3.9
Stock account records	52	11.7	33.5
Debtors and creditors control records	26	5.8	16.8
Assets and liabilities records	13	2.9	8.4
Income and expenditure records	13	2.9	8.4
Petty cash records	23	5.2	14.8
Incomplete records book	10	2.2	6.5
Invoices and vouchers records	6	1.3	3.9
Accounting journals	6	1.3	3.9
Others	21	4.7	13.5
<b>Total</b>	<b>445</b>	<b>100.0</b>	<b>287.1</b>

Number of respondents = 155

Source: Field Survey, Aikins (2018)

Table 9 shows that 155 out of the 205 respondents responded to the questions of stating the type of accounting records their SMEs keep. It can also be observed from Table 9 that the practice of keeping sales and purchases ledger recorded the

maximum percentage of 76.8% whilst “*Profit and loss account*”, “*Invoices and vouchers records*” and “*Accounting journals*” recorded the least percentage of 3.9%. At least, one-third of the respondents reported that they keep the cash receipts (68.4%) and stock account records (33.5%) of their businesses. Moreover, a little over 10% of the respondents reported that the records on their businesses’ debtors and creditors control (16.8%) as well as petty cash (14.8%) records. These indicates that SME operators in the Wassa Amenfi West Municipality keep the sales and purchases ledger, profit and loss account, invoices and vouchers, accounting journals, cash receipts, stock account, bank account, debtors and creditors control, and petty cash records of their businesses.

#### **Relationship between Entrepreneur Characteristic (Educational Level) and Accounting Record Keeping**

The relationship between the educational level of the SME operators operating in the Wassa Amefi West Municipality and their accounting records keeping practices was dealt with under this section. This was done through both the descriptive and inferential approaches. The descriptive approach only sought to find out the respondents’ awareness of any relationship between one’s educational level and their inclination to practicing accounting records keeping as well as the extent to which they were aware of such a relationship. In view of this, the respondents were asked to respond to the following questions: “Is there any relationship or correlation between education level of people and their accounting records keeping practices?” and “To what extent do you agree that there is a relationship/correlation between educational level and accounting records keeping

practices of SMEs?”.

Inferentially, the study employed the use of the Chi-Square Test of Independence to find out if there was a relationship between the respondents’ level of education and their practicing of accounting records keeping. This was done through the analysis of the respondents’ educational level against other variables such as their accounting records keeping ratings, views on the necessity of keeping accounting records and frequency of keeping accounting records. Table 9 presents a cross-tabulation of the outcome of the resulting analysis on the respondents’ level of education and their accounting records keeping of their SME businesses.

**Table 10: Relationship between Respondents’ Education Level and Records Keeping Ratings**

Educational level	How do you rate your accounting record keeping?									
	Very Good		Good		Bad		Very Bad		Total	
	N	%	N	%	N	%	N	%	N	%
No Formal Education	0	0.0	0	0.0	3	21.4	15	55.6	18	9.0
Primary/Basic	3	2.5	4	10.3	0	0.0	6	22.2	13	6.5
SHS/Tech./Voc.	69	58.0	12	30.8	11	78.6	6	22.2	98	49.2
Tertiary	47	39.5	23	59.0	0	0.0	0	0.0	70	35.2
<b>Total</b>	<b>119</b>	<b>100</b>	<b>39</b>	<b>100</b>	<b>14</b>	<b>100</b>	<b>27</b>	<b>100</b>	<b>199</b>	<b>100</b>

Number of respondents = 199

Source: Field Survey, Aikins (2018)

Table 10 shows that 199 out of the 205 respondents responded to the questions eliciting data on the respondents' educational level and their ratings of their business practice of accounting records keeping. It can also be observed from Table 10 that none of the respondents who rated their businesses' practice of accounting records keeping as either good or very good was an illiterate. On the other hand, none of those with tertiary educational background rated their business' practice of accounting records keeping as either bad or very bad. Furthermore, the assessments of the respondents with secondary school educational background on the subject matter were divided.

