

Accounting records keeping practices of SMEs in Ghana: Evidence from Sunyani Municipality

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ABSTRACT

The incessant poor performance of small and medium scale entities can be attributed to hosts of factors of which poor accounting record keeping cannot be over emphasized. This study therefore explores the accounting practices of SMEs in Ghana using the Sunyani Municipality as a case study. The study uses stratified sampling and snow balling techniques to gather data from SME owner/managers of various sectors in the municipality. The research findings are based on a survey of the accounting record practices of one hundred and four SMEs in the Municipality. The study revealed that a majority of SMEs do not keep complete accounting records as a result of numerous factors such as lack of book keeping skills on the part of owners/managers and the high cost involved in adopting a good accounting system. Several recommendations have been outlined by this paper amongst which includes periodic training on proper accounting records keeping by regulatory bodies and educational institutions in the municipality and Ghana as a whole.

Key words: Small and Medium Scale Entities; Accounting Reports; Records Keeping

SECTION I: INTRODUCTION

In the 21st century, the critical roles Small and medium-sized enterprises (SMEs) play in economic growth and sustainable development of every nation cannot be over-emphasized especially for the rural economy (Maseko and Manyani, 2011; Tambunan, 2009). A major indicator of a booming economy is a vibrant Small and Medium Enterprises (SMEs) sub-economy and how efficient they contribute to GDP. It is approximated that SMEs provide about 85 percent of manufacturing employment and account for 90 percent of businesses in the country (Amoako, 2012). In Ghana, the sector's output as a percentage of GDP accounted for 6 percent of GDP in 1998. However, it improved from 6 percent in 1998 to 49 percent to the economies GDP in 2012 (Frimpong, 2013; PWC, 2013). It is therefore not surprising that this tremendous growth in SMEs in Ghana led to the projection that the economy's GDP will increase to 8% in 2013 and 8.7% in 2014 (PWC, 2013). SMEs contribute in diverse ways to employment creation, provision of basic goods and services, and generation of export and tax revenues for national socio-economic development (Tambunan, 2009; Day, 2000; Lukacs, 2005). SMEs also contribute immensely to economic diversification; exports, social stability, being the seed for nurturing Multi-national companies (MNCS) and large corporations emerge from them (Day, 2000; Lukacs, 2005; Frimpong, 2013). Consequently, SMEs capacity development plays a critical role in poverty reduction and sustainable economic development endeavors. It is therefore considered as most effective way of wealth creation and putting the people's life into their own hands (Amidu and Abor, 2005; Dalitso and Quartey, 2000). In

spite of the enormous role they play in all economies, there still prevail many challenges that hinder the small business growth and its potential contributions.

Cooley and Edwards, (1983) argue that SMEs must devise strategies of solving internal problems of managerial challenges that immensely retard their success. The internal factors are managerial skills, workforce, accounting systems and financial management practices. However, since the accounting department is perceived as a service unit to support the firm's operations by making available information on costs and performance indicators, a large number of business failures have been attributed to inability of financial managers to account properly the current assets and the current liabilities of their respective firms (Dodge & Robbins, 1992 and Ooghe, 1998).

Enterprises are categorized by size, sector and the motivations of their owners. There cannot be a universal means to the provision of services and policy formulation. As such it is argued that management techniques which are critical for large firms may not be appropriate for the small ones, yet some basic record-keeping and financial awareness are essential for their survival (Chittenden, Poutziouris, and Michaela, 1998). Jarvis, Kitching, Curran, and Lightfoot (1996) also reported that the financial management skills of small business are not same as those of large ones. They found that personal and business goals of owner /mangers owner have diverse directions. These are forms an integral part in the strategies which they adopt and are, therefore, prominent in their firms' information systems. These personal business goals when not well tailored can render less time to the accounting and finance function. Nayak and Greenfield (1994) also empirically support the argument that micro firms lack signs of any systematic accounting practices.

A core function of accounting systems is to avail accurate information to owners and managers of SMEs operating in any industry for use in the measurement of financial performance. Consequently, the importance of financial performance measurement to any enterprise, big or small, cannot be over-emphasized (Padachi, 2012; Amoako et al, 2013). In other words, since profit maximization is most often the priority of business entities, the accounting bases, concepts and principles adopted ought to capture and report all the relevant accounting information to ensure reliability in its measurement (Haryani, 2012; Amidu and Abor, 2005; Mbroh and Atom, 2012). Reported profits reflect changes in wealth of owners and this can explain why major economic decisions in business are centered on financial performance as measured by profitability, (Cooley and Edwards, 1983). It therefore doesn't come as a surprise when the European Commission (EC), (2008) established that appropriate accounting information is important for a successful management of any business entity, irrespective of the size.

Based on the unbearable consequence that improper accounting practices can have on SMEs, it is imperative that the accounting practices of SMEs supply complete and relevant financial information needed to improve economic decisions made by entrepreneurs (Amidu and Abor, 2005). Consequently, this research seeks to re-emphasis the need for it even though previous research on the subject matter has been undertaken. Furthermore, in spite of the fact that previous researches have been undertaken, they were done in different geographical area with different business conditions that can influence records keeping such as legal requirement and entrepreneurs' level of education.

Objectives of the Study

The researchers seek to achieve the following objectives;

- i. To provide evidence of the types of accounting records kept and what they are used for.

- ii. To identify challenges associated with accounting records keeping of SMEs in Ghana.
- iii. To make recommendations by which to improve the identified challenges on SMEs accounting records keeping.

The rest of the paper is structured as follows: Section 2 presents review of literature relating to accounting and SMEs. In Section 3, is presented the research methodology. Section 4 brings to bear interpreting and discussing the results. Finally, the paper draws conclusion from the research as well as recommendations

SECTION 2: LITERATURE REVIEW

This section looks at the various definitions of SME as well as other empirical results on previous studies with emphasis on the user needs of SME accounting information.

Small and Medium Entity (SME) Defined

Storey (1994) and Amoako (2012), argues that there is no single, uniformly acceptable, definition of small and medium entities. Thus, the definition of SME varies and is dependent upon whose point of view (Taylor and Adair, 1994). In 1996, the European Commission established a new definition of small and medium enterprises based on four quantitative criteria (EC. 1996):

- a) The total number of employees in the enterprise;
- b) The annual volume of the turnover;
- c) The total of the assets in the enterprise balance;
- d) The degree of independence of the enterprise or the ownership over it.

Consequently, the European commission (2003) defines SMEs as enterprises which employ fewer than 250 persons and/or have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

In Asia, The Hong Kong Institute of Certified Public Accountants (2005) states that an entity is considered to be an SME in Hong Kong so long as its total annual revenue is not more than HK\$50 million, total assets also not exceed HK\$50 million, at the reporting date with number of employees not more than 50.

The International Accounting Standards Committee Foundation (IASCF) (2007) also defines an SME as an entity that is not obligated to public accountability and thus publishes general purpose financial statements for external users.

In Ghana, the most commonly used definition of SMEs is the number of employees of the enterprise. In applying this definition, however, there is some controversy in respect of the arbitrariness and cut off points used by the various official records (Amoako, 2012; Dalitso and Quartey, 2000).

For instance, The Ghana Statistical Service (GSS) defines small businesses as enterprises that employ less than 10 persons while those that employ more than 10 people are classified as Medium and Large-Sized Enterprises (Amoako, 2012).

Alternately, the National Board for Small Scale Industries (NBSSI) in Ghana combines both the 'fixed asset and number of employees' criteria to define SMEs. Thus Micro enterprises are those that employ between 1-5 people with fixed assets not more than 10,000 USD excluding land and building. However, Small enterprises employ between 6 and 29 or with fixed assets not exceeding 100,000 USD, excluding land and building (Amoako, 2012; Steel and Webster, 1990; Osei et al, 1993). Those with between 5 and 29 employees were classified as small firms and medium sized firms also had between 30 and 100 employees (Abor and Biekpe, 2006). These are the two operational definitions adopted by the researchers for this paper.

Empirical Review Of SMEs Accounting Information User Needs

Son et al. (2006) in conformity to previous studies found out that socioeconomic and domestic factors, such as the level of economic development, the legal and regulatory system, educational and professional infrastructure, colonial heritage, and history and culture, are likely to influence the relevance of small companies' financial information (UNCTAD, 2000; Saudagaran & Diga, 2003; Kosmala-MacLulich, Sikorska, & Gierusz, 2004; Sevic, 2004).