As they formed 58.0% of those who rated their businesses' accounting records keeping practices as very good, they similarly formed 78.6% of those who rated theirs as bad. These suggest that there are differences in the respondents' ratings of their businesses' accounting records keeping practice based on their educational level. These imply that the SME operators in the Wassa Amenfi West Municipality were generally aware that there is a relationship between the educational level of the SME operators and their accounting records keeping practices. Also, it implies that most of the SME operators in the Wassa Amenfi West Municipality had very strong convictions that there is a relationship between the educational level of the SME business operators and their accounting records keeping practices. In view of the result in Table 10, the Chi-Square test was used to find out if the observed differences in the respondents' ratings of their businesses' accounting records keeping is statistically significant. The result of the analysis is presented in Table 11.

**Table 11: Chi-Square test on the Relationship between Respondents' Education Level and Accounting Record Keeping Ratings**

Tests	Value	Significance
Pearson Chi-Square	128.415	0.000
Phi	0.803	0.000
Cramer's V	0.464	0.000
N of Valid Cases	199	

Source: Field Survey, Aikins (2018)

With a Chi-square and Cramer's V values of 128.415 and 0.464 respectively with corresponding  $p$ -values of 0.000 ( $p = 0.000 < 0.050$ ), it can be observed from Table 11 that the differences in the ratings of the SME operators of their businesses' accounting records keeping based on their academic background is quite big and statistically significant. Moreover, the Cramer's V and the  $p$  values indicate a strong and significant relationship between the respondents' academic background and their ratings of their businesses' practice of accounting records keeping. Thus, we do not accept the null hypothesis that the two variables are independent of the other and conclude that the respondents' ratings of the accounting records keeping practices of the SMEs in the Wassa Amenfi West Municipality are influenced by the educational background of the SME operators.

It was realized that one's recognition of how necessary an issue is influences the importance accorded to such an issue. Thus, the study considered the perceptions of the SME operators on how necessary it is to practice accounting records keeping in their businesses as an aspect to assessing the association between the entrepreneurs'

educational background and the accounting records keeping practices of their businesses.

### Effect of Accounting Records Keeping on SME's Growth

As the last part of the study's objectives, the study sought to identify the effects that consistent accounting records keeping would have on the growth of the SMEs operating within the Wassa Amenfi West Municipality. Thus, the respondents were given a list of some effects of accounting records keeping on business operations to indicate those which were applicable to their businesses. Table 12 presents the result of the analysis on their responses.

**Table 12: Effect of Accounting Record Keeping on SMEs Growth**

Effects	Std.		N	Cronbach's Alpha (N = 6)
	Mean	Dev.		
Helps to collect their debts in time and reduce bad debts	1.24	0.585	205	0.921
Helps to avoid credit burden by paying creditors in time	1.35	0.652	205	
Helps in monitoring the SME's transactions	1.23	0.527	205	
Helps in sharing of profit in SMEs	1.33	0.646	205	
Helps in cash determination of SMEs	1.38	0.693	205	
Improves the performance of SMEs	1.16	0.480	205	
Overall	1.28	0.007	6	

1.0 – 1.49 = Agree; 1.50 – 2.49 = Not sure; 2.5 – 3.0 = Disagree

Source: Field Survey, Aikins (2018)



Table 12 shows that all the 205 respondents engaged in the SME sector of the Wassa Amenfi West Municipality responded to the effects that keeping the accounting records of their businesses have on their operations. With a Cronbach's alpha of 0.921, Table 12 also shows that the variables that were used in measuring the effects of the businesses' accounting records keeping on their operations within the municipality were highly correlated. Thus, they were appropriate in being used to measure the implications of keeping accounting records.