Staubus (1961, 1977) also promote the notion that a critical factor behind the identification of users and the uses of corporate financial information is "decision-usefulness" theory which states that accounting is described as a process of providing relevant information to the relevant decision makers (Gary, Owen, & Adams, 1996). Therefore Son et al., (2006) strongly suggest that the usefulness of financial information is ascertained by how it aids the users in making rational decisions, and the users' perspectives of the objective of the financial reporting also make it easier to choose accounting treatments.

Another finding is in support of the fact that daily decision making by owner/directors is most often based on accounting information. Furthermore taxation authorities also form part of users of the financial statements of small and medium size entities. However, accounting standard setting bodies also consider it on the general purpose of financial statements and exclude the specific needs of these two users (Son et al., 2006).

Carsberg, Page, Sindall, and Waring (1985) and Deakins & Husain (1994) indicated that financial statements of SMEs play important role in lending decisions of banks, in which banks are the main source of external finance to them. In Ghana, since there is no statutory requirement for the SMEs' financial information to be publicly disclosed, the numbers of users of the SMEs' financial reports are perceived to be limited.

On the issue of user needs, the use of profitability information according to Page (1984) is the core for SMEs externally reported information. Furthermore, the author realized that beside the profitability most of the respondents believed that the turnover of a company should be disclosed. In another study, the directors rated the disclosure of directors' emolument as the most insignificant disclosure requirement.

When it comes to limitations on the use of SME financial reports, Son et al. (2006) found that the accounting expertise was viewed as the prime challenge to the use of financial information by the SMEs' directors. The researchers further argue that the directors perceived little benefits from the current reporting practices, because they did not understand the information and because the quality of

information produced was low. As a result, the directors had a low awareness of cost-benefit considerations of reporting tasks.

SECTION III: MATERIALS AND METHODS

In conducting this research, the data for this study was collected as part of a comprehensive survey on the accounting practices of small to medium-sized entities. This is because, it is widely accepted and also the survey method is a fact-finding study that involves adequate and accurate interpretation of findings (Saunders, Lewis & Thornhill, 2007; Cooper and Schindler, 2003). The entities were categorized into three general groups; micro, small and medium based on the NBSSI definition. As such the study was carried out by gathering data from primary sources for analysis so as to achieve the research objectives. Busha and Harter (1980) noted that, the concept of the population is basic to survey research and they define population as any set of persons or objects that has at least one common characteristic. The target population comprised the registered SMEs in Sunyani Municipality, using NBSSI database kept by the Brong Ahafo Regional unit, headquartered in Sunyani. In line with all the three research objectives, questionnaire was developed to cover profile of the entity, accounting practices, its challenges and how to improve upon existing practices.

With the help of 10 research assistants who were students of Sunyani Polytechnic Accountancy department, a total of 200 questionnaires were administered to service delivery entities, retail shops and manufacturing entities amongst others. Stratified sampling technique as well as snowball sampling strategy was applied in identifying the respondents so that each industry group is represented. The services delivery entities included auto-mechanics, beauticians, business consultants, micro finance institutions, law firms, insurance agents, and photo studios. The retail shops also included but not limited to clothing, hardware, supermarkets pharmaceuticals and agricultural tools. Last but not the least is the manufacturing entities comprising steel benders, panel beaters, carpentry workers in cottage industry, building contractors, textiles, bakeries and other food processors. Out of the 200 questionnaire distributed, 112 (56%) were received. After the questionnaires were collected for analysis, it was realized that 8 (4%) of the questionnaire collected were not properly answered and as such 104 (52%) were used for the analysis. Findings were presented using descriptive statistics.

SECTION IV: PRESENTATION OF RESULTS

This section contains a descriptive presentation of the results obtained from the survey. Table 1 clearly indicates that the larger category (49%) of SMEs employ from 6 to 29 employees with the retail shops leading. This is followed by those who employ up to 5 employees (26%) with the service sector being the number one in that category. Finally the medium size firms with 30 to 99 employees (25%) followed with retail sector leading as well.

Table 1: Characteristics of Sampled firms

Industry Sector	Micro (≤5 employees)	Small (6 -29 employees)	Medium (30-99 employees)	Total
Retail	8	23	14	45
Manufacturing	7	19	9	35
Services	12	9	3	24
Total	27	51	26	104
Percentage (%)	26	49	25	100

(Field data, 2014)

In table 2 below is the detailed presentation of the ownership by citizenship (Local, foreign or both) of SMEs. Larger proportions (91%) of the entities are owned by Ghanaians with retail entities leading in numbers. Next was the combined ownership (7%) having the manufacturing entities with more numbers and last are the wholly owned entities.