The respondents' responses on the effect of accounting record keeping helping their businesses to determine their cash recorded the highest mean and standard deviation of 1.38 and 0.693 whilst, on the other hand, their responses on the effect of accounting record keeping improving the performances of their SME businesses recorded least mean and standard deviation of 1.16 and 0.480 respectively. Moreover, the overall mean value for the variables was 1.28 with a corresponding standard deviation of 0.007 indicating that the respondents' responses on the various variables did not differ much from each other. These findings imply that most of the respondents acknowledged that practicing accounting record keeping helps SME operators to collect their debts as and when due and reduce bad debts, avoid credit burden by paying creditors in time, monitor their transactions, share profit, determine cash and improve their performances.

It was also observed by the researcher that most of SMEs visited keep some form of accounting records of their business operations to track their debtors, to monitor the in and out of cash, as well as sales and purchase records. However other SMEs visited did not practice accounting record keeping.

## **Chapter Summary**

This chapter focused on the results and discussions of the study. It discusses the social–demographic characteristics of respondents, accounting record keeping practices of SMEs, necessity of record keeping, extent of accounting record keeping, types of accounting records kept by SMEs in Wassa Amenfi West Municipal, effects of accounting record keeping on SMEs performance, observation on how owners SMEs keep their accounting records among others.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### Introduction

This chapter presents the summary of the findings of the research on assessing the accounting records keeping practices and growth of small and medium size enterprises operating within the Wassa Amenfi West Municipal Assembly. The summary constitutes the purpose of the study, the research questions, the methodology of the study, and a summary of the results. The conclusions drawn from the findings are the deductions derived from the results of the analysis whilst the recommendations bring out possible suggestions to improve the practices and policies.

#### Summary

The objective of the study was to examine the accounting records keeping practices and their association with growth of the SMEs in the Wassa Amenfi West Municipal Assembly. The research questions that the study sought to answer include: “What is the extent of accounting record keeping practices of SMEs in the Wssa Amenfi West Municipality?” “What are the types of accounting records kept by SMEs in Wassa Amenfi West Municipality?” “Is there any relationship between entrepreneur characteristic (educational level) and accounting record keeping practices?” and “What is the effect of accounting records keeping practices on SMEs’ growth?” The study was conducted using the cross-sectional research design on all SMEs within the Wassa Amenfi West Municipal Assembly, irrespective of the operators’ gender or educational background. A sample of 205 respondents which

was determined by Miller and Brewer (2003) formula was selected through a combination of the proportional allocation stratified and purposive sampling techniques. The study adopted the cross-sectional research design to collect and analyse data and therefore used self-administered questionnaires to gather the data and resulting data were analysed using techniques such as means, percentages, frequencies and reliability analyses (using Cronbach's Alpha). The researcher personally observe some the records kept by SMEs in the Wassa Amenfi West Municipal.

#### Key Findings of Each Specific Objectives

The following key findings were made based on each of the specific objectives of the study:

##### Accounting Records Keeping Practices of SMEs

Most of the SME business operators in the Wassa Amenfi West municipality were aware of accounting records keeping and practiced it as often as daily. They also indicated that they mostly keep records of their transactions in order to determine their sales, profit or loss position, prices of their goods and stock levels as well as make references to in future. It was also found that most of the respondents found it necessary to practice accounting record keeping in their businesses and rated their businesses' record keeping practices as very good though a few rated theirs as either bad or very bad. Thus, they were generally found to have an appreciably high extent of keeping their businesses' accounting records.

##### Types of Accounting Records Kept by SMEs

The SMEs in the Wassa Amenfi West municipality were mainly operating their businesses on either cash only or on both cash and credit. On the types of accounting records kept by SMEs, most of the businesses in the municipality had been keeping records on their sales and purchases ledger, profit or loss account, invoices and vouchers, accounting journals, cash receipts, stock account, bank account, debtors and creditors control, and petty cash of their businesses. However, with the exception of the businesses' income statements, most of the entrepreneurs do not keep records on their businesses' statements of assets, liabilities and cash flows.

#### Relationship between Respondents' Education and Their Accounting Records Keeping Ratings

Descriptively, majority of the respondents were generally aware of as well as strongly believed there is a relationship between the educational level of the SME operators and their accounting records keeping practices. Similarly, the inferential analysis found out that the respondents' ratings of the accounting records keeping practices of the SMEs were influenced by the educational background of the SME operators. It was also found out that the educational background of the SME operators influenced their views on the necessity of accounting records keeping by the SMEs as well as the frequency at which they keep their SMEs accounting records.