Table 2: SMEs Ownership (citizenship)

Industry Sector	Local	Foreign	Both	Total
Retail	44	-	1	45
Manufacturing	28	2	5	35
Services	23	-	1	24
Total	95	2	7	104
Percentage (%)	91	2	7	100

(Field data, 2014)

Table 3 also presents the form of SMEs ownership in different direction (with respect to sole proprietorship, partnership or limited liability companies). It was realized that sole proprietorships (61%) with most being retail shops forms the greater chunk of SMEs followed by partnership (29%) with most being manufacturing firms and lastly limited liability Company (12%) leading with manufacturing firms.

Table 3: SMEs ownership (form)

Industry Sector	Sole proprietor	Partnership	Limited company	Total
Retail	25	12	4	45
Manufacturing	21	13	5	35
Services	17	4	3	24
Total	63	29	12	104
Percentage (%)	61	28	12	100

(Field data, 2014)

Educational level of SMEs owners/ managers of the 104 entities used for the analysis is shown in table 4 with tertiary qualifications (65%) who operate/manage retail shops out numbering others, followed by secondary school levers (18%) managing most of the retail shops and finally elementary school levers (7%) being last.

Table 4: Education and training background of owners

Industry Sector	Elementary	Secondary	Tertiary	Total
Retail	3	12	30	45
Manufacturing	4	8	24	35
Services	1	9	14	24
Total	7	19	68	104
Percentage (%)	7	18	65	100

(Field data, 2014)

It was also found out that most (63%) SMEs do not prepare any formal accounts with retail shops being greatest in number in that category. However, the manufacturing sector out numbers all sectors amongst the smaller proportion (37%) that prepares proper accounts. This is shown in table 5 below.

Table 5: Preparations of proper accounts

Industry Sector	Yes	No	Total
Retail	11	34	45
Manufacturing	22	13	35
Services	5	19	24
Total	38	66	104
Percentage (%)	37	63	100

(Field data, 2014)

In table 6 is shown the reasons why SMEs prepare final accounts. It clearly indicates that ranking from major to least are profit determination, control purposes, bank loan requirement, tax purposes, and other reasons respectively are the rankings.

Table 6: If yes, what are the main reasons for preparing accounts?

Industry Sector	Profit determination	Tax purposes	Control purposes	Bank loan requirement	Others
Retail	11	6	9	8	2
Manufacturing	22	5	21	16	4
Services	5	4	5	1	1
Total	38	15	35	25	6
Rank	1	4	2	3	5

(Field data, 2014)

Another area of interest in this paper was those who prepare accounts of SMEs. In table 7, are consultants (47%) being the prime source of accounts preparations by SMEs. This is followed by accounts staff or full time employee (34%) of entities who also prepares the accounts. CEO/managers who prepare their own accounts form least source of accounts preparations of SMEs (19%).

Table 7: If yes, accounts prepared by whom?

Industry Sector	Consultant	CEO/proprietor	Accounts staff	Total
Retail	6	3	2	11
Manufacturing	8	4	10	22
Services	4	-	1	5
Total	18	7	13	38
Percentage (%)	47	19	34	100

(Field data, 2014)

Further finding was the basis on which accounts are prepared shown in table 8. It is shown that majority (58%) of these entities adopt accrual method of preparing accounts whilst the remaining (48%) to by accrual method. Also the manufacturing sectors out numbers the other sectors in using accrual basis whereas the retailers preferred much of the cash basis.

Table 8: Basis of preparing accounts

Industry Sector	Cash	Accrual	Total
Retail	8	3	11
Manufacturing	4	18	22
Services	4	1	5
Total	16	22	38
Percentage (%)	42	58	100

(Field data, 2014)

Table 9 shows the reasons why most SMEs do not prepare proper accounts. Interestingly almost all SMEs realize the need for accounts preparations. However, the lead (35%) reason given for non-preparation was the fact that they are too expensive to operate followed by lack of accounting skills of proprietors/managers (32%). Another issue being the third reason is that of privacy (18%). The 4th rank was occupied by the fact that SME owners do not see the need for the preparation of accounts and other reasons that could not be covered in the questionnaire was ranked last.

Table 9: If NO, please give the major reason?