#### Effect of Accounting Records Keeping on SME's Growth

Finally, most of the respondents indicated that practicing accounting record keeping helps SME operators to collect their debts in time and reduce bad debts,

avoid credit burden by paying creditors in time, monitor their SMEs' transactions, share profit, determine cash and improve performances.

### **Conclusion**

From the result above, it can be concluded from the study that new and upcoming SMEs will appreciate the purpose of keeping accounting records in order to attract angel investors to expand their businesses. In literature, the findings of the study add to the body of knowledge of accounting and they can be served as the basis on which future studies in the area of records keeping of SMEs can make reference to SMEs financial performance. Also the government any other investor that wants to shape the economy of SMEs can use these findings to regulate the activities and performance of SMEs. The results of the study also give more information on strategies that can be employed by government and other stakeholders to avert SMEs failure in the municipalities. With the results of these study, future researchers will additional information in their quest to research into the effectiveness of accounting record keeping practices on leadership of SMEs.

### **Recommendations**

As a result of the conclusions of the study, the following recommendations were made:

- i. Operators of SMEs in the Wassa Amenfi West Municipality should be encouraged to pursue higher education in order to enable them appreciate the essence of accounting records keeping to business operations.
- ii. The authorities in charge of regulating activities of SMEs in the municipality should organize some form of training seminars on financial

- literacy for SME operators on the importance of practicing accounting record keeping in their businesses as well as how to record their businesses' transactions.
- iii. The SMEs operators in the Wassa Amenfi West Municipal Assembly should be encouraged to operate on both cash and credit.
  - iv. The SME operators should ensure that they keep every form of accounting records on their businesses operations.
  - v. The authorities regulating SMEs should enact policies which require SMEs to submit certain accounting records periodically and thereby compel them to ensure that they always keep accounting of their activities.
  - vi. The authorities in charge of the SMEs in the Municipality should encourage SME operators to form groups such that those who cannot keep records of the business are assisted by their colleagues thereby enhancing their business.
  - vii. Ghana Revenue Authority should also develop a tracking system for SMEs who do not keep accounting records of their operations for the purpose of tax in order to enhance government revenue.

### **Suggestion for Future Studies**

The current study has examined the accounting record keeping practices of and growth of SMEs in Wassa Amenfi. The outcome of this study adds up to the field of accounting, however, future studies can consider looking at the effectiveness of accounting record keeping practices in SMEs that engage in financial services in

rural areas. Also future, studies can rely on the results of the current study; further decisions in the area of accounting and finance of SMEs.

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## APPENDICES

### QUESTIONNAIRE FOR RESPONDENTS

Dear Sir/Madam

I am conducting a research on: ACCOUNTING RECORD KEEPING PRACTICES AND GROWTH OF SMALL MEDIUM SCALE ENTERPRISE: EVIDENCE FROM WASSA AMENFI WEST MUNICIPAL ASSEMBLY. I will be very grateful if you can spare your precious time to respond to this questionnaire in order to contribute to this important process. Your identity and information will be treated with greatest confidentiality and so I urge you to feel free to express your views. Please answer all questions.

Thank you.

Instructions:Please tick (✓) where appropriate and also write your responses in the spaces provided. Your identity will not be disclosed so please do not write your name. Please try to be as honest as possible

#### SECTION A: PERSONAL INFORMATION OF RESPONDENTS

Indicate your response by a tick (✓) against the appropriate box at each question

1. Sex: Male

a. Male [ ]      b. Female [ ]

2. Age

a. 18-23 [ ]      e. 36-40 [ ]      g. 51-55 [ ]

b. 24-29 [ ]      f. 41-45 [ ]      h. 56-60 [ ]

c. 30-35 [ ]      g. 46-50 [ ]

3. Your highest qualification

- a. Masters [ ]
- b. Professional Qualification [ ]
- c. First Degree [ ]
- d. HND [ ]
- e. Others (Specify).....