Industry Sector	Expensive to operate	Want my Privacy	Lack of accounting skills	Do not see the need	others	Total
Retail	11	9	13	1	1	34
Manufacturing	4	2	5	1	1	13
Services	8	1	5	3	2	19
Total	23	12	24	4	4	66
Percentage (%)	35	18	32	7	6	100

(Field data, 2014)

Table 10 shows the ranking of kind of books used for daily records keeping by SMEs. It shows that sales day book is ranked number 1 among all the other books, followed by operating expense records, purchases day book being 3rd, with non-current asset register occupying the 4th position and last was payroll records being 5th.

Table 10: Accounting records kept by SMEs

Industry Sector	Sales day book	Purchases day book	Non-current Asset register	Operating Expense records	Payroll records
Retail	8	11	5	10	9
Manufacturing	21	20	12	22	15
Services	5	4	2	4	5
Total	34	32	15	32	29
Rank	1	3	4	2	5

(Field data, 2014)

Table 11 shows annual financial statements prepared by SMEs. The income statement is the mostly prepared financial report, followed by the statement of financial position. Surprisingly, those who keep accounting books but do not prepare any annual report occupied third position with income surplus coming to the 4th position. Finally, cash flow statement was ranked 5th.

Table 11: Annual financial statements prepared by SMEs

Industry Sector	Income statement	Statement of financial position	Cash flow statement	Income surplus accounts	None
Retail	4	5	1	0	6
Manufacturing	18	10	7	9	8
Services	3	1	0	0	2
Total	25	16	8	9	16
Rank	1	2	5	4	3

(Field data, 2014)

In table 12 can be found the challenges SMEs are facing those who prepare annual reports with regards to accounting practices. The most predominant challenge is costs constraints, followed by inadequate accounting skills of manager/owners of SMEs. The 3rd factor is the involvement of family members in financial matters without following due procedures for proper records keeping. Next to this comes non-availability of skilled personnel to prepare the accounts and finally others reasons also contribute to the challenges of SMEs accounting records keeping.

Table 12: Challenges faced by SMEs with reference to the preparations of accounts

Industry Sector	Costs constraint	Inadequate accounting skills	Family involvement	Non- availability of skilled personnel	Others
Retail	34	43	32	29	8
Manufacturing	26	31	16	19	14
Services	19	22	17	12	7
Total frequency	79	96	65	60	29
Rank	1	2	3	4	5

(Field data, 2014)

Table 13 presents findings on how to best minimize the identified challenges from the perspective of the SMEs owners/managers. Most (45%) suggested that the problem of records keeping could be reduced if SMEs' owners/managers are periodically trained on simple book keeping techniques. The 2nd most accepted suggestion was the use of consultants at reduced cost (24%). This is because majority accepted that consultants are good to hire but most at times they charge quite exorbitant fees relative to the size of business the SMEs do. Other reasons not disclosed to the researchers came 4th (19%) in reducing the challenges and lastly the reduction of family member interference (12%) in monetary affairs without proper procedure came last.

Table 13: Minimizing challenges associated with SMEs accounting practices.

Industry Sector	The use of consultants at reduced fees	Periodic Training on book keeping	Reduction of family interference	Others	Total
Retail	11	19	7	8	45
Manufacturing	8	12	3	12	35
Services	6	16	2	-	24
Total	25	47	12	20	104
Percentage (%)	24%	45%	12%	19%	100

(Field data, 2014)

SECTION V: CONCLUSIONS AND RECOMMENDATIONS

This study has provided insight into formal accounting record keeping practices among the small to medium-sized entities in Ghana using the Sunyani Municipality as a case study. The study revealed that almost all the SMEs sampled attach a lot of importance to proper accounting records keeping. In consistent with previous findings, the research showed that in spite of the numerous benefits that can be derived from formal accounting practices, most SMEs do not keep proper accounting records hence the need for owners/managers to keep proper set of accounts . Furthermore, most of the few percentage that keep accounting records do not even prepare annual reports at the end of the year. Most explained this by asserting that they lack the requisite skill for proper accounting records keeping and high consultancy fee deter them from keeping proper records. These very reasons are same as those given by those who refuse completely to prepare accounting records. Hence the regulatory bodies, educational and financial institutions as well as other stake holders should organize periodic training on proper records keeping to SME owners/managers as well as regulate consultancy fee for easy access to consultancy services.

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