4. How long have you been in business (SME)?

- a. 1 month - 2yrs [ ]
- b. 2yrs - 3yrs [ ]
- c. 4yrs - 5yrs [ ]
- d. Above 5yrs [ ]

**SECTION B: ACCOUNTING RECORD KEEPING PRACTICES OF SMES**

1. Are you aware of the term accounting record keeping?

- a. Yes [ ] b. No [ ]

2. If yes do you practice it? a. Yes [ ] b. No [ ]

3. How are your accounting records kept?

- a. Daily [ ] b. Weekly [ ] c. Monthly [ ]

4. Do you keep accounting records of your business transactions?

- a. Yes [ ] b. No [ ]

5. If Yes, please give reasons why you keep the records.

a.....

b.....

c.....

6. If No, please give reasons why you don't keep the records.

a.....

b.....

c.....

7. Do you think it is necessary to practice accounting record keeping in your

business?    a. Yes        [   ]        b. No        [   ]

8. How do you rate your accounting record keeping?

a. Very Good [   ]

b. Good        [   ]

c. Bad         [   ]

d. Very Bad [   ]

9. Indicate your response by a tick (✓) against the appropriate box at each question showing the extent of accounting record keeping practices of SME's.

Items	AGREE	NOT SURE	DISAGREE
a. The business keep account records of the operations			
b. Records of all sales are kept			
c. Records of customer's indebtedness is kept			
d. There is records of all cash transactions			
e. Records of inventory are kept			
f. The business keeps records of all purchases			
g. The business keep records of all purchases on credit			
h. Account records have details such as date, name, contact, amount involved number, etc			

SECTION C: TYPES OF ACCOUNTING RECORDS KEPT BY SMES

1. Is the business operating on cash or credit basis?

a. Cash [ ] b. Credit [ ]

2. Do you keep records on creditors?

a. Yes [ ] b. No [ ]

3. Do you keep records on your debtors?

a. Yes [ ] b. No [ ]

4. Are there proper records of Assets and Liabilities?

a. Yes [ ] b. No [ ]

5. Indicate your response by a tick (✓) against the appropriate box at each question showing the types of accounting records kept by SME's

Items	AGREE	NOT SURE	DISAGREE
a. Income statement			
b. Statement of Assets			
c. Liabilities			
d. Statement of cash flows			

6. In your own opinion, what are the types of accounting records kept by SME's?

a.....

b.....

c.....

d.....

SECTION D: ASSOCIATION BETWEEN ENTREPRENEUR FIRM  
EDUCATIONAL BACKGROUND AND ACCOUNTING RECORD KEEPING  
PRACTICES

1. What is your education level in SME operation?

- a. No Formal Education [ ]
- b. Primary [ ]
- c. Secondary/SHS [ ]
- d. Tertiary [ ]

2. Is there any relationship or correlation between education level of people and their accounting records keeping practices?

- a. Yes [ ]
- b. No [ ]

3. To what extent do you agree that there is a relationship/correlation between educational level and accounting records keeping practices of SME's?

- a. Strongly Agree [ ]
- b. Agree [ ]
- c. Strongly Disagree [ ]
- d. Disagree [ ]



SECTION E: THE EFFECT OF ACCOUNTING RECORDS KEEPING PRACTICES ON SMES GROWTH

1. Indicate your response by a tick (√) against the appropriate box at each question showing the effects of accounting records keeping practices on SME's growth.

Items	AGREE	NOT SURE	DISAGREE
a. Accounting records helps SME's operators to collect their debts in time and reduce bad debts			
b. Accounting records help SME's operators to avoid credit burden by paying creditors in time			
c. Accounting records help in monitoring the SME's transactions			
d. Accounting records help in sharing of Profit in SME's			
e. Accounting records help in cash determination of SME's			
f. Accounting records improves the performance of SME's			